



**Liberty  
Mutual®**  

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**INSURANCE**

## Fourth Quarter and Full Year 2013 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 cyclical nature 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)



- Mutual holding company structure
- \$121.3B of assets and \$38.5B of revenues in 2013
- The most diversified P&C insurer
- 81<sup>st</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>
- 5<sup>th</sup> largest global P&C insurer<sup>3</sup>

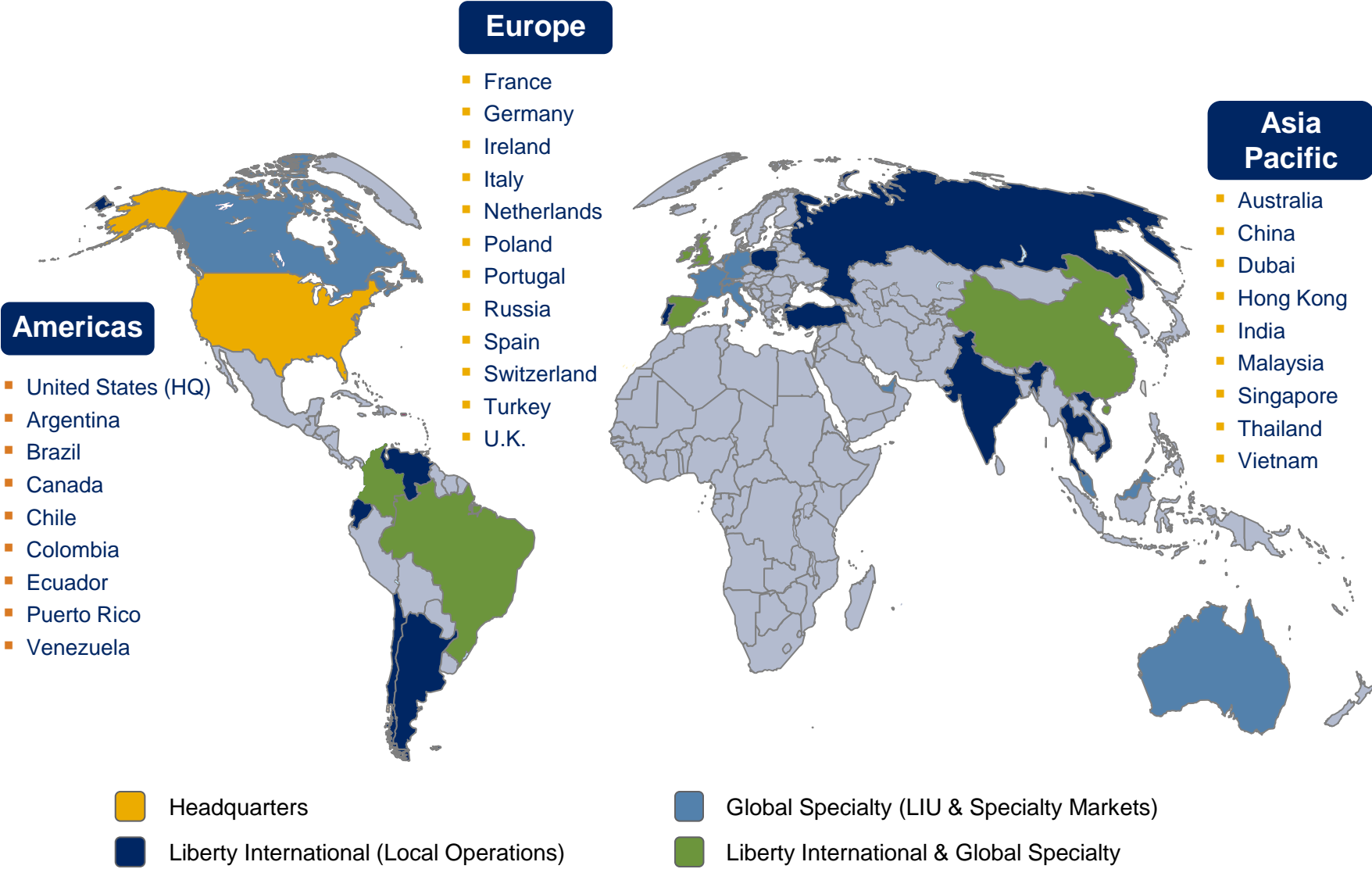
<sup>1</sup> Based on 2012 Revenue.

<sup>2</sup> Based on 2012 DWP.

<sup>3</sup> Based on 2012 GWP.

# Liberty Mutual's Global Presence

LMIG operates in 30 countries and key markets around the globe

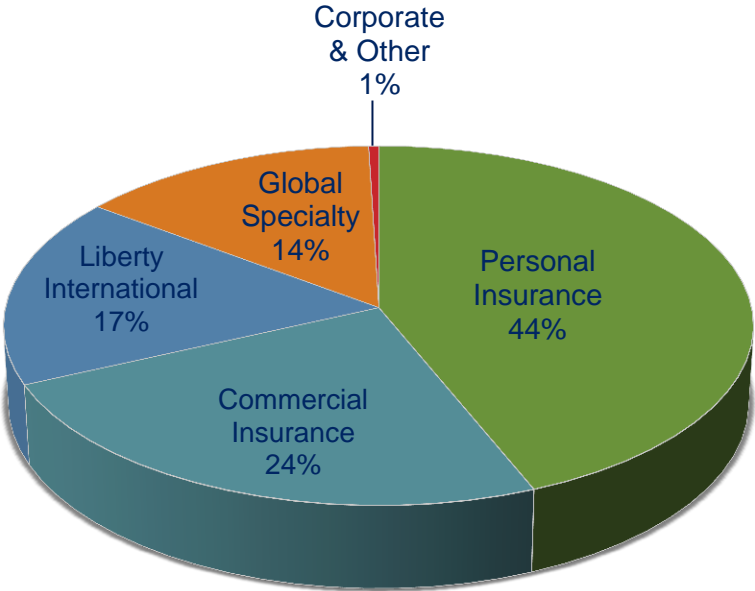


# Analysis of Consolidated Net Written Premium “NWP”

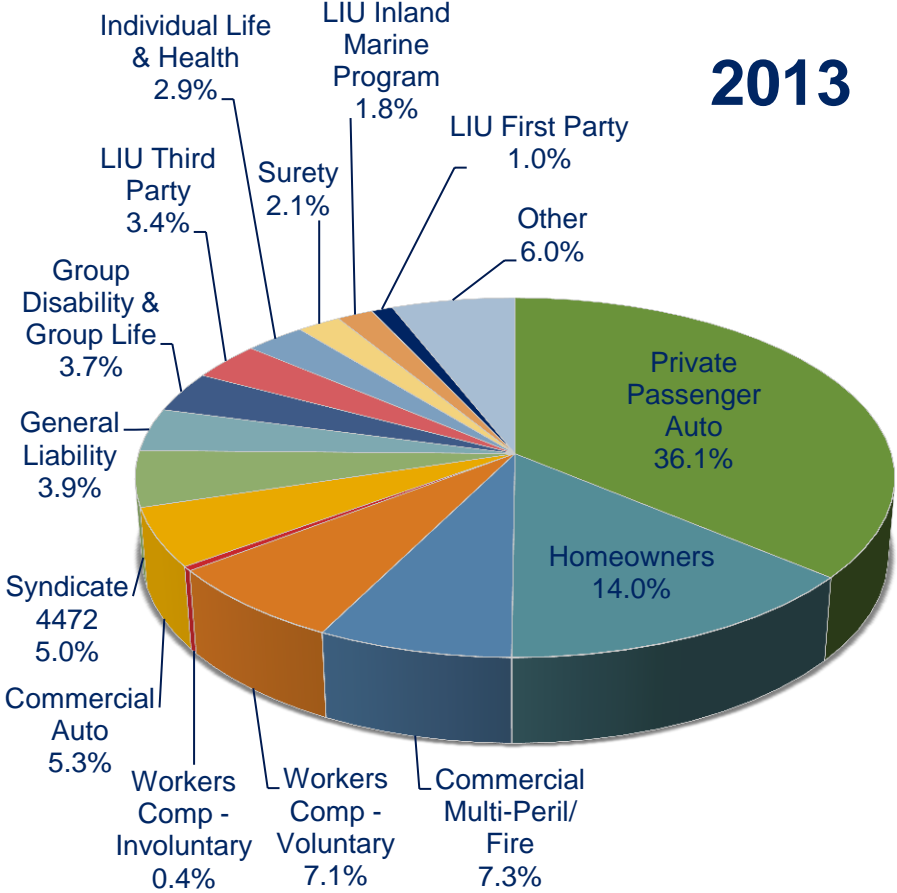
**NWP by SBU**

**NWP by line of business**

**2013**



**2013**



NWP of \$35.2 billion increased 6.7% over 2012.

