



**Management's Discussion & Analysis of
Financial Condition and Results of Operations**

Quarter Ended September 30, 2017

Management's Discussion & Analysis of Financial Condition and Results of Operations

The following discussion highlights significant factors influencing results of operations and changes in financial position of Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Insurance group of entities (the "Company" or "LMHC"), for the three and nine months ended September 30, 2017 and 2016. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's December 31, 2016 Audited Consolidated Financial Statements and September 30, 2017 Unaudited Consolidated Financial Statements located on the Company's Investor Relations website at www.libertymutualgroup.com/investors. The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted. Further, the Company notes that it may make material information regarding the Company available to the public, from time to time, via the Company's Investor Relations website at www.libertymutualgroup.com/investors (or any successor site).

Index

	<u>Page</u>
Cautionary Statement Regarding Forward Looking Statements	3
Executive Summary	4
Consolidated Results of Operations	6
Review of Financial Results by Business Unit	
Global Consumer Markets.....	18
U.S. Consumer Markets	20
Global Consumer Markets East West.....	23
Commercial Insurance	26
Global Specialty	30
Corporate and Other	34
Investments	38
Liquidity and Capital Resources	46
Reinsurance	50
Critical Accounting Estimates.....	53
About the Company	57

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 limited partnerships ("LP"), limited liability companies ("LLC"), commercial mortgages and natural resource working interests; 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 cyclical nature 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.

EXECUTIVE SUMMARY

The following highlights do not address all of the matters covered in the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations or contain all of the information that may be important to the investing public. This summary should be read in conjunction with the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations and the Company's 2017 Unaudited Consolidated Financial Statements.

Consolidated Results of Operations

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Net written premium ("NWP")	\$10,379	\$9,309	11.5%	\$29,523	\$27,099	8.9%
Pre-tax operating (loss) income before partnerships, LLC and other equity method income	(1,233)	417	NM	(979)	1,204	NM
Net operating (loss) income before partnerships, LLC and other equity method income	(886)	352	NM	(688)	886	NM
Partnerships, LLC and other equity method income, net of tax	137	42	NM	312	22	NM
Net realized gains (losses), net of tax	128	57	124.6	257	(39)	NM
Ironshore Inc. ("Ironshore") acquisition & integration costs, net of tax	(28)	-	NM	(51)	-	NM
Restructuring costs, net of tax	(15)	-	NM	(15)	-	NM
Loss on extinguishment of debt, net of tax	-	(1)	(100.0)	(1)	(6)	(83.3)
Consolidated net (loss) income	(664)	450	NM	(186)	863	NM
Less: Net income (loss) attributable to non-controlling interest	1	(5)	NM	2	-	NM
Net (loss) income attributable to LMHC	(665)	455	NM	(188)	863	NM
Cash flow provided by operations	\$945	\$1,270	(25.6%)	\$2,059	\$1,915	7.5%

NM = Not Meaningful

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change (Points)	2017	2016	Change (Points)
Combined ratio before catastrophes ¹ , net incurred losses attributable to prior years ² , and current accident year re-estimation ³	92.5%	94.2%	(1.7)	93.4%	93.2%	0.2
Combined ratio ⁴	116.2%	97.8%	18.4	107.1%	98.5%	8.6

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 Net incurred losses attributable to prior years is defined as incurred losses attributable to prior years (including prior year losses related to catastrophes and prior year catastrophe reinstatement premium) including earned premium attributable to prior years.

3 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2017 and 2016, respectively.

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.

	As of September 30,	As of December 31,	
\$ in Millions	2017	2016	Change
Short-term debt	\$-	\$-	-
Long-term debt	8,290	7,603	9.0
Total debt	\$8,290	\$7,603	9.0%
Unassigned equity	\$21,482	\$21,670	(0.9%)
Accumulated other comprehensive loss	(580)	(1,304)	(55.5)
Non-controlling interest	26	21	23.8
Total equity	\$20,928	\$20,387	2.7%

Subsequent Events

Management has assessed material subsequent events through November 2, 2017, the date the financial statements were available to be issued.

CONSOLIDATED RESULTS OF OPERATIONS

The Company has identified consolidated pre-tax operating income (“PTOI”), PTOI before partnerships, LLC and other equity method income, and net operating income before partnerships, LLC and other equity method income as non-GAAP financial measures. PTOI is defined by the Company as pre-tax income excluding net realized gains, loss on extinguishment of debt, extraordinary items, discontinued operations, integration, other acquisition and restructuring related costs and cumulative effects of changes in accounting principles. PTOI before partnerships, LLC and other equity method income is defined as PTOI excluding LP and LLC results recognized on the equity method and revenue and expenses from the production and sale of oil and gas. Net operating income is defined as net income excluding the after-tax impact of net realized gains, Ironshore acquisition and integration costs, restructuring costs and loss on extinguishment of debt. PTOI before partnerships, LLC and other equity method income, PTOI, and net operating income before partnerships, LLC and other equity method income are considered by the Company to be appropriate indicators of underwriting and operating results and are consistent with the way the Company internally evaluates performance. Net realized gains and partnerships, LLC and other equity method investment results are significantly impacted by both discretionary and economic factors and are not necessarily indicative of operating results, and the timing and amount of integration, other acquisition and restructuring related costs and the extinguishment of debt are not connected to the management of the insurance and underwriting aspects of the Company’s business. Income taxes are significantly impacted by permanent differences and timing differences, whose related deferred tax assets/liabilities could be impacted by tax reform. References to NWP represent the amount of premium recorded for policies issued during a fiscal period including audits, retrospectively rated premium related to loss sensitive policies, and assumed premium, less ceded premium. Assumed and ceded reinsurance premiums include premium adjustments for reinstatement of coverage when a loss has used some portion of the reinsurance provided, generally under catastrophe treaties (“reinstatement premium”), and changes in estimated premium. In addition, the majority of workers compensation premium is adjusted to the “booked as billed” method through the Corporate and Other segment. The Company believes that NWP is a performance measure useful to investors as it generally reflects current trends in the Company’s sale of its insurance products.

The Company’s discussions related to net income are presented on an after-tax GAAP basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted.

Property and casualty operations’ investment income is allocated to the business units based on planned ordinary investment income returns by investment category. Effective in 2017, the amount allocated to the business units was updated to better reflect the current yield environment. The difference between allocated net investment income and actual net investment income is included in Corporate and Other. The prior period has been adjusted to reflect this change.

On May 1, 2017, the Company acquired Ironshore for approximately \$2.9 billion subject to standard post-closing adjustments. Transaction related costs primarily consist of non-recurring banking, legal, tax, and accounting expenses. These and integration related costs are reflected on the Consolidated Statements of Operations separately. Concurrent with the acquisition, the Company combined its existing Liberty International Underwriters’ U.S. business and Ironshore’s U.S. specialty lines business under the Ironshore brand. Effective May 1, 2017, the Company also entered into a reinsurance transaction with National Indemnity Company (“NICO”), a subsidiary of Berkshire Hathaway Inc., on a combined aggregate excess of loss agreement providing coverage for substantially all of Ironshore’s reserves (“Ironshore Reinsurance”). On May 2, 2017, Ironshore exercised its option to redeem in full its outstanding \$250 million Ironshore Holdings (US) Inc. 8.5% Senior Notes maturing in 2020 in accordance with the contractual make whole provisions.

On April 17, 2017, the Company completed the acquisition of TRU Services, LLC, specializing in providing medical stop loss products to mid and large-size medical plan sponsors. The transaction is not material to the Company.

On March 27, 2017, Liberty Mutual Finance Europe DAC issued €500 million par value of Senior Notes due 2024 (the “2024 Notes”). Interest is payable annually at a fixed rate of 1.75%. The 2024 Notes mature on March 27, 2024.

On February 27, 2017, the United Kingdom’s Ministry of Justice announced a reduction in the discount rate utilized for certain lump sum personal injury compensation claims from 2.5% to (.75%) effective March 20, 2017. The Company’s reserve estimation process provided for the impact of a range of events such as this.

On January 5, 2017, the Company completed the sale of its 10 St. James and 75 Arlington properties. The Company has entered into a sale lease back agreement which extends over 15 years resulting in a net lease obligation of \$258 million. The sale resulted in a gain of \$297 million, of which \$188 million was deferred over the terms of the lease and \$109 million was recognized in the Consolidated Statements of Operations.

On August 16, 2016, the Company entered into an agreement to sell a 51% interest of its Chinese operations to Sanpower Group. Due to recent regulatory changes, the timing and outcome of this agreement is uncertain.

The Company's three SBUs are as follows:

- Global Consumer Markets comprises two market segments: U.S. Consumer Markets and Global Consumer Markets East | West. These market segments comprise three operating regions: U.S. Consumer Markets, Global Consumer Markets East and Global Consumer Markets West.
 - U.S. Consumer Markets includes all domestic personal lines business. Products are distributed through multiple distribution channels, including employee sales representatives, telesales counselors, independent agents, third-party producers and the Internet.
 - Global Consumer Markets East | West sells property and casualty, health and life insurance products and services to individuals and businesses in two operating regions: West, including Brazil, Colombia, Chile, Ecuador, Spain, Portugal, Ireland, and West Other; and East, including Thailand, Singapore, Hong Kong, Vietnam, Malaysia, India, China, Russia, Turkey, and East Other.
- Commercial Insurance offers a wide array of property and casualty, benefits, and life insurance coverages through independent agents, brokers, benefit consultants, captive agents, and bank partners throughout the United States. Commercial Insurance is organized into the following four market segments: Business Insurance, National Insurance, Liberty Mutual Benefits, and Other Commercial Insurance.
- Global Specialty comprises a wide array of products and services offered through four market segments: Liberty Specialty Markets ("LSM"), Liberty International Underwriters ("LIU"), Liberty Mutual Surety ("LM Surety") and Ironshore.

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Private passenger automobile	\$3,645	\$3,398	7.3%	\$10,347	\$9,596	7.8%
Homeowners	1,756	1,683	4.3	4,826	4,677	3.2
Specialty insurance ¹	1,098	654	67.9	2,593	1,879	38.0
Commercial multiple-peril	566	570	(0.7)	1,639	1,597	2.6
Commercial automobile	507	477	6.3	1,508	1,386	8.8
Workers compensation – Voluntary	472	474	(0.4)	1,483	1,492	(0.6)
Workers compensation – Involuntary	21	22	(4.5)	71	63	12.7
Employer disability, life and A&H	474	424	11.8	1,412	1,230	14.8
General liability	403	397	1.5	1,224	1,159	5.6
Global specialty reinsurance	423	257	64.6	1,206	996	21.1
Surety	207	212	(2.4)	640	632	1.3
Commercial property	198	189	4.8	556	601	(7.5)
Global specialty inland marine	141	129	9.3	409	376	8.8
Individual life and annuity	128	135	(5.2)	408	367	11.2
Corporate reinsurance ²	38	(15)	NM	319	170	87.6
Other ³	302	303	(0.3)	882	878	0.5
Total NWP	\$10,379	\$9,309	11.5%	\$29,523	\$27,099	8.9%

1 Specialty insurance is reported within Global Specialty and includes marine, energy, construction, aviation, property, casualty, excess casualty, directors and officers, errors and omissions, environmental impairment liability, railroad, trade credit, excess and surplus property, crisis management, contingent lines and other.

2 NWP associated with internal reinsurance, net of corporate external placements.

3 Primarily includes NWP from allied lines and domestic inland marine.

NM = Not Meaningful

NWP for the three months ended September 30, 2017 was \$10.379 billion, an increase of \$1.070 billion over the same period in 2016.

Significant changes by major line of business for the three months ended September 30, 2017 include:

- Private passenger automobile NWP increased \$247 million. The increase reflects additional rate to keep pace with U.S. industry loss cost trends and growth in policies in-force in U.S. Consumer Markets and organic growth in Global Consumer Markets East | West driven by growth and higher average written premium in Brazil. The quarter was further impacted by favorable foreign exchange due to the U.S. dollar weakening versus the Brazilian real.
- Homeowners NWP increased \$73 million. The increase reflects rate increases, as well as growth in homeowners policies-in-force in U.S. Consumer Markets.
- Specialty insurance NWP increased \$444 million. The increase reflects the Ironshore acquisition, business growth, and foreign exchange due to weakening of the U.S. dollar versus the Canadian dollar and euro.
- Employer disability, life and A&H NWP increased \$50 million. The increase reflects strong new business sales.
- Global specialty reinsurance NWP increased \$166 million. The increase reflects business growth and includes catastrophe related reinstatement premiums.

NWP for the nine months ended September 30, 2017 was \$29.523 billion, an increase of \$2.424 billion over the same period in 2016.

Significant changes by major line of business for the nine months ended September 30, 2017 include:

- Private passenger automobile NWP increased \$751 million. The increase reflects additional rate to keep pace with U.S. industry loss cost trends and growth in policies in-force in U.S. Consumer Markets and organic growth in Global Consumer Markets East | West. The year was further impacted by favorable foreign exchange due to the U.S. dollar weakening versus the Brazilian real.
- Homeowners NWP increased \$149 million. The increase reflects rate increases, as well as growth in homeowners policies-in-force in U.S. Consumer Markets.
- Specialty insurance NWP increased \$714 million. The increase reflects the Ironshore acquisition and business growth, partially offset by the strengthening of the U.S. dollar versus the British pound, as well as unfavorable premium adjustments.
- Employer disability, life and A&H NWP increased \$182 million. The increase reflects strong new business sales.
- Global specialty reinsurance NWP increased \$210 million. The increase reflects business growth and includes catastrophe related reinstatement premiums.
- Corporate reinsurance NWP increased \$149 million. The increase reflects new internal reinsurance programs and changes in terms and coverage to both internal and external programs.

More detailed explanations of the changes in NWP by line of business are included in the related discussion of financial results for each segment.

