Liberty Mutual Insurance Reports Third Quarter 2013 Results

BOSTON, Mass., October 30, 2013 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") today reported net income of $481 million and $1.247 billion for the three and nine months ended September 30, 2013, increases of $16 million and $184 million over the same periods in 2012.

"The third quarter reflected a continuation of our strategy of growing where we can do so profitably and contracting elsewhere, with a heavy emphasis on improving underwriting performance. This is reflected in net written premium growth of 7% year-to-date with a 99.7% combined ratio – a 2.3 point reduction over the prior year," said David H. Long, Liberty Mutual Insurance Chairman and CEO. "While severe storm activity was milder than the prior year, our combined ratio decline was driven by improved core underwriting results."

Third Quarter Highlights

- Revenues for the three months ended September 30, 2013 were $10.020 billion, an increase of $742 million or 8.0% over the same period in 2012.
- Net written premium ("NWP") for the three months ended September 30, 2013 was $9.358 billion, an increase of $707 million or 8.2% over the same period in 2012.
- Pre-tax operating income ("PTOI") before private limited partnership ("LP") and limited liability company ("LLC") income for the three months ended September 30, 2013 was $534 million, an increase of $65 million or 13.9% over the same period in 2012.
- PTOI for the three months ended September 30, 2013 was $622 million, an increase of $111 million or 21.7% over the same period in 2012.
- Loss on extinguishment of debt for the three months ended September 30, 2013 was $96 million, versus zero in the same period in 2012. One hundred and sixty-four million dollars of debt at an interest rate of 10.75% was repurchased in the quarter.
- Net income attributable to LMHC for the three months ended September 30, 2013 was $481 million, an increase of $16 million or 3.4% over the same period in 2012.
- Cash flow from operations for the three months ended September 30, 2013 was $1.578 billion, an increase of $559 million or 54.9% over the same period in 2012.
- 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 September 30, 2013 was 95.3%, a decrease of 1.6 points from the same period in 2012. Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the Company's combined ratio for the three months ended September 30, 2013 decreased 0.2 points to 99.2%.

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[1]Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., Cyclone Oswald, Central Europe floods, Alberta floods and Germany hail storms. 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 current accident year loss reserves for the six months ended June 30, 2013 and June 30, 2012.

Year-to-Date Highlights

- Revenues for the nine months ended September 30, 2013 were $28.989 billion, an increase of $1.673 billion or 6.1% over the same period in 2012.
- NWP for the nine months ended September 30, 2013 was $26.844 billion, an increase of $1.780 billion or 7.1% over the same period in 2012.
- PTOI before LP and LLC income for the nine months ended September 30, 2013 was $1.516 billion, an increase of $543 million or 55.8% over the same period in 2012.
- PTOI for the nine months ended September 30, 2013 was $1.872 billion, an increase of $645 million or 52.6% over the same period in 2012.
- Loss on extinguishment of debt for the nine months ended September 30, 2013 was $156 million, a decrease of $7 million or 4.3% from the same period in 2012. Two hundred and sixty-eight million dollars of debt at an interest rate of 10.75% was repurchased year-to-date and $600 million of senior debt was issued with an interest rate of 4.25%. Twenty five million dollars of 7.860% Medium Term Notes matured on May 31, 2013.
- Net income attributable to LMHC for the nine months ended September 30, 2013 was $1.247 billion, an increase of $184 million or 17.3% over the same period in 2012.
- Cash flow from operations for the nine months ended September 30, 2013 was $3.149 billion, an increase of $905 million or 40.3% over the same period in 2012.
- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2013 was 94.9%, a decrease of 2.2 points from the same period in 2012. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company’s combined ratio for the nine months ended September 30, 2013 decreased 2.3 points to 99.7%.

Financial Condition as of September 30, 2013

- Total assets were $121.991 billion as of September 30, 2013, an increase of $1.931 billion over December 31, 2012.
- Total equity was $18.340 billion as of September 30, 2013, a decrease of $185 million from December 31, 2012.

Consolidated Results of Operations for the Three and Nine Months Ended September 30, 2013 and 2012:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$10,020	$9,278	8.0%	$28,989	$27,316	6.1%
PTOI before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation, current accident year re-estimation and LP and LLC income	$816	$646	26.3%	$2,491	$2,041	22.0%
Catastrophes[1]	(279)	(153)	82.4	(1,158)	(1,212)	(4.5)
Net incurred losses attributable to prior years:						
- Asbestos & environmental[2]	(279)	(53)	NM	(283)	(58)	NM
- All other[3]	241	82	193.9	305	202	51.0
Venezuela devaluation	43	-	NM	161	-	NM
Current accident year re-estimation[4]	(8)	(53)	(84.9)	-	-	-
PTOI before LP and LLC income	534	469	13.9	1,516	973	55.8
LP and LLC income[5]	88	42	109.5	356	254	40.2
PTOI	622	511	21.7	1,872	1,227	52.6
Net realized gains (losses)	80	128	(37.5)	(54)	349	NM
SBU realignment benefit (expense)	11	(42)	NM	8	(42)	NM
Loss on extinguishment of debt	(96)	-	NM	(156)	(163)	(4.3)
Pre-tax income	617	597	3.4	1,670	1,371	21.8
Income tax expense	138	132	4.5	434	315	37.8
Consolidated net income	479	465	3.0	1,236	1,056	17.0
Less: Net loss attributable to non-controlling interest	(2)	-	NM	(11)	(7)	57.1
Net income attributable to LMHC	$481	$465	3.4%	$1,247	$1,063	17.3%
Cash flow from operations	$1,578	$1,019	54.9%	$3,149	$2,244	40.3%

1 Catastrophes include all current accident year catastrophe losses for severe storms in the U.S., Cyclone Oswald, Central Europe floods, Alberta floods and Germany hail storms. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 2013 includes $278 million of strengthening of asbestos and environmental related reserves.

3 Net of earned premium and reinstatement premium attributable to prior years of $93 million and $211 million for the three and nine months ended September 30, 2013 and $20 million and $54 million for the same periods in 2012. Net of amortization of deferred gains on retroactive reinsurance of $159 million and $179 million for the three and nine months ended September 30, 2013 and $11 million and $32 million for the same periods in 2012.

4 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2013 and June 30, 2012.

5 LP and LLC income is included in net investment income in the accompanying consolidated statements of income.

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 months and nine months ended September 30, 2013 are available on the Company's Investor Relations web site at www.libertymutual.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 2012 direct written premium. The Company also ranks 81st on the Fortune 100 list of largest corporations in the U.S. based on 2012 revenue. As of December 31, 2012, LMHC had $120.060 billion in consolidated assets, $101.535 billion in consolidated liabilities, and $36.944 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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