Liberty Mutual Insurance Reports Fourth Quarter and Full Year 2017 Results

BOSTON, Mass., February 26, 2018 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") reported net income attributable to LMHC of $205 million and $17 million for the three and twelve months ended December 31, 2017, an increase of $62 million and a decrease of $989 million versus the same periods in 2016, respectively. Including zero and $2 million of net income attributable to non-controlling interest, consolidated net income for the three and twelve months ended December 31, 2017 was $205 million and $19 million, respectively.

"Net written premium grew 8.8% in the quarter, with net income at $205 million, up $62 million from last year. Profitability increased, despite higher catastrophe losses and a Tax Cuts and Jobs Act related charge, due to improved investment results," said David H. Long, Liberty Mutual Chairman and Chief Executive Officer. "For the year, we reported net income of $17 million, versus $1 billion in 2016, driven by record catastrophes, adverse development on commercial automobile, and the charge associated by the change in the tax law. While the results in 2017 did not meet expectations, we are encouraged by signs of market firming across each of our businesses."

"Subsequent to year-end, we announced the sale of Liberty Life Assurance Company of Boston to Lincoln Financial and a realignment of our core business. These actions will allow the organization to focus on property and casualty insurance, and to take full advantage of our scale, products, and capabilities globally."

Fourth Quarter Highlights

- Net written premium ("NWP") for the three months ended December 31, 2017 was $8.861 billion, an increase of $716 million or 8.8% over the same period in 2016.

- Pre-tax operating income ("PTOI") before partnerships, limited liability companies ("LLC") and other equity method income (loss) for the three months ended December 31, 2017 was $165 million, a decrease of $264 million or 61.5% from the same period in 2016.

- Net operating income before partnerships, LLC and other equity method income (loss) for the three months ended December 31, 2017 was $65 million, a decrease of $270 million or 80.6% from the same period in 2016.

- Partnerships, LLC and other equity method income (loss), net of tax, for the three months ended December 31, 2017 was $65 million versus ($22) million for the same period in 2016.

- Net realized gains (losses), net of tax, for the three months ended December 31, 2017 were $72 million versus ($42) million for the same period in 2016.

- Ironshore Inc. ("Ironshore") acquisition and integration costs, net of tax, for the three months ended December 31, 2017 were $5 million versus zero for the same period in 2016.

- Restructuring costs, net of tax, for the three months ended December 31, 2017 were $44 million, a decrease of $2 million or 4.3% from the same period in 2016.

- Loss on extinguishment of debt, net of tax, for the three months ended December 31, 2017 was zero versus $44 million for the same period in 2016.

- Discontinued operations, net of tax, for the three months ended December 31, 2017 were $52 million, an increase of $27 million or 108.0% over the same period in 2016.

- Consolidated net income for the three months ended December 31, 2017 was $205 million, a decrease of $1 million or 0.5% from the same period in 2016.

- Net income attributable to non-controlling interest for the three months ended December 31, 2017 was zero versus $63 million for the same period in 2016.

- Net income attributable to LMHC for the three months ended December 31, 2017 was $205 million, an increase of $62 million or 43.4% over the same period in 2016.

- Cash flow provided by continuing operations for the three months ended December 31, 2017 was $360 million, a decrease of $478 million or 57.0% from the same period in 2016.

- 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, 2017 was 94.6%, an increase of 0.9 points over the same period in 2016. 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, 2017 increased 3.5 points to 100.5%.

Full Year Highlights

- NWP for the twelve months ended December 31, 2017 was $36.789 billion, an increase of $2.932 billion or 8.7% over the same period in 2016.

- Pre-tax operating loss before partnerships, LLC and other equity method income for the twelve months ended December 31, 2017 was $1.004 billion versus pre-tax operating income before partnerships, LLC and other equity method income of $1.485 billion for the same period in 2016.

- Net operating loss before partnerships, LLC and other equity method income for the twelve months ended December 31, 2017 was $746 million versus net operating income before partnerships, LLC and other equity method income of $1.124 billion for the same period in 2016.

- Partnerships, LLC and other equity method income, net of tax, for the twelve months ended December 31, 2017 was $371 million, an increase of $368 million over the same period in 2016.

- Net realized gains (losses), net of tax, for the twelve months ended December 31, 2017 were $297 million versus ($81) million for the same period in 2016.

- Ironshore acquisition and integration costs, net of tax, for the twelve months ended December 31, 2017 were $56 million versus zero for the same period in 2016.

- Restructuring costs, net of tax, for the twelve months ended December 31, 2017 were $59 million, an increase of $13 million or 28.3% over the same period in 2016.

- Loss on extinguishment of debt, net of tax, for the twelve months ended December 31, 2017 was $1 million, a decrease of $48 million or 98.0% from the same period in 2016.

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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, 2017 and 2016, respectively.

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 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.

- Discontinued operations, net of tax, for the twelve months ended December 31, 2017 were $213 million, an increase of $95 million or 80.5% over the same period in 2016.

- Consolidated net income for the twelve months ended December 31, 2017 was $19 million, a decrease of $1.050 billion or 98.2% from the same period in 2016.

- Net income attributable to non-controlling interest for the twelve months ended December 31, 2017 was $2 million, a decrease of $61 million or 96.8% from the same period in 2016.

- Net income attributable to LMHC for the twelve months ended December 31, 2017 was $17 million, a decrease of $989 million or 98.3% from the same period in 2016.

- Cash flow provided by continuing operations for the twelve months ended December 31, 2017 was $1.824 billion, a decrease of $388 million or 17.5% from the same period in 2016.

- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the twelve months ended December 31, 2017 was 94.1%, an increase of 0.4 points over the same period in 2016. 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, 2017 increased 7.3 points to 105.6%.