# 2013 Highlights

## Fourth Quarter

- ❖ Revenues were \$9.983 billion, an increase of \$518 million or 5.5% over the same period in 2012.
- ❖ NWP was \$8.787 billion, an increase of \$440 million or 5.3% over the same period in 2012.
- ❖ PTOI was \$625 million versus pre-tax operating loss of \$529 million in the same period in 2012.
- ❖ Pre-tax loss on extinguishment of debt was \$55 million, an increase of \$25 million or 83.3% over the same period in 2012.
  - \$97 million of debt at an interest rate of 10.75% was repurchased.
  - \$400 million of senior debt was issued with an interest rate of 4.25%.
- ❖ Net income attributable to LMHC was \$496 million versus net loss attributable to LMHC of \$234 million in the same period in 2012.
- ❖ Cash flow from operations was \$1.094 billion, an increase of \$450 million or 69.9% over the same period in 2012.
- ❖ The consolidated combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation was 96.3%, a decrease of 0.7 points from the same period in 2012<sup>1</sup>.
- ❖ The Company's reported combined ratio decreased 12.5 points to 100.4%.

## Full Year

- ❖ Revenues were \$38.509 billion, an increase of \$2.184 billion or 6.0% over the same period in 2012.
- ❖ NWP was \$35.224 billion, an increase of \$2.211 billion or 6.7% over the same period in 2012.
- ❖ PTOI was \$2.455 billion, an increase of \$1.774 billion over the same period in 2012.
- ❖ Pre-tax loss on extinguishment of debt was \$211 million, an increase of \$18 million or 9.3% over the same period in 2012.
  - \$365 million of debt at an interest rate of 10.75% was repurchased.
  - \$1 billion of senior debt was issued with an interest rate of 4.25%.
- ❖ Net income attributable to LMHC was \$1.743 billion, an increase of \$914 million or 110.3% over the same period in 2012.
- ❖ Cash flow from operations was \$4.157 billion, an increase of \$1.328 billion or 46.9% over the same period in 2012.
- ❖ The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years was 95.4%, a decrease of 1.6 points from the same period in 2012.
- ❖ The Company's reported combined ratio decreased 5.0 points to 99.8%.

<sup>1</sup> Please see Management's Discussion & Analysis of Financial Condition and Results of Operations for definitions of terms.

# Consolidated Results

(\$ millions)	Fourth Quarter			Full Year		
	2013 <sup>1</sup>	2012	Change	2013 <sup>1</sup>	2012	Change
<b>Revenues</b>	<b>\$9,983</b>	<b>\$9,465</b>	<b>5.5%</b>	<b>\$38,509</b>	<b>\$36,325</b>	<b>6.0%</b>
Pre-tax operating income (loss) before LP and LLC income	\$359	(\$628)	NM	\$1,843	\$328	NM
LP and LLC income <sup>2</sup>	266	99	168.7	612	353	73.4
<b>Pre-tax operating income (loss)</b>	<b>625</b>	<b>(529)</b>	<b>NM</b>	<b>2,455</b>	<b>681</b>	<b>NM</b>
Consolidated net income (loss)	524	(200)	NM	1,760	856	105.6
Less: Net income attributable to non-controlling interest	28	34	(17.6)	17	27	(37.0)
<b>Net income (loss) attributable to LMHC</b>	<b>\$496</b>	<b>(\$234)</b>	<b>NM</b>	<b>\$1,743</b>	<b>\$829</b>	<b>110.3%</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	65.3%	67.9%	(2.6)	64.9%	67.6%	(2.7)
Underwriting expense ratio	31.0	29.0	2.0	30.4	29.3	1.1
Dividend ratio	-	0.1	(0.1)	0.1	0.1	-
<b>Subtotal</b>	<b>96.3</b>	<b>97.0</b>	<b>(0.7)</b>	<b>95.4</b>	<b>97.0</b>	<b>(1.6)</b>
Catastrophes <sup>3</sup>	1.2	10.8	(9.6)	3.9	6.8	(2.9)
Net incurred losses attributable to prior years:						
- Asbestos & environmental	0.1	0.7	(0.6)	0.9	0.5	0.4
- All other <sup>4</sup>	2.0	4.1	(2.1)	(0.4)	0.5	(0.9)
Current accident year re-estimation <sup>5</sup>	0.8	0.3	0.5	-	-	-
<b>Total combined ratio<sup>6</sup></b>	<b>100.4%</b>	<b>112.9%</b>	<b>(12.5)</b>	<b>99.8%</b>	<b>104.8%</b>	<b>(5.0)</b>

<sup>1</sup> 2013 combined ratio has been adjusted to exclude the impact of the Venezuela devaluation for comparative purposes.

<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., Cyclone Oswald, Central Europe floods, Alberta floods, Germany hail storms, and Typhoon Fitow. 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.

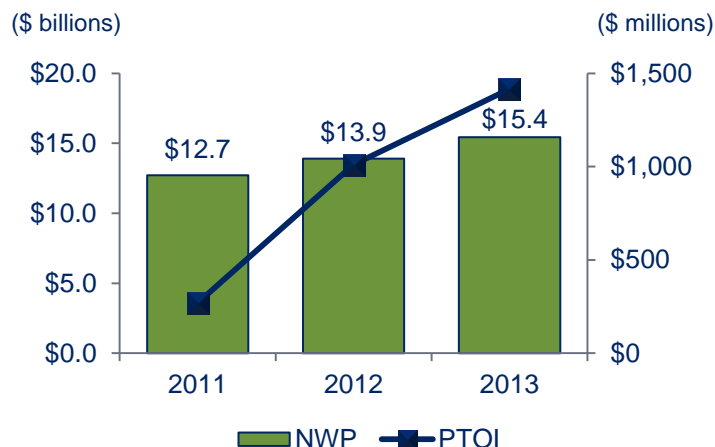
<sup>5</sup> Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2013 and September 30, 2012.

<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 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 managed care income), 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 asbestos and environmental commutation and certain other run off.

NM = Not Meaningful

# Personal Insurance

## NWP & PTOI



## Segment Highlights

- Distributes through independent agent channel under 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 personal lines writers through Q3 2013<sup>4</sup>
- Market leader in affinity marketing, with over 15,000 affinity relationships

<sup>1</sup> Based on 2012 DWP for auto and home.

<sup>2</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>3</sup> Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2013.

<sup>4</sup> YTD YOY growth calculated on a statutory basis

NM=Not Meaningful

## Financial Performance

\$ millions	Fourth Quarter			Full Year		
	2013	2012	Change	2013	2012	Change
NWP	\$3,799	\$3,518	8.0%	\$15,443	\$13,910	11.0%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	\$621	\$539	15.2%	\$2,465	\$2,202	11.9%
Catastrophes <sup>2</sup>	5	(553)	NM	(801)	(1,477)	(45.8)
Net incurred losses attributable to prior years	(197)	6	NM	(248)	285	NM
Current accident year re-estimation <sup>3</sup>	(67)	-	NM	-	-	-
<b>Pre-tax operating income (loss)</b>	<b>\$362</b>	<b>(\$8)</b>	<b>NM</b>	<b>\$1,416</b>	<b>\$1,010</b>	<b>40.2%</b>

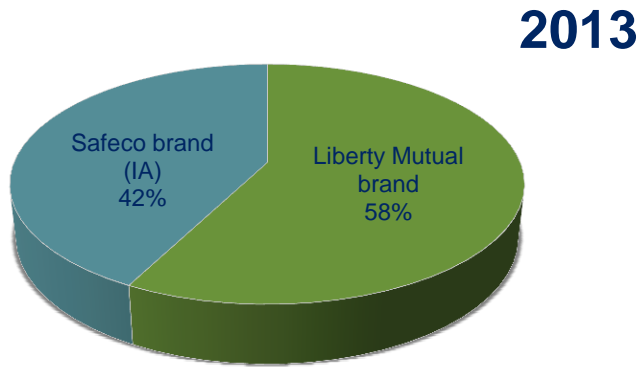
### Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation

Claims and claim adjustment expense ratio	61.1%	62.9%	(1.8)	60.7%	61.7%	(1.0)
Underwriting expense ratio	25.9	25.5	0.4	25.9	25.8	0.1
<b>Subtotal</b>	<b>87.0</b>	<b>88.4</b>	<b>(1.4)</b>	<b>86.6</b>	<b>87.5</b>	<b>(0.9)</b>
Catastrophes <sup>2</sup>	(0.1)	16.6	(16.7)	5.6	11.5	(5.9)
Net incurred losses attributable to prior years	5.3	(0.2)	5.5	1.7	(2.2)	3.9
Current accident year re-estimation <sup>3</sup>	1.8	-	1.8	-	-	-
<b>Total combined ratio</b>	<b>94.0%</b>	<b>104.8%</b>	<b>(10.8)</b>	<b>93.9%</b>	<b>96.8%</b>	<b>(2.9)</b>

