Liberty Mutual Insurance Reports Fourth Quarter and Full Year 2018 Results

BOSTON, Mass., February 26, 2019 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") reported net income attributable to LMHC of $249 million and $2.160 billion for the three and twelve months ended December 31, 2018, increases of $44 million and $2.143 billion over the same periods in 2017. Including zero and $1 million of net income attributable to non-controlling interest, consolidated net income for the three and twelve months ended December 31, 2018 was $249 million and $2.161 billion, respectively.

"Premium growth was strong at 6.3% for the year as market conditions improved domestically and international growth remained robust at 13.1%," said David H. Long, Liberty Mutual Chairman and Chief Executive Officer. "Net income was $2.2 billion despite another year of above average catastrophe losses.

"The combined ratio for the full year improved 6.4 points to 99.2% and our investment portfolio again delivered strong results. Our new operating structure, forming Global Retail Markets and Global Risk Solutions, is delivering tangible results and has us well positioned to continue to improve performance."

Fourth Quarter Highlights

- Net written premium ("NWP") for the three months ended December 31, 2018 was $9.406 billion, an increase of $545 million or 6.2% over the same period in 2017.

- Pre-tax operating income before partnerships, limited liability companies ("LLC") and other equity method income for the three months ended December 31, 2018 was $277 million, an increase of $112 million or 67.9% over the same period in 2017.

- Partnerships, LLC and other equity method income for the three months ended December 31, 2018 was $285 million, an increase of $185 million or 185.0% over the same period in 2017.

- Net realized (losses) gains for the three months ended December 31, 2018 were ($139) million versus $122 million for the same period in 2017.

- Ironshore Inc. ("Ironshore") acquisition and integration costs for the three months ended December 31, 2018 were $55 million, an increase of $43 million over the same period in 2017.

- Restructuring costs for the three months ended December 31, 2018 were $37 million, a decrease of $31 million or 45.6% from the same period in 2017.

- Loss on extinguishment of debt for the three months ended December 31, 2018 was zero, no change versus the same period in 2017.

- Discontinued operations, net of tax, for the three months ended December 31, 2018 were ($2) million versus $52 million for the same period in 2017.

- Consolidated net income for the three months ended December 31, 2018 was $249 million, an increase of $44 million or 21.5% over the same period in 2017.

- Net income attributable to non-controlling interest for the three months ended December 31, 2018 was zero, no change versus the same period in 2017.

- Net income attributable to LMHC for the three months ended December 31, 2018 was $249 million, an increase of $44 million or 21.5% over the same period in 2017.

- Cash flow provided by continuing operations for the three months ended December 31, 2018 was $1.136 billion, an increase of $776 million over the same period in 2017.

- 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, 2018 was 94.7%, an increase of 0.5 points over the same period in 2017. Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the total combined ratio[4] for the three months ended December 31, 2018 was 100.4%, a decrease of 0.1 points from the same period in 2017.

Year-to-date Highlights

- NWP for the twelve months ended December 31, 2018 was $39.100 billion, an increase of $2.311 billion or 6.3% over the same period in 2017.

- Pre-tax operating income (loss) before partnerships, LLC and other equity method income for the twelve months ended December 31, 2018 was $1.453 billion versus ($1.004) billion for the same period in 2017.

- Partnerships, LLC and other equity method income for the twelve months ended December 31, 2018 was $978 million, an increase of $408 million or 71.6% over the same period in 2017.

- Net realized (losses) gains for the twelve months ended December 31, 2018 were ($147) million versus $468 million for the same period in 2017.

- Ironshore acquisition and integration costs for the twelve months ended December 31, 2018 were $86 million, no change versus the same period in 2017.

- Restructuring costs for the twelve months ended December 31, 2018 were $94 million, an increase of $3 million or 3.3% over the same period in 2017.

- Loss on extinguishment of debt for the twelve months ended December 31, 2018 was $8 million, an increase of $7 million over the same period in 2017.

- Discontinued operations, net of tax, for the twelve months ended December 31, 2018 were $528 million, an increase of $315 million or 147.9% over the same period in 2017.

- Consolidated net income for the twelve months ended December 31, 2018 was $2.161 billion, an increase of $2.142 billion over the same period in 2017.

- Net income attributable to non-controlling interest for the twelve months ended December 31, 2018 was $1 million, a decrease of $1 million or 50% from the same period in 2017.

- Net income attributable to LMHC for the twelve months ended December 31, 2018 was $2.160 billion, an increase of $2.143 billion over the same period in 2017.

