



Liberty  
Mutual®

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INSURANCE

## Third Quarter 2016 Results

# Cautionary Statement Regarding Forward Looking Statements

This report contains forward looking statements that are intended to enhance the reader's ability to assess the future financial and business performance of Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Insurance group of entities (the "Company" or "LMHC"). 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 limited partnerships ("LP"), limited liability companies ("LLC"), 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 cyclical nature 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](http://www.libertymutualgroup.com/investors). The Company undertakes no obligation to update these forward looking statements.

# Liberty Mutual Overview

Mission statement: Helping people live safer, more secure lives



## Strategic Business Units (SBUs)



- Mutual holding company structure
- \$121.7B of assets and \$37.6B of revenues in 2015
- The most diversified P&C insurer
- 73<sup>rd</sup> among Fortune 500 companies<sup>1</sup>
- 5<sup>th</sup> largest P&C writer in the U.S.<sup>2</sup>
- 5<sup>th</sup> largest commercial lines writer in the U.S.<sup>2</sup>
- 5<sup>th</sup> largest personal lines writer in the U.S.<sup>2</sup>
- 6<sup>th</sup> largest global P&C insurer<sup>3</sup>

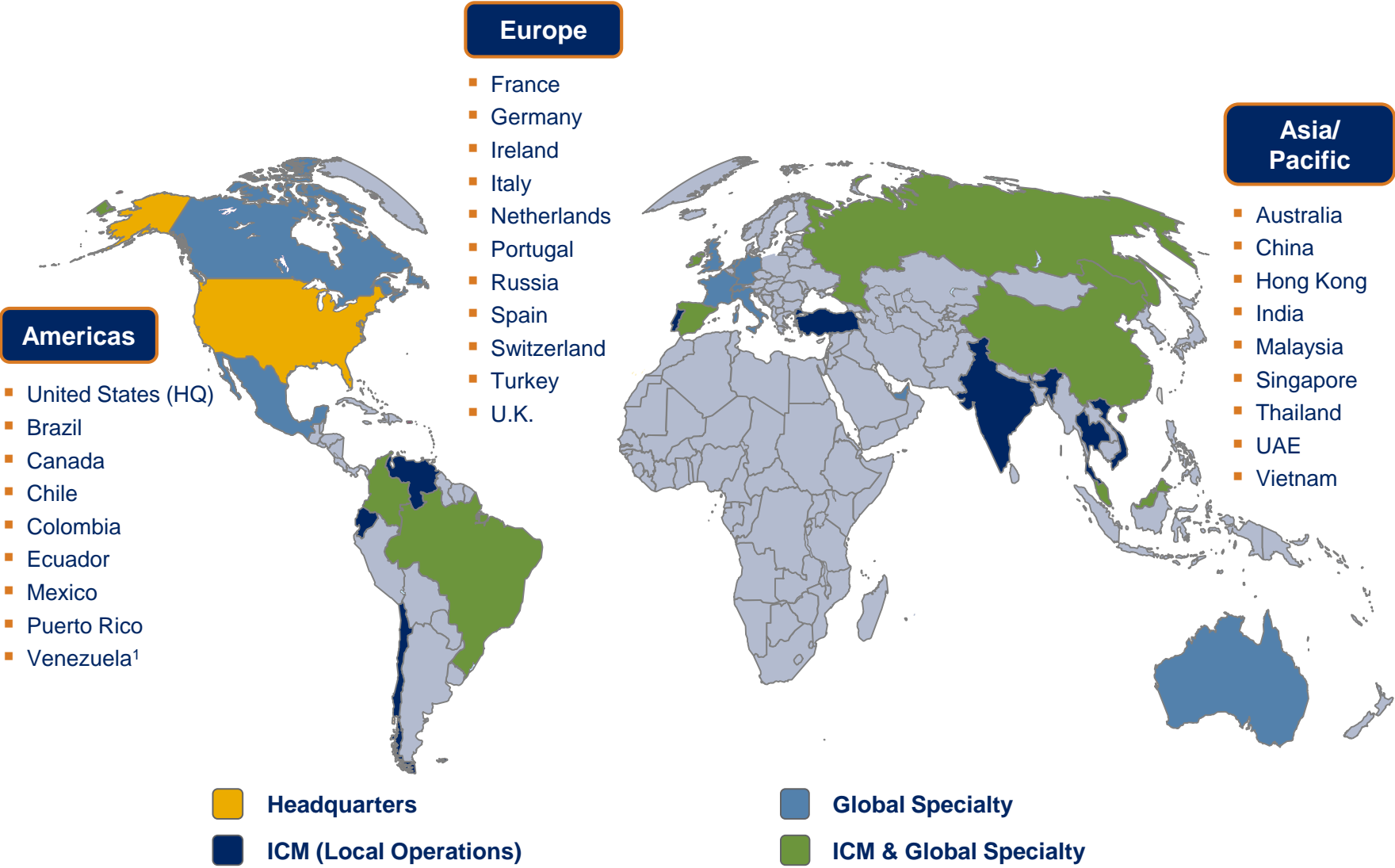
<sup>1</sup> Based on 2015 Revenue – as reported.

<sup>2</sup> Based on 2015 DWP.

<sup>3</sup> Based on 2015 GWP.

# Liberty Mutual's Global Presence

*Liberty Mutual operates in 29 countries and economies around the globe*



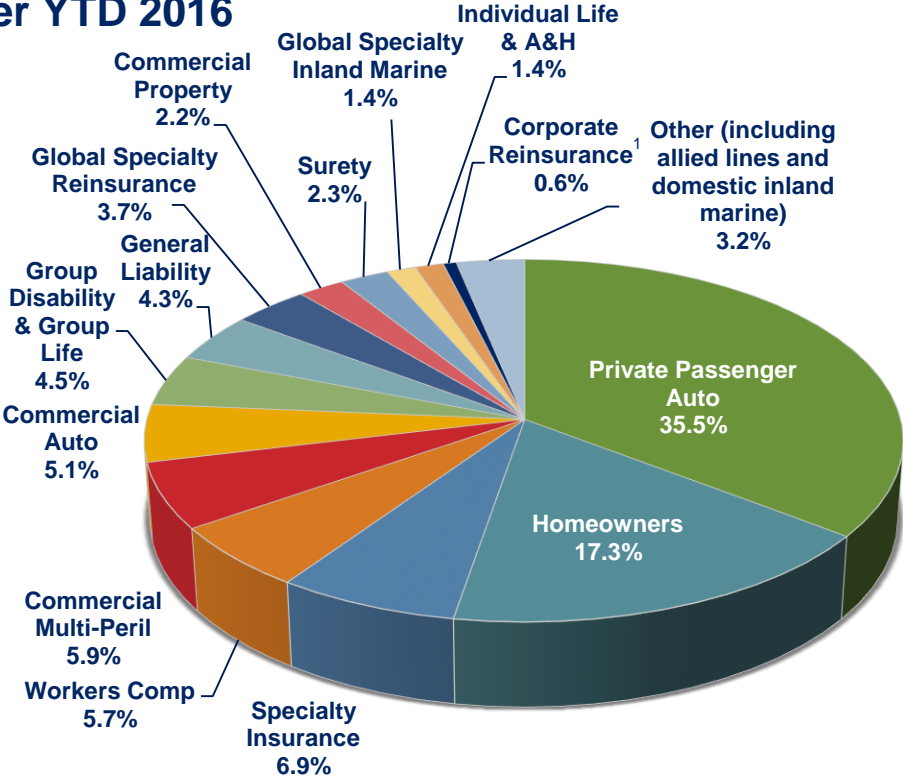
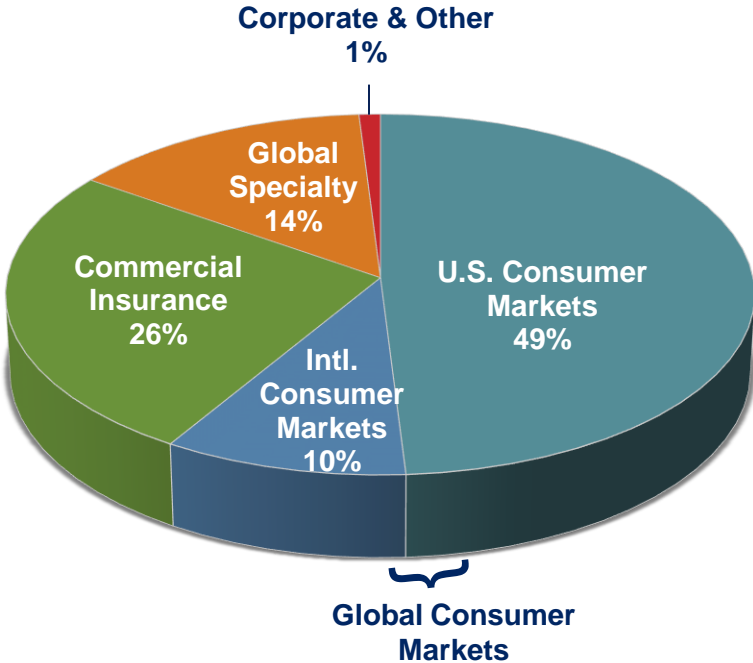
<sup>1</sup> Effective September 30, 2015, the Company deconsolidated its Venezuelan operations.