Consolidated NWP by SBU was as follows:

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Global Consumer Markets	\$6,006	\$5,643	6.4%	\$16,932	\$15,897	6.5%
U.S. Consumer Markets	4,967	4,714	5.4	13,998	13,282	5.4
Global Consumer Markets East West	1,039	929	11.8	2,934	2,615	12.2
Commercial Insurance	2,457	2,438	0.8	7,427	7,071	5.0
Global Specialty	1,860	1,242	49.8	4,825	3,858	25.1
Corporate and Other	56	(14)	NM	339	273	24.2
Total NWP	\$10,379	\$9,309	11.5%	\$29,523	\$27,099	8.9%
Foreign exchange effect on growth			0.4			0.2
NWP growth excluding foreign exchange ¹			11.1%			8.7%

¹ Determined by assuming constant foreign exchange rates between periods.
NM = Not Meaningful

Major drivers of NWP growth were as follows:

\$ in Millions	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	\$ Change	Points Attribution	2017	2016	\$ Change	Points Attribution
Total NWP	\$10,379	\$9,309	\$1,070	11.5	\$29,523	\$27,099	\$2,424	8.9
Components of growth:								
Domestic personal automobile	2,987	2,817	170	1.8	8,532	7,994	538	2.0
Domestic homeowners	1,706	1,637	69	0.7	4,687	4,542	145	0.5
Global Consumer Markets East West Local Business (ex foreign exchange) ¹	1,012	929	83	0.9	2,860	2,615	245	0.9
Specialty insurance (ex foreign exchange) ¹	1,093	654	439	4.7	2,612	1,879	733	2.7
Domestic workers compensation	469	466	3	-	1,459	1,470	(11)	-
Global specialty reinsurance (ex foreign exchange) ¹	421	257	164	1.8	1,215	996	219	0.8
Domestic employer disability, life and A&H	419	372	47	0.5	1,259	1,087	172	0.6
Corporate reinsurance (ex foreign exchange) ^{1,2}	39	(15)	54	0.6	318	170	148	0.5
Surety	207	212	(5)	(0.1)	640	632	8	-
Global specialty inland marine (ex foreign exchange) ¹	140	129	11	0.1	412	376	36	0.1
Domestic individual life and annuity	98	108	(10)	(0.1)	318	289	29	0.1
Other lines	1,754	1,743	11	0.2	5,168	5,049	119	0.5
Foreign exchange ¹	34	-	34	0.4	43	-	43	0.2
Total NWP	\$10,379	\$9,309	\$1,070	11.5	\$29,523	\$27,099	\$2,424	8.9

1 Determined by assuming constant foreign exchange rates between periods.

2 NWP associated with internal reinsurance, net of corporate external placements.

Consolidated NWP by geographic distribution channels was as follows:

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
U.S.	\$8,533	\$7,722	10.5%	\$24,280	\$22,383	8.5%
International ¹	1,846	1,587	16.3	5,243	4,716	11.2
Global Consumer Markets East West	1,039	929	11.8	2,934	2,615	12.2
Global Specialty ¹	807	658	22.6	2,309	2,101	9.9
Total NWP	\$10,379	\$9,309	11.5%	\$29,523	\$27,099	8.9%

1 Excludes domestically written business in Global Specialty's Ironshore market segment.

For a more complete description of the Company's business operations, products and distribution channels, and other material information, please visit the Company's Investor Relations web site at www.libertymutualgroup.com/investors.

Results of Operations – Consolidated

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Revenues	\$11,191	\$9,890	13.2%	\$31,657	\$28,641	10.5%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method income	\$986	\$720	36.9%	\$2,605	\$2,541	2.5%
Catastrophes ¹	(1,785)	(258)	NM	(3,141)	(1,408)	123.1
Net incurred losses attributable to prior years:						
- Asbestos and environmental ²	(153)	(50)	NM	(162)	(41)	NM
- All other ^{2,3}	(251)	11	NM	(281)	112	NM
Current accident year re-estimation ⁴	(30)	(6)	NM	-	-	-
Pre-tax operating (loss) income before partnerships, LLC and other equity method income	(1,233)	417	NM	(979)	1,204	NM
Partnerships, LLC and other equity method income ⁵	209	62	NM	479	26	NM
Pre-tax operating (loss) income	(1,024)	479	NM	(500)	1,230	NM
Net realized gains (losses)	196	84	133.3	395	(50)	NM
Ironshore acquisition & integration costs	(38)	-	NM	(74)	-	NM
Restructuring costs	(23)	-	NM	(23)	-	NM
Loss on extinguishment of debt	-	(1)	(100.0)	(1)	(9)	(88.9)
Pre-tax (loss) income	(889)	562	NM	(203)	1,171	NM
Income tax (benefit) expense	(225)	112	NM	(17)	308	NM
Consolidated net (loss) income	(664)	450	NM	(186)	863	NM
Less: Net income (loss) attributable to non-controlling interest	1	(5)	NM	2	-	NM
Net (loss) income attributable to LMHC	(\$665)	\$455	NM	(\$188)	\$863	NM
Cash flow provided by operations before Ironshore Reinsurance and pension contributions	\$1,496	\$1,272	17.6%	\$3,012	\$2,719	10.8%
Ironshore Reinsurance ⁶	(550)	-	NM	(550)	-	NM
Pension contributions	(1)	(2)	(50.0)	(403)	(804)	(49.9)
Cash flow provided by operations	\$945	\$1,270	(25.6%)	\$2,059	\$1,915	7.5%

- 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 \$11 million and \$2 million for the three and nine months ended September 30, 2017, and zero and (\$7) million for the same periods in 2016.
 - 4 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2017 and 2016, respectively.
 - 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 the production and sale of oil and gas.
 - 6 Ironshore reinsurance agreement, which is described further in “Reinsurance”.
- NM = Not Meaningful

Partnerships, LLC and Other Equity Method Income	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
LP, LLC and other equity method income ¹	\$222	\$72	NM	\$511	\$125	NM
Direct investment in natural resources revenues ²	57	47	21.3%	167	139	20.1%
Direct investment in natural resources expenses ³	(70)	(57)	22.8	(199)	(238)	(16.4)
Partnerships, LLC and other equity method income	\$209	\$62	NM	\$479	\$26	NM

1 Included within net investment income in the accompanying Consolidated Statements of Operations.

2 Included within fee & other revenues in the accompanying Consolidated Statements of Operations.

3 Included within operating costs and expenses in the accompanying Consolidated Statements of Operations.

NM = Not Meaningful

Net Investment Income	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Taxable interest income	\$563	\$515	\$1,648	\$1,564
Tax-exempt interest income	58	72	186	235
Dividends	13	13	46	42
LP, LLC and other equity method income	222	72	511	125
Commercial mortgage loans	30	29	91	88
Other investment income	5	6	11	18
Gross investment income	891	707	2,493	2,072
Investment expenses ¹	(55)	(48)	(158)	(129)
Total net investment income	\$836	\$659	\$2,335	\$1,943

1 Fees paid to external managers are included within the components of gross investment income.

Net Realized Gains \$ in Millions	Sales & Dispositions	Impairments	Change in Derivatives Value	Total
Three Months Ended September 30, 2017:				
Fixed maturities	\$77	\$-	\$-	\$77
Equities	145	(32)	-	113
Other	3	(2)	5	6
Total	\$225	(\$34)	\$5	\$196
Three Months Ended September 30, 2016:				
Fixed maturities	\$50	(\$4)	\$-	\$46
Equities	15	(5)	-	10
Other	23	(2)	7	28
Total	\$88	(\$11)	\$7	\$84

Net Realized Gains (Losses) \$ in Millions	Sales & Dispositions	Impairments	Change in Derivatives Value	Total
Nine Months Ended September 30, 2017:				
Fixed maturities	\$159	(\$15)	\$-	\$144
Equities	282	(66)	-	216
Other	114	(75)	(4)	35
Total	\$555	(\$156)	(\$4)	\$395
Nine Months Ended September 30, 2016:				
Fixed maturities	\$95	(\$24)	\$-	\$71
Equities	38	(42)	-	(4)
Other	33	(137)	(13)	(117)
Total	\$166	(\$203)	(\$13)	(\$50)

Third Quarter Results:

Pre-tax operating loss before partnerships, LLC and other equity method income for the three months ended September 30, 2017 was \$1.233 billion, versus pre-tax operating income before partnerships, LLC and other equity method income of \$417 million for the same period in 2016. The change reflects higher catastrophe losses primarily due to Hurricanes Harvey, Irma, and Maria, the impact of unfavorable domestic auto liability loss trends reflected in Commercial Insurance and unfavorable asbestos and environmental development in Corporate. The change also reflects the profit margin on growth in earned premium and a lower underwriting expense ratio primarily due to lower employee related costs in U.S. Consumer Markets, Commercial Insurance and Corporate.

Partnerships, LLC and other equity method income including operating income from direct working interests for the three months ended September 30, 2017 was \$209 million, an increase of \$147 million over the same period in 2016. The increase reflects more favorable valuations in private equity investments in 2017.

Revenues for the three months ended September 30, 2017 were \$11.191 billion, an increase of \$1.301 billion over the same period in 2016. The major components of revenues are net premium earned, net investment income, net realized gains, and fee and other revenues.

Net premium earned for the three months ended September 30, 2017 was \$9.858 billion, an increase of \$970 million over the same period in 2016. The increase primarily reflects the premium earned associated with the changes in NWP previously discussed, the Ironshore acquisition, and NWP growth during the last three months of 2016.

Net investment income for the three months ended September 30, 2017 was \$836 million, an increase of \$177 million over the same period in 2016. The increase was primarily a result of more favorable valuations in private equity

investments in 2017 as compared to the same period in 2016. The increase also reflects a higher invested asset base primarily driven by Ironshore.

Net realized gains for the three months ended September 30, 2017 were \$196 million, an increase of \$112 million over the same period in 2016. The increase in net realized gains primarily relates to equity gains realized from sales due to portfolio repositioning in 2017, partially offset by higher impairments on equities due to intent to sell.

Fee and other revenues for the three months ended September 30, 2017 were \$301 million, an increase of \$42 million over the same period in 2016. The increase was primarily driven by higher billing fees in U.S. Consumer Markets, the Ironshore acquisition, and higher fees associated with the individual life and employer disability business in Commercial Insurance.

Claims, benefits and expenses for the three months ended September 30, 2017 were \$12.019 billion, an increase of \$2.692 billion over the same period in 2016. The increase reflects higher catastrophe losses primarily due to Hurricanes Harvey, Irma, and Maria, business growth, the impact of unfavorable domestic auto liability loss trends reflected in Commercial Insurance and unfavorable asbestos and environmental development in Corporate.

Restructuring costs for the three months ended September 30, 2017 were \$23 million versus zero for the same period in 2016.

Loss on extinguishment of debt for the three months ended September 30, 2017 was zero versus \$1 million for the same period in 2016. The Company repurchased zero and \$1 million of the 10.75% Junior Subordinated notes due 2088 during the three months ended September 30, 2017 and September 30, 2016, respectively.

Income tax benefit for the three months ended September 30, 2017 was \$225 million versus income tax expense of \$112 million for the same period in 2016. The Company's effective tax rate on continuing operations for the three months ended September 30, 2017 was 25%, compared to 20% for the same period in 2016. For the three months ended September 30, 2017 the Company reported an income tax benefit on a pre-tax loss, compared to reporting an income tax expense on pre-tax income for the three months ended September 30, 2016. Included in the effective tax rate for the three months ended September 30, 2016 was a tax benefit related to the settlement of the 2008-2009 IRS exam. The Company's effective tax rate on continuing operations differs from the U.S. Federal statutory rate of 35% principally due to tax-exempt investment income.

Net loss attributable to LMHC for the three months ended September 30, 2017 was \$665 million versus net income attributable to LMHC of \$455 million for the same period in 2016.

Cash flow provided by operations for the three months ended September 30, 2017 was \$945 million, a decrease of \$325 million from the same period in 2016. The decrease reflects an Ironshore reinsurance payment and higher non-catastrophe loss payments across most business units primarily due to business growth and unfavorable domestic auto liability loss trends, partially offset by the Ironshore acquisition and higher premium collections in Global Consumer Markets driven by business growth.

Year-to-date Results:

Pre-tax operating loss before partnerships, LLC and other equity method income for the nine months ended September 30, 2017 was \$979 million, versus pre-tax operating income before partnerships, LLC and other equity method income of \$1.204 billion for the same period in 2016. The change reflects higher catastrophe losses primarily due to Hurricanes Harvey, Irma, and Maria and hailstorms in Texas and Colorado, the impact of unfavorable domestic auto liability loss trends reflected in U.S. Consumer Markets and Commercial Insurance and higher losses within the reinsurance segment in Corporate. The change also reflects unfavorable asbestos and environmental development in Corporate and unfavorable net incurred losses attributable to prior years in Global Specialty, partially offset by the profit margin on growth in earned premium and a lower underwriting expense ratio primarily due to lower employee related costs in U.S. Consumer Markets, Commercial Insurance and Corporate.

Partnerships, LLC and other equity method income including operating income from direct working interests for the nine months ended September 30, 2017 was \$479 million, an increase of \$453 million over the same period in 2016.

The increase reflects more favorable traditional private equity valuations in 2017 and improved energy operations' PTOI (reflects partnerships and direct investment in oil and gas wells).

Revenues for the nine months ended September 30, 2017 were \$31.657 billion, an increase of \$3.016 billion over the same period in 2016. The major components of revenues are net premium earned, net investment income, net realized gains (losses), and fee and other revenues.

Net premium earned for the nine months ended September 30, 2017 was \$28.066 billion, an increase of \$2.096 billion over the same period in 2016. The increase primarily reflects the premium earned associated with the changes in NWP previously discussed, the Ironshore acquisition, and NWP growth during the last three months of 2016.

Net investment income for the nine months ended September 30, 2017 was \$2.335 billion, an increase of \$392 million over the same period in 2016. The increase was primarily a result of more favorable valuations in both the energy sector and traditional private equity investments in 2017 as compared to the same period in 2016. The increase also reflects a higher invested asset base primarily driven by Ironshore.

Net realized gains (losses) for the nine months ended September 30, 2017 were \$395 million versus (\$50) million for the same period in 2016. The increase in net realized gains primarily relates to gains from sales due to portfolio repositioning. In addition, 2017 reflects a \$109 million gain on the sale of company-owned real estate. The prior period was impacted by higher impairments on direct investments in oil and gas wells compared to 2017.

Fee and other revenues for the nine months ended September 30, 2017 were \$861 million, an increase of \$83 million over the same period in 2016. The increase was primarily driven by higher billing fees in U.S. Consumer Markets, the Ironshore acquisition, and higher fees associated with the individual life and employer disability business in Commercial Insurance.

Claims, benefits and expenses for the nine months ended September 30, 2017 were \$31.762 billion, an increase of \$4.301 billion over the same period in 2016. The increase reflects higher catastrophe losses primarily due to Hurricanes Harvey, Irma, and Maria and hailstorms in Texas and Colorado, business growth, the impact of unfavorable domestic auto liability loss trends reflected in U.S. Consumer Markets and Commercial Insurance and higher losses within the reinsurance segment in Corporate. The increase also reflects unfavorable asbestos and environmental development in Corporate and unfavorable incurred losses attributable to prior years in Global Specialty.