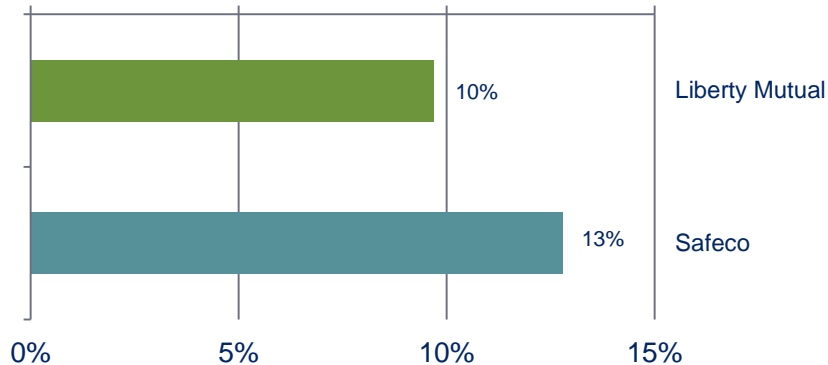


# Personal Insurance NWP Distribution

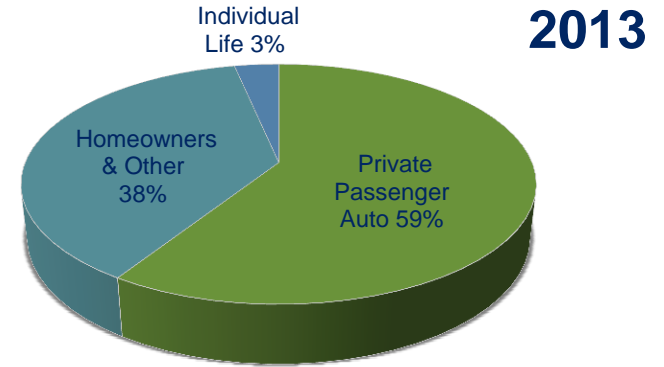
## NWP by market segment



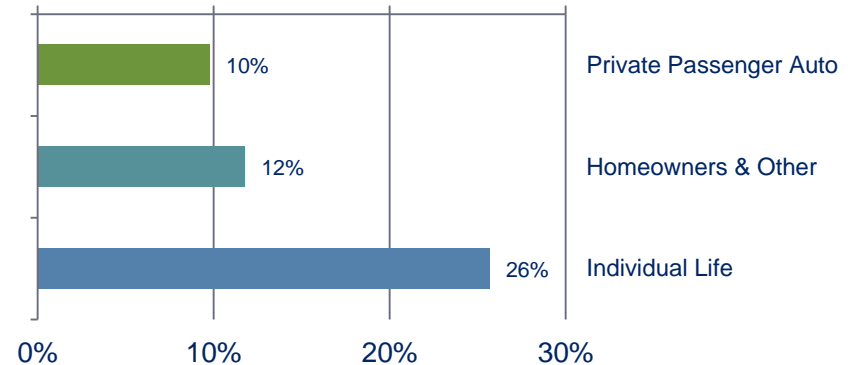
### YOY Change in NWP



## NWP by line of business



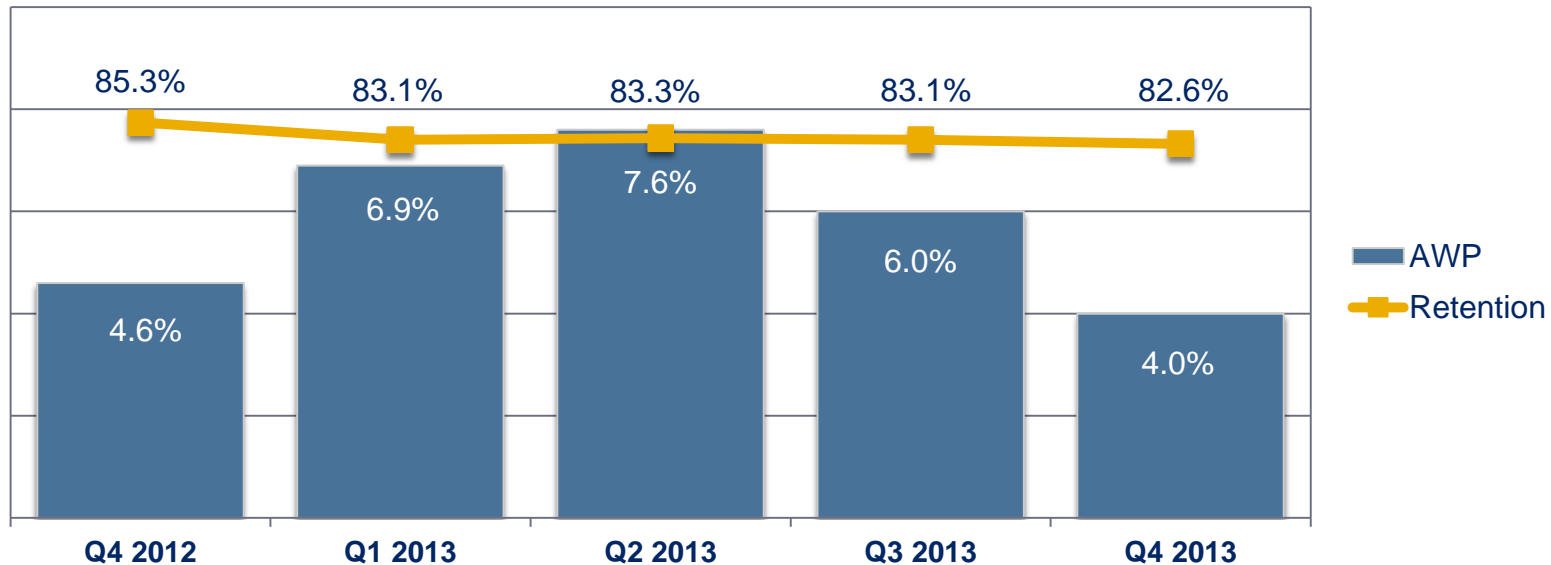
### YOY Change in NWP



NWP for the full year 2013 totaled \$15.443 billion, an increase of 11.0% over the same period in 2012. NWP through the fourth quarter of 2012 was \$13.910 billion.

YOY: year-over-year

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



	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	YTD 2012	YTD 2013
<b>Private Passenger Auto</b>							
AWP	3.4%	5.7%	7.2%	4.8%	1.9%	4.4%	4.9%
Retention	85.0%	82.6%	82.4%	82.8%	82.0%	83.6%	82.4%
<b>Homeowners</b>							
AWP	5.9%	8.1%	7.9%	7.4%	6.2%	5.5%	7.4%
Retention	85.6%	83.6%	84.2%	83.5%	83.3%	85.4%	83.6%

# Commercial Insurance

## NWP & PTOI



## Segment Highlights

- As an SBU, 4<sup>th</sup> largest U.S. commercial lines insurer measured by DWP - \$9.4B
- Equipped to underwrite and service a wide spectrum of exposures, from small proprietors to multi-nationals
- Approximately 5,800 active agencies in 11,900 locations
- WC exposures have declined 26% YTD
- Announced sale of Summit Holdings Southeast, Inc.

<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 and reinstatement premium attributable to prior years of \$5 million and (\$10) million for the three and twelve months ended December 31, 2013 and \$2 million and \$29 million for the same periods in 2012. Net of amortization of deferred gains (losses) on assumed retroactive reinsurance of zero and \$2 million for the three and twelve months ended December 31, 2013 and (\$2) million and zero for the same periods in 2012.

<sup>3</sup> Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2012.

<sup>4</sup> Net of earned premium and reinstatement premium attributable to prior years.

NM=Not Meaningful

## Financial Performance

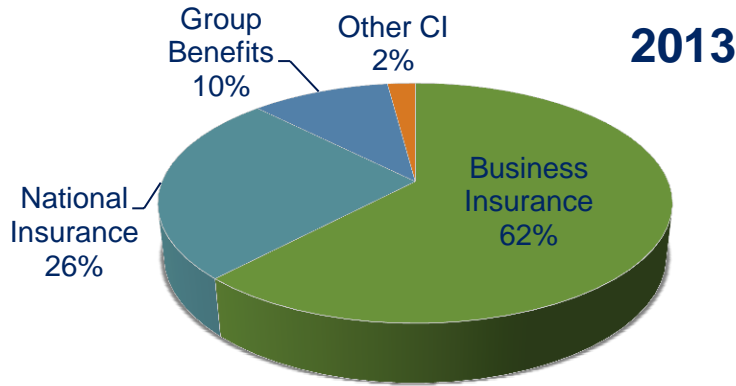
\$ millions	Fourth Quarter			Full Year		
	2013	2012	Change	2013	2012	Change
NWP	\$2,001	\$2,118	(5.5%)	\$8,567	\$9,179	(6.7%)
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	\$202	\$209	(3.3%)	\$818	\$658	24.3%
Catastrophes <sup>1</sup>	(68)	(236)	(71.2)	(252)	(595)	(57.6)
Net incurred losses attributable to prior years <sup>2</sup>	(8)	38	NM	110	182	(39.6)
Current accident year re-estimation <sup>3</sup>	-	(21)	(100.0)	-	-	-
<b>Pre-tax operating income (loss)</b>	<b>\$126</b>	<b>(\$10)</b>	<b>NM</b>	<b>\$676</b>	<b>\$245</b>	<b>175.9%</b>