# Analysis of Consolidated Net Written Premium “NWP”

## NWP by SBU

## NWP by line of business

September YTD 2016



NWP of \$27.1 billion increased 2.6% over 2015

<sup>1</sup> NWP associated with internal reinsurance, net of corporate external placements.

# Consolidated Results

\$ Millions	Third Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
<b>NWP</b>	<b>\$9,309</b>	<b>\$8,775</b>	<b>6.1%</b>	<b>\$27,099</b>	<b>\$26,417</b>	<b>2.6%</b>
Pre-tax operating income ("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 <sup>1</sup>	62	52	19.2	26	50	(48.0)
Net realized gains (losses)	84	(256)	NM	(50)	22	NM
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)
<b>Net income (loss) attributable to LMHC</b>	<b>\$455</b>	<b>(\$427)</b>	<b>NM</b>	<b>\$863</b>	<b>\$103</b>	<b>NM</b>
<b>Cash flow provided by continuing operations</b>	<b>\$1,270</b>	<b>\$1,519</b>	<b>(16.4%)</b>	<b>\$1,915</b>	<b>\$2,653</b>	<b>(27.8%)</b>

\$ Millions	As of		
	September 30, 2016	December 31, 2015	Change
<b>Total equity</b>	<b>\$21,694</b>	<b>\$19,241</b>	<b>12.7%</b>

<sup>1</sup> Partnerships, LLC and other equity method income includes 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

# Consolidated Results

	Third Quarter			Year-to-Date		
	2016	2015	Change (Points)	2016	2015	Change (Points)
Claims and claim adjustment expense ratio	63.8%	64.1%	(0.3)	62.3%	63.1%	(0.8)
Underwriting expense ratio	30.3	31.2	(0.9)	30.7	31.5	(0.8)
Dividend ratio	0.1	0.1	-	-	0.1	(0.1)
<b>Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation</b>	<b>94.2</b>	<b>95.4</b>	<b>(1.2)</b>	<b>93.0</b>	<b>94.7</b>	<b>(1.7)</b>
Catastrophes <sup>1</sup>	3.1	1.0	2.1	5.7	4.5	1.2
Net incurred losses attributable to prior years						
- Asbestos & environmental	0.6	-	0.6	0.2	-	0.2
- All other <sup>2,3</sup>	(0.2)	(0.8)	0.6	(0.4)	(0.8)	0.4
Current accident year re-estimation <sup>4</sup>	0.1	-	0.1	-	-	-
<b>Total combined ratio<sup>5</sup></b>	<b>97.8%</b>	<b>95.6%</b>	<b>2.2</b>	<b>98.5%</b>	<b>98.4%</b>	<b>0.1</b>

<sup>1</sup> 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.

<sup>2</sup> 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.

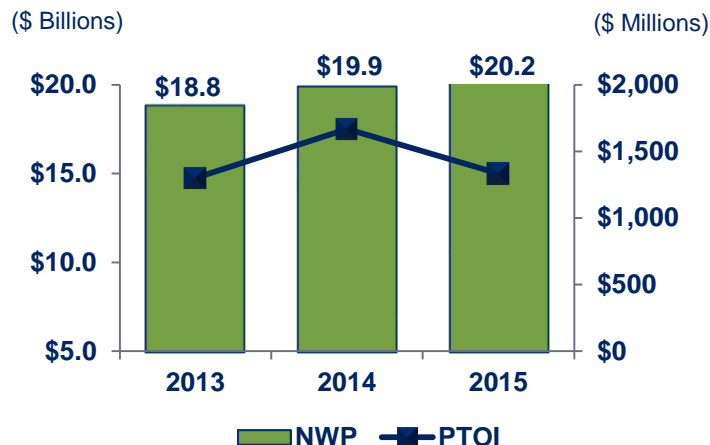
<sup>3</sup> Net of earned premium and reinstatement premium attributable to prior years.

<sup>4</sup> Re-estimation of the current accident year loss reserves for the six months ended June 30, 2016.

<sup>5</sup> 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 to earned premium 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; 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.

# Global Consumer Markets

## NWP & PTOI



## Segment Highlights

- Operates in 17 countries and economies
- 5<sup>th</sup> largest writer of personal lines in the U.S.<sup>2</sup>
- 2<sup>nd</sup> largest independent agency writer in the U.S.<sup>3</sup>
- Market leader in affinity marketing, with over 22,000 sponsored affinity relationships

<sup>1</sup> 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.

<sup>2</sup> Based on 2015 DWP.

<sup>3</sup> Based on Q4 2015 DWP (rolling 12-months).

On September 30, 2016, the Company completed the sale of substantially all the assets and liabilities of its Polish operation resulting in an immaterial gain. The results of the Polish operation are presented in the Corporate and Other section and are no longer reported in International Consumer Markets. All prior periods have been adjusted to reflect this change.

NM = Not Meaningful

## Financial Performance

\$ Millions	Third Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
<b>NWP</b>	<b>\$5,643</b>	<b>\$5,352</b>	<b>5.4%</b>	<b>\$15,897</b>	<b>\$15,268</b>	<b>4.1%</b>
PTOI before catastrophes and net incurred losses attributable to prior years	\$586	\$625	(6.2%)	\$1,833	\$1,767	3.7%
Catastrophes <sup>1</sup>	(184)	(75)	145.3	(1,065)	(910)	17.0
Net incurred losses attributable to prior years	(28)	(12)	133.3	13	(29)	NM
<b>Pre-tax operating income</b>	<b>\$374</b>	<b>\$538</b>	<b>(30.5%)</b>	<b>\$781</b>	<b>\$828</b>	<b>(5.7%)</b>

	Third Quarter			Year-to-Date		
	2016	2015	Change (Points)	2016	2015	Change (Points)
<b>Combined ratio before catastrophes and net incurred losses attributable to prior years</b>	<b>2016</b>	<b>2015</b>	<b>Change (Points)</b>	<b>2016</b>	<b>2015</b>	<b>Change (Points)</b>
Claims and claim adjustment expense ratio	65.2%	63.1%	2.1	63.8%	63.3%	0.5
Underwriting expense ratio	27.4	28.1	(0.7)	28.0	28.5	(0.5)
<b>Subtotal</b>	<b>92.6%</b>	<b>91.2%</b>	<b>1.4</b>	<b>91.8%</b>	<b>91.8%</b>	<b>-</b>
Catastrophes <sup>1</sup>	3.5	1.5	2.0	7.0	6.2	0.8
Net incurred losses attributable to prior years	0.5	0.3	0.2	(0.1)	0.2	(0.3)
<b>Total combined ratio</b>	<b>96.6%</b>	<b>93.0%</b>	<b>3.6</b>	<b>98.7%</b>	<b>98.2%</b>	<b>0.5</b>



# U.S. Consumer Markets: Financial Performance

(\$ Millions)	Third Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
<b>NWP</b>	<b>\$4,714</b>	<b>\$4,547</b>	<b>3.7%</b>	<b>\$13,282</b>	<b>\$12,728</b>	<b>4.4%</b>
PTOI before catastrophes and net incurred losses attributable to prior years	\$560	\$625	(10.4%)	\$1,832	\$1,804	1.6%
Catastrophes <sup>1</sup>	(183)	(75)	144.0	(1,059)	(910)	16.4
Net incurred losses attributable to prior years	(43)	(13)	NM	(46)	(9)	NM
<b>Pre-tax operating income</b>	<b>\$334</b>	<b>\$537</b>	<b>(37.8%)</b>	<b>\$727</b>	<b>\$885</b>	<b>(17.9%)</b>
	Third Quarter			Year-to-Date		
	2016	2015	Change (Points)	2016	2015	Change (Points)
Claims and claim adjustment expense ratio	65.3%	62.5%	2.8	63.3%	62.8%	0.5
Underwriting expense ratio	24.8	25.6	(0.8)	25.3	25.5	(0.2)
<b>Combined ratio before catastrophes and net incurred losses attributable to prior years</b>	<b>90.1%</b>	<b>88.1%</b>	<b>2.0</b>	<b>88.6%</b>	<b>88.3%</b>	<b>0.3</b>
Catastrophes <sup>1</sup>	4.2	1.8	2.4	8.3	7.5	0.8
Net incurred losses attributable to prior years	1.0	0.3	0.7	0.4	0.1	0.3
<b>Total combined ratio</b>	<b>95.3%</b>	<b>90.2%</b>	<b>5.1</b>	<b>97.3%</b>	<b>95.9%</b>	<b>1.4</b>

<sup>1</sup> 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.