Restructuring costs for the nine months ended September 30, 2017 were \$23 million versus zero for the same period in 2016.

Loss on extinguishment of debt for the nine months ended September 30, 2017 was \$1 million, a decrease of \$8 million from the same period in 2016. The Company repurchased \$2 million and \$17 million of the 10.75% Junior Subordinated notes due 2088 during the nine months ended September 30, 2017 and September 30, 2016, respectively.

Income tax benefit for the nine months ended September 30, 2017 was \$17 million versus income tax expense of \$308 million for the same period in 2016. The Company's effective tax rate on continuing operations for the nine months ended September 30, 2017 was 8%, compared to 26% for the same period in 2016. For the nine months ended September 30, 2017 the Company reported an income tax benefit on a pre-tax loss, compared to reporting an income tax expense on pre-tax income for the nine months ended September 30, 2016. The decrease in the effective tax rate on continuing operations from 2016 to 2017 was primarily due to lower pre-tax income in 2017. The Company's effective tax rate on continuing operations differs from the U.S. Federal statutory rate of 35% principally due to tax-exempt investment income.

Net loss attributable to LMHC for the nine months ended September 30, 2017 was \$188 million versus net income attributable to LMHC of \$863 million for the same period in 2016.

Cash flow provided by operations for the nine months ended September 30, 2017 was \$2.059 billion, an increase of \$144 million over the same period in 2016. The increase reflects higher pension funding in 2016, higher premium collections in Global Consumer Markets driven by business growth, and the Ironshore acquisition, partially offset by

an Ironshore reinsurance payment and higher non-catastrophe loss payments across most business units primarily due to business growth and unfavorable domestic auto liability loss trends.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change (Points)	2017	2016	Change (Points)
CONSOLIDATED						
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	64.3%	63.8%	0.5	64.2%	62.5%	1.7
Underwriting expense ratio	28.2	30.3	(2.1)	29.2	30.7	(1.5)
Dividend ratio	-	0.1	(0.1)	-	-	-
Subtotal	92.5	94.2	(1.7)	93.4	93.2	0.2
Catastrophes ¹	19.2	3.1	16.1	11.9	5.7	6.2
Net incurred losses attributable to prior years:						
- Asbestos and environmental	1.7	0.6	1.1	0.7	-	0.7
- All other ²	2.5	(0.2)	2.7	1.1	(0.4)	1.5
Current accident year re-estimation ³	0.3	0.1	0.2	-	-	-
Total combined ratio⁴	116.2%	97.8%	18.4	107.1%	98.5%	8.6

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 Net of earned premium and reinstatement premium attributable to prior years.

3 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2017 and 2016, respectively.

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.

Third Quarter Results:

The consolidated combined ratio before catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation for the three months ended September 30, 2017 was 92.5%, a decrease of 1.7 points from the same period in 2016. The claims and claim adjustment expense ratio reflects higher current year losses, including higher current year losses across various commercial lines of business reflected in Commercial Insurance and Global Specialty. The decrease in the underwriting expense ratio reflects lower employee related costs in U.S. Consumer Markets, Commercial Insurance and Corporate and, more significantly, the impact of premium rate increases.

Including the impact of catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation, the total combined ratio for the three months ended September 30, 2017 was 116.2%, an increase of 18.4 points over the same period in 2016. The increase reflects higher catastrophe losses, adverse prior year development in commercial auto in Commercial Insurance in 2017 and unfavorable asbestos and environmental development in Corporate, partially offset by the decreases in the combined ratio previously discussed.

Year-to-date Results:

The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2017 was 93.4%, an increase of 0.2 points over the same period in 2016. The claims and claim adjustment expense ratio reflects higher loss trends in the auto lines of business in U.S. Consumer Markets and Commercial Insurance, and higher losses within the reinsurance segment in Corporate. The decrease in the underwriting expense ratio reflects lower employee related costs in U.S. Consumer Markets, Commercial Insurance and Corporate and, more significantly, the impact of premium rate increases.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the nine months ended September 30, 2017 was 107.1%, an increase of 8.6 points over the same period in 2016. The increase reflects higher catastrophe losses, adverse prior year development in commercial auto in Commercial Insurance in 2017, unfavorable asbestos and environmental development in Corporate and unfavorable net incurred losses attributable to prior years in Global Specialty.

GLOBAL CONSUMER MARKETS

Overview – Global Consumer Markets

Global Consumer Markets combines the Company’s local expertise in growth markets outside the U.S. with strong and scalable U.S. personal lines capabilities in order to take advantage of opportunities to grow its business globally. U.S. Consumer Markets and Global Consumer Markets East | West are market segments of Global Consumer Markets. During the quarter ended June 30, 2016, Global Consumer Markets was reorganized into three operating regions: U.S. Consumer Markets, Global Consumer Markets East and Global Consumer Markets West.

Global Consumer Markets NWP by market segment was as follows:

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
U.S. Consumer Markets	\$4,967	\$4,714	5.4%	\$13,998	\$13,282	5.4%
Global Consumer Markets East West	1,039	929	11.8	2,934	2,615	12.2
Total NWP	\$6,006	\$5,643	6.4%	\$16,932	\$15,897	6.5%

Results of Operations – Global Consumer Markets

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Revenues	\$5,782	\$5,465	5.8%	\$16,851	\$15,986	5.4%
PTOI before catastrophes and net incurred losses attributable to prior years	\$702	\$526	33.5%	\$1,861	\$1,653	12.6%
Catastrophes ¹	(367)	(184)	99.5	(1,506)	(1,065)	41.4
Net incurred losses attributable to prior years	12	(28)	NM	37	13	184.6
PTOI	\$347	\$314	10.5%	\$392	\$601	(34.8%)

- 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.
NM = Not Meaningful

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change (Points)	2017	2016	Change (Points)
GLOBAL CONSUMER MARKETS						
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	63.1%	65.2%	(2.1)	64.0%	63.8%	0.2
Underwriting expense ratio	26.5	27.4	(0.9)	26.9	28.0	(1.1)
Subtotal	89.6	92.6	(3.0)	90.9	91.8	(0.9)
Catastrophes ¹	6.6	3.5	3.1	9.3	7.0	2.3
Net incurred losses attributable to prior years	(0.2)	0.5	(0.7)	(0.2)	(0.1)	(0.1)
Total combined ratio	96.0%	96.6%	(0.6)	100.0%	98.7%	1.3

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.

Management's discussion and analysis for Global Consumer Markets will be discussed at the market segment level in the following U.S. Consumer Markets and Global Consumer Markets East | West sections, respectively.

U.S. CONSUMER MARKETS

Overview – U.S. Consumer Markets

U.S. Consumer Markets sells automobile, homeowners and other types of property and casualty insurance coverage to individuals in the United States. U.S. Consumer Markets' products are distributed through approximately 2,000 licensed employee sales representatives, approximately 800 licensed telesales counselors, independent agents, third-party producers and the Internet. U.S. Consumer Markets has more than 22,200 sponsored affinity groups (including employers, professional and alumni associations, credit unions, and other partnerships) which are a significant source of new business.

U.S. Consumer Markets NWP by line of business was as follows:

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30		
	2017	2016	Change	2017	2016	Change
Private passenger automobile	\$2,987	\$2,817	6.0%	\$8,532	\$7,994	6.7%
Homeowners and other	1,980	1,897	4.4	5,466	5,288	3.4
Total NWP	\$4,967	\$4,714	5.4%	\$13,998	\$13,282	5.4%

Third Quarter Results:

NWP for the three months ended September 30, 2017 was \$4.967 billion, an increase of \$253 million over the same period in 2016.

Private passenger automobile NWP for the three months ended September 30, 2017 was \$2.987 billion, an increase of \$170 million over the same period in 2016. The growth reflects an increase in weighted average written premiums (adjusted for changes in six and twelve month policy term mix) resulting from rate and growth in policies in-force. The increase in weighted average written premium reflects additional rate to keep pace with U.S. industry loss cost trends.

Homeowners and other NWP for the three months ended September 30, 2017 was \$1.980 billion, an increase of \$83 million over the same period in 2016. The growth reflects an increase in homeowners average written premiums (resulting from rate) and growth in homeowners policies in-force.

Year-to-date Results:

NWP for the nine months ended September 30, 2017 was \$13.998 billion, an increase of \$716 million over the same period in 2016.

Private passenger automobile NWP for the nine months ended September 30, 2017 was \$8.532 billion, an increase of \$538 million over the same period in 2016. The growth reflects a 6.0% increase in weighted average written premiums (adjusted for changes in six and twelve month policy term mix) resulting from rate and growth in policies in-force of 0.3% for the twelve months ended September 30, 2017. The increase in weighted average written premium reflects additional rate (renewal rate of 10.4% for the twelve months ended September 30, 2017) to keep pace with U.S. industry loss cost trends.

Homeowners and other NWP for the nine months ended September 30, 2017 was \$5.466 billion, an increase of \$178 million over the same period in 2016. The growth reflects a 1.1% increase in homeowners average written premiums (resulting from rate) and growth in homeowners policies in-force of 1.9% for the twelve months ended September 30, 2017.

Results of Operations – U.S. Consumer Markets

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Revenues	\$4,712	\$4,482	5.1%	\$13,772	\$13,147	4.8%
PTOI before catastrophes and net incurred losses attributable to prior years	\$703	\$500	40.6%	\$1,866	\$1,652	13.0%
Catastrophes ¹	(367)	(183)	100.5	(1,506)	(1,059)	42.2
Net incurred losses attributable to prior years	(4)	(43)	(90.7)	(3)	(46)	(93.5)
PTOI	\$332	\$274	21.2%	\$357	\$547	(34.7%)

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.

Third Quarter Results:

PTOI for the three months ended September 30, 2017 was \$332 million, an increase of \$58 million over the same period in 2016. The increase was driven by profit margin on growth in earned premium, lower auto physical damage current accident year non-catastrophe losses and lower net incurred losses attributable to prior years due to reserve releases on prior year catastrophe losses. These items were partially offset by higher current accident year catastrophe losses due primarily to auto and property losses related to Hurricanes Harvey and Irma, respectively.

Revenues for the three months ended September 30, 2017 were \$4.712 billion, an increase of \$230 million over the same period in 2016. The increase reflects the premium earned associated with the changes in NWP previously discussed and growth during the last three months of 2016.

Claims, benefits and expenses for the three months ended September 30, 2017 were \$4.380 billion, an increase of \$172 million over the same period in 2016. The increase was driven by higher current accident year catastrophe losses due primarily to Hurricanes Harvey and Irma and higher auto losses driven by business growth.

Year-to-date Results:

PTOI for the nine months ended September 30, 2017 was \$357 million, a decrease of \$190 million from the same period in 2016. The decrease was driven by higher current accident year catastrophe losses due primarily to property losses related to hail storms in Texas and Colorado, auto and property losses related to Hurricanes Harvey and Irma, respectively, and higher loss trends in the auto line of business. These items were partially offset by the profit margin on growth in earned premium.

Revenues for the nine months ended September 30, 2017 were \$13.772 billion, an increase of \$625 million over the same period in 2016. The increase reflects the premium earned associated with the changes in NWP previously discussed and growth during the last three months of 2016.

Claims, benefits and expenses for the nine months ended September 30, 2017 were \$13.415 billion, an increase of \$815 million over the same period in 2016. The increase was driven by higher current accident year catastrophe losses due primarily to property losses related to hail storms in Texas and Colorado, and auto and property losses related to Hurricanes Harvey and Irma, respectively, and higher auto losses driven by business growth and higher auto liability loss trends.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change (Points)	2017	2016	Change (Points)
U.S. CONSUMER MARKETS						
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	62.4%	65.3%	(2.9)	63.5%	63.3%	0.2
Underwriting expense ratio	23.7	24.8	(1.1)	24.1	25.3	(1.2)
Subtotal	86.1	90.1	(4.0)	87.6	88.6	(1.0)
Catastrophes ¹	8.0	4.2	3.8	11.3	8.3	3.0
Net incurred losses attributable to prior years	0.1	1.0	(0.9)	-	0.4	(0.4)
Total combined ratio	94.2%	95.3%	(1.1)	98.9%	97.3%	1.6

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.

Third Quarter Results:

The U.S. Consumer Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended September 30, 2017 was 86.1%, a decrease of 4.0 points from the same period in 2016. The decrease in the claims and claim adjustment expense ratio was due to earned premium growth and lower auto physical damage current accident year non-catastrophe losses. The decrease in the underwriting expense ratio was due to earned premium growth (primarily driven by premium rate increases) and lower employee-related costs.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended September 30, 2017 was 94.2%, a decrease of 1.1 points from the same period in 2016. The decrease was driven by the changes in the claims and claim adjustment expense and underwriting expense ratio previously discussed, partially offset by higher catastrophe losses.

Year-to-date Results:

The U.S. Consumer Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2017 was 87.6%, a decrease of 1.0 point from the same period in 2016. The decrease was driven by a decrease in the underwriting expense ratio which reflects earned premium growth (primarily driven by premium rate increases) and lower employee-related costs, partially offset by an increase in the claims and claim adjustment expense ratio driven by current accident year non-catastrophe losses due to higher loss trends in the auto liability line of business.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the nine months ended September 30, 2017 was 98.9%, an increase of 1.6 points over the same period in 2016. The increase was primarily driven by higher catastrophe losses and changes in the claims and claim adjustment expense ratio previously discussed, partially offset by favorable changes in the underwriting expense ratio previously discussed.

GLOBAL CONSUMER MARKETS EAST | WEST

Overview – Global Consumer Markets East | West

Global Consumer Markets East | West sells property and casualty, health and life insurance products and services to individuals and businesses in two operating regions.

The two operating regions that comprise Global Consumer Markets East | West are West, including Brazil, Colombia, Chile, Ecuador, Spain, Portugal, Ireland, and West Other; and East, including Thailand, Singapore, Hong Kong, Vietnam, Malaysia, India, China, Russia, Turkey, and East Other. Other in each region includes internal reinsurance and home office revenue and expenses. Private passenger automobile insurance is the single largest line of business.

On July 5, 2017, the Company finalized a merger of its Chilean operations under the Liberty Seguros brand.

On September 30, 2016, the Company completed the sale of substantially all the assets and liabilities of its Polish operation resulting in an immaterial gain. Liberty Ubezpieczenia had approximately \$90 million of net written premium in 2015. The prior period results of the Polish operation are presented in the Corporate and Other section and are no longer reported in Global Consumer Markets East | West.