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

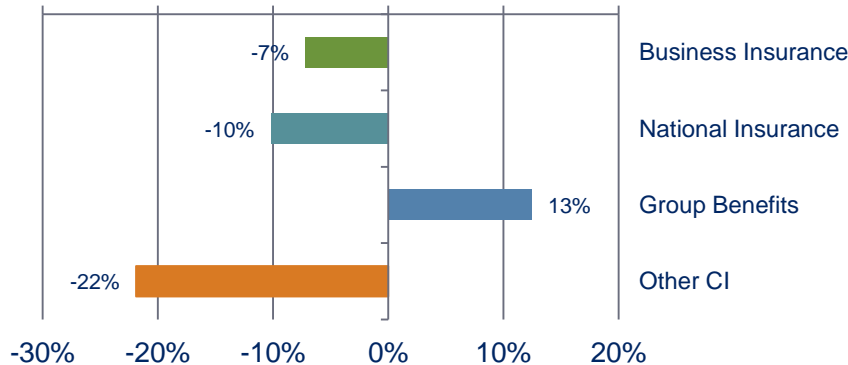
Claims and claim adjustment expense ratio	71.0%	75.0%	(4.0)	71.3%	77.1%	(5.8)
Underwriting expense ratio	31.5	28.6	2.9	30.8	28.9	1.9
Dividend ratio	(0.1)	0.1	(0.2)	0.2	0.3	(0.1)
<b>Subtotal</b>	<b>102.4</b>	<b>103.7</b>	<b>(1.3)</b>	<b>102.3</b>	<b>106.3</b>	<b>(4.0)</b>
Catastrophes <sup>1</sup>	3.5	11.0	(7.5)	3.2	7.1	(3.9)
Net incurred losses attributable to prior years <sup>4</sup>	0.4	(1.8)	2.2	(1.4)	(2.2)	0.8
Current accident year re-estimation <sup>3</sup>	-	1.0	(1.0)	-	-	-
<b>Total combined ratio</b>	<b>106.3%</b>	<b>113.9%</b>	<b>(7.6)</b>	<b>104.1%</b>	<b>111.2%</b>	<b>(7.1)</b>

# Commercial Insurance NWP Distribution

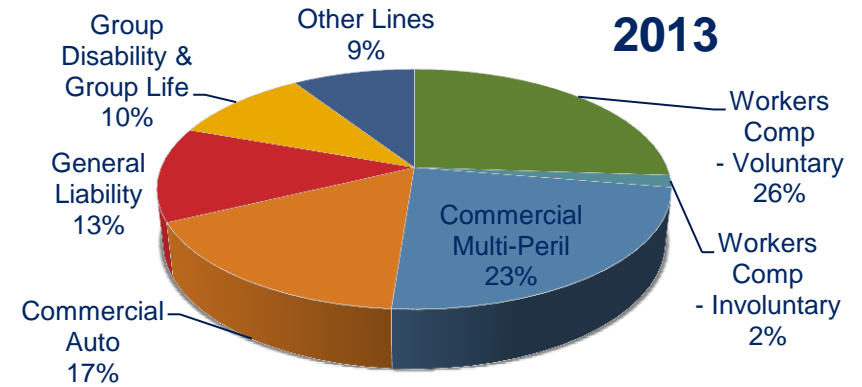
## NWP by market segment



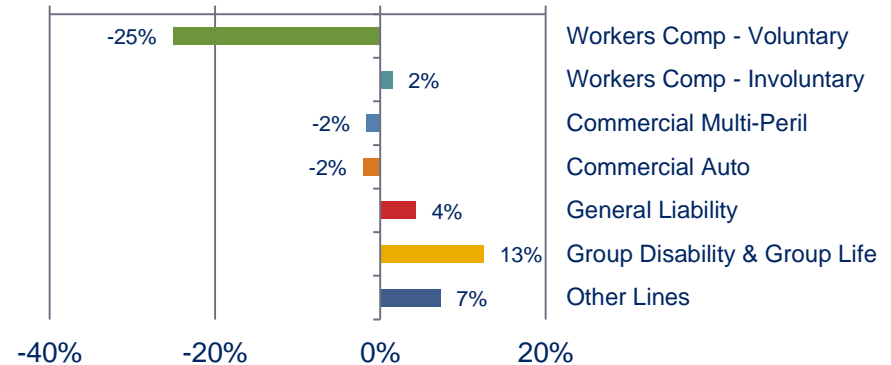
### YOY Change in NWP



## NWP by line of business

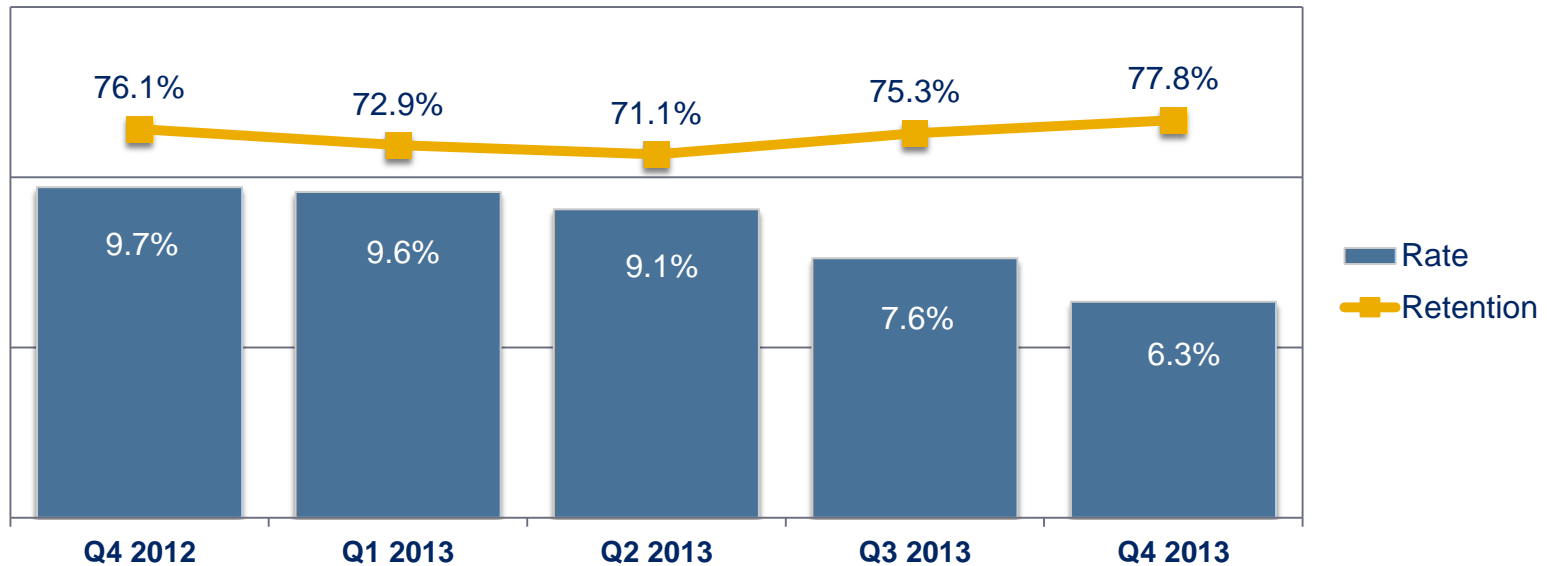


### YOY Change in NWP



NWP for the full year 2013 totaled \$8.567 billion, a decrease of 6.7% from the same period in 2012. NWP through the fourth quarter of 2012 was \$9.179 billion.

