Liberty Mutual Insurance Reports First Quarter 2019 Results

BOSTON, Mass., May 9, 2019 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") reported net income attributable to LMHC of $671 million for the three months ended March 31, 2019, an increase of $23 million over the same period in 2018.

"Consolidated net income from continuing operations was $721 million, up 22% over the prior year," said David H. Long, Liberty Mutual Chairman and Chief Executive Officer. "The earnings increase was driven by improved underwriting margins as reflected in a 2.7 point decrease in the combined ratio to 96.3%, and the benefit of unrealized gains related to equity securities. Written premium increased 2.8% primarily produced by strong performance in specialty insurance.

"We also announced two transactions aimed at optimizing our insurance portfolio. The first, an agreement to purchase the global surety and credit reinsurance operations of AmTrust, solidifies our market leading position in surety. The second, the sale of Pembroke syndicate and Ironshore Europe business, eliminates duplicate efforts and thereby streamlines our global specialty business."

First Quarter Highlights

- Net written premium ("NWP") for the three months ended March 31, 2019 was $9.699 billion, an increase of $265 million or 2.8% over the same period in 2018.
- Pre-tax operating income ("PTOI") before partnerships, limited liability companies ("LLC") and other equity method income for the three months ended March 31, 2019 was $662 million, an increase of $269 million or 68.4% over the same period in 2018.
- Partnerships, LLC and other equity method income for the three months ended March 31, 2019 was $83 million, a decrease of $133 million or 61.6% from the same period in 2018.
- Net realized gains for the three months ended March 31, 2019 were $250 million, an increase of $95 million or 61.3% over the same period in 2018.
- Unit linked life insurance for the three months ended March 31, 2019 was ($61) million versus zero for the same period in 2018.
- Ironshore Inc. ("Ironshore") acquisition and integration costs for the three months ended March 31, 2019 were $6 million, a decrease of $8 million or 57.1% from the same period in 2018.
- Restructuring costs for the three months ended March 31, 2019 were $2 million, a decrease of $1 million or 33.3% from the same period in 2018.
- Discontinued operations, net of tax, for the three months ended March 31, 2019 were ($50) million versus $59 million for the same period in 2018.
- Consolidated net income for the three months ended March 31, 2019 was $671 million, an increase of $22 million or 3.4% over the same period in 2018.
- Net income attributable to non-controlling interest for the three months ended March 31, 2019 was zero versus $1 million for the same period in 2018.
- Net income attributable to LMHC for the three months ended March 31, 2019 was $671 million, an increase of $23 million or 3.5% over the same period in 2018.

- Net income attributable to LMHC excluding unrealized impact[1] for the three months ended March 31, 2019 was $467 million, a decrease of $181 million or 27.9% from the same period in 2018.

- Cash flow provided by continuing operations for the three months ended March 31, 2019 was $235 million, an increase of $199 million over the same period in 2018.

- The consolidated combined ratio before catastrophes[2] and net incurred losses attributable to prior years[3] for the three months ended March 31, 2019 was 92.9%, a decrease of 2.3 points from the same period in 2018. Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio[4] for the three months ended March 31, 2019 was 96.3%, a decrease of 2.7 points from the same period in 2018.

Financial Condition as of March 31, 2019

- Total debt was $8.178 billion as of March 31, 2019, a decrease of $55 million or 0.7% from December 31, 2018.

- Total equity was $22.442 billion as of March 31, 2019, an increase of $1.680 billion or 8.1% over December 31, 2018.

Subsequent Events

The Company intends to issue a new hybrid security, redeem the Junior Subordinated notes due 2067, and complete a tender offer for the Junior Subordinated notes due 2087 to be financed by cash along with a potential senior note issuance, which if completed are expected to close during the second quarter.

On April 15, 2019, the Company announced it has agreed to acquire the global surety and credit reinsurance operations of AmTrust Financial Services, including AmTrust Surety, AmTrust Insurance Spain, Nationale Borg and Nationale Borg Reinsurance. The transaction is subject to regulatory approval and customary closing conditions.

Management has assessed material subsequent events through May 9, 2019, the date the financial statements were available to be issued.

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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.

Consolidated Results of Operations

	Three Months Ended March 31,		
$ in Millions	**2019**	**2018**	**Change**
Revenues	$10,667	$10,290	3.7%
PTOI before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income	$980	$739	32.6%
Catastrophes[1]	(279)	(352)	(20.7)
Net incurred losses attributable to prior years:			
- Asbestos and environmental[2]	(3)	(10)	(70.0)
- All other[2,3]	(36)	16	NM
PTOI before partnerships, LLC and other equity method income	662	393	68.4
Partnerships, LLC and other equity method income[4]	83	216	(61.6)
PTOI	745	609	22.3
Net realized gains	250	155	61.3
Unit linked life insurance	(61)	-	NM
Ironshore acquisition & integration costs	(6)	(14)	(57.1)
Restructuring costs	(2)	(3)	(33.3)
Pre-tax income	926	747	24.0
Income tax expense	205	157	30.6
Consolidated net income from continuing operations	721	590	22.2
Discontinued operations, net of tax	(50)	59	NM
Consolidated net income	671	649	3.4
Less: Net income attributable to non-controlling interest	-	1	(100.0)
Net income attributable to LMHC	$671	$648	3.5%
Net income attributable to LMHC excluding unrealized impact[5]	$467	$648	(27.9%)
Cash flow provided by continuing operations	$235	$36	NM

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 zero and $2 million for the three months ended March 31, 2019 and 2018, respectively.

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.

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, 2019 are available on the Company's Investor Relations website 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 third largest property and casualty insurer in the U.S. based on 2018 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, 2018, LMHC had $125.989 billion in consolidated assets, $105.227 billion in consolidated liabilities, and $41.568 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 direct investments in natural resources; 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.

The United Kingdom's withdrawal from the European Union could have a negative impact on economic conditions in the United Kingdom and could result in unintended consequences in other countries as well. The Company acknowledges that there are risks and uncertainties associated with the United Kingdom's withdrawal from the European Union and has developed a course of action if the impending withdrawal is upheld in the fourth quarter of 2019.

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