

Liberty Mutual Insurance Reports First Quarter 2020 Results

BOSTON, Mass., May 14, 2020 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively “LMHC” or the “Company”) reported net income attributable to LMHC of \$519 million for the three months ended March 31, 2020, a decrease of \$150 million from the same period in 2019.

“The global COVID-19 pandemic has caused an unprecedented impact on our society, changing life as we know it,” said David H. Long, Liberty Mutual Chairman and Chief Executive Officer. “We are grateful for the contributions of essential workers and extend our deepest sympathies to all those impacted. During these uncertain times, we are proud to offer our full support to our customers and distribution partners through initiatives such as our personal auto and small commercial premium refunds, as well as flexible payment options. I also wanted to thank our Liberty Mutual employees for their resilience and ability to support our customers and each other.

“For the first quarter, we report net income of \$519 million, down from \$669 million in the prior year quarter. Operational results across both GRM and GRS were strong with net written premium growth of 3.5% and a combined ratio of 96.3%. Our investment portfolio was impacted by the market volatility surrounding COVID-19 as we recognized losses of \$247 million from a decline in market value in public equities. Our balance sheet was further impacted by unrealized investment losses of \$576 million from the fixed income portfolio, which contributed to a 2% decline in equity. Despite the challenges and uncertainties posed by COVID-19, we are confident in our ability to withstand this crisis and to continue to support our customers when they need us most.

“With respect to the potential financial exposure from COVID-19, you can find added disclosure on our investment portfolio in our earnings presentation. The overall investment portfolio was relatively well positioned as we entered the pandemic with a very high quality fixed income portfolio and de-risked equity positioning. This has enabled us to selectively take advantage of the opportunities, both defense and offense, offered by market dislocations. On the insurance side, the situation is still evolving and did not materially impact our results through the first quarter. Looking ahead we expect the insurance impact to be similar to what we have experienced for a moderately sized catastrophe loss. The lines of business we expect to be the most exposed to losses related to the pandemic include trade credit, general liability, workers compensation, and event cancellation, among others. With respect to business interruption, we do not expect to have material losses based on the contractual language in our policies.”

First Quarter Highlights

- Net written premium (“NWP”) for the three months ended March 31, 2020 was \$10.039 billion, an increase of \$340 million or 3.5% over the same period in 2019.
- Pre-tax operating income before partnerships, limited liability companies (“LLC”) and other equity method income for the three months ended March 31, 2020 was \$705 million, an increase of \$45 million or 6.8% over the same period in 2019.
- Partnerships, LLC and other equity method income for the three months ended March 31, 2020 was \$100 million, an increase of \$17 million or 20.5% over the same period in 2019.
- Net realized (losses) gains for the three months ended March 31, 2020 were (\$247) million versus \$250 million for the same period in 2019.
- Unit linked life insurance for the three months ended March 31, 2020 was \$114 million versus (\$61) million for the same period in 2019.
- Ironshore Inc. (“Ironshore”) acquisition and integration costs for the three months ended March 31, 2020 were \$4 million, a decrease of \$2 million or 33.3% from the same period in 2019.
- Restructuring costs for the three months ended March 31, 2020 were \$2 million, no change from the same period in 2019.

- Consolidated net income for the three months ended March 31, 2020 was \$519 million, a decrease of \$150 million or 22.4% from the same period in 2019.
- Net income attributable to non-controlling interest for the three months ended March 31, 2020 was zero, no change from the same period in 2019.
- Net income attributable to LMHC for the three months ended March 31, 2020 was \$519 million, a decrease of \$150 million or 22.4% from the same period in 2019.
- Net income attributable to LMHC excluding unrealized impact¹ for the three months ended March 31, 2020 was \$803 million, an increase of \$338 million or 72.7% over the same period in 2019.
- Cash flow provided by continuing operations for the three months ended March 31, 2020 was \$419 million, an increase of \$184 million or 78.3% over the same period in 2019.
- The consolidated combined ratio before catastrophes² and net incurred losses attributable to prior years³ for the three months ended March 31, 2020 was 92.8%, a decrease of 0.1 points from the same period in 2019. Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio⁴ for the three months ended March 31, 2020 was 96.3%, no change from the same period in 2019.

Financial Condition as of March 31, 2020

- Total debt excluding unamortized discount and debt issuance costs was \$8.627 billion as of March 31, 2020, a decrease of \$44 million or 0.5% from December 31, 2019.
- Total equity was \$23.122 billion as of March 31, 2020, a decrease of \$497 million or 2.1% from December 31, 2019.

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

2 Catastrophes are defined as a natural catastrophe or terror event exceeding \$25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

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

4 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.

Subsequent Events

On May 7, 2020, Liberty Mutual Group Inc. (“LMGI”) issued \$500 million of Senior Notes due 2060 (the “2060 Notes”). Interest is payable semi-annually at a fixed rate of 3.950%. The 2060 Notes mature on May 15, 2060.