NM = Not Meaningful

# International Consumer Markets: Financial Performance

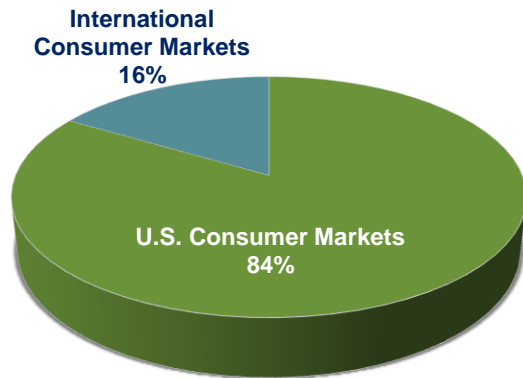
(\$ Millions)	Third Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
<b>NWP</b>	<b>\$929</b>	<b>\$805</b>	<b>15.4%</b>	<b>\$2,615</b>	<b>\$2,540</b>	<b>3.0%</b>
Pre-tax operating income (loss) before catastrophes and net incurred losses attributable to prior years	\$26	\$ -	NM	\$1	(\$37)	NM
Catastrophes <sup>1</sup>	(1)	-	NM	(6)	-	NM
Net incurred losses attributable to prior years	15	1	NM	59	(20)	NM
<b>Pre-tax operating income (loss)</b>	<b>\$40</b>	<b>\$1</b>	<b>NM</b>	<b>\$54</b>	<b>(\$57)</b>	<b>NM</b>
	Third Quarter			Year-to-Date		
	2016	2015	Change (Points)	2016	2015	Change (Points)
Claims and claim adjustment expense ratio	64.5%	66.2%	(1.7)	66.0%	65.3%	0.7
Underwriting expense ratio	40.3	41.3	(1.0)	41.6	43.0	(1.4)
<b>Combined ratio before catastrophes and net incurred losses attributable to prior years</b>	<b>104.8%</b>	<b>107.5%</b>	<b>(2.7)</b>	<b>107.6%</b>	<b>108.3%</b>	<b>(0.7)</b>
Catastrophes <sup>1</sup>	0.1	-	0.1	0.2	-	0.2
Net incurred losses attributable to prior years	(1.7)	(0.1)	(1.6)	(2.4)	0.8	(3.2)
<b>Total combined ratio</b>	<b>103.2%</b>	<b>107.4%</b>	<b>(4.2)</b>	<b>105.4%</b>	<b>109.1%</b>	<b>(3.7)</b>

<sup>1</sup> 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.

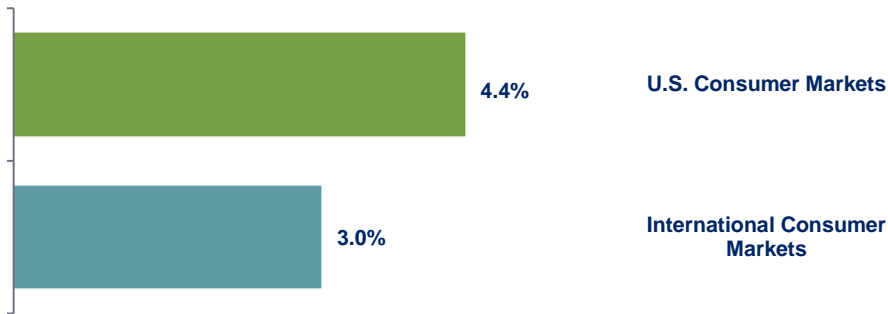
NM = Not Meaningful

# Global Consumer Markets NWP Distribution

## NWP by market segment

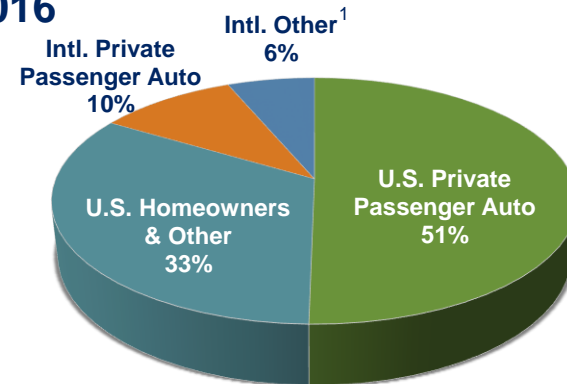


### YOY Change in NWP

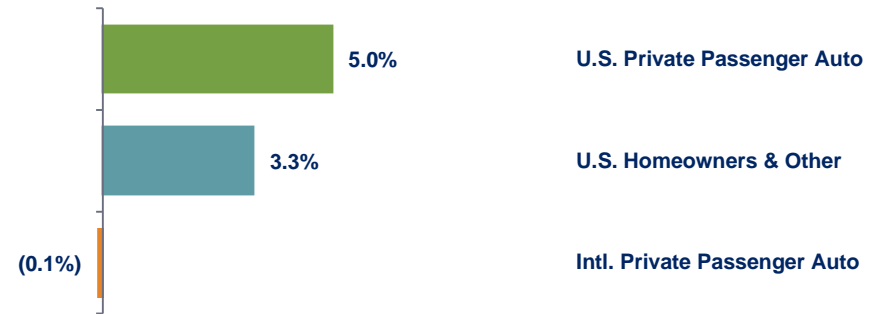


## NWP by line of business

September YTD 2016



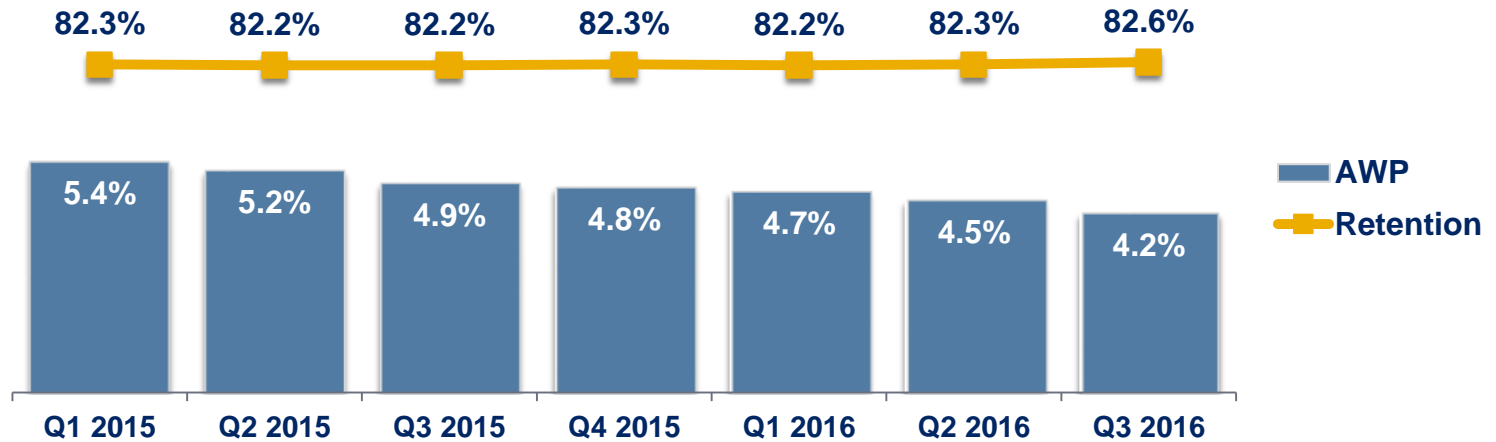
### YOY Change in NWP



NWP year-to-date in 2016 totaled **\$15.9 billion**, an increase of **4.1%** over the same period in 2015