On August 16, 2016, the Company entered into an agreement to sell a 51% interest of its Chinese operations to Sanpower Group. Due to recent regulatory changes, the timing and outcome of this agreement is uncertain.

Global Consumer Markets East | West NWP by operating region was as follows:

\$ in Millions	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	Change	Change ex. foreign exchange ¹	2017	2016	Change	Change ex. foreign exchange ¹
West	\$791	\$707	11.9%	8.1%	\$2,213	\$1,983	11.6%	7.5%
East	248	222	11.7	11.8	721	632	14.1	15.3
Total NWP	\$1,039	\$929	11.8%	9.0%	\$2,934	\$2,615	12.2%	9.4%

¹ Determined by assuming constant foreign exchange rates between periods.

Global Consumer Markets East | West NWP by line of business was as follows:

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Private passenger automobile	\$658	\$581	13.3%	\$1,815	\$1,602	13.3%
Life and health	85	79	7.6	243	221	10.0
Commercial automobile	70	66	6.1	222	197	12.7
Homeowners	50	46	8.7	139	135	3.0
Other ¹	176	157	12.1	515	460	12.0
Total NWP	\$1,039	\$929	11.8%	\$2,934	\$2,615	12.2%

¹ Premium related to other personal and commercial lines including personal accident, bonds, workers compensation, small and medium enterprise, marine and cargo, and commercial property lines of business.

Third Quarter Results:

NWP for the three months ended September 30, 2017 was \$1.039 billion, an increase of \$110 million or 11.8% over the same period in 2016 and 9.0% on a local currency basis. The local currency increase was primarily driven by auto growth and higher average written premium in Brazil, growth in Ireland, and commercial growth in China.

Year-to-date Results:

NWP for the nine months ended September 30, 2017 was \$2.934 billion, an increase of \$319 million or 12.2% over the same period in 2016 and 9.4% on a local currency basis. The local currency increase was driven by a combination of increased auto business in Brazil driven by higher average written premium and higher retention, increased auto business in Ireland, Portugal, and India, a favorable renewal of a large liability policy in China and changes to terms and coverage of internal reinsurance programs.

Results of Operations – Global Consumer Markets East / West

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Revenues	\$1,070	\$983	8.9%	\$3,079	\$2,839	8.5%
West pre-tax operating income before catastrophes and net incurred losses attributable to prior years	\$30	\$31	(3.2%)	\$53	\$24	120.8%
East pre-tax operating loss before catastrophes and net incurred losses attributable to prior years	(31)	(5)	NM	(58)	(23)	152.2
Catastrophes ¹	-	(1)	(100.0)	-	(6)	(100.0)
Net incurred losses attributable to prior years	16	15	6.7	40	59	(32.2)
PTOI	\$15	\$40	(62.5%)	\$35	\$54	(35.2%)

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.
NM = Not Meaningful

Third Quarter Results:

PTOI for the three months ended September 30, 2017 was \$15 million, a decrease of \$25 million from the same period in 2016. The decrease was primarily driven by internal reinsurance losses, increased expenses and property losses in Chile, and increased auto losses in Thailand. These decreases were partially offset by Brazil as a result of profit margin on growth in auto earned premium and the weakening of the U.S. dollar.

Revenues for the three months ended September 30, 2017 were \$1.070 billion, an increase of \$87 million over the same period in 2016. The increase reflects the premiums earned associated with the changes in NWP previously discussed and growth during the last three months of 2016.

Claims, benefits and expenses for the three months ended September 30, 2017 were \$1.054 billion, an increase of \$111 million over the same period in 2016. The increase was primarily driven by business growth in Brazil, higher losses in China, Chile, and Thailand, the weakening of the U.S. dollar, and internal reinsurance losses.

Year-to-date Results:

PTOI for the nine months ended September 30, 2017 was \$35 million, a decrease of \$19 million from the same period in 2016. The decrease was primarily driven by Chile due to unfavorable underwriting results in auto and property and higher weather related losses and higher losses in Thailand, Singapore, and Malaysia. These decreases were partially offset by Ireland as a result of re-underwriting and the weakening of the U.S. dollar.

Revenues for the nine months ended September 30, 2017 were \$3.079 billion, an increase of \$240 million over the same period in 2016. The increase reflects the premiums earned associated with the changes in NWP previously discussed and growth during the last three months of 2016.

Claims, benefits and expenses for the nine months ended September 30, 2017 were \$3.044 billion, an increase of \$259 million over the same period in 2016. The increase was primarily driven by the weakening of the U.S. dollar, increased

expenses and weather related losses in Chile, and increased auto losses in Thailand, Singapore, and Malaysia. Partially offsetting these increases were lower underwriting losses in Ireland as a result of re-underwriting.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change (Points)	2017	2016	Change (Points)
GLOBAL CONSUMER MARKETS EAST WEST						
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	66.4%	64.5%	1.9	66.6%	66.0%	0.6
Underwriting expense ratio	39.8	40.3	(0.5)	40.3	41.6	(1.3)
Subtotal	106.2	104.8	1.4	106.9	107.6	(0.7)
Catastrophes ¹	-	0.1	(0.1)	-	0.2	(0.2)
Net incurred losses attributable to prior years	(1.5)	(1.7)	0.2	(1.4)	(2.4)	1.0
Total combined ratio	104.7%	103.2%	1.5	105.5%	105.4%	0.1
GCM West combined ratio	101.7%	101.2%	0.5	103.4%	104.8%	(1.4)
GCM East combined ratio	113.9%	108.1%	5.8	110.7%	106.1%	4.6

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.

Third Quarter Results:

The Global Consumer Markets East | West combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended September 30, 2017 was 106.2%, an increase of 1.4 points over the same period in 2016. The increase was driven by an increase in the claims and claim adjustment expense ratio which reflects higher losses in Chile and Thailand and an increase in internal reinsurance losses, partially offset by the impact of premium growth previously discussed. The decrease in the underwriting expense ratio was primarily driven by the impact of premium growth previously discussed.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended September 30, 2017 was 104.7%, an increase of 1.5 points over the same period in 2016. The total combined ratio reflects the changes in the combined ratio previously discussed.

Year-to-date Results:

The Global Consumer Markets East | West combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2017 was 106.9%, a decrease of 0.7 points from the same period in 2016. The decrease was driven by a decrease in the underwriting expense ratio which was primarily driven by lower home office expenses and the impact of premium growth previously discussed, partially offset by an increase in expenses in Chile. The increase in the claims and claim adjustment expense ratio reflects higher losses in Chile, partially offset by lower underwriting losses in Ireland as a result of re-underwriting.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the nine months ended September 30, 2017 was 105.5%, an increase of 0.1 points over the same period in 2016. The total combined ratio reflects less favorable net incurred losses attributable to prior years, partially offset by the changes in the combined ratio previously discussed.

COMMERCIAL INSURANCE

Overview – Commercial Insurance

Commercial Insurance offers a wide array of property and casualty, benefits, and life insurance coverages through independent agents, brokers, benefit consultants, captive agents and bank partners throughout the United States. Commercial Insurance is organized into the following four market segments: Business Insurance; National Insurance; Liberty Mutual Benefits; and Other Commercial Insurance. Business Insurance serves small commercial customers through an operating model that combines local underwriting, market knowledge and service with the scale advantages of a national company. National Insurance provides commercial lines products and services, including third-party administration, to middle market customers and large businesses. National Insurance is also a servicing carrier for state-based workers compensation involuntary market pools. Liberty Mutual Benefits provides short and long-term disability, accident, health and life insurance to mid-sized and large businesses, as well as life and annuity products to individuals in the United States. Other Commercial Insurance primarily consists of internal reinsurance and assumed business from state-based workers compensation involuntary market pools.

Effective January 1, 2017, Commercial Insurance realigned its market segments. The middle market and public entity business, previously in Business Insurance, as well as the Company's servicing carrier business for state-based workers compensation involuntary market pools, previously in Other Commercial Insurance, are now reported within National Insurance. The prior period has been restated to reflect this change.

Commercial Insurance NWP by market segment was as follows:

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Business Insurance	\$1,029	\$1,000	2.9%	\$3,249	\$3,090	5.1%
National Insurance	871	922	(5.5)	2,483	2,495	(0.5)
Liberty Mutual Benefits	517	480	7.7	1,577	1,376	14.6
Other Commercial Insurance	40	36	11.1	118	110	7.3
Total NWP	\$2,457	\$2,438	0.8%	\$7,427	\$7,071	5.0%

Commercial Insurance NWP by line of business was as follows:

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Commercial multiple-peril	\$566	\$570	(0.7%)	\$1,639	\$1,597	2.6%
Workers compensation – Voluntary	433	476	(9.0)	1,375	1,391	(1.2)
Workers compensation – Involuntary	21	22	(4.5)	71	63	12.7
Commercial automobile	437	411	6.3	1,286	1,189	8.2
Employer disability, life and A&H	419	372	12.6	1,259	1,087	15.8
General liability	313	313	-	965	917	5.2
Commercial property	170	166	2.4	514	538	(4.5)
Individual life and annuity	98	108	(9.3)	318	289	10.0
Total NWP	\$2,457	\$2,438	0.8%	\$7,427	\$7,071	5.0%

Third Quarter Results:

NWP for the three months ended September 30, 2017 was \$2.457 billion, an increase of \$19 million over the same period in 2016. The increase reflects higher employer disability and life premium due to strong new business sales. The increase further reflects exposure growth and rate increases across most of the casualty lines, with the most significant rate increase in commercial auto in order to mitigate higher industry-wide loss trends. These increases were partially offset by lost business outpacing new business in the casualty lines, a decrease in construction wrap-up

premium (primarily workers compensation and general liability), timing of processed premium within the quarter and lower individual life and annuity premium due to lower life-contingent structured settlement sales.

Year-to-date Results:

NWP for the nine months ended September 30, 2017 was \$7.427 billion, an increase of \$356 million over the same period in 2016. The increase reflects higher employer disability and life premium due to strong new business sales and individual life and annuity premium growth due to higher life-contingent structured settlement sales during the first quarter of 2017. The increase further reflects exposure growth and rate increases across most of the casualty lines, led by commercial auto. These increases were partially offset by a decrease in construction wrap-up premium (primarily general liability and workers compensation) and lost business outpacing new business in the property lines and most of the casualty lines, due to competitive market conditions.

Results of Operations – Commercial Insurance

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Revenues	\$2,973	\$2,829	5.1%	\$8,805	\$8,304	6.0%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	\$241	\$153	57.5%	\$640	\$730	(12.3%)
Catastrophes ¹	(628)	(52)	NM	(851)	(257)	NM
Net incurred losses attributable to prior years ²	(313)	(34)	NM	(348)	(28)	NM
Current accident year re-estimation ³	(30)	(6)	NM	-	-	-
Pre-tax operating (loss) income	(\$730)	\$61	NM	(\$559)	\$445	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 Net of earned premium and reinstatement premium attributable to prior years of \$1 million and \$12 million for the three and nine months ended September 30, 2017 and (\$3) million and (\$9) million for the same periods in 2016.

3 Re-estimation of the current accident year general liability loss and loss adjustment expense reserves for the six months ended June 30, 2017 and workers compensation loss and loss adjustment expense reserves for the six months ended June 30, 2016
NM = Not Meaningful

Third Quarter Results:

Pre-tax operating loss for the three months ended September 30, 2017 was \$730 million, versus pre-tax operating income of \$61 million for the same period in 2016. The change reflects higher catastrophe losses primarily due to Hurricanes Harvey, Irma, and Maria, adverse prior year development (primarily attributed to commercial auto liability loss reserves, partially offset by prior year catastrophe reserve releases) and increased current accident year casualty losses driven by commercial auto (due to higher industry-wide loss trends) and general liability. The change further reflects unfavorable general liability current accident year re-estimation, partially offset by lower employee related expenses, lower non-catastrophe property losses, favorable employer disability experience and profit margin on growth in earned premium.

Revenues for the three months ended September 30, 2017 were \$2.973 billion, an increase of \$144 million over the same period in 2016. The increase reflects the earned impact of the 2017 written premium growth previously mentioned and the impact of higher earned premium associated with the casualty lines written premium growth during the latter half of 2016. The increase further reflects net investment income growth due to higher invested assets in Liberty Mutual Benefits and higher fees associated with the individual life and employer disability business.

Claims, benefits and expenses for the three months ended September 30, 2017 were \$3.703 billion, an increase of \$936 million over the same period in 2016. The increase was driven by higher catastrophe losses primarily due to Hurricanes Harvey, Irma, and Maria, adverse prior year development (primarily attributed to commercial auto liability loss reserves, partially offset by prior year catastrophe reserve releases), business growth mostly in the casualty lines

of business and increased current accident year casualty losses driven by commercial auto (due to higher industry-wide loss trends) and general liability. The increase further reflects unfavorable general liability current accident year re-estimation, partially offset by lower non-catastrophe property losses and lower employee related expenses.

Year-to-date Results:

Pre-tax operating loss for the nine months ended September 30, 2017 was \$559 million, versus pre-tax operating income of \$445 million for the same period in 2016. The change reflects higher catastrophe losses primarily due to Hurricanes Harvey, Irma, and Maria, adverse prior year development (primarily attributed to commercial auto liability loss reserves, partially offset by prior year catastrophe reserve releases) and increased current accident year casualty losses driven by commercial auto (due to higher industry-wide loss trends) and general liability. The change further reflects a higher commission expense ratio and higher non-catastrophe property losses, partially offset by lower employee related expenses, favorable employer disability experience and profit margin on growth in earned premium.

Revenues for the nine months ended September 30, 2017 were \$8.805 billion, an increase of \$501 million over the same period in 2016. The increase reflects the earned impact of the 2017 written premium growth previously mentioned and the impact of higher earned premium associated with the casualty lines written premium growth during 2016. The increase further reflects net investment income growth due to higher invested assets in Liberty Mutual Benefits and higher fees associated with the individual life and employer disability business, partially offset by lower commission revenue from servicing carrier operations.

