Liberty Mutual Insurance Reports Fourth Quarter 2014 Results

BOSTON, Mass., March 3, 2015 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") today reported net income attributable to LMHC of $559 million and $1.833 billion for the three and twelve months ended December 31, 2014, increases of $63 million and $90 million over the same periods in 2013. Including $5 million and $24 million of net losses attributable to non-controlling interest, consolidated net income for the three and twelve months ended December 31, 2014 was $554 million and $1.809 billion, respectively.

"Deliberate underwriting actions and solid investment results led to net operating income of $2.2 billion for the year, an increase of 16% despite higher catastrophe losses and continued low interest rates," said David H. Long, Chairman and CEO of Liberty Mutual Insurance. "An emphasis on profitable growth is evident with net written premiums up 3.3% and the combined ratio down to 97.5%."

Fourth Quarter Highlights

- Revenues for the three months ended December 31, 2014 were $9.948 billion, a decrease of $7 million or 0.1% from the same period in 2013.
- Net written premium ("NWP") for the three months ended December 31, 2014 was $8.857 billion, an increase of $95 million or 1.1% over the same period in 2013.
- Pre-tax operating income ("PTOI") for the three months ended December 31, 2014 was $900 million, an increase of $275 million or 44.0% over the same period in 2013.
- Catastrophe losses for the three months ended December 31, 2014 were $155 million, an increase of $54 million or 53.5% 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 $17 million (net of $44 million of PTOI) in 2014 compared to a pre-tax gain of $20 million in the same period in 2013. There were no impairments in the fourth quarter of 2013.
- Net operating income for the three months ended December 31, 2014 was $651 million, an increase of $177 million or 37.3% over the same period in 2013.
- Net income attributable to LMHC for the three months ended December 31, 2014 was $559 million, an increase of $63 million or 12.7% over the same period in 2013.
- The consolidated combined ratio before catastrophes[1], net incurred losses attributable to prior years[2] and current accident year re-estimation[3] for the three months ended December 31, 2014 was 92.9%, an improvement of 3.1 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 December 31, 2014 improved 6.6 points to 93.5%.
- Cash flow provided by operations for the three months ended December 31, 2014 was $1.169 billion, an increase of $140 million or 13.6% over the same period in 2013.

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[1]Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., U.K. and Ireland floods, Windstorm Ela, Cyclone Oswald, Central European floods, Alberta floods, German hailstorm, Hurricane Odile and Typhoon Fitow. 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.
[3]Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2014 and 2013.

Year-to-date Highlights

- Revenues for the twelve months ended December 31, 2014 were $39.631 billion, an increase of $1.233 billion or 3.2% over the same period in 2013.

- NWP for the twelve months ended December 31, 2014 was $36.275 billion, an increase of $1.159 billion or 3.3% over the same period in 2013.

- PTOI for the twelve months ended December 31, 2014 was $2.970 billion, an increase of $504 million or 20.4% over the same period in 2013.

- Catastrophe losses for the twelve months ended December 31, 2014 were $1.606 billion, an increase of $344 million or 27.3% 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 $153 million (net of $162 million of PTOI) in 2014 compared to a pre-tax loss of $19 million (net of $204 million of PTOI) in the same period in 2013.

- Net operating income for the twelve months ended December 31, 2014 was $2.236 billion, an increase of $311 million or 16.2% over 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 twelve months ended December 31, 2014.

- Net income attributable to LMHC for the twelve months ended December 31, 2014 was $1.833 billion, an increase of $90 million or 5.2% over the same period in 2013.

- During the year, the Company entered into a retroactive aggregate excess of loss agreement (the "NICO Reinsurance Transaction") with National Indemnity Company ("NICO"). The NICO Reinsurance Transaction is accounted for as retroactive reinsurance in the Company's GAAP consolidated financial statements and resulted in a pre-tax loss of $128 million as of the effective date, which was 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. Since the cumulative claims and claim adjustment expenses ceded (including the $85 million of adverse prior year development) have not exceeded the consideration paid, the Company was able to recognize $85 million of retroactive reinsurance benefit. See the Consolidated Results of Operations Section for additional details of the transaction.

- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the twelve months ended December 31, 2014 was 92.8%, an improvement of 2.4 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 twelve months ended December 31, 2014 improved 2.2 points to 97.5%.