<sup>1</sup> Intl. Other contains the following International Consumer Markets lines of business: Life and health, Commercial automobile, Homeowners, Commercial property and Other. Other for International Consumer Markets contains premium related to other personal and commercial lines including personal accident, bonds, workers compensation, small and medium enterprise and marine and cargo lines of business. YOY: Year-over-Year

# U.S. Consumer Markets: Average Written Premium (AWP), Retention, & PIF<sup>1</sup>



	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
<b>Private Passenger Auto</b>							
AWP <sup>2</sup>	4.4%	4.3%	4.2%	4.1%	4.0%	4.2%	4.4%
Retention	81.0%	81.0%	81.0%	81.2%	81.2%	81.3%	81.5%
PIF growth	0.3%	0.2%	0.2%	0.6%	1.2%	1.6%	1.8%
<b>Homeowners</b>							
AWP	6.2%	5.5%	4.9%	4.1%	3.3%	2.4%	1.5%
Retention	82.7%	82.5%	82.3%	82.3%	82.3%	82.3%	82.5%
PIF growth	1.2%	0.8%	0.7%	0.9%	1.0%	1.3%	1.5%

PIF: policies in-force. Retention is in-force. AWP reported on a 12-month rolling basis

<sup>1</sup> Prior periods' AWP, Retention, and PIF growth have been restated to align with the Company's updated definition of the terms.

<sup>2</sup> Private Passenger Auto AWP is weighted for 6 and 12 month policy term mix.

# International Consumer Markets: Global Presence

(\$ Millions)

West	YTD NWP	P&C Rank	P&C Share
Brazil <sup>4</sup>	\$557	11 <sup>th</sup>	3.0%
Chile	\$259	1 <sup>st</sup>	16.7%
Colombia <sup>4</sup>	\$219	4 <sup>th</sup>	6.3%
Ecuador <sup>1</sup>	\$42	8 <sup>th</sup>	6.0%
Spain <sup>1,5</sup>	\$520	9 <sup>th</sup>	3.4%
Portugal <sup>2</sup>	\$192	5 <sup>th</sup>	6.5%
Ireland <sup>1,3</sup>	\$170	8 <sup>th</sup>	6.1%

East	YTD NWP	P&C Rank	P&C Share
Hong Kong	\$77	13 <sup>th</sup>	2.1%
Malaysia	\$90	12 <sup>th</sup>	3.5%
Singapore	\$79	9 <sup>th</sup>	5.4%
Thailand	\$124	10 <sup>th</sup>	2.9%
Vietnam	\$17	13 <sup>th</sup>	1.8%
China	\$124	NM	0.1%
India	\$49	25 <sup>th</sup>	0.4%
Russia	\$35	30 <sup>th</sup>	0.4%
Turkey	\$32	22 <sup>nd</sup>	0.5%

Rankings Base – Net Written Premium (NWP) as of Sept 2016 except when noted:

<sup>1</sup> Gross Written Premium

<sup>2</sup> Direct Written Premium

<sup>3</sup> Ireland rank and share is only ROI

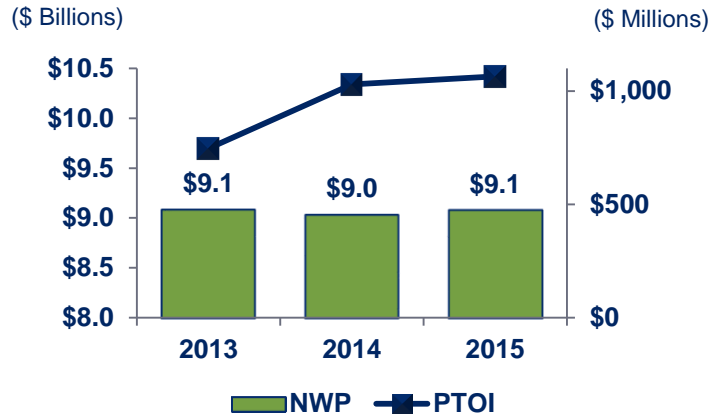
<sup>4</sup> Reflects combined P&C and life markets

<sup>5</sup> Spain rank based on motor only

Rankings are based on the most recent financial data available, which varies by country

# Commercial Insurance

## NWP & PTOI



## Segment Highlights

- As an SBU, 7<sup>th</sup> largest U.S. P&C commercial lines insurer measured by DWP - \$8.1B<sup>5</sup>
- Equipped to underwrite and service a wide spectrum of exposures, from small proprietors to multi-nationals
- Approximately 5,800 active P&C independent agents and brokers in 13,000 locations

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Net of earned premium and reinstatement premium attributable to prior years of (\$3) million and (\$9) million for the three and nine months ended September 30, 2016 and zero and \$3 million for the same periods in 2015.

<sup>4</sup> Re-estimation of the current accident year workers compensation loss reserves for the six months ended June 30, 2016 associated with the recent industry-wide rulings in Florida.

<sup>5</sup> Based on 2015 DWP (excludes LMB).

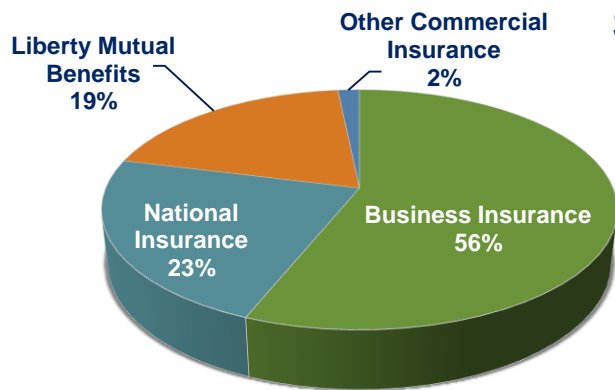
NM = Not Meaningful

## Financial Performance

\$ Millions	Third Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
<b>NWP</b>	<b>\$2,438</b>	<b>\$2,334</b>	<b>4.5%</b>	<b>\$7,071</b>	<b>\$6,897</b>	<b>2.5%</b>
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	\$208	\$248	(16.1%)	\$893	\$876	1.9%
Catastrophes <sup>1</sup>	(52)	(8)	NM	(257)	(167)	53.9
Net incurred losses attributable to prior years <sup>2,3</sup>	(34)	2	NM	(28)	93	NM
Current accident year re-estimation <sup>4</sup>	(6)	-	NM	-	-	-
<b>Pre-tax operating income</b>	<b>\$116</b>	<b>\$242</b>	<b>(52.1%)</b>	<b>\$608</b>	<b>\$802</b>	<b>(24.2%)</b>
<b>Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation</b>	<b>2016</b>	<b>2015</b>	<b>Change (Points)</b>	<b>2016</b>	<b>2015</b>	<b>Change (Points)</b>
Claims and claim adjustment expense ratio	63.7%	64.0%	(0.3)	60.7%	62.5%	(1.8)
Underwriting expense ratio	35.1	35.9	(0.8)	35.5	34.8	0.7
Dividend ratio	0.2	0.1	0.1	-	0.1	(0.1)
<b>Subtotal</b>	<b>99.0%</b>	<b>100.0%</b>	<b>(1.0)</b>	<b>96.2%</b>	<b>97.4%</b>	<b>(1.2)</b>
Catastrophes <sup>1</sup>	2.8	0.4	2.4	4.7	3.0	1.7
Net incurred losses attributable to prior years <sup>2,3</sup>	1.7	(0.1)	1.8	0.5	(1.6)	2.1
Current accident year re-estimation <sup>4</sup>	0.3	-	0.3	-	-	-
<b>Total combined ratio</b>	<b>103.8%</b>	<b>100.3%</b>	<b>3.5</b>	<b>101.4%</b>	<b>98.8%</b>	<b>2.6</b>