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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.

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.

- Cash flow provided by continuing operations for the twelve months ended December 31, 2018 was $3.548 billion, an increase of $1.724 billion or 94.5% over the same period in 2017.

- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the twelve months ended December 31, 2018 was 94.4%, an increase of 0.2 points over the same period in 2017. Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the twelve months ended December 31, 2018 was 99.2%, a decrease of 6.4 points from the same period in 2017.

Financial Condition as of December 31, 2018

- Total debt was $8.233 billion as of December 31, 2018, a decrease of $92 million or 1.1% from December 31, 2017.

- Total equity was $20.762 billion as of December 31, 2018, an increase of $74 million or 0.4% over December 31, 2017.

Subsequent Events

On February 13, 2019, following a strategic review of certain operations, the Company has classified its investments in Pembroke Managing Agency Ltd., Visionary Underwriting Agency Ltd., Ironshore Europe Designated Activity Company, and Ironshore Corporate Capital 3 Ltd. as held for sale. The Company is evaluating the impact of this classification.

On January 28, 2019, Liberty Mutual Group Inc. ("LMGI") exchanged $1 billion par value of Senior Notes due 2029 (the "2029 Notes") for $270 million of its 5.00% Notes due 2021, $277 million of its 4.95% Notes due 2022 and $453 million of its 4.25% senior notes due 2023. LMGI paid an aggregate of $40 million cash consideration, including accrued and unpaid interest, for the existing notes accepted for exchange. Interest on the 2029 Notes is payable semi-annually at a fixed rate of 4.569%. The 2029 Notes mature on February 1, 2029.

Management has assessed material subsequent events through February 26, 2019, 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	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Revenues	$10,556	$10,228	3.2%	$41,568	$39,409	5.5%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method income	$771	$701	10.0%	$3,285	$3,036	8.2%
Catastrophes[1]	(534)	(452)	18.1	(1,903)	(3,608)	(47.3)
Net incurred losses attributable to prior years:						
- Asbestos and environmental[2]	(2)	(6)	(66.7)	(270)	(168)	60.7
- All other[2,3]	42	16	162.5	341	(264)	NM
Current accident year re-estimation[4]	-	(94)	(100.0)	-	-	-
Pre-tax operating income (loss) before partnerships, LLC and other equity method income	277	165	67.9	1,453	(1,004)	NM
Partnerships, LLC and other equity method income[5]	285	100	185.0	978	570	71.6
Pre-tax operating income (loss)	562	265	112.1	2,431	(434)	NM
Net realized (losses) gains	(139)	122	NM	(147)	468	NM
Ironshore acquisition & integration costs	(55)	(12)	NM	(86)	(86)	-
Restructuring costs	(37)	(68)	(45.6)	(94)	(91)	3.3
Loss on extinguishment of debt	-	-	-	(8)	(1)	NM
Pre-tax income (loss)	331	307	7.8	2,096	(144)	NM
Income tax expense	80	154	(48.1)	463	50	NM
Consolidated net income (loss) from continuing operations	251	153	64.1	1,633	(194)	NM
Discontinued operations, net of tax	(2)	52	NM	528	213	147.9
Consolidated net income	249	205	21.5	2,161	19	NM
Less: Net income attributable to non-controlling interest	-	-	-	1	2	(50.0)
Net income attributable to LMHC	$249	$205	21.5%	$2,160	$17	NM
Cash flow provided by continuing operations before pension contributions	$1,136	$365	NM	$3,548	$2,232	59.0%
Pension contributions	-	(5)	(100.0)	-	(408)	(100.0)
Cash flow provided by continuing operations	$1,136	$360	NM	$3,548	$1,824	94.5%

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 ($51) million and $8 million for the three and twelve months ended December 31, 2018, and ($25) million and ($23) million for the same periods in 2017.

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

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.

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, 2018 are available on the Company's Investor Relations website at www.libertymutualgroup.com/investors.

Conference Call Information: On February 27, 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 fourth quarter and full year 2018 financial results. To participate in the event via telephone and to ask a question, please dial 888-312-9837, referencing the Confirmation Code 8017687. You can view the slides at https://attglobal.webcasts.com/starthere.jsp?ei=1229817&tp_key=0ad1548119. 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=1229817&tp_key=0ad1548119. 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 2017 direct written premium. The Company also ranks 68th on the Fortune 100 list of largest corporations in the U.S. based on 2017 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 first quarter of 2019.

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