Financial Condition as of December 31, 2017

- Total debt was $8.325 billion as of December 31, 2017, an increase of $722 million or 9.5% over December 31, 2016.

- Total equity was $20.688 billion as of December 31, 2017, an increase of $301 million or 1.5% over December 31, 2016.

Subsequent Events

On January 22, 2018, the Company's Spanish subsidiary, Liberty Seguros Compania de Seguros y Reaseguros S.A., entered into an agreement to sell its entire 99.44% interest in its Turkish insurance affiliate, Liberty Sigorta A.S., to Talanx International. Completion of the transaction is subject to regulatory approval in Turkey.

On January 19, 2018, the Company announced the realignment of its businesses to enhance its ability to meet the changing needs of consumer and business customers. The Company's realignment will feature the following two businesses:

- Global Risk Solutions ("GRS") which will bring together Liberty's Global Specialty, Ironshore (formerly in Global Specialty), National Insurance (formerly in Commercial Insurance) and the Global Reinsurance Strategy Group (formerly in Corporate & Other) into a single business. Dennis J. Langwell, formerly the Company's Chief Financial Officer, will lead GRS.
- Global Retail Markets ("GRM") will combine Global Consumer Markets with Business Insurance and Accident and Health organizations (formerly in Commercial Insurance). Timothy Sweeney, formerly the President of Global Consumer Markets, will lead GRM.
- Christopher L. Peirce, formerly the President of Global Specialty, will become Liberty's Chief Financial Officer.

On January 19, 2018, the Company announced the sale of the Liberty Life Assurance Company ("LLAC"), which provides group disability, group life, individual life and annuity products, to Lincoln Financial Group. The companies expect to complete the transaction in the second quarter of 2018, pending regulatory approvals and other customary closing conditions. The results of LLAC are presented as discontinued operations in the accompanying Consolidated Statements of Income and are no longer included within Liberty Mutual Benefits in Commercial Insurance or within Corporate and Other. The prior periods have been restated to reflect this change.

Management has assessed material subsequent events through February 26, 2018, the date the financial statements were available to be issued.

Consolidated Results of Operations

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues	$10,228	$8,937	14.4%	$39,409	$35,451	11.2%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method income (loss)	$702	$777	(9.7%)	$3,038	$3,121	(2.7%)
Catastrophes[1]	(450)	(266)	69.2	(3,608)	(1,674)	115.5
Net incurred losses attributable to prior years:						
- Asbestos and environmental[2]	(6)	(100)	(94.0)	(168)	(141)	19.1
- All other[2,3]	13	66	(80.3)	(266)	179	NM
Current accident year re-estimation[4]	(94)	(48)	95.8	-	-	-
Pre-tax operating income (loss) before partnerships, LLC and other equity method income (loss)	165	429	(61.5)	(1,004)	1,485	NM
Partnerships, LLC and other equity method income (loss)[5]	100	(30)	NM	570	2	NM
Pre-tax operating income (loss)	265	399	(33.6)	(434)	1,487	NM
Net realized gains (losses)	122	(74)	NM	468	(125)	NM
Ironshore acquisition & integration costs	(12)	-	NM	(86)	-	NM
Restructuring costs	(68)	(70)	(2.9)	(91)	(70)	30.0
Loss on extinguishment of debt	-	(67)	(100.0)	(1)	(76)	(98.7)
Pre-tax income (loss)	307	188	63.3	(144)	1,216	NM
Income tax expense	154	7	NM	50	265	(81.1)
Consolidated net income (loss) from continuing operations	153	181	(15.5)	(194)	951	NM
Discontinued operations, net of tax	52	25	108.0	213	118	80.5
Consolidated net income	205	206	(0.5)	19	1,069	(98.2)
Less: Net income attributable to non-controlling interest	-	63	(100.0)	2	63	(96.8)
Net income attributable to LMHC	$205	$143	43.4%	$17	$1,006	(98.3%)
Cash flow provided by continuing operations before Ironshore Reinsurance and pension contributions	$365	$839	(56.5%)	$2,782	$3,017	(7.8%)
Ironshore Reinsurance[6]	-	-	-	(550)	-	NM
Pension contributions	(5)	(1)	NM	(408)	(805)	(49.3)
Cash flow provided by continuing operations	$360	$838	(57.0%)	$1,824	$2,212	(17.5%)

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 ($25) million and ($23) million for the three and twelve months ended December 31, 2017, and ($6) million and ($13) million for the same periods in 2016.

4 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2017 and 2016, respectively.

5 Partnerships, LLC and other equity method income (loss) includes limited partnerships ("LP"), LLC and other equity method income (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.

6 Ironshore reinsurance agreement ("Ironshore Reinsurance").

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, 2017 are available on the Company's Investor Relations web site at www.libertymutualgroup.com/investors.

Conference Call Information: On February 27, 2018, at 10:00 a.m. Eastern Standard Time, David Long, Liberty Mutual Insurance Chairman and CEO, will host a conference call to discuss the Company's fourth quarter and full year 2017 financial results. To participate in the event via telephone and to ask a question, please dial 866-491-9244, referencing the Confirmation Code 7990309. You can view the slides by https://attglobal.webcasts.com/starthere.jsp?ei=1180708&tp_key=c4ce09ddfc. 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=1180708&tp_key=c4ce09ddfc. 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 fourth largest property and casualty insurer in the U.S. based on 2016 direct written premium. The Company also ranks 75th on the Fortune 100 list of largest corporations in the U.S. based on 2016 revenue. As of December 31, 2017, LMHC had $142.502 billion in consolidated assets, $121.814 billion in consolidated liabilities, and $39.409 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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