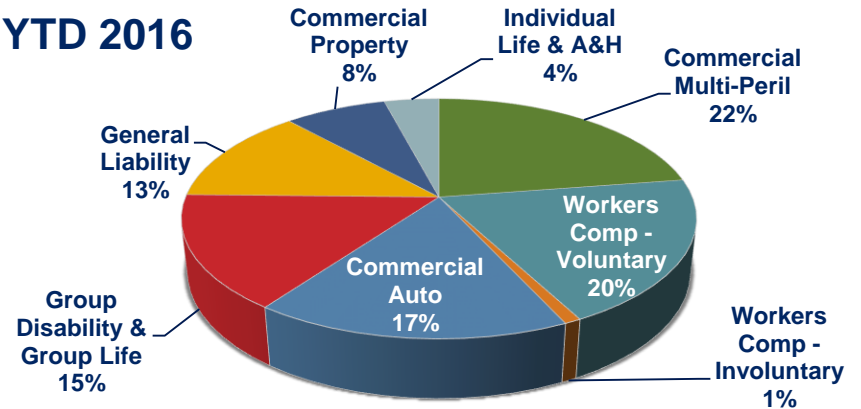
# Commercial Insurance NWP Distribution

## NWP by market segment

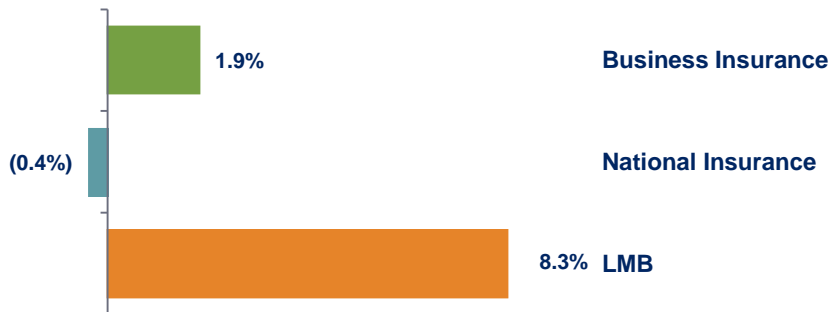


September YTD 2016

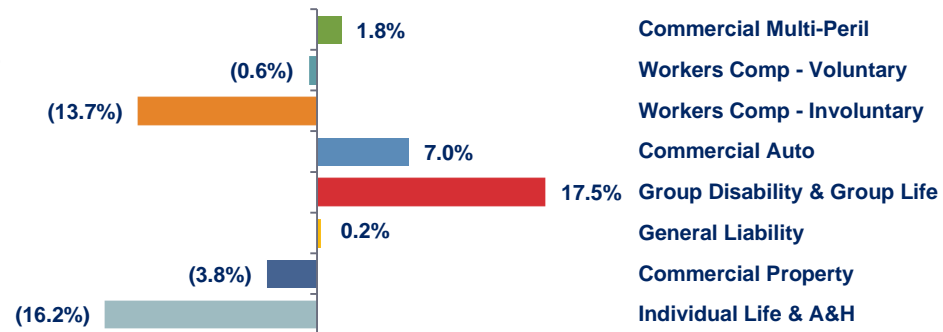
## NWP by line of business



## YOY Change in NWP



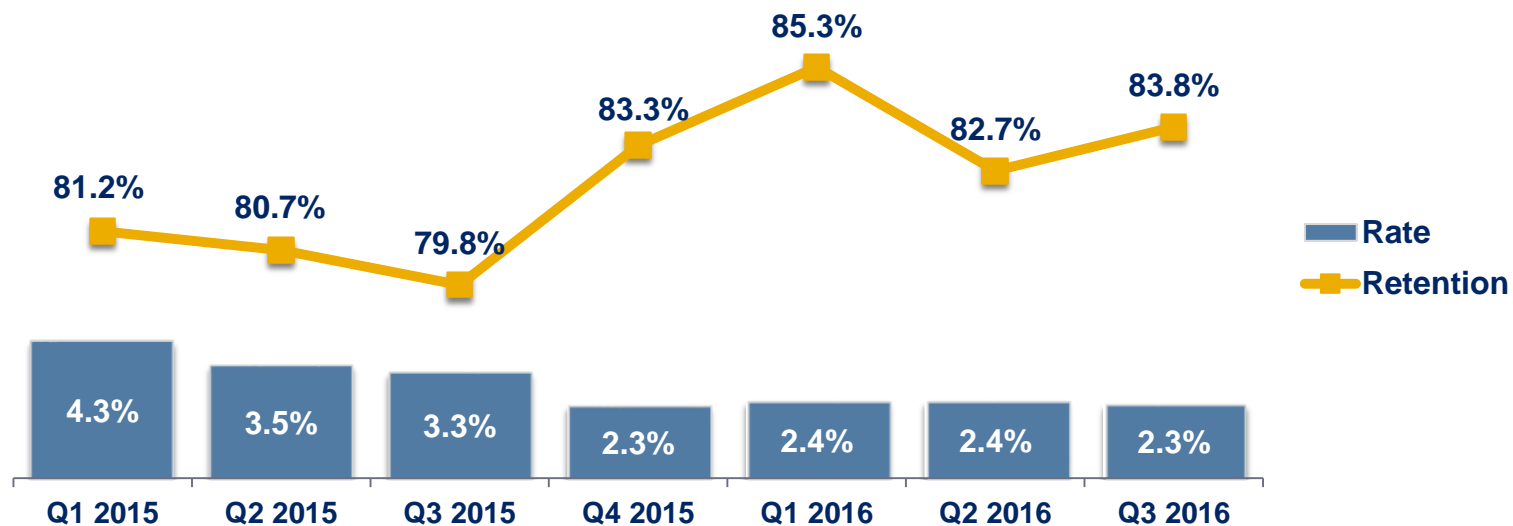
## YOY Change in NWP



NWP year-to-date in 2016 totaled **\$7.1 billion**, an increase of **2.5%** over the same period in 2015

YOY: Year-over-Year

# Commercial Insurance: Rate & Retention



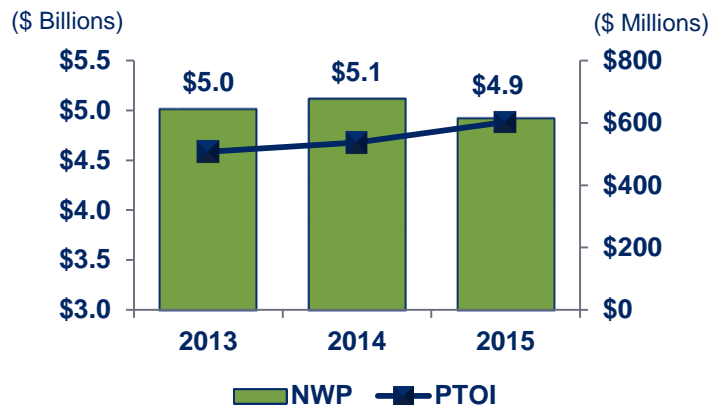
	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	YTD 2015	YTD 2016
<b>Business Insurance</b>									
Rate	5.0%	4.4%	3.8%	3.0%	3.2%	3.4%	3.1%	4.4%	3.3%
Retention	79.2%	80.6%	80.0%	81.9%	83.2%	83.3%	83.0%	79.9%	83.2%
<b>National Insurance</b>									
Rate	2.6%	1.3%	1.9%	0.6%	0.4%	(0.5%)	- %	1.9%	- %
Retention	85.0%	81.0%	79.4%	86.2%	89.3%	81.4%	85.6%	82.0%	85.6%
<b>Commercial Insurance P&amp;C</b>									
Rate	4.3%	3.5%	3.3%	2.3%	2.4%	2.4%	2.3%	3.7%	2.3%
Retention	81.2%	80.7%	79.8%	83.3%	85.3%	82.7%	83.8%	80.6%	83.9%

Note: Business Drivers are ex Liberty Mutual Benefits.



# Global Specialty

## NWP & PTOI



### Segment Highlights

- 8<sup>th</sup> largest Lloyd's Syndicate<sup>3</sup>
- 2<sup>nd</sup> largest surety writer in the U.S.<sup>4</sup>
- Business sold through broker and independent agent channels
- A premier specialty casualty lines underwriter

<sup>1</sup> 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.

<sup>2</sup> Net of earned premium and reinstatement premium attributable to prior years of \$3 million and \$2 million for the three months and nine months ended September 30, 2016, and zero and \$2 million for the same periods in 2015.

