Liberty Mutual Insurance Reports Third Quarter 2019 Results

BOSTON, Mass., November 7, 2019 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively "LMHC" or the "Company") reported consolidated net income from continuing operations of $274 million and $1.394 billion for the three and nine months ended September 30, 2019 versus consolidated net income from continuing operations of $283 million and $1.382 billion for the same periods in 2018, respectively.

"Earnings for the quarter and year-to-date were in line with the prior year as we reported consolidated net income from continuing operations of $274 million and $1.4 billion, respectively," said David H. Long, Liberty Mutual Chairman and Chief Executive Officer. "The results reflect favorable investment performance offset by increased current accident year loss ratios from the elevated liability loss trends facing the industry. Regarding liability trends, we believe that the current level of rate increases are in excess of loss trends and, subsequent to the quarter, we entered into an adverse development cover to protect against potential future development across several casualty lines."

Third Quarter Highlights

- Net written premium ("NWP") for the three months ended September 30, 2019 was $10.325 billion, an increase of $136 million or 1.3% 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 September 30, 2019 was $125 million, a decrease of $187 million or 59.9% from the same period in 2018.

- Partnerships, LLC and other equity method income for the three months ended September 30, 2019 was $162 million, a decrease of $24 million or 12.9% from the same period in 2018.

- Net realized gains (losses) for the three months ended September 30, 2019 were $81 million versus ($104) million for the same period in 2018.

- Unit linked life insurance for the three months ended September 30, 2019 was ($12) million versus zero for the same period in 2018.

- Ironshore Inc. ("Ironshore") acquisition and integration costs for the three months ended September 30, 2019 were $4 million, a decrease of $3 million or 42.9% from the same period in 2018.

- Restructuring costs for the three months ended September 30, 2019 were $3 million, a decrease of $23 million or 88.5% from the same period in 2018.

- Loss on extinguishment of debt for the three months ended September 30, 2019 was zero versus $5 million for the same period in 2018.

- Consolidated net income for the three months ended September 30, 2019 was $274 million, a decrease of $9 million or 3.2% from the same period in 2018.

- Net income attributable to non-controlling interest for the three months ended September 30, 2019 was zero versus $1 million for the same period in 2018.

- Net income attributable to LMHC for the three months ended September 30, 2019 was $274 million, a decrease of $8 million or 2.8% from the same period in 2018.

- Net income attributable to LMHC excluding unrealized impact[1] for the three months ended September 30, 2019 was $291 million, an increase of $9 million or 3.2% over the same period in 2018.

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

- Cash flow provided by continuing operations for the three months ended September 30, 2019 was $1.494 billion, an increase of $238 million or 18.9% over the same period in 2018.

- The consolidated combined ratio before catastrophes[1], net incurred losses attributable to prior years[2] and current accident year re-estimation[4] for the three months ended September 30, 2019 was 95.6%, an increase of 0.9 points over the same period in 2018. Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the total combined ratio[5] for the three months ended September 30, 2019 was 102.5%, an increase of 3.0 points over the same period in 2018.

Year-to-date Highlights

- NWP for the nine months ended September 30, 2019 was $30.063 billion, an increase of $369 million or 1.2% over the same period in 2018.

- PTOI before partnerships, LLC and other equity method income for the nine months ended September 30, 2019 was $998 million, a decrease of $178 million or 15.1% from the same period in 2018.

- Partnerships, LLC and other equity method income for the nine months ended September 30, 2019 was $556 million, a decrease of $137 million or 19.8% from the same period in 2018.

- Net realized gains (losses) for the nine months ended September 30, 2019 were $393 million versus ($8) million for the same period in 2018.

- Unit linked life insurance for the nine months ended September 30, 2019 was ($89) million versus zero for the same period in 2018.

- Ironshore acquisition and integration costs for the nine months ended September 30, 2019 were $16 million, a decrease of $15 million or 48.4% from the same period in 2018.

- Restructuring costs for the nine months ended September 30, 2019 were $6 million, a decrease of $51 million or 89.5% from the same period in 2018.

- Loss on extinguishment of debt for the nine months ended September 30, 2019 was $49 million, an increase of $41 million over the same period in 2018.

- Discontinued operations, net of tax, for the nine months ended September 30, 2019 were ($50) million versus $530 million for the same period in 2018.

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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 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2019.

5 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 net income for the nine months ended September 30, 2019 was $1.344 billion, a decrease of $568 million or 29.7% from the same period in 2018. The decrease was primarily driven by the sale of Liberty Life Assurance Company of Boston in 2018.