Claims, benefits and expenses for the nine months ended September 30, 2017 were \$9.364 billion, an increase of \$1.505 billion over the same period in 2016. The increase was driven by higher catastrophe losses primarily due to Hurricanes Harvey, Irma, and Maria, adverse prior year development (primarily attributed to commercial auto liability loss reserves, partially offset by prior year catastrophe reserve releases), business growth mostly in the casualty lines of business and increased current accident year casualty losses driven by commercial auto (due to higher industry-wide loss trends) and general liability. The increase further reflects higher commission expense and non-catastrophe property losses, partially offset by lower employee related expenses.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change (Points)	2017	2016	Change (Points)
COMMERCIAL INSURANCE						
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	64.6%	63.7%	0.9	64.8%	60.7%	4.1
Underwriting expense ratio	32.1	35.1	(3.0)	33.6	35.5	(1.9)
Dividend ratio	0.1	0.2	(0.1)	0.1	-	0.1
Subtotal	96.8	99.0	(2.2)	98.5	96.2	2.3
Catastrophes ¹	32.1	2.8	29.3	14.9	4.7	10.2
Net incurred losses attributable to prior years ²	16.0	1.7	14.3	6.1	0.5	5.6
Current accident year re-estimation ³	1.5	0.3	1.2	-	-	-
Total combined ratio	146.4%	103.8%	42.6	119.5%	101.4%	18.1

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 Net of earned premium and reinstatement premium attributable to prior years.

3 Re-estimation of the current accident year general liability loss and loss adjustment expense reserves for the six months ended June 30, 2017 and workers compensation loss and loss adjustment expense reserves for the six months ended June 30, 2016

Third Quarter Results:

The Commercial Insurance combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three months ended September 30, 2017 was 96.8%, a decrease of 2.2 points from the same period in 2016. The decrease reflects a 3.0 point lower underwriting expense ratio due to lower employee related expenses and casualty lines earned premium growth. The claims and claim adjustment expense increase of 0.9 points reflects a higher current accident year commercial auto and general liability claims and claim adjustment expense ratio, partially offset by lower non-catastrophe property losses.

Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the total combined ratio for the three months ended September 30, 2017 was 146.4%, an increase of 42.6 points over the same period in 2016. The increase reflects the combined ratio components previously mentioned, higher catastrophe losses, adverse prior year development (primarily attributed to commercial auto liability loss reserves, partially offset by prior year catastrophe reserve releases) and unfavorable general liability current accident year re-estimation.

Year-to-date Results:

The Commercial Insurance combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2017 was 98.5%, an increase of 2.3 points over the same period in 2016. The increase reflects a higher current accident year commercial auto and general liability claims and claim adjustment expense ratio and higher non-catastrophe property losses. The increase was partially offset by a lower underwriting expense ratio due to lower employee related expenses and casualty lines earned premium growth, partially offset by an increase in the commission expense ratio driven by business mix and lower servicing carrier commission revenue.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the nine months ended September 30, 2017 was 119.5%, an increase of 18.1 points over the same period in 2016. The increase reflects the combined ratio components previously mentioned, higher catastrophe losses and adverse prior year development (primarily attributed to commercial auto liability loss reserves, partially offset by prior year catastrophe reserve releases).

GLOBAL SPECIALTY

Overview – Global Specialty

On May 1, 2017, the Company completed its acquisition of Ironshore and combined the Ironshore U.S. operating segment with the LIU U.S. segment, creating one U.S. specialty operation. All prior periods have been restated to reflect this change.

Global Specialty comprises a wide array of products and services offered through four market segments: LSM, LIU, LM Surety and Ironshore. LSM provides a wide range of product capabilities and capacity for specialty markets worldwide and is organized into three business segments: Specialty, Commercial and Reinsurance. LIU sells inland marine and specialty insurance worldwide through offices in Asia, Australia, the Middle East, North America and Latin America. LM Surety is a leading provider of global contract and commercial surety bonds to businesses of all sizes. Ironshore is a specialty lines insurer with three major operating hubs in the U.S., London and Bermuda. Other primarily consists of internal reinsurance.

Global Specialty NWP by market segment was as follows:

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
LSM	\$802	\$632	26.9%	\$2,304	\$2,099	9.8%
LIU ¹	269	239	12.6	687	628	9.4
LM Surety	194	197	(1.5)	603	594	1.5
Ironshore ²	556	145	NM	1,100	426	158.2
Other	39	29	34.5	131	111	18.0
Total NWP	\$1,860	\$1,242	49.8%	\$4,825	\$3,858	25.1%
Foreign exchange effect on growth			0.7			(0.8)
NWP growth excluding foreign exchange ³			49.1%			25.9%

1 LIU excludes LIU U.S. figures.

2 Ironshore includes LIU U.S. figures.

3 Determined by assuming constant foreign exchange rates between periods.
NM = Not Meaningful

Global Specialty's major product lines are as follows:

- (1) Specialty insurance: includes marine, energy, construction, aviation, property, casualty, excess casualty, directors and officers, errors and omissions, environmental impairment liability, railroad, trade credit, excess and surplus property, crisis management, contingent lines and other;
- (2) Reinsurance: includes worldwide multi-line marine, property, casualty and specialty reinsurance;
- (3) Surety: includes contract and commercial surety bonds;
- (4) Inland marine: handset protection coverage for lost or damaged wireless devices.

Global Specialty NWP by line of business was as follows:

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Specialty insurance	\$1,098	\$654	67.9%	\$2,593	\$1,879	38.0%
Reinsurance	423	257	64.6	1,206	996	21.1
Surety	198	202	(2.0)	617	607	1.6
Inland marine	141	129	9.3	409	376	8.8
Total NWP	\$1,860	\$1,242	49.8%	\$4,825	\$3,858	25.1%

Third Quarter Results:

NWP for the three months ended September 30, 2017 was \$1.860 billion, an increase of \$618 million over the same period in 2016. The increase reflects the Ironshore acquisition and growth within LSM, including reinstatement premium, U.S. specialty and inland marine. Additionally, foreign exchange favorably impacted the quarter due to the weakening of the U.S. dollar versus the Canadian dollar and euro.

Year-to-date Results:

NWP for the nine months ended September 30, 2017 was \$4.825 billion, an increase of \$967 million over the same period in 2016. The increase reflects the Ironshore acquisition and growth within LSM, including reinstatement premium, U.S. specialty and inland marine, partially offset by unfavorable LSM ultimate premium adjustments and the impact from the sale of the LSM regional UK commercial business in 2016. Additionally, foreign exchange negatively impacted the year due to the strengthening of the U.S. dollar versus the British pound.

Results of Operations – Global Specialty

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Revenues	\$1,869	\$1,290	44.9%	\$4,650	\$3,775	23.2%
PTOI before catastrophes and net incurred losses attributable to prior years	\$156	\$161	(3.1%)	\$451	\$413	9.2%
Catastrophes ¹	(853)	(16)	NM	(867)	(80)	NM
Net incurred losses attributable to prior years ²	3	11	(72.7)	(14)	93	NM
Pre-tax operating (loss) income	(\$694)	\$156	NM	(\$430)	\$426	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 Net of earned premium and reinstatement premium attributable to prior years of \$10 million and (\$10) million for the three and nine months ended September 30, 2017, and \$3 million and \$2 million for the same periods in 2016.
NM = Not Meaningful

Third Quarter Results:

Pre-tax operating loss for the three months ended September 30, 2017 was \$694 million, versus pre-tax operating income of \$156 million for the same period in 2016. The change reflects higher catastrophe losses primarily due to Hurricanes Harvey, Irma, and Maria, modest unfavorable net incurred losses attributable to prior years primarily within the LSM reinsurance segment and higher current year loss activity, including within the LSM specialty segment, partially offset by the impact of the Ironshore acquisition.

Revenues for the three months ended September 30, 2017 were \$1.869 billion, an increase of \$579 million over the same period in 2016. The increase was driven by an increase in earned premium, which reflects the impact of the Ironshore acquisition and higher current year writings primarily within the LSM reinsurance business segment, including reinstatement premiums, and inland marine.

Claims, benefits and expenses for the three months ended September 30, 2017 were \$2.563 billion, an increase of \$1.429 billion over the same period in 2016. The increase reflects catastrophe losses due primarily to Hurricanes Harvey, Irma, and Maria, unfavorable incurred losses attributable to prior years primarily within LSM, the impact of the Ironshore acquisition, higher current year large loss activity and attritional losses on growth within targeted lines of business across various market segments.

Year-to-date Results:

Pre-tax operating loss for the nine months ended September 30, 2017 was \$430 million, versus pre-tax operating income of \$426 million for the same period in 2016. The change reflects higher catastrophe losses primarily due to Hurricanes Harvey, Irma, and Maria, unfavorable net incurred losses attributable to prior years primarily within LSM in 2017 versus favorable net incurred losses attributable to prior years primarily within LSM in 2016 and higher current year loss activity partially offset by growth including the impact of the Ironshore acquisition.

Revenues for the nine months ended September 30, 2017 were \$4.650 billion, an increase of \$875 million over the same period in 2016. The increase was driven by an increase in earned premium, which reflects the impact of the Ironshore acquisition as well as higher current year writings within the LSM reinsurance business segment, including reinstatement premium, U.S. specialty and inland marine partially offset by the LSM commercial business segment due to a reduction from the sale of the regional UK business in 2016.

Claims, benefits and expenses for the nine months ended September 30, 2017 were \$5.080 billion, an increase of \$1.731 billion over the same period in 2016. The increase reflects higher catastrophe losses due primarily to Hurricanes Harvey, Irma, and Maria, unfavorable incurred losses attributable to prior years primarily within LSM, the impact of the Ironshore acquisition, higher current year large loss activity and attritional losses from growth within targeted lines of business across various market segments.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change (Points)	2017	2016	Change (Points)
GLOBAL SPECIALTY						
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	63.0%	57.4%	5.6	61.2%	58.9%	2.3
Underwriting expense ratio	32.8	34.8	(2.0)	33.8	34.6	(0.8)
Dividend ratio	0.1	0.1	-	0.1	0.2	(0.1)
Subtotal	95.9	92.3	3.6	95.1	93.7	1.4
Catastrophes ¹	49.0	1.3	47.7	19.8	2.3	17.5
Net incurred losses attributable to prior years ²	(0.2)	(0.8)	0.6	0.5	(2.6)	3.1
Total combined ratio	144.7%	92.8%	51.9	115.4%	93.4%	22.0

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 Net of earned premium and reinstatement premium attributable to prior years.

Third Quarter Results:

The Global Specialty combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended September 30, 2017 was 95.9%, an increase of 3.6 points over the same period in 2016. The increase in the claims and claim adjustment expense ratio reflects higher current year loss activity within the LSM specialty and reinsurance segments. The decrease in the underwriting expense ratio is driven by favorable underwriting expense due to lower employee compensation expense and higher earned premium primarily from LSM partially offset by higher commission ratio related to mix of business and the impact of the Ironshore business.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended September 30, 2017 was 144.7%, an increase of 51.9 points over the same period in 2016. The increase reflects the changes to the combined ratio mentioned above as well as unfavorable catastrophe losses and net incurred losses attributable to prior years primarily within LSM.

Year-to-date Results:

The Global Specialty combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2017 was 95.1%, an increase of 1.4 points over the same period in 2016. The increase in the claims and claim adjustment expense ratio reflects higher current year loss activity within U.S. specialty and the LSM specialty segments as well as the impact of the Ironshore business, partially offset by lower current year large loss activity in LM Surety. The decrease in the underwriting expense ratio is driven by lower employee compensation expense and higher earned premium primarily from LSM, partially offset by a higher commission ratio which reflects the impact of the Ironshore business.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the nine months ended September 30, 2017 was 115.4%, an increase of 22.0 points over the same period in 2016. The increase reflects the changes to the combined ratio mentioned above as well as higher catastrophe losses and unfavorable net incurred losses attributable to prior years primarily within LSM in 2017 versus favorable net incurred losses attributable to prior years primarily within LSM in 2016.

CORPORATE AND OTHER

Overview – Corporate and Other

Corporate and Other includes the following significant items:

- Certain internal discontinued operations, which comprises: the run-off of certain Commercial Insurance business, the run-off of the California workers compensation business of Golden Eagle Insurance Corporation and certain distribution channels related to Prudential Property and Casualty Insurance Company, Prudential General Insurance Company and Prudential Commercial Insurance Company (together, “PruPac”) and Liberty Re annuity business.
- Cessions related to certain retroactive reinsurance agreements, including the NICO Reinsurance Transaction, which is described further in “Reinsurance.”
- Effective January 1, 2015, Corporate and Commercial Insurance entered into a new agreement including certain pre-2014 voluntary and involuntary workers compensation claims. The covered business materially aligns with the workers compensation business covered by the retroactive reinsurance agreement defined as the NICO Reinsurance Transaction, which is described further in “Reinsurance.”
- Interest expense on the Company’s outstanding debt.
- Certain risks of its SBUs that the Company reinsures as part of its risk management program and risks on U.S. Consumer Markets homeowners business covered by externally ceded homeowners quota share reinsurance treaties.
- The Company reports its written premium on workers compensation contracts on the "booked as billed" method. Commercial Insurance reports workers compensation written premium on the "booked at inception" method. Corporate and Other results reflect the difference between these two methods.
- The Company discounts the long-term indemnity portion of its settled unpaid workers compensation claims at risk-free discount rates. Commercial Insurance reports its discount based on statutory discount rates. Corporate and Other results reflect the difference between the statutory and risk-free rate.
- Costs associated with certain long-term compensation plans and other corporate costs not fully allocated to the SBUs.
- Property and casualty operations’ investment income is allocated to the business units based on planned ordinary investment income returns by investment category. The difference between allocated net investment income and actual net investment income is included in Corporate and Other. Effective in 2017, the amount allocated to the business units was updated to better reflect the current yield environment. The prior period has been adjusted to reflect this change.
- Investment-related realized gains (losses).
- Income related to LP, LLC and other equity method investments.
- Fee and other revenues include revenues from certain wholly owned non-insurance subsidiaries, primarily Liberty Energy. Liberty Energy generates revenue from the production and sale of oil and gas and related LP, LLC and other equity method investments.
- The prior period results of the Polish operation, which was sold on September 30, 2016.

Corporate and Other NWP by line of business was as follows:

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Reinsurance, net	\$38	(\$15)	NM	\$319	\$170	87.6%
Workers compensation – Voluntary ¹	14	(33)	NM	10	13	(23.1)
Other ²	4	34	(88.2)	10	90	(88.9)
Total NWP	\$56	(\$14)	NM	\$339	\$273	24.2%

1 Booked as billed adjustment.

2 Other includes the Polish operation.
NM = Not Meaningful

Third Quarter Results:

NWP for the three months ended September 30, 2017 was \$56 million, an increase of \$70 million over the same period in 2016. The increase reflects the reinsurance line of business due to new internal programs and changes in terms and coverage to both internal and external programs and the booked as billed adjustment, partially offset by premium written by the Polish operation prior to it being sold in the third quarter of 2016.