<sup>3</sup> Based on 2015 GWP

<sup>4</sup> Based on 2015 NWP

NM = Not Meaningful

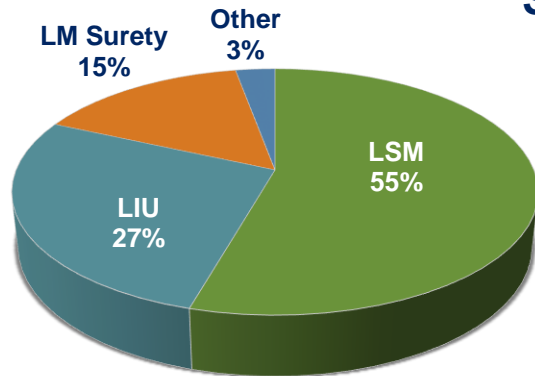
## Financial Performance

\$ Millions	Third Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
<b>NWP</b>	<b>\$1,242</b>	<b>\$1,112</b>	<b>11.7%</b>	<b>\$3,858</b>	<b>\$3,896</b>	<b>(1.0%)</b>
PTOI before catastrophes and net incurred losses attributable to prior years	\$177	\$109	62.4%	\$462	\$416	11.1%
Catastrophes <sup>1</sup>	(16)	(3)	NM	(80)	(21)	NM
Net incurred losses attributable to prior years <sup>2</sup>	11	58	(81.0)	93	86	8.1
<b>Pre-tax operating income</b>	<b>\$172</b>	<b>\$164</b>	<b>4.9%</b>	<b>\$475</b>	<b>\$481</b>	<b>(1.2%)</b>

	Third Quarter			Year-to-Date		
	2016	2015	Change (Points)	2016	2015	Change (Points)
<b>Combined ratio before catastrophes and net incurred losses attributable to prior years</b>	<b>92.3%</b>	<b>98.0%</b>	<b>(5.7)</b>	<b>93.7%</b>	<b>95.1%</b>	<b>(1.4)</b>
Claims and claim adjustment expense ratio	57.4%	64.4%	(7.0)	59.0%	60.8%	(1.8)
Underwriting expense ratio	34.8	33.4	1.4	34.5	34.1	0.4
Dividend ratio	0.1	0.2	(0.1)	0.2	0.2	-
<b>Subtotal</b>	<b>92.3%</b>	<b>98.0%</b>	<b>(5.7)</b>	<b>93.7%</b>	<b>95.1%</b>	<b>(1.4)</b>
Catastrophes <sup>1</sup>	1.3	0.2	1.1	2.2	0.6	1.6
Net incurred losses attributable to prior years <sup>2</sup>	(0.8)	(4.7)	3.9	(2.6)	(2.4)	(0.2)
<b>Total combined ratio</b>	<b>92.8%</b>	<b>93.5%</b>	<b>(0.7)</b>	<b>93.3%</b>	<b>93.3%</b>	<b>-</b>

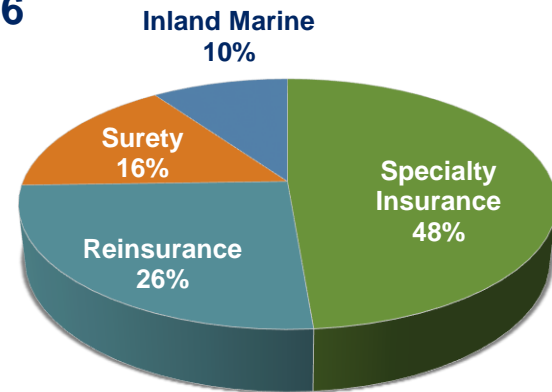
# Global Specialty NWP Distribution

## NWP by market segment

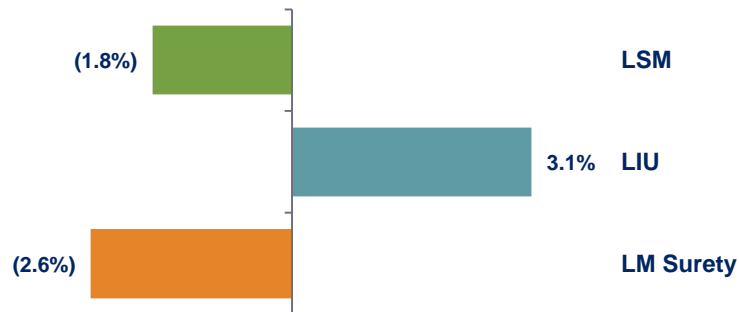


September YTD 2016

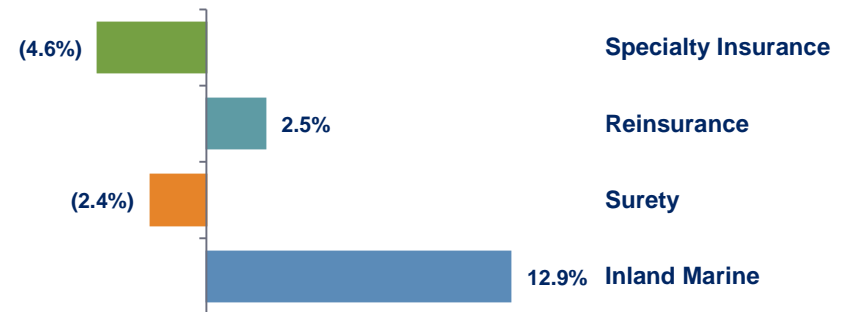
## NWP by line of business



### YOY Change in NWP



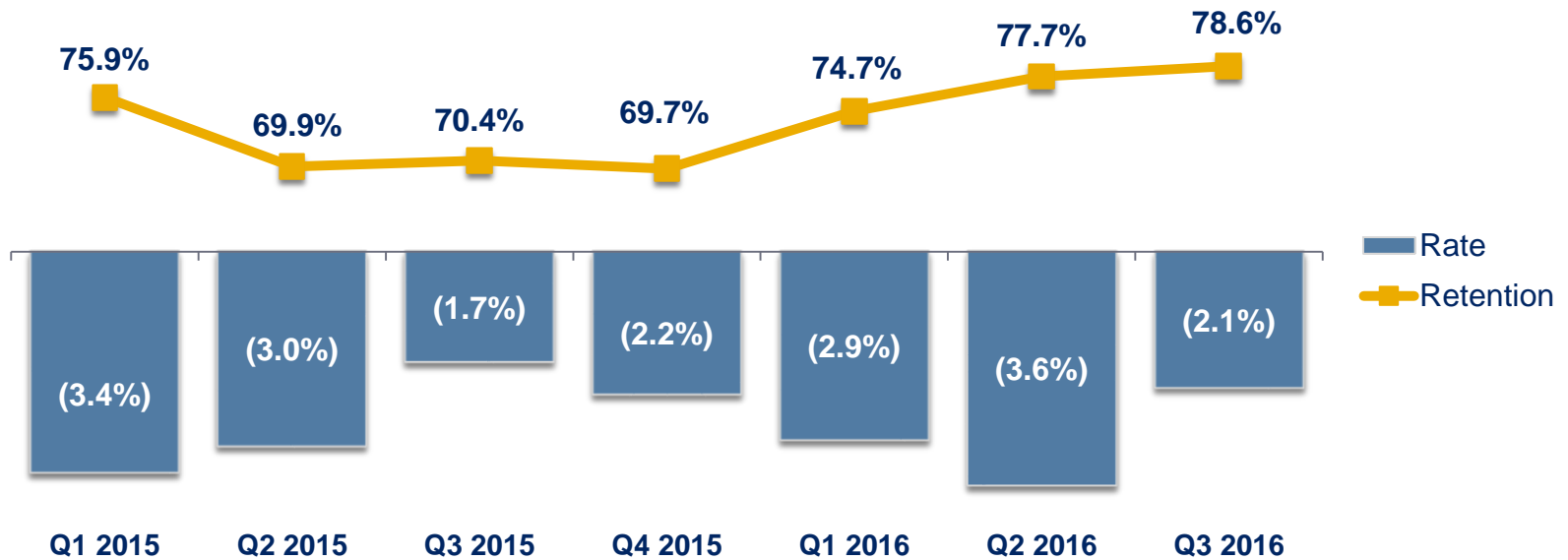
### YOY Change in NWP



NWP year-to-date in 2016 totaled **\$3.9 billion**, a decrease of **1.0%** from the same period in 2015 (or an increase of **0.7%**<sup>1</sup> excluding FX over the same period in 2015).

