Liberty Mutual Insurance Reports Second Quarter 2019 Results

BOSTON, Mass., August 7, 2019 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") reported net income attributable to LMHC of $399 million and $1.070 billion for the three and six months ended June 30, 2019, decreases of $582 million and $559 million from the same periods in 2018.

"For the second quarter, consolidated net income from continuing operations was $399 million, down $110 million from 2018," said David H. Long, Liberty Mutual Chairman and Chief Executive Officer. "We witnessed unusual volatility resulting from $82 million of Typhoon Jebi development and higher than expected non-catastrophe loss activity, including adverse trends in liability lines consistent with industrywide results.

"Results for the first six months were more in line with expectations as consolidated net income from continuing operations was $1.1 billion, up $21 million from 2018, with revenues up 4.1%. Key drivers include a combined ratio of 98.7%, investment income up 2%, and a one point reduction in the expense ratio.

"While year-to-date results are in-line with 2018, we remain committed to further improving underwriting performance, specifically in commercial lines, and feel confident that market conditions will allow us to do so."

Second Quarter Highlights

- Net written premium ("NWP") for the three months ended June 30, 2019 was $10.039 billion, a decrease of $32 million or 0.3% from the same period in 2018.

- Pre-tax operating income ("PTOI") before partnerships, limited liability companies ("LLC") and other equity method income for the three months ended June 30, 2019 was $211 million, a decrease of $260 million or 55.2% from the same period in 2018.

- Partnerships, LLC and other equity method income for the three months ended June 30, 2019 was $311 million, an increase of $20 million or 6.9% over the same period in 2018.

- Net realized gains (losses) for the three months ended June 30, 2019 were $62 million versus ($59) million for the same period in 2018.

- Unit linked life insurance for the three months ended June 30, 2019 was ($16) million versus zero for the same period in 2018.

- Ironshore Inc. ("Ironshore") acquisition and integration costs for the three months ended June 30, 2019 were $6 million, a decrease of $4 million or 40.0% from the same period in 2018.

- Restructuring costs for the three months ended June 30, 2019 were $1 million, a decrease of $27 million or 96.4% from the same period in 2018.

- Loss on extinguishment of debt for the three months ended June 30, 2019 was $49 million, an increase of $46 million over the same period in 2018.

- Discontinued operations, net of tax, for the three months ended June 30, 2019 were zero versus $471 million for the same period in 2018.

- Consolidated net income for the three months ended June 30, 2019 was $399 million, a decrease of $581 million or 59.3% from the same period in 2018.

- Net loss attributable to non-controlling interest for the three months ended June 30, 2019 was zero versus $1 million for the same period in 2018.

- Net income attributable to LMHC for the three months ended June 30, 2019 was $399 million, a decrease of $582 million or 59.3% from the same period in 2018.

- Net income attributable to LMHC excluding unrealized impact[1] for the three months ended June 30, 2019 was $393 million, a decrease of $588 million or 59.9% from the same period in 2018.

- Cash flow provided by continuing operations for the three months ended June 30, 2019 was $1.310 billion, an increase of $190 million or 17.0% over the same period in 2018.

- The consolidated combined ratio before catastrophes[2], net incurred losses attributable to prior years[3] and current accident year re-estimation[4] for the three months ended June 30, 2019 was 93.9%, an increase of 1.6 points over the same period in 2018. Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the total combined ratio[5] for the three months ended June 30, 2019 was 101.2%, an increase of 3.3 points over the same period in 2018.

Year-to-date Highlights

- NWP for the six months ended June 30, 2019 was $19.738 billion, an increase of $233 million or 1.2% over the same period in 2018.

- PTOI before partnerships, LLC and other equity method income for the six months ended June 30, 2019 was $873 million, an increase of $9 million or 1.0% over the same period in 2018.

- Partnerships, LLC and other equity method income for the six months ended June 30, 2019 was $394 million, a decrease of $113 million or 22.3% from the same period in 2018.

- Net realized gains for the six months ended June 30, 2019 were $312 million, an increase of $216 million over the same period in 2018.

- Unit linked life insurance for the six months ended June 30, 2019 was ($77) million versus zero for the same period in 2018.

- Ironshore acquisition and integration costs for the six months ended June 30, 2019 were $12 million, a decrease of $12 million or 50.0% from the same period in 2018.

- Restructuring costs for the six months ended June 30, 2019 were $3 million, a decrease of $28 million or 90.3% from the same period in 2018.

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1 Excludes unrealized gains on equity securities, unit linked life insurance, and the corresponding tax impact.

2 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.

3 Net incurred losses attributable to prior years is defined as incurred losses attributable to prior years (including prior year losses related to catastrophes, prior year catastrophe reinstatement premium, and prior year commission expense) including earned premium attributable to prior years.

4 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2019.

5 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 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 to earned premium; 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. Restructuring and Ironshore acquisition and integration costs are not included in the combined ratio.

- Loss on extinguishment of debt for the six months ended June 30, 2019 was $49 million, an increase of $46 million over the same period in 2018.

- Discontinued operations, net of tax, for the six months ended June 30, 2019 were ($50) million versus $530 million for the same period in 2018.

- Consolidated net income for the six months ended June 30, 2019 was $1.070 billion, a decrease of $559 million or 34.3% from the same period in 2018.

- Net loss attributable to non-controlling interest for the six months ended June 30, 2019 and 2018 was zero.