# Commercial Insurance: Rate & Retention

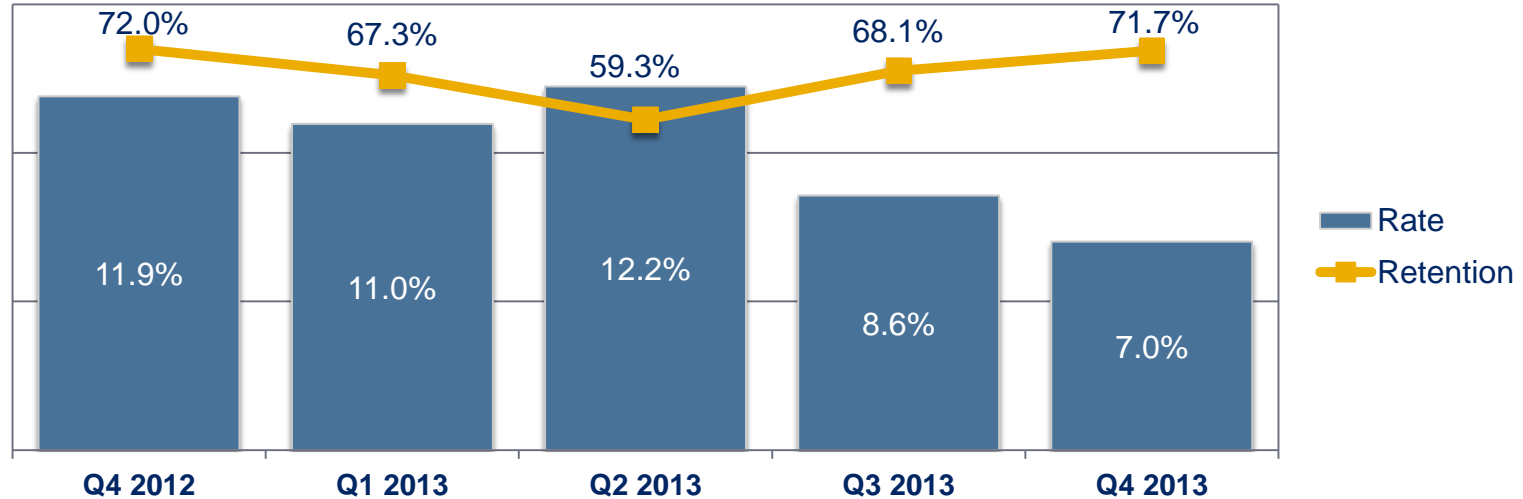


	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	YTD 2012	YTD 2013
<b>Business Insurance</b>							
Rate	10.0%	10.2%	9.4%	7.9%	6.8%	8.8%	8.7%
Retention	72.9%	70.0%	69.8%	74.8%	76.4%	75.2%	72.7%
<b>National Insurance</b>							
Rate	8.9%	8.1%	8.2%	6.7%	5.3%	7.1%	7.2%
Retention	83.6%	78.4%	74.0%	76.5%	81.0%	85.2%	77.7%
<b>Commercial Insurance P&amp;C</b>							
Rate	9.7%	9.6%	9.1%	7.6%	6.3%	8.3%	8.3%
Retention	76.1%	72.9%	71.1%	75.3%	77.8%	78.1%	74.3%

\*Note: Business Drivers are ex Group Benefits.

# Commercial Insurance: WC Rate & Retention

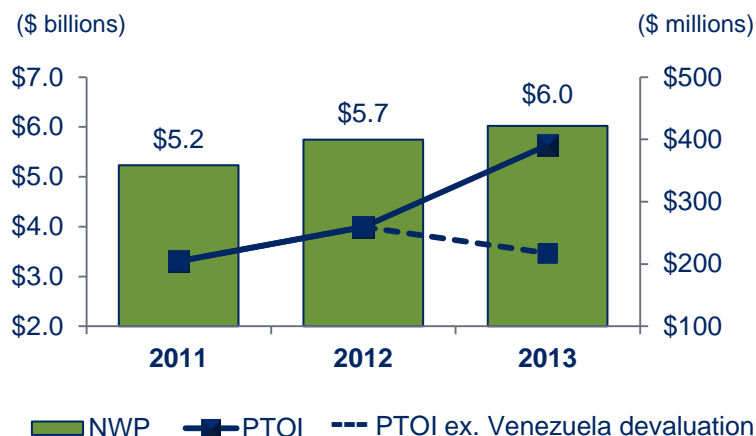
Voluntary NWP of \$2.230 billion is down 25% from 2012; 26% reduction in exposures.



	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	YTD 2012	YTD 2013
<b>Business Insurance</b>							
Rate	13.1%	12.9%	13.0%	8.8%	7.7%	11.8%	10.5%
Retention	64.1%	56.1%	54.9%	65.7%	65.5%	69.0%	60.4%
<b>National Insurance</b>							
Rate	10.1%	8.7%	11.1%	8.2%	6.1%	7.5%	8.7%
Retention	84.4%	78.8%	66.4%	72.0%	80.3%	87.3%	75.1%
<b>Commercial Insurance P&amp;C</b>							
Rate	11.9%	11.0%	12.2%	8.6%	7.0%	10.2%	9.7%
Retention	72.0%	67.3%	59.3%	68.1%	71.7%	75.9%	66.6%

# Liberty International

## NWP & PTOI



## Segment Highlights

- Acquired remaining 49% of Liberty Ireland
- VZ announced no official devaluation to currency; moving in direction of implicit devaluation
- Continued sponsorship of World Cup in Brazil
- Announced acquisition in Malaysia

<sup>1</sup> 2013 combined ratio has been adjusted to exclude the impact of the Venezuela devaluation for comparative purposes.

<sup>2</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>3</sup> Net of earned premium attributable to prior years of zero for the three months and twelve months ended December 31, 2013 and zero and (\$1) million for the same periods in 2012.

<sup>4</sup> Net of earned premium attributable to prior years.

NM = Not meaningful

## Financial Performance

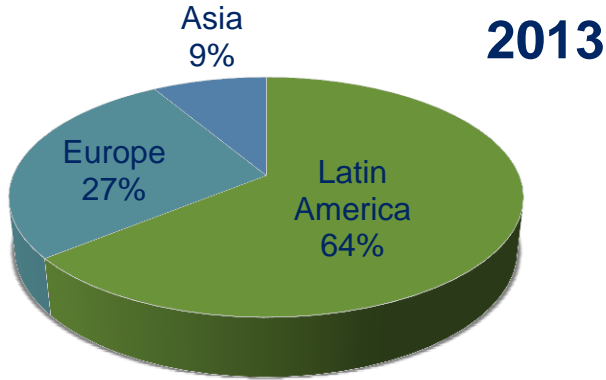
\$ millions	Fourth Quarter			Full Year		
	2013 <sup>1</sup>	2012	Change	2013 <sup>1</sup>	2012	Change
NWP	\$1,710	\$1,625	5.2%	\$6,021	\$5,747	4.8%
PTOI before catastrophes, net incurred losses attributable to prior years and Venezuela devaluation	\$13	\$78	(83.3%)	\$160	\$266	(39.8%)
Catastrophes <sup>2</sup>	-	-	-	-	-	-
Net incurred losses attributable to prior years <sup>3</sup>	32	8	NM	57	(7)	NM
Venezuela devaluation	10	-	NM	174	-	NM
<b>Pre-tax operating income</b>	<b>\$55</b>	<b>\$86</b>	<b>(36.0%)</b>	<b>\$391</b>	<b>\$259</b>	<b>51.0%</b>

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

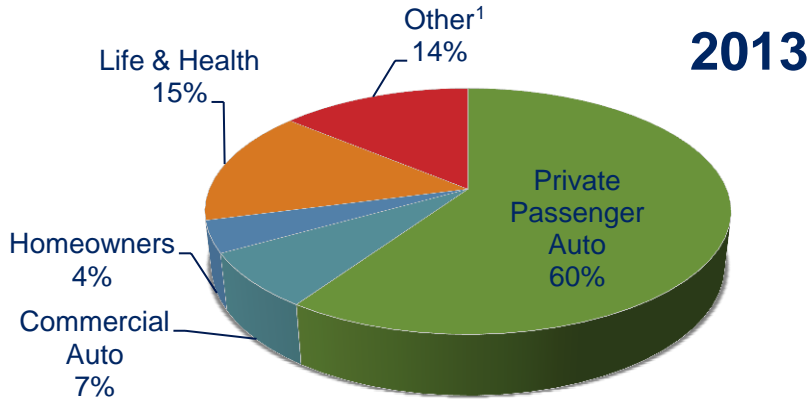
Claims and claim adjustment expense ratio	66.1%	64.1%	2.0	66.1%	66.1%	-
Underwriting expense ratio	40.8	38.4	2.4	39.1	37.0	2.1
<b>Subtotal</b>	<b>106.9</b>	<b>102.5</b>	<b>4.4</b>	<b>105.2</b>	<b>103.1</b>	<b>2.1</b>
Catastrophes <sup>2</sup>	-	-	-	-	-	-
Net incurred losses attributable to prior years <sup>4</sup>	(2.2)	(0.5)	(1.7)	(1.0)	0.1	(1.1)
<b>Total combined ratio</b>	<b>104.7%</b>	<b>102.0%</b>	<b>2.7</b>	<b>104.2%</b>	<b>103.2%</b>	<b>1.0</b>

