Liberty Mutual Insurance Reports Second Quarter 2018 Results

BOSTON, Mass., August 9, 2018 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") reported net income attributable to LMHC of $981 million and $1.629 billion for the three and six months ended June 30, 2018, increases of $855 million and $1.152 billion over the same periods in 2017. Including $1 million and zero of net loss attributable to non-controlling interest, consolidated net income for the three and six months ended June 30, 2018 was $980 million and $1.629 billion, respectively.

"Building on the progress made in the first quarter, net income attributable to Liberty Mutual Holding Company increased to $981 million for the second quarter of 2018," said David H. Long, Liberty Mutual Chairman and Chief Executive Officer.

"The combined ratio in the quarter was 97.9% as global catastrophes returned to historical levels and core underwriting results improved across many business segments. Favorable partnership, LLC and other equity method investment valuations and an after-tax gain of $464 million related to the sale of Liberty Life Assurance of Boston added to profitability. Growth was robust at 7%."

Second Quarter Highlights

- Net written premium ("NWP") for the three months ended June 30, 2018 was $10.071 billion, an increase of $685 million or 7.3% over the same period in 2017.
- Pre-tax operating income ("PTOI") before partnerships, limited liability companies ("LLC") and other equity method income for the three months ended June 30, 2018 was $471 million, an increase of $452 million over the same period in 2017.
- Partnerships, LLC and other equity method income for the three months ended June 30, 2018 was $291 million, an increase of $185 million or 174.5% over the same period in 2017.
- Net realized (losses) gains for the three months ended June 30, 2018 were ($59) million versus $18 million for the same period in 2017.
- Ironshore Inc. ("Ironshore") acquisition and integration costs for the three months ended June 30, 2018 were $10 million, a decrease of $16 million or 61.5% from the same period in 2017.
- Restructuring costs for the three months ended June 30, 2018 were $28 million versus zero for the same period in 2017.
- Loss on extinguishment of debt for the three months ended June 30, 2018 was $3 million versus zero for the same period in 2017.
- Discontinued operations, net of tax, for the three months ended June 30, 2018 were $471 million, an increase of $419 million over the same period in 2017.
- Consolidated net income for the three months ended June 30, 2018 was $980 million, an increase of $853 million over the same period in 2017.
- Net loss attributable to non-controlling interest for the three months ended June 30, 2018 was $1 million versus net income attributable to non-controlling interest of $1 million for the same period in 2017.
- Net income attributable to LMHC for the three months ended June 30, 2018 was $981 million, an increase of $855 million over the same period in 2017.
- Cash flow provided by continuing operations for the three months ended June 30, 2018 was $1.120 billion, an increase of $136 million or 13.8% 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 June 30, 2018 was 92.3%, a decrease of 1.3 points from 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 June 30, 2018 was 97.9%, a decrease of 4.9 points from the same period in 2017.

Year-to-date Highlights

- NWP for the six months ended June 30, 2018 was $19.505 billion, an increase of $1.431 billion or 7.9% over the same period in 2017.

- PTOI before partnerships, LLC and other equity method income for the six months ended June 30, 2018 was $864 million, an increase of $744 million over the same period in 2017.

- Partnerships, LLC and other equity method income for the six months ended June 30, 2018 was $507 million, an increase of $241 million or 90.6% over the same period in 2017.

- Net realized gains for the six months ended June 30, 2018 were $96 million, a decrease of $73 million or 43.2% from the same period in 2017.

- Ironshore acquisition and integration costs for the six months ended June 30, 2018 were $24 million, a decrease of $12 million or 33.3% from the same period in 2017.

- Restructuring costs for the six months ended June 30, 2018 were $31 million versus zero for the same period in 2017.

- Loss on extinguishment of debt for the six months ended June 30, 2018 was $3 million, an increase of $2 million over the same period in 2017.

- Discontinued operations, net of tax, for the six months ended June 30, 2018 were $530 million, an increase of $421 million over the same period in 2017.

