

Liberty Mutual Insurance Reports Third Quarter 2016 Results

BOSTON, Mass., November 4, 2016 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively “LMHC” or the “Company”) today reported net income (loss) attributable to LMHC of \$455 million and \$863 million for the three and nine months ended September 30, 2016, respectively, versus (\$427) million and \$103 million for the same periods in 2015. Including \$5 million and zero of net loss attributable to non-controlling interest, consolidated net income for the three and nine months ended September 30, 2016 was \$450 million and \$863 million, respectively.

“We are pleased with our third quarter net income results of \$455 million, compared to a loss of \$427 million for the same period last year,” said David H. Long, Liberty Mutual Insurance Chairman and CEO. “Each of Liberty Mutual’s strategic business units delivered better than expected growth in the quarter, with net written premium up six percent. Our underlying performance remained strong as our core combined ratio improved about a point in the quarter, despite the continued increase in loss trends within U.S. personal auto liability.”

Third Quarter Highlights

- Net written premium (“NWP”) for the three months ended September 30, 2016 was \$9.309 billion, an increase of \$534 million or 6.1% over the same period in 2015.
- Pre-tax operating income (“PTOI”) before partnerships, limited liability companies (“LLC”) and other equity method income for the three months ended September 30, 2016 was \$417 million, a decrease of \$254 million or 37.9% from the same period in 2015.
- Net operating income before partnerships, LLC and other equity method income for the three months ended September 30, 2016 was \$357 million, a decrease of \$79 million or 18.1% from the same period in 2015.
- Partnerships, LLC and other equity method income for the three months ended September 30, 2016 was \$62 million, an increase of \$10 million or 19.2% over the same period in 2015.
- Net realized gains (losses) for the three months ended September 30, 2016 were \$84 million, versus (\$256) million for the same period in 2015.
- Consolidated net income from continuing operations for the three months ended September 30, 2016 was \$450 million, an increase of \$138 million or 44.2% over the same period in 2015.
- Discontinued operations, net of tax for the three months ended September 30, 2016 were zero compared to (\$744) million for the same period in 2015.
- Net income (loss) attributable to LMHC for the three months ended September 30, 2016 was \$455 million versus (\$427) million for the same period in 2015.
- Cash flow provided by operations for the three months ended September 30, 2016 was \$1.270 billion, a decrease of \$249 million or 16.4% from the same period in 2015.
- The consolidated combined ratio before catastrophes¹, net incurred losses attributable to prior years² and current accident year re-estimation³ for the three months ended September 30, 2016 was 94.2%, an improvement of 1.2 points over the same period in 2015. 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, 2016 increased 2.2 points to 97.8%.

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 six months ended June 30, 2016.

Year-to-date Highlights

- NWP for the nine months ended September 30, 2016 was \$27.099 billion, an increase of \$682 million or 2.6% over the same period in 2015.
- PTOI before partnerships, LLC and other equity method income for the nine months ended September 30, 2016 was \$1.204 billion, a decrease of \$161 million or 11.8% from the same period in 2015.
- Net operating income before partnerships, LLC and other equity method income for the nine months ended September 30, 2016 was \$886 million, a decrease of \$64 million or 6.7% from the same period in 2015.
- Partnerships, LLC and other equity method income for the nine months ended September 30, 2016 was \$26 million, a decrease of \$24 million or 48.0% from the same period in 2015.
- Net realized (losses) gains for the nine months ended September 30, 2016 were (\$50) million, versus \$22 million for the same period in 2015.
- Consolidated net income from continuing operations for the nine months ended September 30, 2016 was \$863 million, a decrease of \$135 million or 13.5% from the same period in 2015.
- Discontinued operations, net of tax for the nine months ended September 30, 2016 were zero compared to (\$909) million for the same period in 2015.
- Net income attributable to LMHC for the nine months ended September 30, 2016 was \$863 million, an increase of \$760 million over the same period in 2015.
- Cash flow provided by operations for the nine months ended September 30, 2016 was \$1.915 billion, a decrease of \$738 million or 27.8% from the same period in 2015.
- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2016 was 93.0%, an improvement of 1.7 points over the same period in 2015. 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, 2016 increased 0.1 points to 98.5%.