- Net income attributable to non-controlling interest for the nine months ended September 30, 2019 was zero versus $1 million for the same period in 2018.

- Net income attributable to LMHC for the nine months ended September 30, 2019 was $1.344 billion, a decrease of $567 million or 29.7% from the same period in 2018.

- Net income attributable to LMHC excluding unrealized impact for the nine months ended September 30, 2019 was $1.151 billion, a decrease of $760 million or 39.8% from the same period in 2018.

- Cash flow provided by continuing operations for the nine months ended September 30, 2019 was $3.039 billion, an increase of $627 million or 26.0% over the same period in 2018.

- The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2019 was 94.6%, an increase of 0.6 points over the same period in 2018. Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the nine months ended September 30, 2019 was 100.0%, an increase of 1.2 points over the same period in 2018.

Financial Condition as of September 30, 2019

- Total debt excluding unamortized discount and debt issuance costs was $8.614 billion as of September 30, 2019, an increase of $332 million or 4.0% over December 31, 2018.

- Total equity was $24.005 billion as of September 30, 2019, an increase of $3.243 billion or 15.6% over December 31, 2018.

Subsequent Events

On October 2, 2019 the Company completed the acquisition of the business and operations of Nationale Borg, Nationale Borg Reinsurance, and AmTrust Insurance Spain. The transaction is not material to the Company.

On November 5, 2019, the Company entered into an adverse development cover with National Indemnity Company ("NICO"), a subsidiary of Berkshire Hathaway Inc., providing coverage for up to $1.3 billion in reinsurance protection across certain U.S. workers compensation, commercial auto, and general liability business, attaching at approximately $8.0 billion combined aggregate reserves with sublimits on certain claims. The coverage provides immediate cover for $300 million in reserves ceded at inception, retention of $400 million by the Company and $1 billion of coverage for losses in excess of that retention. The Company paid NICO cash consideration of $462 million. This contract will be accounted for on a retrospective basis.

Management has assessed material subsequent events through November 07, 2019, the date the financial statements were available to be issued.

Consolidated Results of Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenues	$10,839	$10,408	4.1%	$32,295	$31,012	4.1%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method income	$789	$771	2.3%	$2,547	$2,514	1.3%
Catastrophes[1]	(425)	(505)	(15.8)	(1,197)	(1,369)	(12.6)
Net incurred losses attributable to prior years:						
- Asbestos and environmental[2]	-	(255)	(100.0)	(3)	(268)	(98.9)
- All other[2,3]	(109)	301	NM	(349)	299	NM
Current accident year re-estimation[4]	(130)	-	NM	-	-	-
Pre-tax operating income before partnerships, LLC and other equity method income	125	312	(59.9)	998	1,176	(15.1)
Partnerships, LLC and other equity method income[5]	162	186	(12.9)	556	693	(19.8)
Pre-tax operating income	287	498	(42.4)	1,554	1,869	(16.9)
Net realized gains (losses)	81	(104)	NM	393	(8)	NM
Unit linked life insurance	(12)	-	NM	(89)	-	NM
Ironshore acquisition & integration costs	(4)	(7)	(42.9)	(16)	(31)	(48.4)
Restructuring costs	(3)	(26)	(88.5)	(6)	(57)	(89.5)
Loss on extinguishment of debt	-	(5)	(100.0)	(49)	(8)	NM
Pre-tax income	349	356	(2.0)	1,787	1,765	1.2
Income tax expense	75	73	2.7	393	383	2.6
Consolidated net income from continuing operations	274	283	(3.2)	1,394	1,382	0.9
Discontinued operations, net of tax	-	-	-	(50)	530	NM
Consolidated net income	274	283	(3.2)	1,344	1,912	(29.7)
Less: Net income attributable to non-controlling interest	-	1	(100.0)	-	1	(100.0)
Net income attributable to LMHC	274	282	(2.8)	1,344	1,911	(29.7)
Net income attributable to LMHC excluding unrealized impact[6]	$291	$282	3.2%	$1,151	$1,911	(39.8%)
Cash flow provided by continuing operations	$1,494	$1,256	18.9%	$3,039	$2,412	26.0%

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, which is described further in "Reinsurance".

3 Net of earned premium and reinstatement premium attributable to prior years of $4 million and ($5) million for the three and nine months ended September 30, 2019, and $54 million and $59 million for the same periods in 2018.

4 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2019.

5 Partnerships, LLC and other equity method income includes 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.

6 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 and nine months ended September 30, 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 75th on the Fortune 100 list of largest corporations in the U.S. based on 2018 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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