Liberty Mutual Insurance Reports Fourth Quarter and Full Year 2019 Results

BOSTON, Mass., February 27, 2020 – Liberty Mutual Holding Company Inc. and its subsidiaries (collectively “LMHC” or the “Company”) reported consolidated net loss from continuing operations of $299 million for the three months ended December 31, 2019 and consolidated net income from continuing operations of $1.095 billion for the twelve months ended December 31, 2019. The Company reported consolidated net income from continuing operations of $251 million and $1.633 billion for the same periods in 2018, respectively.

“Our response to rising loss trends in commercial lines dominated financial results in the quarter. We achieved significant rate increases, expanded reinsurance protection, and continued strategic underwriting actions in a coordinated effort to improve profitability and protect our balance sheet,” said David H. Long, Liberty Mutual Chairman and Chief Executive Officer. “The strength of our diversified business profile allows us to navigate these challenging market conditions.”

Fourth Quarter Highlights

- Net written premium (“NWP”) for the three months ended December 31, 2019 was $9.751 billion, an increase of $345 million or 3.7% over the same period in 2018.
- Pre-tax operating loss before partnerships, limited liability companies (“LLC”) and other equity method income for the three months ended December 31, 2019 was $417 million versus pre-tax operating income (“PTOI”) before partnerships, LLC and other equity method income of $277 million for the same period in 2018.
- Partnerships, LLC and other equity method income for the three months ended December 31, 2019 was $145 million, a decrease of $140 million or 49.1% from the same period in 2018.
- Net realized gains (losses) for the three months ended December 31, 2019 were $50 million versus ($139) million for the same period in 2018.
- Unit linked life insurance for the three months ended December 31, 2019 was ($34) million versus zero for the same period in 2018.
- Ironshore Inc. (“Ironshore”) acquisition and integration costs for the three months ended December 31, 2019 were $12 million, a decrease of $43 million or 78.2% from the same period in 2018.
- Restructuring costs for the three months ended December 31, 2019 were $64 million, an increase of $27 million or 73.0% over the same period in 2018.
- Loss on extinguishment of debt for the three months ended December 31, 2019 was zero, no change from the same period in 2018.
- Consolidated net loss for the three months ended December 31, 2019 was $299 million versus consolidated net income of $249 million for the same period in 2018.
- Net income attributable to non-controlling interest for the three months ended December 31, 2019 was $1 million versus zero for the same period in 2018.
- Net loss attributable to LMHC for the three months ended December 31, 2019 was $300 million versus net income attributable to LMHC of $249 million for the same period in 2018.
- Net loss attributable to LMHC excluding unrealized impact1 for the three months ended December 31, 2019 was $383 million versus net income attributable to LMHC excluding unrealized impact1 of $249 million for the same period in 2018.

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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 December 31, 2019 was $438 million, a decrease of $698 million or 61.4% from the same period in 2018.

The consolidated combined ratio before catastrophes\(^2\), net incurred losses attributable to prior years\(^3\) and current accident year re-estimation\(^4\) for the three months ended December 31, 2019 was 97.3\(\%\), an increase of 2.0 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 December 31, 2019 was 106.7\(\%\), an increase of 6.3 points over the same period in 2018.

**Full Year Highlights**

- NWP for the twelve months ended December 31, 2019 was $39.814 billion, an increase of $714 million or 1.8% over the same period in 2018.
- PTOI before partnerships, LLC and other equity method income for the twelve months ended December 31, 2019 was $581 million, a decrease of $872 million or 60.0% from the same period in 2018.
- Partnerships, LLC and other equity method income for the twelve months ended December 31, 2019 was $701 million, a decrease of $277 million or 28.3% from the same period in 2018.
- Net realized gains (losses) for the twelve months ended December 31, 2019 were $443 million versus ($147) million for the same period in 2018.
- Unit linked life insurance for the twelve months ended December 31, 2019 was ($123) million versus zero for the same period in 2018.
- Ironshore acquisition and integration costs for the twelve months ended December 31, 2019 were $28 million, a decrease of $58 million or 67.4% from the same period in 2018.
- Restructuring costs for the twelve months ended December 31, 2019 were $70 million, a decrease of $24 million or 25.5% from the same period in 2018.
- Loss on extinguishment of debt for the twelve months ended December 31, 2019 was $49 million, an increase of $41 million over 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 nine months ended September 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.
Discontinued operations, net of tax, for the twelve months ended December 31, 2019 were ($50) million versus $528 million for the same period in 2018.

Consolidated net income for the twelve months ended December 31, 2019 was $1.045 billion, a decrease of $1.116 billion or 51.6% 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 twelve months ended December 31, 2019 was $1 million, no change from the same period in 2018.

Net income attributable to LMHC for the twelve months ended December 31, 2019 was $1.044 billion, a decrease of $1.116 billion or 51.6% from the same period in 2018.

Net income attributable to LMHC excluding unrealized impact for the twelve months ended December 31, 2019 was $768 million, a decrease of $1.392 billion or 64.4% from the same period in 2018.

Cash flow provided by continuing operations for the twelve months ended December 31, 2019 was $3.477 billion, a decrease of $71 million or 2.0% from the same period in 2018.

The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the twelve months ended December 31, 2019 was 95.4%, an increase of 1.0 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 twelve months ended December 31, 2019 was 101.7%, an increase of 2.5 points over the same period in 2018.

**Financial Condition as of December 31, 2019**

- Total debt excluding unamortized discount and debt issuance costs was $8.671 billion as of December 31, 2019, an increase of $389 million or 4.7% over December 31, 2018.