Financial Condition as of September 30, 2016

- Total debt was \$7.763 billion as of September 30, 2016, an increase of \$574 million or 8.0% over December 31, 2015.
- Total equity was \$21.694 billion as of September 30, 2016, an increase of \$2.453 billion or 12.7% over December 31, 2015.

Subsequent Events

Management has assessed material subsequent events through November 4, 2016, the date the financial statements were available to be issued.

Consolidated Net Operating Income

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Net operating income before partnerships, LLC and other equity method income	\$357	\$436	(18.1%)	\$886	\$950	(6.7%)
Partnerships, LLC and other equity method income, net of tax	42	49	(14.3)	22	47	(53.2)
Net realized gains (losses), net of tax	57	(167)	NM	(39)	16	NM
Loss on extinguishment of debt, net of tax	(1)	(1)	-	(6)	(1)	NM
Discontinued operations, net of tax	-	(744)	(100.0)	-	(909)	(100.0)
Net income (loss) attributable to LMHC	\$455	(\$427)	NM	\$863	\$103	NM

NM = Not Meaningful

Consolidated Results of Operations

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Revenues	\$9,890	\$9,312	6.2%	\$28,641	\$28,282	1.3%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method income	\$720	\$685	5.1%	\$2,541	\$2,273	11.8%
Catastrophes ¹	(258)	(84)	NM	(1,408)	(1,079)	30.5
Net incurred losses attributable to prior years:						
- Asbestos & environmental ²	(50)	(2)	NM	(41)	(4)	NM
- All other ^{2,3,4}	11	72	(84.7)	112	175	(36.0)
Current accident year re-estimation ⁵	(6)	-	NM	-	-	-
PTOI before partnerships, LLC and other equity method income	417	671	(37.9)	1,204	1,365	(11.8)
Partnerships, LLC and other equity method income ⁶	62	52	19.2	26	50	(48.0)
PTOI	479	723	(33.7)	1,230	1,415	(13.1)
Net realized gains (losses)	84	(256)	NM	(50)	22	NM
Loss on extinguishment of debt	(1)	(1)	-	(9)	(1)	NM
Pre-tax income	562	466	20.6	1,171	1,436	(18.5)
Income tax expense	112	154	(27.3)	308	438	(29.7)
Consolidated net income from continuing operations	450	312	44.2	863	998	(13.5)
Discontinued operations, net of tax	-	(744)	(100.0)	-	(909)	(100.0)
Consolidated net income (loss)	450	(432)	NM	863	89	NM
Less: Net loss attributable to non-controlling interest	(5)	(5)	-	-	(14)	(100.0)
Net income (loss) attributable to LMHC	\$455	(\$427)	NM	\$863	\$103	NM
Cash flow provided by continuing operations	\$1,270	\$1,519	(16.4%)	\$1,915	\$2,653	(27.8%)

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 & environmental is gross of the NICO Reinsurance Transaction, and All other includes all cessions related to the NICO Reinsurance Transaction.

3 The nine months ended September 30, 2015 include a one-time benefit of \$91 million due to a reduction in the estimated prior years' liability for state assessments related to workers compensation.

4 Net of earned premium and reinstatement premium attributable to prior years of zero and (\$7) million for the three and nine months ended September 30, 2016 and zero and \$5 million for the same periods in 2015.

5 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2016.

6 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 the production and sale of oil and gas.

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 nine months ended September 30, 2016 are available on the Company's Investor Relations web site at 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 fifth largest property and casualty insurer in the U.S. based on 2015 direct written premium. The Company also ranks 73rd on the Fortune 100 list of largest corporations in the U.S. based on 2015 revenue. As of December 31, 2015, LMHC had \$121.665 billion in consolidated assets¹, \$102.424 billion in consolidated liabilities¹, and \$37.617 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 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

¹ Reflects the 2016 adoption of the Financial Accounting Standards Board issued Accounting Standards Update 2015-03, *Imputation of Interest* (Accounting Standards Codification 835).

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 cyclicity 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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