# Liberty International NWP Distribution

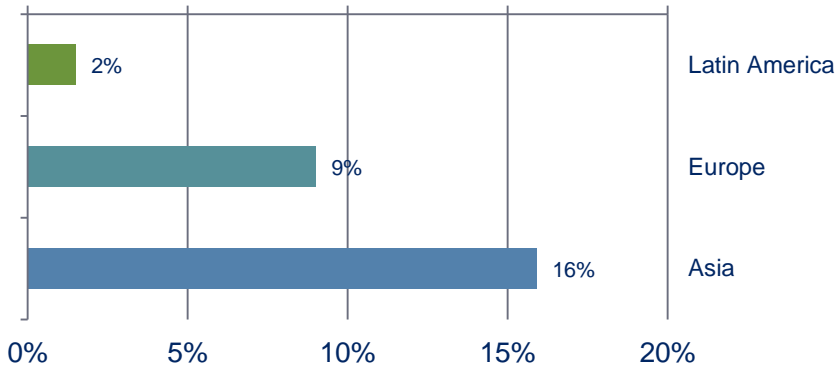
**NWP by market segment**



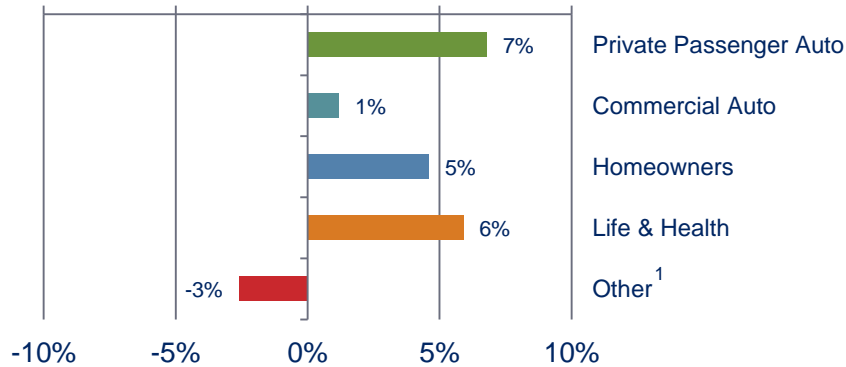
**NWP by line of business**



**YOY Change in NWP**



**YOY Change in NWP**



NWP for the full year 2013 totaled \$6.021 billion, an increase of 4.8% over the same period in 2012. NWP through the fourth quarter of 2012 was \$5.747 billion.

<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.  
YOY: year-over-year



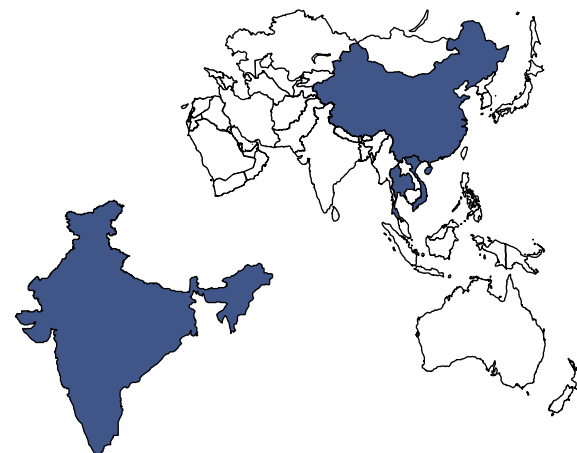
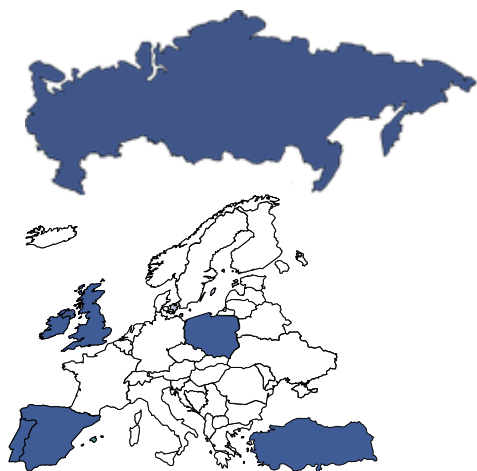
# Liberty International: Global Presence

(\$ millions)

Europe	NWP	P&C Rank	P&C Share
Ireland	\$233	7 <sup>th</sup>	6.5%
Poland	\$93	14 <sup>th</sup>	1.1%
Portugal	\$295	8 <sup>th</sup>	6.1%
Russia	\$73	39 <sup>th</sup>	0.3%
Spain	\$819	16 <sup>th</sup>	2.0%
Turkey	\$65	23 <sup>rd</sup>	0.8%
Great Britain	\$67	N/A	N/A

Latin America	NWP	P&C Rank	P&C Share
Venezuela <sup>4,5</sup>	\$1,955	1 <sup>st</sup>	14.8%
Colombia	\$463	3 <sup>rd</sup>	8.8%
Chile	\$197	5 <sup>th</sup>	9.1%
Brazil <sup>3,5</sup>	\$1,068	9 <sup>th</sup>	2.9%
Argentina <sup>2</sup>	\$108	27 <sup>th</sup>	0.7%
Ecuador	\$61	6 <sup>th</sup>	4.8%

Asia & India	NWP	P&C Rank	P&C Share
China <sup>6</sup>	\$129	3 <sup>rd</sup>	0.1%
Hong Kong <sup>1</sup>	\$67	15 <sup>th</sup>	2.0%
Singapore	\$112	8 <sup>th</sup>	4.2%
Thailand <sup>3</sup>	\$184	9 <sup>th</sup>	3.0%
Vietnam	\$20	10 <sup>th</sup>	1.9%
India	\$11	26 <sup>th</sup>	0.1%



Rankings Base – Gross Written Premium (GWP) except where noted:

- <sup>1</sup> Net Written Premium
- <sup>2</sup> Net Earned Premium
- <sup>3</sup> Direct Written Premium

<sup>4</sup> Excludes government owned companies

<sup>5</sup> Reflects combined P&C and life markets

<sup>6</sup> Ranking based on non-domestic companies including Mandatory Third Party Liability

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

# Global Specialty

## NWP & PTOI



## Segment Highlights

- 5<sup>th</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
- Announced acquisition of Mexican surety company

## Financial Performance

\$ millions	Fourth Quarter			Full Year		
	2013	2012	Change	2013	2012	Change
NWP	\$1,131	\$972	16.4%	\$5,021	\$4,310	16.5%
PTOI before catastrophes and net incurred losses attributable to prior years	\$147	\$92	59.8%	\$675	\$617	9.4%
Catastrophes <sup>1</sup>	(8)	(117)	(93.2)	(102)	(145)	(29.7)
Net incurred losses attributable to prior years <sup>2</sup>	(45)	(139)	(67.6)	(72)	(95)	(24.2)
<b>Pre-tax operating income (loss)</b>	<b>\$94</b>	<b>(\$164)</b>	<b>NM</b>	<b>\$501</b>	<b>\$377</b>	<b>32.9%</b>

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

Claims and claim adjustment expense ratio	64.8%	70.2%	(5.4)	62.5%	63.7%	(1.2)
Underwriting expense ratio	29.7	28.5	1.2	29.2	28.8	0.4
Dividend ratio	0.1	0.2	(0.1)	0.2	0.2	-
<b>Subtotal</b>	<b>94.6</b>	<b>98.9</b>	<b>(4.3)</b>	<b>91.9</b>	<b>92.7</b>	<b>(0.8)</b>
Catastrophes <sup>1</sup>	0.6	10.2	(9.6)	2.1	3.4	(1.3)
Net incurred losses attributable to prior years <sup>3</sup>	3.7	12.4	(8.7)	1.5	2.3	(0.8)
<b>Total combined ratio</b>	<b>98.9%</b>	<b>121.5%</b>	<b>(22.6)</b>	<b>95.5%</b>	<b>98.4%</b>	<b>(2.9)</b>

<sup>1</sup> Catastrophes include all current accident year catastrophe losses for severe storms in the U.S. including Superstorm Sandy (2012), Cyclone Oswald, Central Europe floods, Alberta floods, Germany hail storms and Typhoon Fitow. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

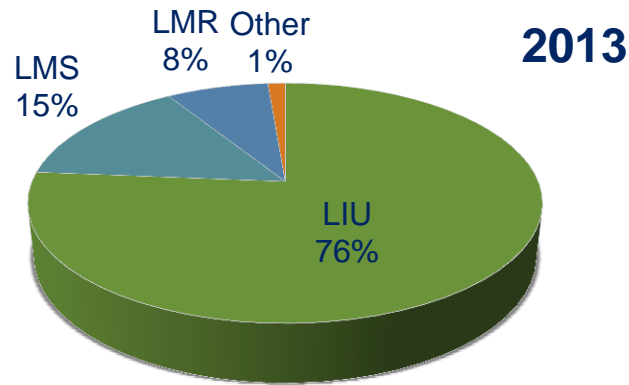
<sup>2</sup> Net of earned premium and reinstatement premium attributable to prior years of \$6 million and \$27 million for the three and twelve months ended December 31, 2013 and (\$1) million and \$14 million for the same periods in 2012.