<sup>1</sup> Determined by assuming constant foreign exchange rates between periods.  
YOY: year-over-year

# Global Specialty: Rate & Retention

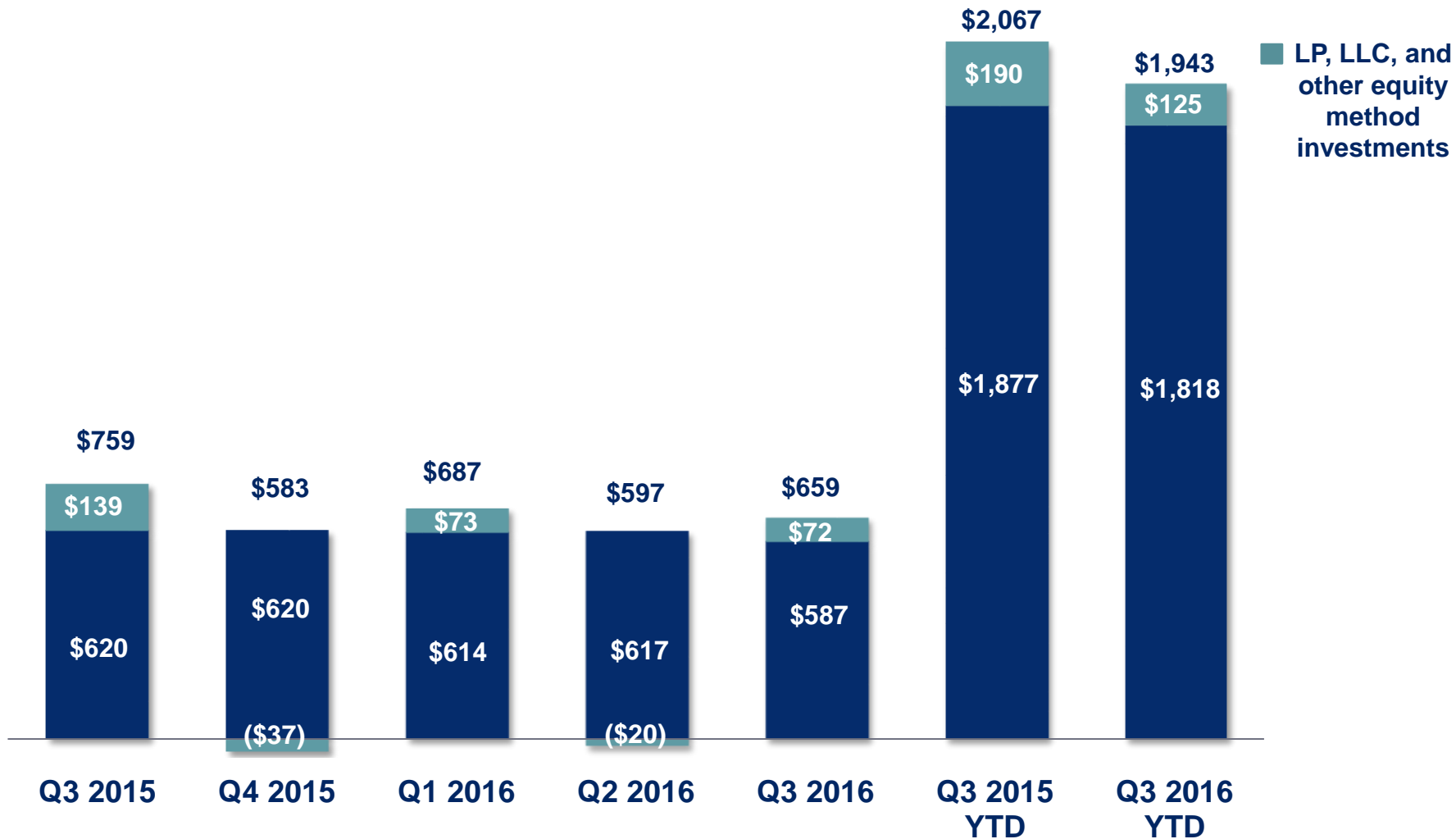


	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	YTD 2015 <sup>1</sup>	YTD 2016 <sup>1</sup>
<b>Specialty Insurance</b>									
Rate	(1.4%)	(2.5%)	(1.1%)	(2.2%)	(1.5%)	(3.4%)	(2.1%)	(2.1%)	(2.6%)
Retention	69.5%	68.0%	69.8%	69.3%	68.7%	76.4%	75.4%	73.0%	76.2%
<b>Reinsurance</b>									
Rate	(4.9%)	(4.7%)	(3.5%)	(2.3%)	(4.4%)	(4.3%)	(1.9%)	(4.7%)	(3.8%)
Retention	82.3%	79.7%	72.2%	72.7%	82.3%	83.1%	89.8%	82.5%	88.4%

<sup>1</sup> YTD includes timing adjustments that are not retroactively applied in prior periods

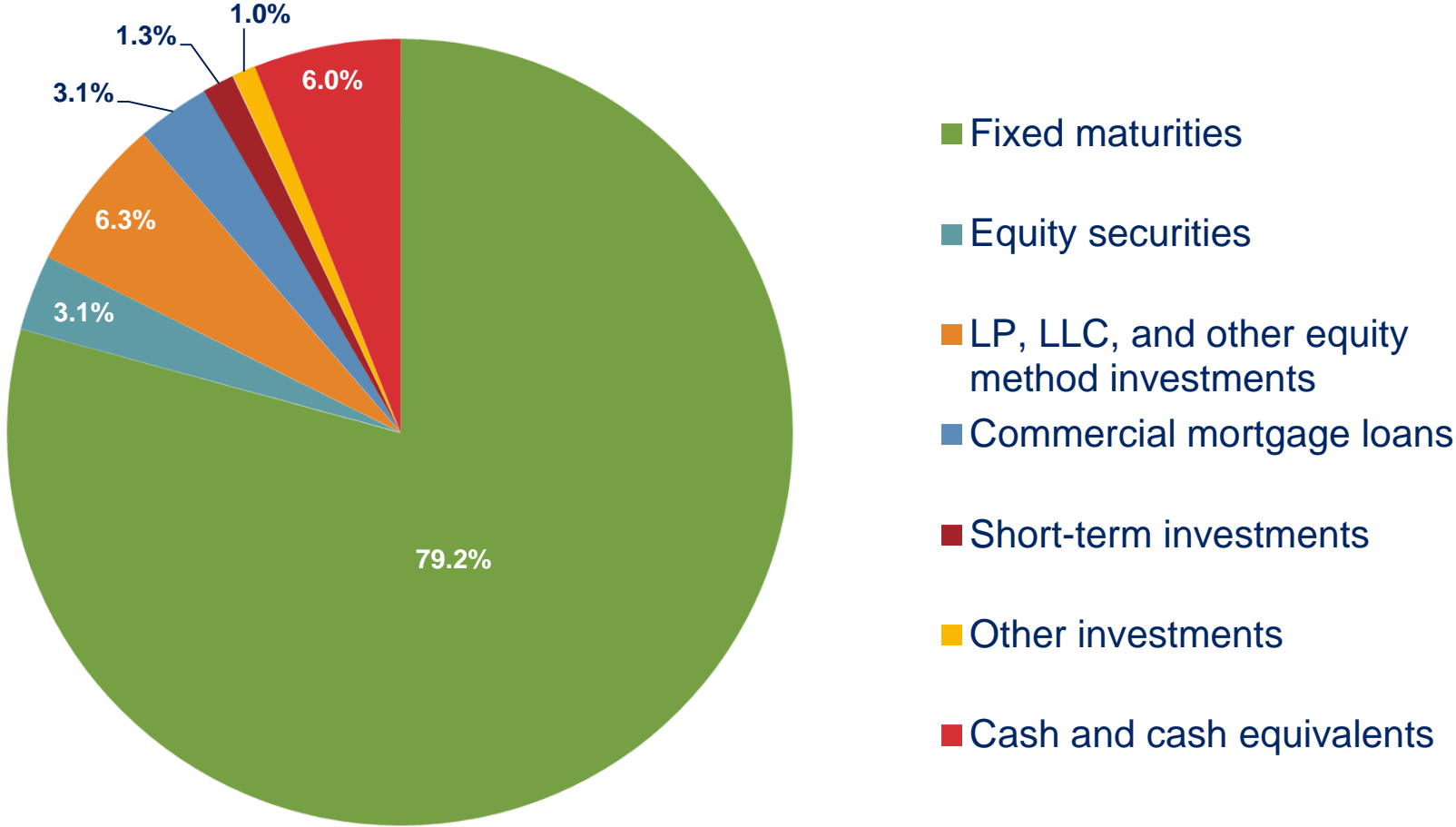
# Net Investment Income

(\$ Millions)



■ LP, LLC, and other equity method investments

# Investment Mix



Total invested assets as of  
September 30, 2016: **\$83.688 billion**

# Capitalization

(\$ Millions)	September 30, 2016	December 31, 2015
Long-term debt	\$7,760	\$6,940
Adjusted debt <sup>1</sup>	\$6,760	\$5,940
Total equity	\$21,694	\$19,241
Less: AOCI	<u>\$116</u>	<u>(\$1,521)</u>
Total equity ex. AOCI	\$21,578	\$20,762
Total capital ex. AOCI	\$29,338	\$27,702
Adjusted debt-to-total capitalization (ex. AOCI)	23.0%	21.4%
Statutory surplus	\$19,496	\$18,687

<sup>1</sup> Assumes that the Series A and B Junior Subordinated Notes receive 100% equity credit, as per S&P.

