Liberty Mutual Insurance Reports Second Quarter 2013 Results

BOSTON, Mass., August 6, 2013 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") today reported net income of $448 million and $766 million for the three and six months ended June 30, 2013, increases of $309 million and $168 million over the same periods in 2012.

"Underwriting results continue to improve through the first six months, as evidenced by a decrease of 3.5 points in combined ratio to 99.9%," said David H. Long, Liberty Mutual Insurance Chairman and CEO. "The improvement highlights our commitment to disciplined underwriting and profitable growth, a strategy that we intend to continue.

"For the quarter, net income year over year increased by $309 million to $448 million, while net written premium grew almost 7%."

Second Quarter Highlights

- Revenues for the three months ended June 30, 2013 were $9.824 billion, an increase of $667 million or 7.3% over the same period in 2012.
- Net written premium ("NWP") for the three months ended June 30, 2013 was $8.893 billion, an increase of $558 million or 6.7% over the same period in 2012.
- Pre-tax operating income ("PTOI") before LP and LLC income for the three months ended June 30, 2013 was $374 million, an increase of $326 million over the same period in 2012.
- PTOI for the three months ended June 30, 2013 was $594 million, an increase of $455 million over the same period in 2012.
- Loss on extinguishment of debt for the three months ended June 30, 2013 was $39 million, a decrease of $109 million or 73.6% from the same period in 2012. Sixty-six million dollars of debt with a 10.75% coupon was repurchased in the quarter, and $600 million of senior debt was issued with a coupon of 4.25%. Twenty-five million dollars of 7.860% Medium Term Notes matured on May 31, 2013.
- Net income attributable to LMHC for the three months ended June 30, 2013 was $448 million, an increase of $309 million over the same period in 2012.
- Cash flow from operations for the three months ended June 30, 2013 was $1.156 billion, an increase of $582 million or 101.4% over the same period in 2012.
- 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, 2013 was 94.8%, a decrease of 2.7 points from the same period in 2012. 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 June 30, 2013 decreased 4.3 points to 101.5%.

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[1]Catastrophes include all current accident year catastrophe losses excluding losses related to Syndicate 4472 and LMR except for the 2013 Oklahoma and Texas tornados and 2012 tornados and other severe storms in the U.S. 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 natural catastrophes and prior year catastrophe reinstatement premium) including both earned premium attributable to prior years and amortization of retroactive reinsurance gains.

[3]Re-estimation of current accident year loss reserves for the three months ended March 31, 2013 and March 31, 2012.

Year-to-Date Highlights

- Revenues for the six months ended June 30, 2013 were $18.969 billion, an increase of $931 million or 5.2% over the same period in 2012.
- NWP for the six months ended June 30, 2013 was $17.486 billion, an increase of $1.073 billion or 6.5% over the same period in 2012.
- PTOI before LP and LLC income for the six months ended June 30, 2013 was $982 million, an increase of $478 million or 94.8 % over the same period in 2012.
- PTOI for the six months ended June 30, 2013 was $1.250 billion, an increase of $534 million or 74.6% over the same period in 2012.
- Loss on extinguishment of debt for the six months ended June 30, 2013 was $60 million, a decrease of $103 million or 63.2% from the same period in 2012. One hundred and four million dollars of debt with a 10.75% coupon was repurchased year-to-date, and $600 million of senior debt was issued with a coupon of 4.25%. Twenty-five million dollars of 7.860% Medium Term Notes matured on May 31, 2013.
- Net income attributable to LMHC for the six months ended June 30, 2013 was $766 million, an increase of $168 million or 28.1% over the same period in 2012.
- Cash flow from operations for the six months ended June 30, 2013 was $1.571 billion, an increase of $346 million or 28.2% over the same period in 2012.
- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2013 was 95.1%, a decrease of 1.7 points from the same period in 2012. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the six months ended June 30, 2013 decreased 3.5 points to 99.9%.

Financial Condition as of June 30, 2013

- Total assets were $121.248 billion as of June 30, 2013, an increase of $1.188 billion over December 31, 2012.
- Total equity was $17.825 billion as of June 30, 2013, a decrease of $700 million from December 31, 2012.

Consolidated Results of Operations for the Three and Six Months Ended June 30, 2013 and 2012:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Revenues	$9,824	$9,157	7.3%	$18,969	$18,038	5.2%
PTOI before catastrophes, net incurred losses attributable to prior years, Venezuela devaluation, current accident year re-estimation and LP and LLC income	$834	$668	24.9%	$1,628	$1,448	12.4%
Catastrophes[1]	(617)	(702)	(12.1)	(824)	(1,059)	(22.2)
Net incurred losses attributable to prior years:						
- Asbestos & environmental	(3)	(3)	-	(4)	(5)	(20.0)
- All other[2]	89	98	(9.2)	64	120	(46.7)
Venezuela devaluation	71	-	NM	118	-	NM
Current accident year re-estimation[3]	-	(13)	(100.0)	-	-	-
PTOI before LP and LLC income	374	48	NM	982	504	94.8
LP and LLC income[4]	220	91	141.8	268	212	26.4
PTOI	594	139	NM	1,250	716	74.6
Net realized gains (losses)	63	172	(63.4)	(134)	221	NM
SBU realignment expenses	(2)	-	NM	(3)	-	NM
Loss on extinguishment of debt	(39)	(148)	(73.6)	(60)	(163)	(63.2)
Pre-tax income	616	163	NM	1,053	774	36.0
Income tax expense	169	28	NM	296	183	61.7
Consolidated net income	447	135	NM	757	591	28.1
Less: Net loss attributable to non-controlling interest	(1)	(4)	(75.0)	(9)	(7)	28.6
Net income attributable to LMHC	$448	$139	NM	$766	$598	28.1%
Cash flow from operations	$1,156	$574	101.4%	$1,571	$1,225	28.2%

1 Catastrophes include all current accident year catastrophe losses excluding losses related to Syndicate 4472 and LMR except for the 2013 Oklahoma and Texas tornados and 2012 tornados and other severe storms in the U.S. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Net of earned premium and reinstatement premium attributable to prior years of $104 million and $110 million for the three and six months ended June 30, 2013 and $19 million and $33 million for the same periods in 2012. Net of amortization of deferred gains on retroactive reinsurance of $10 million and $20 million for the three and six months ended June 30, 2013 and $10 million and $21 million for the same periods in 2012.

3 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2013 and March 31, 2012.

4 LP and LLC income is included in net investment income in the accompanying consolidated statements of income.

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 and six months ended June 30, 2013 are available on the Company's Investor Relations web site at www.libertymutual.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 2012 direct written premium. The Company also ranks 81st on the Fortune 100 list of largest corporations in the U.S. based on 2012 revenue. As of December 31, 2012, LMHC had $120.060 billion in consolidated assets, $101.535 billion in consolidated liabilities, and $36.944 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 strategic business units, 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 approximately 900 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.libertymutual.com/investors.

Cautionary Statement Regarding Forward Looking Statements

This press release 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, tornadoes, 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 and LLCs; 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; terrorist acts; 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.libertymutual.com/investors. The Company undertakes no obligation to update these forward looking statements.

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