Year-to-date Results:

NWP for the nine months ended September 30, 2017 was \$339 million, an increase of \$66 million over the same period in 2016. The increase reflects the reinsurance line of business due to new internal programs and changes in terms and coverage to both internal and external programs, partially offset by premium written by the Polish operation prior to it being sold in the third quarter of 2016.

Results of Operations – Corporate and Other

\$ in Millions	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Revenues	\$567	\$306	85.3%	\$1,351	\$576	134.5%
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income	(\$113)	(\$120)	(5.8%)	(\$347)	(\$255)	36.1%
Catastrophes ¹	63	(6)	NM	83	(6)	NM
Net incurred losses attributable to prior years:						
-Asbestos and environmental ²	(153)	(50)	NM	(162)	(41)	NM
-All other ^{2,3}	47	62	(24.2)	44	34	29.4
Pre-tax operating loss before partnerships, LLC and other equity method income	(156)	(114)	36.8	(382)	(268)	42.5
Partnerships, LLC and other equity method income ⁴	209	62	NM	479	26	NM
Pre-tax operating income (loss)	\$53	(\$52)	NM	\$97	(\$242)	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 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 attributable to prior years of zero for the three and nine months ended September 30, 2017 and 2016.

- 4 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 the production and sale of oil and gas.
NM = Not Meaningful

Third Quarter Results:

Pre-tax operating income (loss) for the three months ended September 30, 2017 was \$53 million versus (\$52) million for the same period in 2016. The change reflects higher partnerships, LLC and other equity method income, lower expenses retained in Corporate, favorable employee benefits expenses, and favorable expected recoveries on external reinsurance treaties outpacing internal assumed losses, partially offset by unfavorable asbestos and environmental development (NICO Reinsurance Transaction impact described further in “Reinsurance”), lower net investment income excluding partnerships, LLC and other equity method investments, and higher current accident year large loss activity in the reinsurance segment.

Revenues for the three months ended September 30, 2017 were \$567 million, an increase of \$261 million over the same period in 2016. The major components of revenues are net premium earned, net investment income (including LP, LLC and other equity method investments), net realized gains, and fee and other revenues.

Net premium earned for the three months ended September 30, 2017 was \$91 million, an increase of \$16 million over the same period in 2016. The increase was driven by new internal programs and changes in terms and coverage to both internal and external programs, partially offset by premium earned by the Polish operation in 2016.

Net investment income for the three months ended September 30, 2017 was \$222 million, an increase of \$129 million over the same period in 2016. The increase was primarily a result of more favorable valuations in private equity investments in 2017 as compared to the same period in 2016.

Net realized gains for the three months ended September 30, 2017 were \$195 million, an increase of \$112 million over the same period in 2016. The increase in net realized gains primarily relates to equity gains realized from sales due to portfolio repositioning in 2017, partially offset by higher impairments on equities, due to intent to sell.

Fee and other revenues for the three months ended September 30, 2017 were \$59 million, an increase of \$4 million over the same period in 2016.

Claims, benefits and expenses for the three months ended September 30, 2017 were \$319 million, an increase of \$44 million over the same period in 2016. The increase reflects unfavorable asbestos and environmental development (NICO Reinsurance Transaction impact described further in “Reinsurance”), higher operating expenses related to Liberty Energy, and higher current accident year large loss activity in the reinsurance segment, partially offset by lower expenses retained in Corporate, favorable employee benefits expenses, lower expenses due to the sale of the Polish operation, and favorable expected recoveries on external reinsurance treaties outpacing internal assumed losses.

Year-to-date Results:

Pre-tax operating income (loss) for the nine months ended September 30, 2017 was \$97 million versus (\$242) million for the same period in 2016. The change reflects higher partnerships, LLC and other equity method income, lower expenses retained in Corporate, favorable employee benefits expenses, and favorable expected recoveries on external reinsurance treaties outpacing internal assumed losses, partially offset by unfavorable asbestos and environmental development (NICO Reinsurance Transaction impact described further in “Reinsurance”), lower net investment income excluding partnerships, LLC and other equity method investments, and higher current accident year large loss activity in the reinsurance segment.

Revenues for the nine months ended September 30, 2017 were \$1.351 billion, an increase of \$775 million over the same period in 2016. The major components of revenues are net premium earned, net investment income (including LP, LLC and other equity method investments), net realized gains (losses), and fee and other revenues.

Net premium earned for the nine months ended September 30, 2017 was \$242 million, an increase of \$22 million over the same period in 2016. The increase was driven by new internal programs and changes in terms and coverage to both internal and external programs, partially offset by premium earned by the Polish operation in 2016.

Net investment income for the nine months ended September 30, 2017 was \$547 million, an increase of \$302 million over the same period in 2016. The increase was primarily a result of more favorable valuations in both the energy sector and traditional private equity investments in 2017 as compared to the same period in 2016.

Net realized gains (losses) for the nine months ended September 30, 2017 were \$395 million versus (\$50) million for the same period in 2016. The increase in net realized gains primarily relates to gains from sales due to portfolio repositioning. In addition, 2017 reflects a \$109 million gain on the sale of company-owned real estate. The prior period was impacted by higher impairments on direct investments in oil and gas wells compared to 2017.

Fee and other revenues for the nine months ended September 30, 2017 were \$167 million, an increase of \$6 million over the same period in 2016.

Claims, benefits and expenses for the nine months ended September 30, 2017 were \$859 million, a decrease of \$9 million from the same period in 2016. The decrease reflects lower expenses retained in Corporate, favorable employee benefits expenses, lower expenses due to the sale of the Polish operation, favorable expected recoveries on external reinsurance treaties outpacing internal assumed losses, and lower depreciation, depletion and amortization expenses related to Liberty Energy. These decreases were partially offset by unfavorable asbestos and environmental development (NICO Reinsurance Transaction impact described further in “Reinsurance”) and higher current accident year large loss activity in the reinsurance segment.

INVESTMENTS

General

The Company's investment strategy seeks long-term returns through disciplined security selection, portfolio diversity and an integrated approach to risk management. The Company selects and monitors investments to balance the goals of safety, stability, liquidity, growth and after-tax total return with its need to comply with regulatory investment requirements. A relatively safe and stable income stream is achieved by maintaining a broadly based portfolio of investment grade bonds. These holdings are supplemented by investments in additional asset types with the objective of further enhancing the portfolio's diversification and expected returns. These additional asset types include commercial mortgages and other real estate financing investments, non-investment grade bonds, including leveraged loans, common and preferred stock, private equity and direct investments in natural resource ventures. Risk management is accomplished through asset liability management (including both interest rate risk and foreign currency risk), diversification, credit limits and a careful analytical review of each investment decision.

The Company's investment policy and strategy are reviewed and approved by the Investment Committee of its Board of Directors, which meets on a regular basis to review and consider investment activities, tactics and new investment classes. In addition, the Company predominantly uses a subsidiary investment advisor for managing and administering the investment portfolios of its domestic and foreign insurance operations.

Invested Assets (including cash and cash equivalents)

The following table summarizes the Company's invested assets by asset category as of September 30, 2017 and December 31, 2016:

Invested Assets by Type \$ in Millions	As of September 30, 2017		As of December 31, 2016	
	Carrying Value	% of Total	Carrying Value	% of Total
Fixed maturities, available for sale, at fair value	\$71,138	80.1 %	\$64,700	79.2%
Equity securities, available for sale, at fair value	2,068	2.3	2,576	3.2
LP, LLC and other equity method investments	6,136	6.9	5,316	6.5
Commercial mortgage loans	2,694	3.0	2,582	3.2
Short-term investments	512	0.6	1,147	1.4
Other investments	891	1.0	709	0.9
Cash and cash equivalents	5,420	6.1	4,608	5.6
Total invested assets	\$88,859	100.0%	\$81,638	100.0%

Total invested assets as of September 30, 2017 were \$88.859 billion, an increase of \$7.221 billion or 8.8% over December 31, 2016. The increase primarily reflects \$5.535 billion in invested assets acquired as part of the Ironshore acquisition, increases in cash from operations and financing, as well as the favorable impact of decreasing treasury rates and tightening credit spreads.

Fixed maturities as of September 30, 2017 were \$71.138 billion, an increase of \$6.438 billion or 10.0% over December 31, 2016. The increase is primarily due to the Ironshore acquisition, as well as the favorable impact of decreasing treasury yields and tightening credit spreads. As of September 30, 2017, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost and fair value of \$798 million and \$795 million, respectively.

Equity securities as of September 30, 2017 were \$2.068 billion (\$1.828 billion common stock and \$240 million preferred stock) versus \$2.576 billion as of December 31, 2016 (\$2.239 billion common stock and \$337 million preferred stock), a decrease of \$508 million or 19.7% from December 31, 2016. Of the \$1.828 billion of common stock at September 30, 2017, \$654 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The decrease in total equity securities is primarily due to portfolio repositioning.

The following table summarizes the Company's LP, LLC and other equity method investments as of September 30, 2017 and December 31, 2016:

LP, LLC and other equity method investments \$ in Millions	As of September 30, 2017		As of December 31, 2016	
	Carrying Value	% of Total	Carrying Value	% of Total
Traditional private equity	\$3,390	55.2%	\$3,034	57.1%
Natural resources – Energy	578	9.4	384	7.2
Natural resources – Other ¹	346	5.6	292	5.5
Real estate	850	13.9	713	13.4
Other	972	15.9	893	16.8
Total LP, LLC and other equity method investments	\$6,136	100.0%	\$5,316	100.0%

¹ Included in Natural Resources – Other is \$262 million of investments in metals & mining and \$84 million of investments in timber.

Commercial mortgage loans as of September 30, 2017 were \$2.694 billion (net of \$5 million of loan loss reserves or 0.19% of the outstanding loan portfolio), an increase of \$112 million or 4.34% over December 31, 2016. The increase primarily reflects \$289 million in funding and a decrease of \$3 million to the loan loss reserve, partially offset by \$180 million in principal reductions. The entire commercial loan portfolio is U.S.-based. The number of loans in the portfolio increased from 4,856 at December 31, 2016 to 4,898 at September 30, 2017.

Short-term investments as of September 30, 2017 were \$512 million, a decrease of \$635 million or 55.4% from December 31, 2016. The decrease was primarily due to maturing commercial paper that was purchased in 2016 to take advantage of favorable yields. Partially offsetting this was an increase due to the Ironshore acquisition.

Cash and cash equivalents as of September 30, 2017 were \$5.420 billion, an increase of \$812 million or 17.6% over December 31, 2016. The increase was primarily related to operating and financing activities.

The following tables summarize the Company's available for sale portfolio by security type as of September 30, 2017 and December 31, 2016:

\$ in Millions	As of September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	\$3,865	\$115	(\$25)	\$3,955
Residential MBS ¹	7,450	124	(29)	7,545
Commercial MBS	2,156	27	(9)	2,174
Other MBS and ABS ²	3,005	38	(11)	3,032
U.S. state and municipal	13,268	616	(58)	13,826
Corporate and other	33,955	1,418	(90)	35,283
Foreign government securities	5,137	207	(21)	5,323
Total fixed maturities	68,836	2,545	(243)	71,138
Common stock	1,409	431	(12)	1,828
Preferred stock	227	15	(2)	240
Total equity securities	1,636	446	(14)	2,068
Total securities available for sale	\$70,472	\$2,991	(\$257)	\$73,206

¹ Mortgage-backed securities ("MBS")

² Asset-backed securities ("ABS")

\$ in Millions	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	\$3,141	\$118	(\$29)	\$3,230
Residential MBS	6,554	147	(50)	6,651
Commercial MBS	1,659	25	(6)	1,678
Other MBS and ABS	2,966	37	(23)	2,980
U.S. state and municipal	14,014	462	(194)	14,282
Corporate and other	29,935	1,123	(233)	30,825
Foreign government securities	4,900	188	(34)	5,054
Total fixed maturities	63,169	2,100	(569)	64,700
Common stock	1,801	469	(31)	2,239
Preferred stock	363	15	(41)	337
Total equity securities	2,164	484	(72)	2,576
Total securities available for sale	\$65,333	\$2,584	(\$641)	\$67,276

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of September 30, 2017:

Mortgage & Asset-Backed Fixed Maturities by Credit Quality ¹	As of September 30, 2017							
	AAA	AA	A	BBB	BB	B or Lower	Total	% of Total
\$ in Millions								
SBA loans	\$1,708	\$-	\$-	\$-	\$-	\$-	\$1,708	13.4%
GNMA residential mortgage	2,029	-	-	-	-	-	2,029	15.9
FNMA residential mortgage	3,441	1	-	-	-	-	3,442	27.0
FHLMC residential mortgage	1,891	-	-	-	-	-	1,891	14.8
Non-agency residential mortgage	29	1	-	4	6	143	183	1.4
Commercial MBS	1,927	172	29	33	7	6	2,174	17.1
Non-mortgage ABS	773	39	108	389	8	7	1,324	10.4
Total	\$11,798	\$213	\$137	\$426	\$21	\$156	\$12,751	100%
% of Total	92.5%	1.7%	1.1%	3.3%	0.2%	1.2%	100%	

¹ For purposes of this disclosure, credit quality is primarily based upon average credit ratings.

Approximately 71% of the Company's mortgage and asset-backed fixed maturity portfolio is explicitly backed by the U.S. government (SBA and GNMA) or by government-sponsored entities (FNMA and FHLMC). Approximately 93% of the holdings are rated AAA. The commercial mortgage-backed securities portfolio is well diversified and of high quality with approximately 89% rated AAA.

The following table summarizes the Company's U.S. state and municipal fixed maturity portfolio of securities which are obligations of states, municipalities and political subdivisions (collectively referred to as U.S. state and municipal bonds) by credit quality as of September 30, 2017 and December 31, 2016:

U.S. State and Municipal by Credit Quality ¹	As of September 30, 2017			As of December 31, 2016		
	Fair Value	% of Total	Average Credit Rating	Fair Value	% of Total	Average Credit Rating
\$ in Millions						
State general obligation	\$1,794	12.9%	AA	\$1,954	13.7%	AA
Local general obligation	1,420	10.3	AA	1,430	10.0	AA
Revenue	10,162	73.5	AA	9,818	68.7	AA
Pre-refunded	450	3.3	AAA	1,080	7.6	AAA
Total U.S. state and municipal	\$13,826	100.0%	AA	\$14,282	100.0%	AA

1 For purposes of this disclosure, credit quality is primarily based upon average credit ratings.

The municipal bond portfolio (taxable and tax-exempt) includes general obligation and revenue bonds issued by states, cities, counties, school districts, hospitals, educational institutions, and similar issuers. Included in the municipal bond portfolio at September 30, 2017 and December 31, 2016 were \$450 million and \$1.080 billion, respectively, of pre-refunded bonds, which are bonds for which states or municipalities have established irrevocable trusts, which were created to satisfy their responsibility for payments of principal and interest.