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

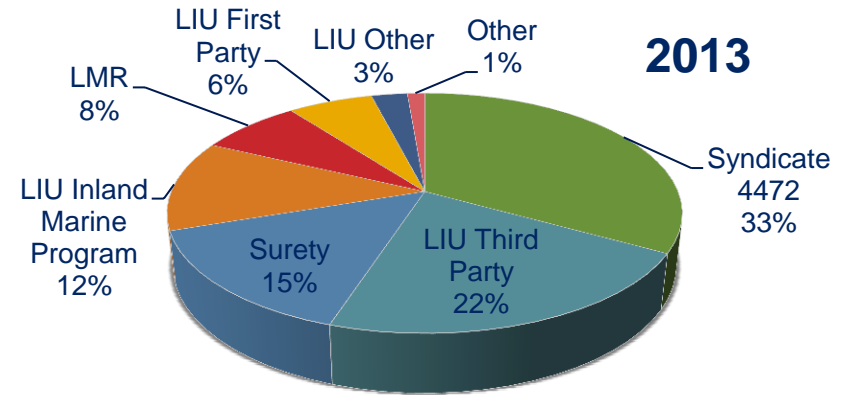
NM = Not Meaningful

# Global Specialty NWP Distribution

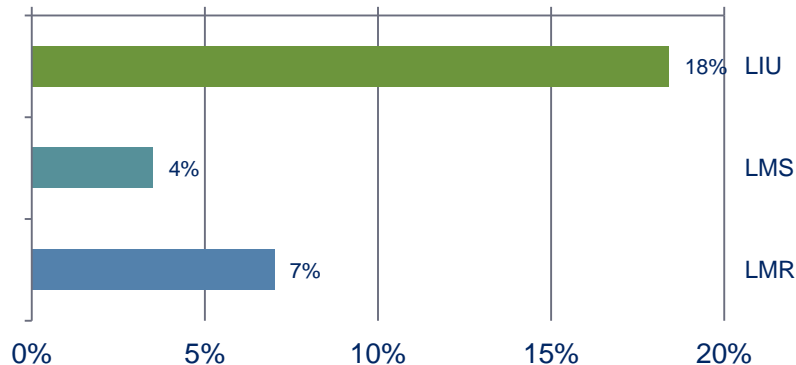
## NWP by market segment



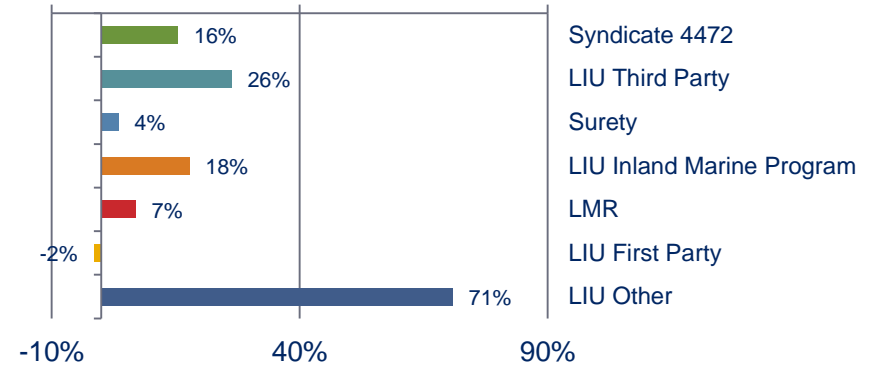
## NWP by line of business



### YOY Change in NWP



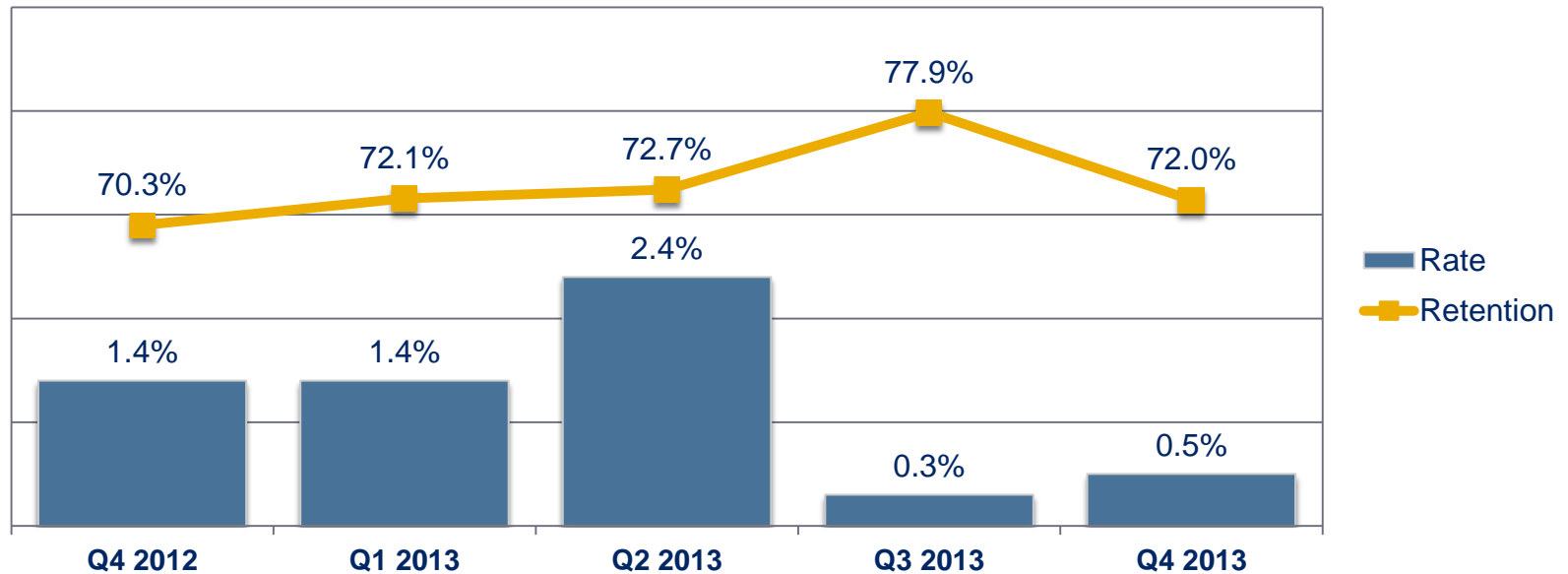
### YOY Change in NWP



NWP for the full year 2013 totaled \$5.021 billion, an increase of 16.5% over the same period in 2012. NWP through the fourth quarter of 2012 was \$4.310 billion.

