# Liberty Mutual Insurance Reports Fourth Quarter and Full Year 2013 Results

BOSTON, Mass., February 25, 2014 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") today reported net income (loss) of \$496 million and \$1.743 billion for the three and twelve months ended December 31, 2013, versus (\$234) million and \$829 million in the same periods in 2012.

"2013 operating results showed marked improvement as we continued to grow selectively and improve underwriting profitability," said David H. Long, Chairman and CEO of Liberty Mutual Insurance. "Our personal lines business grew 11%, among the highest in the industry, while our commercial business focused on reducing exposures in certain lines and strengthening underwriting across the board. Overall, net written premium grew 6.7% and net income increased to \$1.7 billion.

"We have excellent momentum heading into 2014 and our focus on profitable growth remains unchanged."

### **Fourth Quarter Highlights**

- Revenues for the three months ended December 31, 2013 were \$9.983 billion, an increase of \$518 million or 5.5% over the same period in 2012.
- Net written premium ("NWP") for the three months ended December 31, 2013 was \$8.787 billion, an increase of \$440 million or 5.3% over the same period in 2012.
- Pre-tax operating income ("PTOI") for the three months ended December 31, 2013 was \$625 million versus pre-tax operating loss of \$529 million in the same period in 2012.
- Pre-tax loss on extinguishment of debt for the three months ended December 31, 2013 was \$55 million, an increase of \$25 million or 83.3% over the same period in 2012. Ninety-seven million dollars of debt at an interest rate of 10.75% was repurchased in the quarter, and \$400 million of senior debt was issued with an interest rate of 4.25%.
- Net income attributable to LMHC for the three months ended December 31, 2013 was \$496 million versus net loss attributable to LMHC of \$234 million in the same period in 2012.
- Cash flow from operations for the three months ended December 31, 2013 was \$1.094 billion, an increase of \$450 million or 69.9% over the same period in 2012.
- The consolidated combined ratio before catastrophes<sup>1</sup>, net incurred losses attributable to prior years<sup>2</sup> and current accident year re-estimation<sup>3</sup> for the three months ended December 31, 2013 was 96.3%, a decrease of 0.7 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 December 31, 2013 decreased 12.5 points to 100.4%.

### Year-to-Date Highlights

• Revenues for the twelve months ended December 31, 2013 were \$38.509 billion, an increase of \$2.184 billion or 6.0% over the same period in 2012.

<sup>&</sup>lt;sup>1</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>&</sup>lt;sup>2</sup>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.

<sup>&</sup>lt;sup>3</sup>Re-estimation of current accident year loss reserves for the nine months ended September 30, 2013 and September 30, 2012.

- NWP for the twelve months ended December 31, 2013 was \$35.224 billion, an increase of \$2.211 billion or 6.7% over the same period in 2012.
- PTOI for the twelve months ended December 31, 2013 was \$2.455 billion, an increase of \$1.774 billion over the same period in 2012.
- Pre-tax loss on extinguishment of debt for the twelve months ended December 31, 2013 was \$211 million, an increase of \$18 million or 9.3% over the same period in 2012. Three hundred and sixty-five million dollars of debt at an interest rate of 10.75% was repurchased in 2013 and \$1 billion of senior debt was issued with an interest rate of 4.25%.
- Net income attributable to LMHC for the twelve months ended December 31, 2013 was \$1.743 billion, an increase of \$914 million or 110.3% over the same period in 2012.
- Cash flow from operations for the twelve months ended December 31, 2013 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 for the twelve months ended December 31, 2013 was 95.4%, a decrease of 1.6 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 twelve months ended December 31, 2013 decreased 5.0 points to 99.8%.

### Financial Condition as of December 31, 2013

- Total assets were \$121.282 billion as of December 31, 2013, an increase of \$1.222 billion over December 31, 2012.
- Total equity was \$19.012 billion as of December 31, 2013, an increase of \$487 million over December 31, 2012.

# Consolidated Results of Operations for the Three and Twelve Months Ended December 31, 2013 and 2012:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
\$ in Millions	2013	2012	Change	2013	2012	Change
Revenues	\$9,983	\$9,465	5.5%	\$38,509	\$36,325	6.0%
PTOI before catastrophes, net incurred losses						
attributable to prior years, Venezuela						
devaluation, current accident year re-estimation						
and LP and LLC income	\$689	\$576	19.6%	\$3,092	\$2,582	19.8%
Catastrophes <sup>1</sup>	(102)	(855)	(88.1)	(1,262)	(2,067)	(38.9)
Net incurred losses attributable to prior						
years:						
- Asbestos & environmental <sup>2</sup>	(4)	2	NM	(288)	(56)	NM
- All other <sup>3</sup>	(167)	(330)	(49.4)	130	(131)	NM
Venezuela devaluation	10	-	NM	171	-	NM
Current accident year re-estimation <sup>4</sup>	(67)	(21)	NM	-	-	-
Pre-tax operating income (loss) before LP and		Ì				
LLC income	359	(628)	NM	1,843	328	NM
LP and LLC income <sup>5</sup>	266	99	168.7	612	353	73.4
Pre-tax operating income (loss)	625	(529)	NM	2,455	681	NM
Net realized gains	65	185	(64.9)	11	534	(97.9)
SBU realignment (expense) benefit	(3)	(57)	(94.7)	5	(99)	NM
Loss on extinguishment of debt	(55)	(30)	83.3	(211)	(193)	9.3
Pre-tax income (loss)	632	(431)	NM	2,260	923	144.9
Income tax expense (benefit)	128	(227)	NM	547	82	NM
Consolidated net income (loss) before						
discontinued operations	504	(204)	NM	1,713	841	103.7
Discontinued operations, net of tax	20	4	NM	47	15	NM
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)
Net income (loss) attributable to LMHC	\$496	(\$234)	NM	\$1,743	\$829	110.3%
Cash flow from operations	\$1,094	\$644	69.9%	\$4,157	\$2,829	46.9%

<sup>1</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.

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

<sup>3</sup> Net of earned premium and reinstatement premium attributable to prior years of \$11 million and \$217 million for the three and twelve months ended December 31, 2013 and \$2 million and \$43 million for the same periods in 2012. Net of amortization of deferred gains (losses) on retroactive reinsurance of \$160 million and \$339 million for the three and twelve months ended December 31, 2013 and (\$3) million and \$29 million for the same periods in 2012.

<sup>4</sup> Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2013 and September 30, 2012.

<sup>5</sup> 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 twelve months ended December 31, 2013 are available on the Company's Investor Relations web site at <a href="https://www.libertymutual.com/investors">www.libertymutual.com/investors</a>.

**Conference Call Information:** At 11:00 a.m. EST today, David 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 11, 2014 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 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.

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 <a href="https://www.libertymutual.com/investors">www.libertymutual.com/investors</a>.

### **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 cautionary statements, visit the Company's Investor Relations www.libertymutual.com/investors. The Company undertakes no obligation to update these forward looking statements.

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