Liberty Mutual Insurance Reports Fourth Quarter 2016 Results

BOSTON, Mass., March 1, 2017 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") today reported net income attributable to LMHC of $143 million and $1.006 billion for the three and twelve months ended December 31, 2016, respectively, a decrease of $268 million and an increase of $492 million versus the same periods in 2015. Including $63 million of net income attributable to non-controlling interest in both periods, consolidated net income for the three and twelve months ended December 31, 2016 was $206 million and $1.069 billion, respectively.

"Fourth quarter operating income was $359 million, down from $525 million in the prior year, primarily due to elevated loss trends within U.S. personal and commercial auto liability" said David H. Long, Liberty Mutual Insurance Chairman and CEO. "Full year net income nearly doubled to just over $1 billion despite higher catastrophe losses and the auto trends. Growth remained healthy, with net written premium up 6 percent in the quarter and 3 and a half percent for the year."

"This quarter, we also announced an agreement to acquire Ironshore, a premier specialty lines company that is an ideal complement to our existing business. Ironshore, and their accomplished management team, will bring additional scale, expertise, innovation and market relationships to our existing Global Specialty business, and will solidify our position as a leader in the specialty space. The transaction is expected to close in the first half of 2017 pending regulatory approvals and customary closing conditions."

Fourth Quarter Highlights

- Net written premium ("NWP") for the three months ended December 31, 2016 was $8.615 billion, an increase of $499 million or 6.1% over the same period in 2015.

- Pre-tax operating income ("PTOI") before partnerships, limited liability companies ("LLC") and other equity method loss for the three months ended December 31, 2016 was $468 million, a decrease of $193 million or 29.2% from the same period in 2015.

- Net operating income before partnerships, LLC and other equity method loss for the three months ended December 31, 2016 was $359 million, a decrease of $166 million or 31.6% from the same period in 2015.

- Partnerships, LLC and other equity method loss for the three months ended December 31, 2016 was $27 million, a decrease of $57 million or 67.9% from the same period in 2015.

- Net realized losses for the three months ended December 31, 2016 were $77 million, an increase of $31 million or 67.4% over the same period in 2015.

- Restructuring costs for the three months ended December 31, 2016 were $70 million compared to zero for the same period in 2015.

- Loss on extinguishment of debt for the three months ended December 31, 2016 was $67 million compared to zero for the same period in 2015.

- Consolidated net income from continuing operations for the three months ended December 31, 2016 was $206 million, a decrease of $239 million or 53.7% from the same period in 2015.

- Discontinued operations, net of tax for both the three months ended December 31, 2016 and 2015 was zero.

- Net income attributable to LMHC for the three months ended December 31, 2016 was $143 million, a decrease of $268 million or 65.2% from the same period in 2015.

- Cash flow provided by operations for the three months ended December 31, 2016 was $1.102 billion, an increase of $212 million or 23.8% over the same period in 2015.

- 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, 2016 was 93.5%, an improvement of 1.2 points over the same period in 2015. Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the Company's combined ratio[4] for the three months ended December 31, 2016 increased 1.7 points to 97.6%.

Year-to-date Highlights

- NWP for the twelve months ended December 31, 2016 was $35.714 billion, an increase of $1.181 billion or 3.4% over the same period in 2015.

- PTOI before partnerships, LLC and other equity method loss for the twelve months ended December 31, 2016 was $1.672 billion, a decrease of $354 million or 17.5% from the same period in 2015.

- Net operating income before partnerships, LLC and other equity method income (loss) for the twelve months ended December 31, 2016 was $1.245 billion, a decrease of $217 million or 14.8% from the same period in 2015.

- Partnerships, LLC and other equity method loss for the twelve months ended December 31, 2016 was $1 million, a decrease of $33 million or 97.1% from the same period in 2015.

- Net realized losses for the twelve months ended December 31, 2016 were $127 million, an increase of $103 million over the same period in 2015.

- Restructuring costs for the twelve months ended December 31, 2016 were $70 million compared to zero for the same period in 2015.

- Loss on extinguishment of debt for the twelve months ended December 31, 2016 was $76 million, an increase of $75 million over the same period in 2015.

- Consolidated net income from continuing operations for the twelve months ended December 31, 2016 was $1.069 billion, a decrease of $374 million or 25.9% from the same period in 2015.

- Discontinued operations, net of tax for the twelve months ended December 31, 2016 were zero compared to ($909) million for the same period in 2015.

- Net income attributable to LMHC for the twelve months ended December 31, 2016 was $1.006 billion, an increase of $492 million or 95.7% over the same period in 2015.

- Cash flow provided by operations for the twelve months ended December 31, 2016 was $3.017 billion, a decrease of $526 million or 14.8% from the same period in 2015.

[1] Catastrophes are defined as a natural catastrophe or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. 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 catastrophes and prior year catastrophe reinstatement premium) including earned premium attributable to prior years.

[3] Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2016 and current accident year loss and earned but not reported reserves for the nine months ended September 30, 2015.

[4] 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 managed care income to earned premium; the ratio to earned premium of insurance operating costs plus amortization of deferred policy acquisition costs less third-party administration income and fee income (primarily related to the Company's involuntary market servicing carrier operations) and 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 asbestos and environmental and certain other run off. Restructuring costs are not included in the combined ratio.

- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the twelve months ended December 31, 2016 was 93.4%, an improvement of 1.2 points over the same period in 2015. 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, 2016 increased 0.6 points to 98.4%.