YOY: year-over-year

# Global Specialty: Rate & Retention

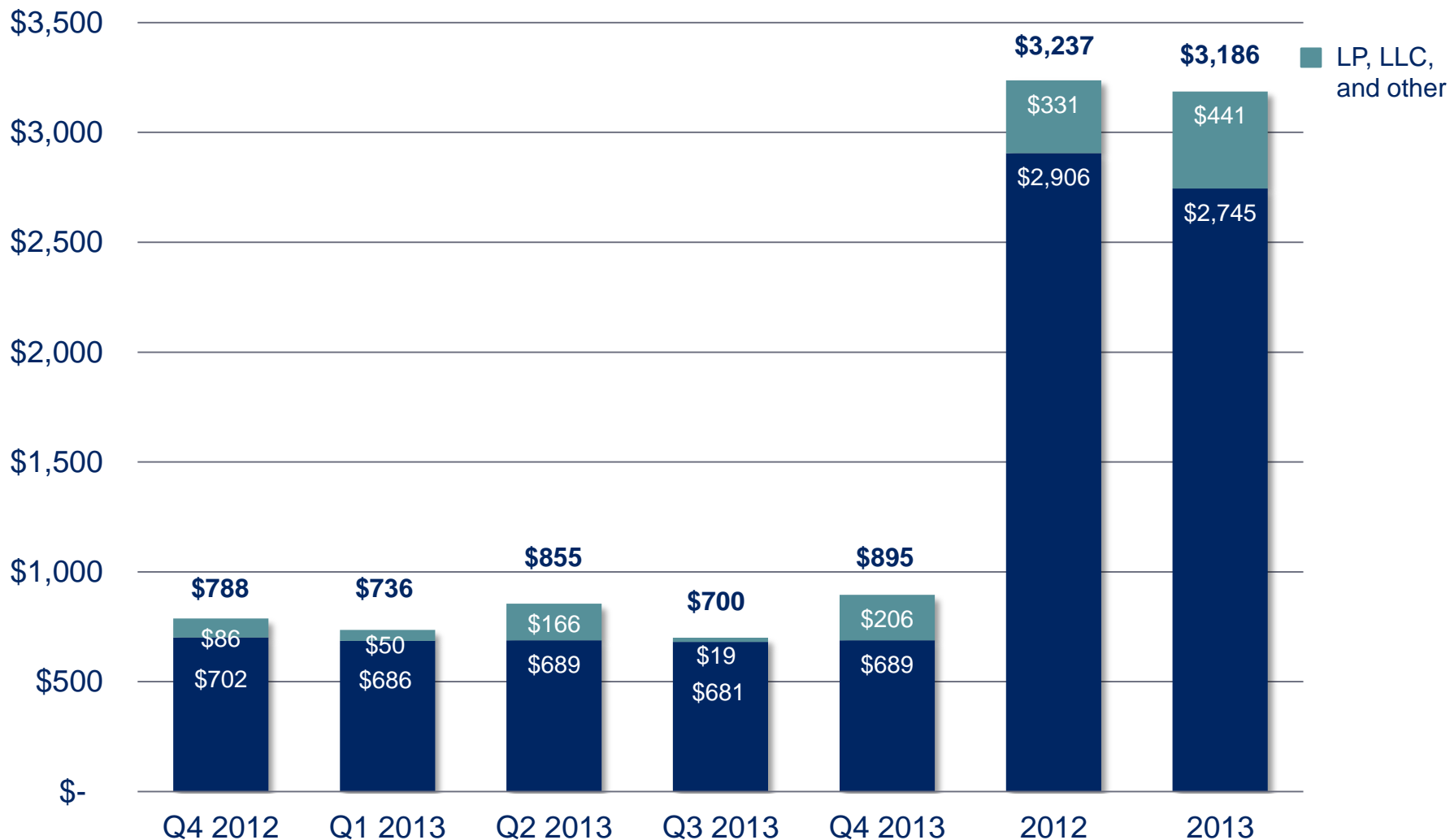


	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	YTD 2012	YTD 2013
<b>LIU<sup>1</sup></b>							
Rate	2.4%	2.7%	2.4%	0.7%	0.8%	1.5%	1.6%
Retention	71.1%	64.3%	69.0%	79.1%	70.3%	73.4%	70.3%
<b>Syndicate 4472</b>							
Rate	(1.3%)	0.6%	2.3%	(0.7%)	(0.1%)	3.8%	0.6%
Retention	82.3%	73.3%	75.4%	70.5%	75.6%	80.1%	73.6%

<sup>1</sup> Excludes Inland Marine

# Net Investment Income

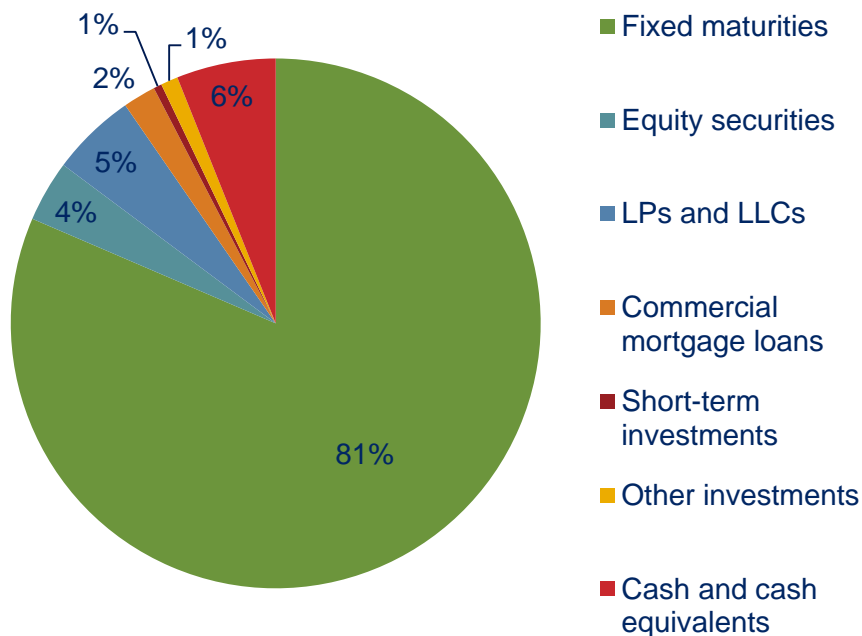
(\$ millions)



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

# Investment Mix and Capitalization

## Invested Assets



Total invested assets as of December 31, 2013: \$78.882 billion

(\$ millions)	December 31,	
	2013	2012
Long-term debt	\$6,285	\$5,990
Adjusted debt <sup>1</sup>	\$5,285	\$4,990
Total equity	\$19,012	\$18,525
Less: AOCI	<u>\$640</u>	<u>\$1,707</u>
Total equity ex. AOCI	\$18,372	\$16,818
Total capital ex. AOCI	\$24,657	\$22,808
Adjusted debt-to-total capitalization (ex. AOCI)	21.4%	21.9%
Statutory surplus	\$17,508	\$16,521

<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>	\$331
<b>Holding company interest coverage</b>	<b>5.9x</b>

<sup>1</sup> Represents the estimated maximum allowable dividend without prior regulatory approval in the state of domicile. Dividends paid during the twelve months ended December 31, 2013 were \$204 million. Available dividend capacity is calculated as 2014 dividend capacity less dividends paid for the preceding twelve months.

<sup>2</sup> Represents the expected run-rate for interest expense at Liberty Mutual Group Inc. excluding 2014 maturities.

# Reconciliation of Statement of Income to Combined Ratio

For the twelve months ended December 31, 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	\$34,145		(\$1,516)	(\$272)	\$32,357
Benefits, claims and claim adjustment expenses	24,100		(1,541)	(60)	22,499
Operating costs and expenses	6,524	(29)	(316)	(1,053)	5,126
Amortization of deferred policy acquisition costs	4,743		(63)	(40)	4,640
Dividends to policyholders	N/A	29	(6)	-	23
<b>Total combined ratio</b>					<b>99.8%</b>

For the twelve months ended December 31, 2012					\$ 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	\$31,622		(\$1,265)	\$ -	\$30,357
Benefits, claims and claim adjustment expenses	24,267		(1,399)	42	22,910
Operating costs and expenses	5,980	(39)	(282)	(909)	4,750
Amortization of deferred policy acquisition costs	4,196		(69)	-	4,127
Dividends to policyholders	N/A	39	(8)	-	31
<b>Total combined ratio</b>					<b>104.8%</b>

<sup>1</sup> Dividends to policyholders

<sup>2</sup> Life insurance 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



# Subsequent Events

- ❖ **Acquisition of Primero Fianzas** – On November 13, 2013, the Company reached a definitive agreement to acquire Mexican surety company Primero Fianzas from Grupo Valores Operativos Monterray, a private investor group. The parties have not disclosed the financial terms of the agreement. The transaction is subject to regulatory approval which is expected in the second quarter of 2014.
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- ❖ **Sale of Summit Holdings Southeast, Inc.** – On January 9, 2014, the Company reached a definitive agreement to sell Summit Holdings Southeast, Inc. and its related companies (together, “Summit”) to American Financial Group (NYSE/NASDAQ: AFG) in an all-cash transaction. Under the terms of the transaction, AFG will pay the Company an estimated \$250 million at closing. The purchase price will be subject to adjustment between signing and closing for, among other things, changes in Summit’s GAAP tangible book value. The transaction is subject to regulatory approval which is expected by April 1, 2014.

The results of Summit are presented as discontinued operations on the Consolidated Statements of Income and are no longer included with Commercial Insurance. All income statement metrics included in the preceding slides reflect this presentation unless otherwise noted. All prior periods have been restated to reflect the sale.

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- ❖ **Venezuela Devaluation** – In January, 2014, the Venezuelan government issued Exchange Agreement No. 25, which established that the published rate of exchange resulting from the latest SICAD auction will be applied prospectively to certain transactions that previously were subject to the official rate. A SICAD auction which settled on February 17, 2014 transacted at a VEF to U.S. dollar exchange rate of 11.7:1. In February, 2014, the Venezuelan government issued Exchange Agreement No. 26 which states that the National Center for Foreign Trade will be responsible for determining the sectors that will be allowed to buy U.S. dollars through the SICAD auction. There has been no formal interpretative guidance issued by the government related to either of the Agreements. Additionally, the Venezuelan President signed a decree creating a new exchange control mechanism referred to as SICAD 2. At this time, the Company is unable to predict with any degree of certainty how recent and future exchange control developments in Venezuela will affect its Venezuela operations.

Depending on the ultimate transparency and liquidity of the SICAD markets and the interpretation of the Exchange Agreements, it is possible that the Company may be required to remeasure all or a portion of its net monetary balances at one of the SICAD rates which could fluctuate. To the extent that the SICAD rates are higher than the official exchange rate at the time the net monetary balances are remeasured, the Company would incur a devaluation charge, which could be material. As of December 31, 2013, the Company had net monetary equity of \$700 million, which could be impacted by a devaluation charge.

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- ❖ **Acquisition of Uni.Asia Capital Sdn Bhd** – On February 17, 2014, the Company reached a definitive agreement with Uni.Asia Capital Sdn Bhd for the purchase of its 68.09% stake in Uni.Asia General Insurance Berhad for approximately \$113 million. The transaction is subject to Malaysian regulatory approval and is expected to be completed in the third quarter of 2014.

# 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 2012 direct written premium. The Company also ranks 81<sup>st</sup> on the Fortune 100 list of largest corporations in the U.S. based on 2012 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.

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 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 twelve months ended December 31, 2013 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 when available 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**