# Energy-Related Investments

(\$ Millions)	As of September 30, 2016			Change since December 31, 2015	
	Carrying Value	Unfunded Commitments	Average Credit Rating	Carrying Value	Unfunded Commitments
Investment grade bonds	\$2,088	\$ -	A-	\$7	\$ -
Below investment grade bonds	326	-	B+	87	-
Publicly traded equity securities	187	-		27	-
Private equities – energy focused	391 <sup>1</sup>	574 <sup>2</sup>		(129)	(775) <sup>2</sup>
	<b>\$2,992</b>	<b>\$574</b>		<b>(\$8)</b>	<b>(\$775)</b>
Percent of total invested assets	3.6%				
Direct investment in oil & gas wells	\$1,325	\$364		(\$202)	(\$1,297)
Total exposure	<b>\$4,317</b>	<b>\$938</b>		<b>(\$210)</b>	<b>(\$2,072)</b>

<sup>1</sup> Includes Carrying Values of \$389 million of natural resources partnership and \$2 million of equity method investments (carried at fair value and reported in "Other investments").

<sup>2</sup> Energy commitments declined \$658 million in the quarter primarily due to the termination of a \$600 million commitment made by the Company to invest in the successor fund of an existing private equity energy fund. The year ended December 31, 2015 has been restated to include this estimate.

# Holding Company Interest Coverage

(\$ Millions)	
Preferred dividends	\$80
Remaining dividend capacity	<u>\$1,741</u>
2016 dividend capacity <sup>1</sup>	\$1,821
Estimated PTI from LMG service companies/fees	<u>\$315</u>
Total available funding	\$2,136
Interest expense <sup>2</sup>	\$383
<b>Holding company interest coverage</b>	<b>5.6x</b>

<sup>1</sup> Represents the estimated maximum allowable dividend without prior regulatory approval in the state of domicile. Dividends paid October 1, 2015 through September 30, 2016 were \$80 million. Remaining/available dividend capacity is calculated as 2016 dividend capacity less dividends paid for the preceding twelve months.

<sup>2</sup> Represents the 2016 forecast for debt expense at Liberty Mutual Group Inc.



# Reconciliation of Statement of Income to Combined Ratio

For the three months ended September 30, 2016					\$ Millions
Combined ratio components:	Statement of income	Presentation reclass <sup>1</sup>	Less: Life insurance <sup>2</sup>	Less: Non-underwriting expenses and other adjustments <sup>3</sup>	Combined Ratio
Premiums earned	\$8,888		(\$485)	(\$1)	\$8,402
Benefits, claims and claim adjustment expenses	6,230		(564)	(1)	5,665
Operating costs and expenses	1,734	(7)	(120)	(218)	1,389
Amortization of deferred policy acquisition costs	1,178		(21)	-	1,157
Dividends to policyholders	N/A	7	(2)	-	5
<b>Total combined ratio</b>					<b>97.8%</b>

For the three months ended September 30, 2015					\$ Millions
Combined ratio components:	Statement of income	Presentation reclass <sup>1</sup>	Less: Life insurance <sup>2</sup>	Less: Non-underwriting expenses and other adjustments <sup>3</sup>	Combined Ratio
Premiums earned	\$8,521		(\$422)	\$ -	\$8,099
Benefits, claims and claim adjustment expenses	5,678		(470)	(1)	5,207
Operating costs and expenses	1,815	(6)	(106)	(326)	1,377
Amortization of deferred policy acquisition costs	1,176		(24)	-	1,152
Dividends to policyholders	N/A	6	(2)	1	5
<b>Total combined ratio</b>					<b>95.6%</b>

<sup>1</sup> Dividends to policyholders

<sup>2</sup> Life and annuity business excluded from P&C combined ratio

<sup>3</sup> Includes adjustments for non-underwriting expenses primarily related to the Company's energy production and service operations, fee income, and installment charges

# Reconciliation of Statement of Income to Combined Ratio

For the nine months ended September 30, 2016					\$ Millions
Combined ratio components:	Statement of income	Presentation reclass <sup>1</sup>	Less: Life insurance <sup>2</sup>	Less: Non-underwriting expenses and other adjustments <sup>3</sup>	Combined Ratio
Premiums earned	\$25,970		(\$1,413)	\$ -	\$24,557
Benefits, claims and claim adjustment expenses	18,169		(1,525)	(6)	16,638
Operating costs and expenses	5,086	(14)	(354)	(769)	3,949
Amortization of deferred policy acquisition costs	3,661		(63)	(1)	3,597
Dividends to policyholders	N/A	14	(5)	-	9
<b>Total combined ratio</b>					<b>98.5%</b>

For the nine months ended September 30, 2015					\$ Millions
Combined ratio components:	Statement of income	Presentation reclass <sup>1</sup>	Less: Life insurance <sup>2</sup>	Less: Non-underwriting expenses and other adjustments <sup>3</sup>	Combined Ratio
Premiums earned	\$25,340		(\$1,318)	\$ -	24,022
Benefits, claims and claim adjustment expenses	17,574		(1,404)	(7)	16,163
Operating costs and expenses	5,245	(18)	(326)	(871)	4,030
Amortization of deferred policy acquisition costs	3,499		(60)	-	3,439
Dividends to policyholders	N/A	18	(5)	-	13
<b>Total combined ratio</b>					<b>98.4%</b>

<sup>1</sup> Dividends to policyholders

<sup>2</sup> Life and annuity business excluded from P&C combined ratio

<sup>3</sup> Includes adjustments for non-underwriting expenses primarily related to the Company's energy production and service operations, fee income, and installment charges

## Q3 2016 Significant Events:

- ❖ Effective September 30, 2016, the definition of a catastrophe changed to be a natural catastrophe or terror event exceeding \$25 million in estimated ultimate losses, net of reinsurance, and before taxes. All prior periods have been adjusted to reflect this change.
- ❖ On September 30, 2016, the Company completed the sale of substantially all the assets and liabilities of its Polish operation resulting in an immaterial gain. Liberty Ubezpieczenia had approximately \$90 million of net written premium in 2015. The results of the Polish operation are presented in the Corporate and Other section and are no longer reported in International Consumer Markets. All prior periods have been adjusted to reflect this change.
- ❖ On September 6, 2016, the Company determined to hold for sale and actively market its 10 St. James and 75 Arlington properties. A gain is expected on the transaction.
- ❖ On August 16, 2016, the Company entered into an agreement to sell a 51% interest of its Chinese operations to Sanpower Group. The transaction is subject to regulatory approval.

Please refer to Management's Discussion & Analysis (MD&A) of Financial Condition and Results of Operations for further detail.

# 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 73<sup>rd</sup> 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 assets<sup>1</sup>, \$102.424 billion in consolidated liabilities<sup>1</sup>, 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](http://www.libertymutualgroup.com/investors).

<sup>1</sup> Reflects the 2016 adoption of the Financial Accounting Standards Board issued Accounting Standards Update 2015-03, *Imputation of Interest* (ASC 835).

## Additional Notes

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 website at <http://www.libertymutualgroup.com/investors>.

The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted. Further, the Company notes that it may make material information regarding the Company available to the public, from time to time, via the Company's Investor Relations website at <http://www.libertymutualgroup.com/investors> (or any successor site).

The Company's annual audited financial statements and the Report of Independent Registered Public Accounting Firm on the Effectiveness of Internal Control Over Financial Reporting are also published on the Company's Investor Relations website at <http://www.libertymutualgroup.com/investors>.



**Liberty Mutual<sup>®</sup>**

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**INSURANCE**