- Net income attributable to LMHC for the six months ended June 30, 2019 was $1.070 billion, a decrease of $559 million or 34.3% from the same period in 2018.

- Net income attributable to LMHC excluding unrealized impact for the six months ended June 30, 2019 was $860 million, a decrease of $769 million or 47.2% from the same period in 2018.

- Cash flow provided by continuing operations for the six months ended June 30, 2019 was $1.545 billion, an increase of $389 million or 33.7% over the same period in 2018.

- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2019 was 93.5%, a decrease 0.2 points from the same period in 2018. Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the six months ended June 30, 2019 was 98.7%, an increase of 0.2 points over the same period in 2018.

Financial Condition as of June 30, 2019

- Total debt was $8.614 billion as of June 30, 2019, an increase of $381 million or 4.6% over December 31, 2018.

- Total equity was $23.552 billion as of June 30, 2019, an increase of $2.790 billion or 13.4% over December 31, 2018.

Subsequent Events

Management has assessed material subsequent events through August 7, 2019, the date the financial statements were available to be issued.

Consolidated Results of Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenues	$10,789	$10,314	4.6%	$21,456	$20,604	4.1%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method income	$907	$1,005	(9.8%)	$1,872	$1,744	7.3%
Catastrophes[1]	(477)	(513)	(7.0)	(756)	(865)	(12.6)
Net incurred losses attributable to prior years:						
- Asbestos and environmental[2]	-	(3)	(100.0)	(3)	(13)	(76.9)
- All other[2,3]	(204)	(18)	NM	(240)	(2)	NM
Current accident year re-estimation[4]	(15)	-	NM	-	-	-
Pre-tax operating income before partnerships, LLC and other equity method income	211	471	(55.2)	873	864	1.0
Partnerships, LLC and other equity method income[5]	311	291	6.9	394	507	(22.3)
Pre-tax operating income	522	762	(31.5)	1,267	1,371	(7.6)
Net realized gains (losses)	62	(59)	NM	312	96	NM
Unit linked life insurance	(16)	-	NM	(77)	-	NM
Ironshore acquisition & integration costs	(6)	(10)	(40.0)	(12)	(24)	(50.0)
Restructuring costs	(1)	(28)	(96.4)	(3)	(31)	(90.3)
Loss on extinguishment of debt	(49)	(3)	NM	(49)	(3)	NM
Pre-tax income	512	662	(22.7)	1,438	1,409	2.1
Income tax expense	113	153	(26.1)	318	310	2.6
Consolidated net income from continuing operations	399	509	(21.6)	1,120	1,099	1.9
Discontinued operations, net of tax	-	471	(100.0)	(50)	530	NM
Consolidated net income	399	980	(59.3)	1,070	1,629	(34.3)
Less: Net loss attributable to non-controlling interest	-	(1)	(100.0)	-	-	-
Net income attributable to LMHC	399	981	(59.3)	1,070	1,629	(34.3)
Net income attributable to LMHC excluding unrealized impact[6]	$393	$981	(59.9%)	$860	$1,629	(47.2%)
Cash flow provided by continuing operations	$1,310	$1,120	17.0%	$1,545	$1,156	33.7%

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 reinsurance (the "NICO Reinsurance Transaction"), and All other includes all cessions related to the NICO Reinsurance Transaction.

3 Net of earned premium and reinstatement premium attributable to prior years of ($9) million and ($9) million for the three and six months ended June 30, 2019, and $3 million and $5 million for the same periods in 2018.

4 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2019.

5 Partnerships, LLC and other equity method income includes limited partnerships ("LP"), LLC and other equity method income within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from direct investments in natural resources.

6 Excludes unrealized gains on equity securities, unit linked life insurance, and the corresponding tax impact.

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 six months ended June 30, 2019 are available on the Company's Investor Relations website at www.libertymutualgroup.com/investors.

Conference Call Information: On August 8, 2019, at 10:00 a.m. Eastern Time, David Long, Liberty Mutual Insurance Chairman and CEO, will host a conference call to discuss the Company's financial results. To participate in the event via telephone and to ask a question, please dial 888-312-9837, referencing the Confirmation Code 8363080. You can view the slides at https://attglobal.webcasts.com/starthere.jsp?ei=1254964&tp_key=1a5acac2bf. 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=1254964&tp_key=1a5acac2bf. Following the call, a recording of the event will be available on the Investor Relations section of Liberty Mutual's website, 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 third largest property and casualty insurer in the U.S. based on 2018 direct written premium. The Company also ranks 75th on the Fortune 100 list of largest corporations in the U.S. based on 2018 revenue. As of December 31, 2018, LMHC had $125.989 billion in consolidated assets, $105.227 billion in consolidated liabilities, and $41.568 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 two business units, with each operating independently of the other in certain areas such as sales, underwriting, and claims, but, as appropriate, collaborating in other areas such as actuarial and financial. Management believes this structure provides increased synergy to the Company and permits each business unit to execute its business strategy and/or to make acquisitions without impacting or disrupting the operations of the other business unit.

LMHC employs nearly 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 direct investments in natural resources; 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.

The United Kingdom's withdrawal from the European Union could have a negative impact on economic conditions in the United Kingdom and could result in unintended consequences in other countries as well. The Company acknowledges that there are risks and uncertainties associated with the United Kingdom's withdrawal from the European Union and has developed a course of action if the impending withdrawal is upheld in the fourth quarter of 2019.

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