The following table summarizes the Company's allocation of fixed maturities by credit quality as of September 30, 2017 and December 31, 2016:

Fixed Maturities by Credit Quality ¹	As of September 30, 2017		As of December 31, 2016	
	Fair Value	% of Total	Fair Value	% of Total
\$ in Millions				
AAA	\$19,645	27.7 %	\$18,057	27.9%
AA+, AA, AA-	12,684	17.8	12,563	19.4
A+, A, A-	17,167	24.1	15,336	23.7
BBB+, BBB, BBB-	17,374	24.4	14,530	22.5
Total investment grade	66,870	94.0	60,486	93.5
BB+, BB, BB-	2,204	3.1	2,358	3.6
B+, B, B-	1,628	2.3	1,483	2.3
CCC or lower	303	0.4	373	0.6
Unrated ²	133	0.2	-	-
Total below-investment grade	4,268	6.0	4,214	6.5
Total fixed maturities	\$71,138	100.0%	\$64,700	100.0%

1 For purposes of this disclosure, credit quality is primarily based upon average credit ratings.

2 Bank loans acquired as part of Ironshore acquisition.

The Company's holdings of below investment grade securities primarily consist of an actively managed diversified portfolio of high yield securities and leveraged loans within the domestic insurance portfolios and investments in emerging market sovereign and corporate debt primarily in support of the Company's international insurance operations. Overall, the average credit quality rating stands at A+ as of September 30, 2017.

The following table summarizes available for sale fixed maturity securities by contractual maturity at September 30, 2017 and December 31, 2016. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Due to the potential for prepayment on MBS and ABS, they are not categorized by contractual maturity.

Fixed Maturity by Maturity Date	As of September 30, 2017		As of December 31, 2016	
	Fair Value	% of Total	Fair Value	% of Total
\$ in Millions				
One year or less	\$3,267	4.6%	\$3,323	5.1%
Over one year through five years	21,697	30.5	17,696	27.4
Over five years through ten years	17,785	25.0	17,341	26.8
Over ten years	15,638	22.0	15,031	23.2
MBS and ABS	12,751	17.9	11,309	17.5
Total fixed maturities	\$71,138	100.0%	\$64,700	100.0%

The fixed maturities over one year through five years as of September 30, 2017 were \$21.697 billion, an increase of \$4.001 billion or 22.6% over December 31, 2016. The increase is primarily due to the Ironshore acquisition. During 2017, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company has made only minor adjustments to the average duration of its investment portfolio. The average duration of the investment portfolio as of September 30, 2017 was 5.1 (domestic P&C was 4.1).

The following tables summarize the Company's gross unrealized losses and fair value of fixed income and equity securities by the length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2017 and December 31, 2016 that are not deemed to be other-than-temporarily impaired:

Unrealized Losses & Fair Value by Security Type	As of September 30, 2017			
	\$ in Millions	Less Than 12 Months		12 Months or Longer
		Unrealized Losses	Fair Value of Investments with Unrealized Losses	Unrealized Losses
U.S. Government and agency securities	(\$17)	\$2,403	(\$8)	\$318
Residential MBS	(20)	3,227	(9)	704
Commercial MBS	(6)	762	(3)	77
Other MBS and ABS	(6)	882	(5)	149
U.S. state and municipal	(14)	1,356	(44)	1,412
Corporate and other	(39)	4,361	(51)	1,556
Foreign government securities	(12)	1,152	(9)	410
Total fixed maturities	(114)	14,143	(129)	4,626
Common stock	(9)	178	(3)	26
Preferred stock	(2)	73	-	3
Total equity securities	(11)	251	(3)	29
Total securities available for sale	(\$125)	\$14,394	(\$132)	\$4,655

Unrealized Losses & Fair Value by Security Type	As of December 31, 2016			
	\$ in Millions	Less Than 12 Months		12 Months or Longer
		Unrealized Losses	Fair Value of Investments with Unrealized Losses	Unrealized Losses
U.S. Government and agency securities	(\$28)	\$1,774	(\$1)	\$6
Residential MBS	(49)	3,135	(1)	34
Commercial MBS	(6)	639	-	8
Other MBS and ABS	(18)	1,499	(5)	155
U.S. state and municipal	(188)	4,491	(6)	66
Corporate and other	(178)	7,878	(55)	840
Foreign government securities	(30)	1,425	(4)	263
Total fixed maturities	(497)	20,841	(72)	1,372
Common stock	(14)	187	(17)	164
Preferred stock	(1)	17	(40)	241
Total equity securities	(15)	204	(57)	405
Total securities available for sale	(\$512)	\$21,045	(\$129)	\$1,777

Unrealized losses decreased from \$641 million as of December 31, 2016 to \$257 million as of September 30, 2017. Of the \$3 million of unrealized losses 12 months or longer on common stock, \$2 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The Company monitors the difference between the amortized cost and estimated fair value of fixed maturity securities to ascertain whether declines in value are temporary in nature. The Company currently does not have the intent to sell these securities and has determined it is not more likely than not that it would be required to sell these fixed maturity securities before they

recover their fair value. The Company has concluded that the gross unrealized losses of fixed maturity securities as of September 30, 2017 are temporary.

For equity securities, if the decline is believed to be other-than-temporary, the carrying value of the investment is written down to fair value and a realized loss is recorded. The Company has concluded that the gross unrealized losses of equity securities as of September 30, 2017 are temporary, and the Company has the intent and ability to hold these securities until recovery.

The following tables summarize the Company's issuer and sector exposure¹ as of September 30, 2017:

Top 10 Issuers	As of September 30, 2017				
\$ in Millions	Fixed Maturity	Equity	Short Term	Total Exposure	% of Invested Assets
Government of United Kingdom	\$724	\$-	\$-	\$724	0.82%
Government of Brazil	654	-	-	654	0.74
Invenergy	-	429	-	429	0.48
Wells Fargo & Co	342	-	6	348	0.39
Anheuser-Busch InBev NV	344	2	-	346	0.39
Government of Spain	335	-	-	335	0.38
Bank of America Corp	303	27	2	332	0.37
JP Morgan Chase & Co	283	28	1	312	0.35
Government of Colombia	288	-	-	288	0.32
State of Washington	287	-	-	287	0.32
Total	\$3,560	\$486	\$9	\$4,055	4.56 %

Top 10 Sectors	As of September 30, 2017				
\$ in Millions	Fixed Maturity	Equity	Short Term	Total Exposure	% of Invested Assets
Banking	\$5,895	\$400	\$351	\$6,646	7.48%
Foreign Government	4,227	-	9	4,236	4.77
Electric Utility	3,077	179	10	3,266	3.68
Technology	2,111	333	11	2,455	2.76
US Municipal – Education	2,142	-	-	2,142	2.41
Food and Beverage	1,806	59	12	1,877	2.11
US Municipal – State	1,794	-	1	1,795	2.02
Insurance	1,423	140	1	1,564	1.76
Pharmaceuticals	1,454	103	3	1,560	1.76
US Municipal – Water & Sewer	1,496	-	-	1,496	1.68
Total	\$25,425	\$1,214	\$398	\$27,037	30.43 %

¹ Tables exclude U.S. Treasury and agency securities, mortgage-backed securities, and municipal obligations that are pre-funded or escrowed to maturity.

As of September 30, 2017, investments in the energy sector accounted for \$3.619 billion or 4.1% of total invested assets. The energy sector is comprised of investments in the following sub-sectors: independent energy, integrated energy, midstream, oil field services, and refining (*classification per Bloomberg Barclays Industry Groups*). These individual energy sub-sectors are not material enough at an individual level to appear within the top 10 rankings in the sector table above. Energy investments consist of investment grade bonds of \$2.759 billion, bonds that were rated below investment grade of \$259 million, publicly traded equity securities of \$21 million, and natural resources partnerships and other equity method investments of \$580 million. In addition, the Company has direct investments in oil and gas wells of \$1.135 billion which are included in other assets on the Consolidated Balance Sheets.

The following table summarizes the Company's unfunded commitments as of September 30, 2017 and December 31, 2016:

Unfunded Commitments	As of September 30, 2017		As of December 31, 2016	
	Total	% of Total	Total	% of Total
\$ in Millions				
Traditional private equity	\$1,574	48.8%	\$1,698	46.7%
Natural resources – Energy	474	14.7	652	17.9
Natural resources – Other	-	-	1	-
Real estate	666	20.7	746	20.5
Other	509	15.8	541	14.9
Total unfunded commitments	\$3,223	100.0%	\$3,638	100.0%

Unfunded commitments as of September 30, 2017 were \$3.223 billion, a \$415 million decrease from December 31, 2016. The decrease is primarily driven by contributions net of new commitments related to traditional private equity partnerships and energy partnerships. The \$474 million unfunded energy investment commitments as of September 30, 2017 included \$422 million related to energy partnerships and \$52 million related to direct investments in oil and gas wells. The \$652 million unfunded energy investment commitments as of December 31, 2016 included \$563 million related to natural resource partnerships and \$89 million related to direct investments in oil and gas wells.

LIQUIDITY AND CAPITAL RESOURCES

The liquidity requirements of the insurance subsidiaries are met primarily by funds generated from operations, asset maturities and income received on investments. Cash provided from these sources is used primarily for claims, claim adjustment expenses and operating expenses (underwriting and corporate benefit costs). There are certain cash outflows such as catastrophes and continued settlements of asbestos reserves that are unpredictable in nature and could create increased liquidity needs. The Company believes that the insurance subsidiaries' future business liquidity needs will be met from all the above sources. However, the Company maintains back up borrowing facilities as an additional contingent source of funds. These include:

- On May 5, 2016, Liberty Mutual Insurance Company ("LMIC") extended the termination date of a \$1 billion repurchase agreement from July 3, 2017 to July 3, 2018, unless extended. At September 30, 2017, no funds were borrowed under the facility.
- Effective December 21, 2015, LMIC renewed a \$1 billion repurchase agreement for a two-year period, which terminates December 21, 2017. At September 30, 2017, no funds were borrowed under the facility.
- LMIC, Peerless Insurance Company ("PIC"), Liberty Life Assurance Company of Boston ("LLAC"), Liberty Mutual Fire Insurance Company ("LMFIC"), Employers Insurance Company of Wausau ("EICOW"), Ironshore Specialty Insurance Company ("ISIC") and Ironshore Indemnity Insurance ("III") are members of the Federal Home Loan Bank. The Company has \$300 million of Federal Home Loan Bank borrowings with maturity dates in 2032. As of September 30, 2017, all of the outstanding Federal Home Loan Bank borrowings are fully collateralized.

Net cash flows are generally invested in marketable securities while keeping a certain amount in cash and short-term investments to meet unpredictable cash obligations. The Company monitors the duration of these investments, and purchases and sales are executed with the objective of having adequate cash available to satisfy its maturing liabilities. As the Company's investment strategy focuses on overall asset and liability durations, and not specific cash flows, asset sales may be required to satisfy obligations or rebalance asset portfolios. The Company's invested assets as of September 30, 2017 (including cash and cash equivalents) totaled \$88.859 billion.

Debt outstanding as of September 30, 2017 and December 31, 2016 was as follows:

Short-term debt:

\$ in Millions	As of September 30, 2017	As of December 31, 2016
Short-term debt	\$ -	\$ -

Long-term debt:

\$ in Millions	As of September 30, 2017	As of December 31, 2016
Junior Subordinated notes, due 2067 ^{1, 2}	\$ 300	\$ 300
5.00% Notes, due 2021	600	600
4.95% Notes, due 2022	750	750
4.25% Notes, due 2023	1,000	1,000
1.75% €500 Million Notes, due 2024	591	-
8.50% Surplus notes, due 2025	140	140
2.75% €750 Million Notes, due 2026	887	791
7.875% Surplus notes, due 2026	227	227
7.625% Notes, due 2028	3	3
3.91% - 4.25% Federal Home Loan Bank Borrowings, due 2032	300	300
7.00% Notes, due 2034	231	231
6.50% Notes, due 2035	471	471
7.50% Notes, due 2036	19	19
7.80% Junior Subordinated notes, due 2087 ²	700	700
10.75% Junior Subordinated notes, due 2088 ³	66	68
6.50% Notes, due 2042	750	750
4.85% Notes, due 2044	1,050	1,050
7.697% Surplus notes, due 2097	260	260
Subtotal	8,345	7,660
Unamortized discount	(14)	(15)
Long-term debt excluding unamortized debt issuance costs	8,331	7,645
Unamortized debt issuance costs	(41)	(42)
Total long-term debt	\$8,290	\$7,603

¹ 7.00% fixed rate became 6.324% starting March 15, 2017 through a swap. Bondholders are paid 3-month LIBOR + 2.905%

² The par value call date and final fixed rate interest payment date is March 15, 2037, subject to certain requirements.

³ The par value call date and final fixed rate interest payment date is June 15, 2038, subject to certain requirements.

As part of its overall capital strategy, the Company previously announced that it may issue, repurchase or exchange debt depending on market conditions. Debt repurchases may be executed through open market or other appropriate transactions. The Company continues to evaluate market conditions and may periodically effect transactions in its debt, subject to applicable limitations.

Debt Transactions

During the three and nine months ended September 30, 2017, the Company repurchased zero and \$2 million respectively, of the 10.75% Junior Subordinated notes due 2088 compared to \$1 million and \$17 million for the same periods in 2016. Pre-tax losses of zero and \$1 million, respectively, were recorded on these transactions for the three and nine months ended September 30, 2017 compared to \$1 million and \$9 million for the same periods in 2016 and are included in loss on extinguishment of debt in the accompanying Consolidated Statements of Operations.

In connection with the Ironshore acquisition, on June 1, 2017, the Company repurchased \$250 million of Ironshore's 8.5% senior note maturing in 2020 for \$298 million, which reflects the fair value of the long term debt on the opening balance sheet.

On March 27, 2017, Liberty Mutual Finance Europe DAC ("LMFE") issued €500 million par value of the 2024 Notes. Interest is payable annually at a fixed rate of 1.75%. The 2024 Notes mature on March 27, 2024. The Company has designated non-derivative foreign-currency denominated long-term debt and the related accrued interest as hedges of its net investment in certain foreign operations.