- Cash flow provided by operations for the twelve months ended December 31, 2014 was $1.237 billion, a decrease of $2.920 billion or 70.2% from the same period in 2013. The decrease reflects approximately $3.0 billion total consideration paid to fund the NICO Reinsurance Transaction.

Financial Condition as of December 31, 2014

- Total assets were $124.304 billion as of December 31, 2014, an increase of $3.022 billion or 2.5% over December 31, 2013.

- Total equity was $20.302 billion as of December 31, 2014, an increase of $1.290 billion or 6.8% over December 31, 2013.

Consolidated Net Operating Income for the Three and Twelve Months Ended December 31, 2014 and 2013:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Net operating income	$651	$474	37.3%	$2,236	$1,925	16.2%
Net realized (losses) gains, net of tax	(89)	41	NM	(300)	(81)	NM
SBU realignment (expense) benefit, net of tax	-	(2)	(100.0)	-	3	(100.0)
Loss on extinguishment of debt, net of tax	(3)	(36)	(91.7)	(22)	(137)	(83.9)
Discontinued operations, net of tax	-	19	(100.0)	(81)	33	NM
Net income attributable to LMHC	$559	$496	12.7%	$1,833	$1,743	5.2%

NM = Not Meaningful

Consolidated Results of Operations for the Three and Twelve Months Ended December 31, 2014 and 2013:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Revenues	$9,948	$9,955	(0.1%)	$39,631	$38,398	3.2%
PTOI before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation and foreign exchange, current accident year re-estimation and LP and LLC income[1]	$881	$676	30.3%	$3,731	$3,063	21.8%
Catastrophes[2]	(155)	(101)	53.5	(1,606)	(1,262)	27.3
Net incurred losses attributable to prior years:						
- Asbestos & environmental	-	(4)	(100.0)	(113)	(288)	(60.8)
- All other[3]	97	(165)	NM	158	137	15.3
Venezuela devaluation and foreign exchange	44	20	120.0	162	204	(20.6)
Current accident year re-estimation[4]	-	(67)	(100.0)	-	-	-
PTOI before LP and LLC income	867	359	141.5	2,332	1,854	25.8
LP and LLC income	33	266	(87.6)	638	612	4.2
PTOI	900	625	44.0	2,970	2,466	20.4
Net realized (losses) gains	(97)	65	NM	(289)	11	NM
SBU realignment (expense) benefit	-	(3)	(100.0)	-	5	(100.0)
Loss on extinguishment of debt	(5)	(55)	(90.9)	(34)	(211)	(83.9)
Pre-tax income	798	632	26.3	2,647	2,271	16.6
Income tax expense	244	127	92.1	757	544	39.2
Consolidated net income before discontinued operations	554	505	9.7	1,890	1,727	9.4
Discontinued operations, net of tax	-	19	(100.0)	(81)	33	NM
Consolidated net income	554	524	5.7	1,809	1,760	2.8
Less: Net (loss) income attributable to non-controlling interest	(5)	28	NM	(24)	17	NM
Net income attributable to LMHC	$559	$496	12.7%	$1,833	$1,743	5.2%
Cash flow provided by operations	$1,169	$1,029	13.6%	$1,237	$4,157	(70.2%)

1 Limited partnership ("LP") and limited liability company ("LLC") income is included in net investment income in the accompanying Consolidated Statements of Income.

2 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, German hailstorm, Hurricane Odile and Typhoon Fitow. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

3 Net of earned premium and reinstatement premium attributable to prior years of ($2) million and $8 million for the three and twelve months ended December 31, 2014 and $11 million and $216 million for the same periods in 2013. Net of amortization of deferred gains on retroactive reinsurance of zero and $3 million for the three and twelve months ended December 31, 2014 and $160 million and $339 million for the same periods in 2013. Net of the impact of the NICO Reinsurance Transaction including the original loss of $128 million offset by the subsequent benefit of $85 million.

4 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2014 and 2013.

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 twelve months ended December 31, 2014 are available on the Company's Investor Relations web site at www.libertymutual.com/investors.