- Total equity was $23.619 billion as of December 31, 2019, an increase of $2.857 billion or 13.8% over December 31, 2018.

**Subsequent Events**

On February 6, 2020, the Company’s subsidiary, Liberty UK and Europe Holdings Limited, closed on the sale of its entire 99.99% interest in its Russian insurance affiliate, Liberty Insurance (JSC), to PJSC Sovcombank.

Management has assessed material subsequent events through February 27, 2020, the date the financial statements were available to be issued.
### Consolidated Results of Operations

|                                | Three Months Ended December 31, |  | Twelve Months Ended December 31, |  |  |
|--------------------------------|---------------------------------|  |---------------------------------|  |  |
|                                | 2019   | 2018   | Change   | 2019   | 2018   | Change   |
| Revenues                       | $10,933 | $10,556 | 3.6%     | $43,228 | $41,568 | 4.0%     |
| PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method income | $514   | $771   | (33.3%)  | $2,964  | $3,285  | (9.8%)   |
| Catastrophes1                  | (280)  | (534)  | (47.6)   | (1,477) | (1,903) | (22.4)   |
| Net incurred losses attributable to prior years: |  |  |  |  |  |  |
| - Asbestos and environmental2  | (275)  | (2)    | NM       | (278)  | (270)  | 3.0      |
| - All other3                   | (280)  | 42     | NM       | (628)  | 341    | NM       |
| Current accident year re-estimation4 | (96)   | -      | NM       | -      | -      | -        |
| Pre-tax operating (loss) income before partnerships, LLC and other equity method income | (417)  | 277    | NM       | 581    | 1,453  | (60.0)   |
| Partnerships, LLC and other equity method income5 | 145    | 285    | (49.1)   | 701    | 978    | (28.3)   |
| Pre-tax operating (loss) income | (272)  | 562    | NM       | 1,282  | 2,431  | (47.3)   |
| Net realized gains (losses)    | 50     | (139)  | NM       | 443    | (147)  | NM       |
| Unit linked life insurance     | (34)   | -      | NM       | (123)  | -      | NM       |
| Ironshore acquisition & integration costs | (12)   | (55)   | (78.2)   | (28)   | (86)   | (67.4)   |
| Restructuring costs           | (64)   | (37)   | 73.0     | (70)   | (94)   | (25.5)   |
| Loss on extinguishment of debt | -      | -      | -        | (49)   | (8)    | NM       |
| Pre-tax (loss) income          | (332)  | 331    | NM       | 1,455  | 2,096  | (30.6)   |
| Income tax (benefit) expense   | (33)   | 80     | NM       | 360    | 463    | (22.2)   |
| Consolidated net (loss) income from continuing operations | (299)  | 251    | NM       | 1,095  | 1,633  | (32.9)   |
| Discontinued operations, net of tax | -      | (2)    | (100.0)  | (50)   | 528    | NM       |
| Consolidated net (loss) income | (299)  | 249    | NM       | 1,045  | 2,161  | (51.6)   |
| Less: Net income attributable to non-controlling interest | 1      | -      | NM       | 1      | 1      | -        |
| Net (loss) income attributable to LMHC | (300)  | 249    | NM       | 1,044  | 2,160  | (51.7)   |
| Net (loss) income attributable to LMHC excluding unrealized impact6 | ($383) | $249 | NM | $768 | $2,160 | (64.4%) |
| Cash flow provided by continuing operations | $438   | $1,136 | (61.4%)  | $3,477 | $3,548 | (2.0%)   |

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”).
3 Net of earned premium and reinstatement premium attributable to prior years of $29 million and $24 million for the three and twelve months ended December 31, 2019, and ($50) million and $9 million for the same periods in 2018.
4 Re-estimation of the current accident year loss reserves for the nine months ended September 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 Operations 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 twelve months ended December 31, 2019 are available on the Company's Investor Relations website at www.libertymutualgroup.com/investors.

Conference Call Information: On February 27, 2020, 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 fourth quarter and full year 2019 financial results. To participate in the event via telephone and to ask a question, please dial 888-312-9837, referencing the Confirmation Code 3685300. You can view the slides at https://attglobal.webcasts.com/starthere.jsp?ei=1278774&tp_key=a759f1302e. 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=1278774&tp_key=a759f1302e. 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

At Liberty Mutual, we believe progress happens when people feel secure. By providing protection for the unexpected and delivering it with care, we help people embrace today and confidently pursue tomorrow.

In business since 1912, and headquartered in Boston, today we are the fifth largest global property and casualty insurer based on 2018 gross written premium. We also rank 75th on the Fortune 100 list of largest corporations in the U.S. based on 2018 revenue. As of December 31, 2019, we had $43.2 billion in annual consolidated revenue.

We employ over 45,000 people in 29 countries and economies around the world. We offer a wide range of insurance products and services, including personal automobile, homeowners, specialty lines, commercial multiple-peril, commercial automobile, workers compensation, reinsurance, commercial property, surety, and general liability.

For more information, visit www.libertymutualinsurance.com.

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, 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 limited partnerships (“LP”), limited liability companies (“LLC”), 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; the Company’s ability to identify and accurately assess complex and emerging risks, 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 occurred on January 31, 2020. That date also marks the beginning of a transition period during which the United Kingdom will remain in the EU’s customs union and single market but will negotiate with the European Union regarding the terms of the future UK-EU relationship. The withdrawal 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 related to the withdrawal but will continue to monitor the negotiations as they develop.

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