Liberty Mutual Group Reports Third Quarter 2011 Results

BOSTON, Mass., November 4, 2011 – Liberty Mutual Group ("LMG" or the "Company") today reported a net loss of $111 million and net income of $81 million for the three and nine months ended September 30, 2011, versus net income of $567 million and $1.1 billion in the same periods in 2010.

"Severe weather and an increase in our asbestos-related reserves overshadowed strong and improving core performance and resulted in a loss for the quarter," remarked David H. Long, President and CEO of Liberty Mutual Group. "Our domestic personal lines operations grew at a faster rate than the industry with solid core profitability; our international companies grew at a double digit rate with improved profitability; and our domestic commercial lines businesses achieved price increases higher than the prior quarter. We remain committed to disciplined underwriting and will shed business where we cannot write a risk at an adequate return."

Third Quarter Highlights

- Revenues for the three months ended September 30, 2011 were $8.767 billion, an increase of $380 million or 4.5% over the same period in 2010.
- Net written premium for the three months ended September 30, 2011 was $8.155 billion, an increase of $435 million or 5.6% over the same period in 2010.
- Pre-tax operating loss before private equity income for the three months ended September 30, 2011 was $341 million versus $513 million of pre-tax operating income before private equity income in the same period in 2010.
- Pre-tax operating loss for the three months ended September 30, 2011 was $203 million versus $658 million of pre-tax operating income in the same period in 2010.
- Net loss for the three months ended September 30, 2011 was $111 million versus $567 million of net income in the same period in 2010.
- Cash flows from operations for the three months ended September 30, 2011 were $572 million, a decrease of $137 million or 19.3% from the same period in 2010.
- The consolidated combined ratio before catastrophes[1] , net incurred losses attributable to prior years[2] and current accident year re-estimation for the three months ended September 30, 2011 was 97.9%, no change from the same period in 2010. 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 September 30, 2011 increased 11.4 points to 110.5%.

Year-to-Date Highlights

- Revenues for the nine months ended September 30, 2011 were $25.708 billion, an increase of $1.065 billion or 4.3% over the same period in 2010.
- Net written premium for the nine months ended September 30, 2011 was $23.461 billion, an increase of $1.249 billion or 5.6% over the same period in 2010.

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[1] Catastrophes include all current and prior year catastrophe losses excluding losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for the 2010 Chile and New Zealand earthquakes, 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene and the tornadoes 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 (excluding prior year losses related to natural catastrophes) including both earned premium attributable to prior years and amortization of retroactive reinsurance gains.

- Pre-tax operating loss before private equity income for the nine months ended September 30, 2011 was $494 million versus $1.000 billion of pre-tax operating income before private equity income in the same period in 2010.

- Pre-tax operating loss for the nine months ended September 30, 2011 was $18 million versus $1.234 billion of pre-tax operating income in the same period in 2010.

- Net income for the nine months ended September 30, 2011 was $81 million, a decrease of $1.021 billion or 92.6% from the same period in 2010.

- Cash flows from operations for the nine months ended September 30, 2011 were $1.480 billion, a decrease of $274 million or 15.6% from the same period in 2010.

- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2011 was 96.7%, a decrease of 0.9 points from the same period in 2010. Including the impact of catastrophes and net incurred losses attributable to prior years, the Company's combined ratio for the nine months ended September 30, 2011 increased 6.6 points to 108.6%.

Financial Condition as of September 30, 2011

- Total assets were $115.562 billion as of September 30, 2011, an increase of $3.212 billion over December 31, 2010.

- Policyholders' equity was $17.469 billion as of September 30, 2011, an increase of $491 million over December 31, 2010.

Consolidated Results of Operations for the Three and Nine Months Ended September 30, 2011:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2011**	**2010**	**Change**	**2011**	**2010**	**Change**
Revenues	$8,767	$8,387	4.5%	$25,708	$24,643	4.3 %
Pre-tax operating income before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation, private equity income and Venezuela devaluation	$570	$524	8.8%	$1,999	$1,687	18.5%
Catastrophes[1,2]	(596)	(133)	NM	(2,447)	(1,060)	130.8
Net incurred losses attributable to prior years:						
- Asbestos & environmental[3]	(339)	(2)	NM	(341)	(5)	NM
- All other[4]	72	88	(18.2)	295	175	68.6
Venezuela devaluation	-	66	(100.0)	-	203	(100.0)
Current accident year re-estimation[5]	(48)	(30)	60.0	-	-	-
Pre-tax operating (loss) income before private equity income	(341)	513	NM	(494)	1,000	NM
Private equity income[6]	138	145	(4.8)	476	234	103.4
Pre-tax operating (loss) income	(203)	658	NM	(18)	1,234	NM
Net realized gains	41	86	(52.3)	168	292	(42.5)
Loss on extinguishment of debt	(37)	-	NM	(77)	-	NM
Income tax benefit (expense)	88	(177)	NM	8	(424)	NM
Net (loss) income	($111)	$567	NM	$81	$1,102	(92.6%)
Cash flows from operations	$572	$709	(19.3%)	$1,480	$1,754	(15.6%)

1 Catastrophes include all current and prior year catastrophe losses excluding losses related to the Company's external reinsurance assumed lines (assumed voluntary reinsurance and reinsurance assumed through Lloyd's Syndicate 4472) except for the 2010 Chile and New Zealand earthquakes, 2011 Australia floods, Cyclone Yasi, Japan earthquake and tsunami, New Zealand earthquakes, Hurricane Irene and the tornadoes 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 Catastrophes reflect the catastrophe losses ceded under the homeowners quota share agreement.

3 Includes $295 million of strengthening of asbestos related reserves in connection with a ground-up reserve study.

4 Net of earned premium attributable to prior years of zero and $16 million for the three and nine months ended September 30, 2011 and ($8) million and ($103) million for the same periods in 2010. Net of amortization of deferred gains on retroactive reinsurance of $16 million and $129 million for the three and nine months ended September 30, 2011 and $18 million and $53 million for the same periods in 2010. 2011 reflects a gain on commutation of two retroactive reinsurance contracts during the first quarter.

5 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2011 and June 30, 2010.

6 Private equity income is included in net investment income in the consolidated statements of operations.

NM = Not Meaningful

Financial Information: Liberty Mutual Group'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, 2011 are available on the Company's Investor Relations web site at www.libertymutual.com/investors.

Conference Call Information: At 11:00 a.m. EDT today, David Long, Liberty Mutual Group President and CEO, will host a conference call to discuss the Company's financial results. To listen to the call and participate in the Q&A, please dial 800-857-2190, providing the pass code "Liberty" when prompted. A replay will be available until 5:00 p.m. on November 18, 2011 at 866-365-4158.

About Liberty Mutual Group

Boston-based Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Group of entities ("LMG" or the "Company"), is a diversified global insurer and third largest property and casualty insurer in the U.S. based on 2010 net written premium. The Company also ranks 82nd on the Fortune 100 list of largest corporations in the United States based on 2010 revenue. As of December 31, 2010, LMG had $112.350 billion in consolidated assets, $95.372 billion in consolidated liabilities, and $33.193 billion in annual consolidated revenue.

LMG, 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 Liberty Mutual Holding Company Inc.

Functionally, the Company conducts substantially all of its business through four strategic business units: Liberty Mutual Agency Corporation, International, Personal Markets and Commercial Markets. Each business unit operates independently of the others and has 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.

LMG employs more than 45,000 people in more than 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, 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 and limited liability companies; 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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