Conference Call Information: At 10:00 a.m. EST today, David H. Long, Liberty Mutual Insurance Chairman and CEO, will host a conference call to discuss the Company's financial results. To listen to the call and participate in the Q&A, please dial 800-857-2190, providing the pass code "Liberty" when prompted. A replay will be available until 5:00 p.m. on March 10, 2015 at 866-461-2735.

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 76th on the Fortune 100 list of largest corporations in the U.S. based on 2013 revenue. As of December 31, 2014, LMHC had $124.304 billion in consolidated assets, $104.002 billion in consolidated liabilities, and $39.631 billion in annual consolidated revenue.

LMHC, through its subsidiaries and affiliated companies, offers a wide range of property-casualty insurance products and services to individuals and businesses alike. In 2001 and 2002, the Company formed a mutual holding company structure, whereby the three principal mutual insurance companies, Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company and Employers Insurance Company of Wausau, each became separate stock insurance companies under the ownership of LMHC.

Functionally, the Company conducts substantially all of its business through strategic business units, with each operating independently of the others with dedicated sales, underwriting, claims, actuarial, financial and certain information technology resources. Management believes this structure allows each business unit to execute its business strategy and/or to make acquisitions without impacting or disrupting the operations of the Company's other business units.

LMHC employs more than 50,000 people in approximately 900 offices throughout the world. For a full description of the Company's business operations, products and distribution channels, please visit Liberty Mutual's Investor Relations web site at www.libertymutual.com/investors.

Cautionary Statement Regarding Forward Looking Statements

This press release contains forward looking statements that are intended to enhance the reader's ability to assess the Company's future financial and business performance. Forward looking statements include, but are not limited to, statements that represent the Company's beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as "may," "expects," "should," "believes," "anticipates," "estimates," "intends" or similar expressions. Because these forward looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond the Company's control or are subject to change, actual results could be materially different.

Some of the factors that could cause actual results to differ include, but are not limited to the following: the occurrence of catastrophic events (including terrorist acts, hurricanes, hail, tornados, tsunamis, earthquakes, floods, snowfall and winter conditions); inadequacy of loss reserves; adverse developments involving asbestos, environmental or toxic tort claims and litigation; adverse developments in the cost, availability or ability to collect reinsurance; disruptions to the Company's relationships with its independent agents and brokers; financial disruption or a prolonged economic downturn; the performance of the Company's investment portfolios; a rise in interest rates; risks inherent in the Company's alternative investments in private LPs and LLCs; difficulty in valuing certain of the Company's investments; subjectivity in the determination of the amount of impairments taken on the Company's investments; unfavorable outcomes from litigation and other legal proceedings, including the effects of emerging claim and coverage issues and investigations by state and federal authorities; the Company's exposure to credit risk in certain of its business operations; terrorist acts; the Company's inability to obtain price increases or maintain market share due to competition or otherwise; inadequacy of the Company's pricing models; changes to insurance laws and regulations; changes in the amount of statutory capital that the Company must hold to maintain its financial strength and credit ratings; regulatory restrictions on the Company's ability to change its methods of marketing and underwriting in certain areas; assessments for guaranty funds and mandatory pooling arrangements; a downgrade in the Company's claims-paying and financial strength ratings; the ability of the Company's subsidiaries to pay dividends to the Company; inflation, including inflation in medical costs and automobile and home repair costs; the cyclicality of the property and casualty insurance industry; political, legal, operational and other risks faced by the Company's international business; potentially high severity losses involving the Company's surety products; loss or significant restriction on the Company's ability to use credit scoring in the pricing and underwriting of personal lines policies; inadequacy of the Company's controls to ensure compliance with legal and regulatory standards; changes in federal or state tax laws; risks arising out of the Company's securities lending program; the Company's utilization of information technology systems and its implementation of technology innovations; difficulties with technology or data security; insufficiency of the Company's business continuity plan in the event of a disaster; the Company's ability to successfully integrate operations, personnel and technology from its acquisitions; insufficiency of the Company's enterprise risk management models and modeling techniques; and changing climate conditions. The Company's forward looking statements speak only as of the date of this report or as of the date they are made and should be regarded solely as the Company's current plans, estimates and beliefs. For a detailed discussion of these and other cautionary statements, visit the Company's Investor Relations website at www.libertymutual.com/investors. The Company undertakes no obligation to update these forward looking statements.

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