Financial Condition as of December 31, 2016

- Total debt was $7.603 billion as of December 31, 2016, an increase of $414 million or 5.8% over December 31, 2015.

- Total equity was $20.387 billion as of December 31, 2016, an increase of $1.146 billion or 6.0% over December 31, 2015.

Subsequent Events

On January 5, 2017, the Company completed the sale of its 10 St. James and 75 Arlington properties. The sale resulted in a gain of $302 million, of which $188 million was deferred over the terms of the lease and $114 million was recognized in the Consolidated Statements of Income. The Company has entered into a sale lease back agreement which extends over 15 years resulting in a net lease obligation of $258 million.

On February 27, 2017, the United Kingdom's Ministry of Justice announced a reduction in the discount rate utilized for certain lump sum personal injury compensation claims from 2.5% to (.75%) effective March 20, 2017. The Company's reserve estimation process provided for the impact of a range of events such as this.

Consolidated Net Operating Income

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Net operating income before partnerships, LLC and other equity method (loss) income	$359	$525	(31.6%)	$1,245	$1,462	(14.8%)
Partnerships, LLC and other equity method (loss) income, net of tax	(20)	(54)	(63.0)	1	(7)	NM
Net realized losses, net of tax	(43)	(26)	65.4	(82)	(11)	NM
Restructuring costs, net of tax	(46)	-	NM	(46)	-	NM
Loss on extinguishment of debt, net of tax	(44)	-	NM	(49)	(1)	NM
Discontinued operations, net of tax	-	-	-	-	(909)	(100.0)
Less: Net income attributable to non-controlling interest, net of tax	63	34	85.3	63	20	NM
Net income attributable to LMHC	$143	$411	(65.2%)	$1,006	$514	95.7%

Consolidated Results of Operations

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	$9,667	$9,335	3.6%	$38,308	$37,617	1.8%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method loss	$815	$750	8.7%	$3,308	$3,038	8.9%
Catastrophes[1]	(266)	(241)	10.4	(1,674)	(1,320)	26.8
Net incurred losses attributable to prior years:						
- Asbestos and environmental[2]	(100)	-	NM	(141)	(4)	NM
- All other[2,3,4]	67	137	(51.1)	179	312	(42.6)
Current accident year re-estimation[5]	(48)	15	NM	-	-	-
PTOI before partnerships, LLC and other equity method loss	468	661	(29.2)	1,672	2,026	(17.5)
Partnerships, LLC and other equity method loss [6]	(27)	(84)	(67.9)	(1)	(34)	(97.1)
PTOI	441	577	(23.6)	1,671	1,992	(16.1)
Net realized losses	(77)	(46)	67.4	(127)	(24)	NM
Restructuring costs	(70)	-	NM	(70)	-	NM
Loss on extinguishment of debt	(67)	-	NM	(76)	(1)	NM
Pre-tax income	227	531	(57.3)	1,398	1,967	(28.9)
Income tax expense	21	86	(75.6)	329	524	(37.2)
Consolidated net income from continuing operations	206	445	(53.7)	1,069	1,443	(25.9)
Discontinued operations, net of tax	-	-	-	-	(909)	(100.0)
Consolidated net income	206	445	(53.7)	1,069	534	100.2
Less: Net income attributable to non-controlling interest	63	34	85.3	63	20	NM
Net income attributable to LMHC	$143	$411	(65.2%)	$1,006	$514	95.7%
Cash flow provided by continuing operations	$1,102	$890	23.8%	$3,017	$3,543	(14.8%)

1 Catastrophes are defined as a natural catastrophe or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Asbestos and environmental is gross of the related adverse development cover (the "NICO Reinsurance Transaction"), and All other includes all cessions related to the NICO Reinsurance Transaction.

3 The twelve months ended December 31, 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.

4 Net of earned premium and reinstatement premium attributable to prior years of ($6) million and ($13) million for the three and twelve months ended December 31, 2016 and $33 million and $38 million for the same periods in 2015.

5 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2016 and current accident year loss and earned but not reported reserves for the nine months ended September 30, 2015.

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

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, 2016 are available on the Company's Investor Relations web site at www.libertymutualgroup.com/investors.

Conference Call Information: On March 2, 2017, at 11:00 a.m. Eastern Time, Liberty Mutual Insurance will announce its full year and fourth quarter 2016 financial results. To participate in the event via telephone and to ask a question, please dial 866-491-9244, referencing the Audio Conference ID 3020986. You can view the slides by accessing https://attglobal.webcasts.com/starthere.jsp?ei=1136687. To listen to the call online via pc and view a presentation on financial performance, please log into https://attglobal.webcasts.com/starthere.jsp?ei=1136687. You must select the option "Listen by Computer" on left panel. Following the call, a recording of the event will be available on the IR section of Liberty Mutual's website, https://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 fifth largest property and casualty insurer in the U.S. based on 2015 direct written premium. The Company also ranks 73rd on the Fortune 100 list of largest corporations in the U.S. based on 2015 revenue. As of December 31, 2016, LMHC had $125.592 billion in consolidated assets, $105.205 billion in consolidated liabilities, and $38.308 billion in annual consolidated revenue.

LMHC, through its subsidiaries and affiliated companies, offers a wide range of property and 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 over 800 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, LLCs, commercial mortgages and natural resource working interests; 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 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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