- Consolidated net income for the six months ended June 30, 2018 was $1.629 billion, an increase of $1.151 billion over the same period in 2017.

- Net income attributable to non-controlling interest for the six months ended June 30, 2018 was zero versus $1 million for the same period in 2017.

- Net income attributable to LMHC for the six months ended June 30, 2018 was $1.629 billion, an increase of $1.152 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 three months ended March 31, 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 six months ended June 30, 2018 was $1.156 billion, an increase of $425 million or 58.1% over the same period in 2017.

- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2018 was 93.7%, a decrease of 0.4 points from the same period in 2017. Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the six months ended June 30, 2018 was 98.5%, a decrease of 3.9 points from the same period in 2017.

Financial Condition as of June 30, 2018

- Total debt was $8.271 billion as of June 30, 2018, a decrease of $54 million or 0.6% from December 31, 2017.

- Total equity was $20.880 billion as of June 30, 2018, an increase of $192 million or 0.9% over December 31, 2017.

Subsequent Events

Management has assessed material subsequent events through August 9, 2018, the date the financial statements were available to be issued.

Consolidated Results of Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**
Revenues	$10,314	$9,553	8.0%	$20,604	$18,814	9.5%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method income	$1,011	$828	22.1%	$1,744	$1,514	15.2%
Catastrophes[1]	(513)	(716)	(28.4)	(865)	(1,355)	(36.2)
Net incurred losses attributable to prior years:						
- Asbestos and environmental[2]	(3)	(5)	(40.0)	(13)	(9)	44.4
- All other[2,3]	(24)	(40)	(40.0)	(2)	(30)	(93.3)
Current accident year re-estimation[4]	-	(48)	(100.0)	-	-	-
Pre-tax operating income before partnerships, LLC and other equity method income	471	19	NM	864	120	NM
Partnerships, LLC and other equity method income[5]	291	106	174.5	507	266	90.6
Pre-tax operating income	762	125	NM	1,371	386	NM
Net realized (losses) gains	(59)	18	NM	96	169	(43.2)
Ironshore acquisition & integration costs	(10)	(26)	(61.5)	(24)	(36)	(33.3)
Restructuring costs	(28)	-	NM	(31)	-	NM
Loss on extinguishment of debt	(3)	-	NM	(3)	(1)	NM
Pre-tax income	662	117	NM	1,409	518	172.0
Income tax expense	153	42	NM	310	149	108.1
Consolidated net income from continuing operations	509	75	NM	1,099	369	197.8
Discontinued operations, net of tax	471	52	NM	530	109	NM
Consolidated net income	980	127	NM	1,629	478	NM
Less: Net (loss) income attributable to non-controlling interest	(1)	1	NM	-	1	(100.0)
Net income attributable to LMHC	$981	$126	NM	$1,629	$477	NM
Cash flow provided by continuing operations before pension contributions	$1,120	$985	13.7%	$1,156	$1,133	2.0%
Pension contributions	-	(1)	(100.0)	-	(402)	(100.0)
Cash flow provided by continuing operations	$1,120	$984	13.8%	$1,156	$731	58.1%

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 $3 million and $5 million for the three and six months ended June 30, 2018, and ($13) million and ($10) million for the same periods in 2017.

4 Re-estimation of the current accident year loss reserves for the three months ended March 31, 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 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 six months ended June 30, 2018 are available on the Company's Investor Relations web site at www.libertymutualgroup.com/investors.

Conference Call Information: On August 9, 2018, at 11:00 a.m. Eastern Time, David Long, Liberty Mutual Insurance Chairman and CEO, will host a conference call to discuss the Company's second quarter financial results. To participate in the event via telephone and to ask a question, please dial 888-312-3049, referencing the Confirmation Code 5093782. You can view the slides at https://attglobal.webcasts.com/starthere.jsp?ei=1202268&tp_key=7eb93495de. 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=1202268&tp_key=7eb93495de. 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, 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 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 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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