On May 7, 2020, LMGI exchanged \$246 million par value of the 2060 Notes (the “2020 Exchange Offer”) for \$20 million of its 6.500% Senior Notes due 2042, \$28 million of its 7.000% Senior Notes due 2034, \$30 million of its 6.500% Senior Notes due 2035, \$50 million of its 4.850% Senior Notes due 2044, and \$118 million of its 4.500% Senior Notes due 2049 (all such series of Senior Notes subject to the exchange offer, the “Target Notes”). LMGI paid an aggregate of \$62 million cash consideration, including accrued and unpaid interest, for the Target Notes accepted for exchange.

Concurrently with such exchange offer, LMGI completed a tender offer for the Target Notes with investors not eligible to participate in the 2020 Exchange Offer for an aggregate cash consideration of \$2 million, including accrued and unpaid interest, for the tender of \$1 million of its 6.500% Senior Notes due 2035 and a nominal amount of its 6.500% Senior Notes due 2042.

Management has assessed material subsequent events through May 14, 2020, the date the financial statements were available to be issued.

Consolidated Results of Operations

\$ in Millions	Three Months Ended March 31,		
	2020	Revised 2019 ⁶	Change
Revenues	\$10,457	\$10,667	(2.0%)
PTOI before catastrophes, net incurred losses attributable to prior years and partnerships, LLC and other equity method income	\$1,024	\$978	4.7
Catastrophes ¹	(306)	(279)	9.7
Net incurred losses attributable to prior years:			
- Asbestos and environmental ²	-	(3)	(100.0)
- All other ³	(13)	(36)	(63.9)
Pre-tax operating income before partnerships, LLC and other equity method income	705	660	6.8
Partnerships, LLC and other equity method income ⁴	100	83	20.5
Pre-tax operating income	805	743	8.3
Net realized (losses) gains	(247)	250	NM
Unit linked life insurance	114	(61)	NM
Ironshore acquisition & integration costs	(4)	(6)	(33.3)
Restructuring costs	(2)	(2)	-
Pre-tax income	666	924	(27.9)
Income tax expense	147	205	(28.3)
Consolidated net income from continuing operations	519	719	(27.8)
Discontinued operations, net of tax	-	(50)	(100.0)
Consolidated net income	519	669	(22.4)
Less: Net income attributable to non-controlling interest	-	-	-
Net income attributable to LMHC	519	669	(22.4)
Net income attributable to LMHC excluding unrealized impact ⁵	\$803	\$465	72.7
Cash flow provided by continuing operations	\$419	\$235	78.3%

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.")

3 Net of earned premium and reinstatement premium attributable to prior years of \$8 million for the three months ended March 31, 2020, and zero for the same period in 2019.

4 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.

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

6 2019 amounts were restated due to a pension accounting policy change, which is described further in Critical Accounting Estimates in the accompanying Q1 2020 MD&A.

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 months ended March 31, 2020 are available on the Company's Investor Relations website at www.libertymutualgroup.com/investors.

About Liberty Mutual Insurance

At Liberty Mutual, we believe progress happens when people feel secure. By providing protection for the unexpected and delivering it with care, we help people embrace today and confidently pursue tomorrow.

In business since 1912, and headquartered in Boston, today we are the sixth largest global property and casualty insurer based on 2019 gross written premium. We also rank 75th on the Fortune 100 list of largest corporations in the U.S. based on 2018 revenue. As of December 31, 2019, we had \$43.2 billion in annual consolidated revenue.

We employ over 45,000 people in 29 countries and economies around the world. We offer a wide range of insurance products and services, including personal automobile, homeowners, specialty lines, reinsurance, commercial multiple-peril, workers compensation, commercial automobile, general liability, surety, and commercial property. For more information, visit www.libertymutualinsurance.com.

Risks and Uncertainties

The extent to which the coronavirus impacts our future results will depend on developments which are highly uncertain and cannot be predicted, including litigation developments, legislative or regulatory actions and intervention, the length and severity of the coronavirus (including of second waves) and the actions of government actors to contain the coronavirus or treat its impact, among others. Possible effects on our business and operations include:

- disruptions to business operations resulting from working from home or from closures of our corporate or sales offices and the offices of our agents and brokers and quarantines of employees, customers, agents, brokers and suppliers in areas affected by the outbreak;
- disruptions to business operations resulting from travel restrictions and reduced consumer spending on new homes or new automobiles which could reduce demand for insurance;
- disruptions to business operations resulting from our customers having lower payrolls and revenues which could have an impact on insurance revenue;
- increased claims related to trade credit, general liability, workers compensation, and event cancellation coverage, among others;
- executive or legislative mandates or court decisions expanding property insurance policy coverage to cover business interruptions resulting from COVID-19 notwithstanding any exclusions set forth in such policies or conditions precedent generally required for liability under such policies; and
- disruption of the financial markets resulting in reductions in the value of our investment portfolio.

A significant rise in the number of COVID-19 infections, infections in a wide range of countries and regions, or a prolongation of the outbreak, could create an adverse economic effect on the Company.

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 the Company. Forward looking statements include, but are not limited to, statements that represent the Company's beliefs concerning future operations, strategies, financial results, investment market fluctuations, 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.

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