On May 4, 2016, Liberty Mutual Group Inc. ("LMGI") issued €750 million par value of Senior Notes due 2026 (the "2026 Notes"). Interest is payable annually at a fixed rate of 2.75%. The 2026 Notes mature on May 4, 2026. The

Company has designated non-derivative foreign-currency denominated long-term debt and the related accrued interest as hedges of its net investment in certain foreign operations.

On January 20, 2012, LMGI entered into two interest rate swap transactions having a notional amount of \$300 million with respect to LMGI's \$300 million Junior Subordinated Notes due 2067. Pursuant to the terms of the swap agreements, commencing on March 15, 2017 and effective through March 15, 2037, LMGI has agreed with the counterparties to pay a fixed rate of interest on the notional amount and the counterparties have agreed to pay a floating rate of interest on the notional amount.

Interest Expense

Consolidated interest expense for the three and nine months ended September 30, 2017 was \$111 million and \$331 million, respectively, decreases of \$2 million and \$4 million from the same periods in 2016.

Holding Company Liquidity and Capital Resources

The Company conducts substantially all of its operations through its wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of September 30, 2017, the Company, through its downstream subsidiaries LMGI and Liberty Mutual Finance Europe DAC, had \$6.824 billion and \$591 million, respectively, of debt outstanding, excluding discount and issuance costs.

The insurance subsidiaries' ability to pay dividends on preferred or common stock is restricted under applicable insurance laws and regulations and may be paid only from unassigned surplus. Under the insurance laws of the domiciliary states of the insurance subsidiaries, an insurer may make an ordinary dividend payment if its surplus as regards policyholders, following such dividend, is reasonable in relation to its outstanding liabilities, is adequate to meet its financial needs, and does not exceed the insurer's unassigned surplus. However, no insurer may pay an extraordinary dividend without the approval or non-disapproval of the domiciliary insurance regulatory authority. Insurance subsidiaries owned directly by LMGI are LMIC, Liberty Mutual Personal Insurance Company ("LMPICO"), LMFIC and EICOW. Under the insurance laws of Massachusetts, the domiciliary state of LMIC and LMPICO, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends made within the preceding 12 months, exceeds the greater of 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or the insurer's net income for the 12-month period ending on the preceding December 31. Under the insurance laws of Wisconsin, the domiciliary state of LMFIC and EICOW, an extraordinary dividend is defined as a dividend whose fair market value, together with other dividends paid within the preceding 12 months, exceeds the lesser of (a) 10% of the insurer's surplus as regards policyholders as of the preceding December 31, or (b) the greater of (1) the insurer's net income for the preceding calendar year, minus realized capital gains for that calendar year, or (2) the aggregate of the insurer's net income for the three preceding calendar years minus realized capital gains for those calendar years and minus dividends paid within the first two of the preceding three calendar years. Changes in the extraordinary dividend regulation of the domiciliary states of LMIC, LMFIC and EICOW could negatively affect LMGI's ability to pay principal and interest on its debt, as could a redomestication or merger of LMIC, LMPICO, LMFIC or EICOW to a different domiciliary state.

The authorized control level risk-based capital (as of December 31, 2016) and 2017 available dividend capacity prior to needing regulatory approval for LMIC, LMFIC and EICOW were as follows:

\$ in Millions	RBC Ratio¹		Dividend Capacity²	Dividends Paid³
	2016	2015	2017	2017
RBC Ratios and Dividend Capacity				
LMIC	487%	497%	\$1,612	\$49
LMFIC	502%	518%	\$147	\$11
EICOW	507%	512%	\$158	\$ -

¹ Authorized control level risk-based capital as defined by the NAIC.

² Represents the estimated maximum allowable dividend without prior regulatory approval in the state of domicile.

³ Dividends paid represent amounts paid during the nine months ended September 30, 2017. Available dividend capacity as of September 30, 2017 is calculated as 2017 dividend capacity less dividends paid for the preceding 12 months. Dividends paid October 1, 2016 through September 30, 2017 for LMIC, LMFIC and EICOW were \$68 million, \$15 million and zero, respectively.

LMGI also has access to the following sources of funding:

- On April 8, 2015, LMGI increased its commercial paper program from \$750 million to \$1 billion. There was no commercial paper outstanding at September 30, 2017.
- On March 5, 2015, LMGI amended and restated its unsecured revolving credit facility from \$750 million to \$1 billion with an expiration date of March 5, 2020. This facility backs the Company’s commercial paper program that is guaranteed by LMIC. To date, no funds have been borrowed under the facility.
- A management services agreement with LMIC pursuant to which LMGI is entitled to collect certain costs plus a management fee for services rendered by LMGI employees.
- Investment management agreements with affiliated entities pursuant to which an LMGI subsidiary investment advisor is entitled to recover annual expenses for investment management services performed by its employees.
- Liberty Corporate Services LLC (“LCS”), which through its subsidiaries collects fees and other revenues, primarily for claims administration and agency services rendered for affiliated and non-affiliated entities. For the three and nine months ended September 30, 2017, LCS recorded \$38 million and \$227 million, respectively, in pre-tax income.
- Approximately \$80 million of annual dividends related to non-redeemable perpetual preferred stock issuances by LMIC and LMFIC.

\$ in Millions	As of September 30, 2017	As of December 31, 2016
Total debt	\$8,290	\$7,603
Adjusted debt ¹	\$7,290	\$6,603
Total equity	\$20,928	\$20,387
Less: Accumulated other comprehensive loss	(580)	(1,304)
Total equity excluding accumulated other comprehensive loss	\$21,508	\$21,691
Total capital excluding accumulated other comprehensive loss	\$29,798	\$29,294
Adjusted debt-to-capital capitalization excluding accumulated other comprehensive loss	24.5%	22.5%
Statutory surplus	\$17,939	\$19,582

¹ Assumes that the Series A and B Junior Subordinated Notes receive 100% equity credit, as per Standard and Poor’s.

The adjusted debt-to-capital capitalization ratio excluding accumulated other comprehensive loss is calculated by dividing (a) adjusted debt by (b) total capital excluding accumulated other comprehensive loss. Net unrealized gains and losses on investments can be significantly impacted by both interest rate movements and other economic factors. Accordingly, in the opinion of the Company’s management, the debt-to-total capital ratio calculated on this basis provides another useful metric for investors to understand the Company’s financial leverage position. The Company’s ratio of debt-to-capital (excluding accumulated other comprehensive loss) of 24.5% at September 30, 2017 was within the Company’s target range.

REINSURANCE

Reinsurance Recoverables

The Company reported reinsurance recoverables of \$16.444 billion and \$13.820 billion at September 30, 2017 and December 31, 2016, respectively, net of allowance for doubtful accounts of \$210 million and \$235 million, respectively. Included in these balances are \$739 million and \$564 million of paid recoverables and \$15.915 billion and \$13.491 billion of unpaid recoverables (including retroactive reinsurance), respectively.

The year-to-date \$2.624 billion increase in the reported reinsurance recoverables, net of allowance for doubtful accounts, primarily reflects the Ironshore acquisition and cessions of catastrophe related loss activity primarily due to Hurricanes Harvey, Irma, and Maria.

The increase in reported reinsurance recoverables is not included in the below tables, but does not materially impact the percentage of reinsurers rated A- or better from A.M. Best and Standard & Poor's or the Reinsurance Groups included in the top 15.

S&P Rating ¹	As of December 31, 2016			
	Gross Recoverables ²	Collateral Held ³	Net Recoverables ⁴	% of Total Net Recoverables
\$ in Millions				
<u>Rated Entities</u>				
AAA	\$ -	\$ -	\$ -	-
AA+, AA, AA-	5,481	3,567	2,216	25%
A+, A, A-	3,460	288	3,194	35%
BBB+, BBB, BBB-	3	-	3	-
BB+ or below	1	-	1	-
Subtotal	8,945	3,855	5,414	60%
<u>Pools & Associations</u>				
State mandated involuntary pools and associations	2,927	-	2,929	32%
Voluntary	271	103	239	3%
Subtotal	3,198	103	3,168	35%
<u>Non-Rated Entities⁵</u>				
Captives & fronting companies	1,479	1,754	171	2%
Other	433	655	323	3%
Subtotal	1,912	2,409	494	5%
Grand Total	\$14,055	\$6,367	\$9,076	100%

1 Standard & Poor's ratings are as of December 31, 2016.

2 Gross recoverables are defined as paid and unpaid claims and claim adjustment expense including IBNR and before both bad debt reserve set aside for potential uncollectible reinsurance and consideration of collateral.

3 Collateral refers to letters of credit, trust accounts, and funds held against outstanding and potential future claims and claim adjustment expenses related to reinsurance recoverable balances.

4 Net recoverables are defined as the difference between the amount of gross recoverables and collateral held for each reinsurer. If the collateral held for a reinsurer is greater than the gross recoverable, net recoverables are reported as \$0.

5 Reinsurers not rated by Standard & Poor's.

Reinsurance Groups ¹	As of December 31, 2016		
	Gross Recoverables ²	Collateral Held ³	Net Recoverables ⁴
\$ in Millions			
1. Berkshire Hathaway Insurance Group	\$3,215	\$2,937	\$278
2. Nationwide Group	1,548	-	1,548
3. Swiss Re Group	1,121	489	920
4. UPINSCO	451	552	-
5. Munich Re Group	432	18	415
6. Everest Re Group	425	174	258
7. Contractors Reinsurance S.A.	243	317	-
8. CUMIS Insurance Society Group	227	-	227
9. AEGIS Group	220	232	1
10. Exchange Indemnity Company	204	99	107
11. Lloyd's of London	196	-	196
12. Alleghany Corp	185	-	185
13. Chubb Group of Insurance Companies	155	63	93
14. Hannover Re Group	122	3	120
15. Equitas Insurance Ltd	115	-	115
State Mandated Involuntary pools and associations	2,927	-	2,929
Voluntary pools and associations	271	103	239
All Other	1,998	1,380	1,445
Total Reinsurance Recoverables	\$14,055	\$6,367	\$9,076

1 Reinsurance Groups are defined as all reinsurance subsidiaries owned by a common parent.

2 Gross recoverables are defined as paid and unpaid claims and claim adjustment expense including IBNR and before both bad debt reserve set aside for potential uncollectible reinsurance and consideration of collateral.

3 Collateral refers to letters of credit, trust accounts, and funds held against outstanding and potential future claims and claim adjustment expenses related to reinsurance recoverable balances.

4 Net recoverables are defined as the difference between the amount of gross recoverables and collateral held for each reinsurer. If the collateral held for a reinsurer is greater than the gross recoverable, net recoverables are reported as \$0.

Approximately 95% of the Company's reinsurance recoverable balance, net of collateral held and including voluntary and involuntary pools and associations, was from reinsurers rated A- or better from A.M. Best and Standard & Poor's at December 31, 2016. Collateral held against outstanding gross reinsurance recoverable balances was \$6.367 billion at December 31, 2016.

The remaining 5% of the Company's net reinsurance recoverable balance is well diversified. No single reinsurer rated B++ or below by A.M. Best or below A- by Standard & Poor's accounts for more than 2% of GAAP equity. In addition, the average net reinsurance recoverable balance from individual reinsurers rated below A- or not rated by A.M. Best and Standard & Poor's was approximately \$1 million as of December 31, 2016.

The reinsurance recoverables from state mandated involuntary pools and associations primarily represent the Company's servicing carrier business. As a servicing carrier, the Company retains no direct underwriting risk but instead cedes 100% of the involuntary market premium and losses back to the pool. Payment of losses is shared by the pool participants in proportion to their pool participation. Reinsurer credit risk with respect to any such involuntary pool or association is a function of the creditworthiness of all the pool participants.

The Company's reinsurance recoverables from Nationwide Indemnity Company have been fully guaranteed by its parent, Nationwide Mutual Insurance Company, which has a financial strength rating of A+ from Standard & Poor's and A+ from A.M. Best.

Property Catastrophe Reinsurance

The Company has reinsurance coverage for its domestic business and certain specialty operations including: 1) hurricanes and earthquake reinsurance covering a substantial portion of \$3.1 billion of loss in excess of \$500 million of retained loss in the United States, Canada and the Caribbean, excluding certain reinsurance exposures; 2) aggregate

excess of loss programs; 3) quota share reinsurance programs; and 4) regional or country specific catastrophe reinsurance programs. These programs are structured to meet the Company's established tolerances under its Enterprise Risk Management Program.

Adverse Development Reinsurance

In conjunction with the Ironshore acquisition and effective May 1, 2017, the Company entered into a reinsurance transaction with NICO, a subsidiary of Berkshire Hathaway Inc., on a combined aggregate excess of loss agreement providing coverage for substantially all of Ironshore's reserves related to losses occurring prior to January 1, 2017. The first layer of the contract transfers \$400 million of held reserves at inception, for which the Company established reinsurance recoverables on the Consolidated Balance Sheet. The second layer of the contract provides adverse development coverage for 95% of \$500 million above a retention equal to \$2.991 billion, minus paid losses between January 1, 2017 and May 1, 2017, which retention approximates the total held reserves on the covered business on Ironshore's opening balance sheet. The Company paid NICO consideration of \$550 million, including interest accrued at the time of the settlement. The contract is accounted for on a prospective basis.

On July 17, 2014, LMIC entered into a reinsurance transaction with NICO, a subsidiary of Berkshire Hathaway Inc., on a combined aggregate excess of loss agreement for substantially all of the Company's U.S. workers compensation, asbestos and environmental liabilities, attaching at \$12.522 billion of combined aggregate reserves, with an aggregate limit of \$6.500 billion and sublimits of \$3.100 billion for asbestos and environmental liabilities and \$4.507 billion for certain workers compensation liabilities. At the closing of the NICO Reinsurance Transaction, but effective as of January 1, 2014, the Company ceded \$3.320 billion of existing undiscounted liabilities under this reinsurance agreement. NICO will provide \$3.180 billion of additional aggregate adverse development reinsurance. The Company paid NICO total consideration of \$3.046 billion, and recorded a pre-tax loss of \$128 million. With respect to the ceded asbestos and environmental business, NICO has been given authority to handle claims, subject to the Company's oversight and control. With respect to the ceded workers compensation business, the Company will continue to handle claims. This contract is accounted for on a retroactive basis.

In general terms, the covered business includes post December 31, 2013 development on: (1) asbestos and environmental liabilities arising under policies of insurance and reinsurance with effective dates prior to January 1, 2005; and (2) workers compensation liabilities arising out of policies on the books of the Company's Commercial Insurance SBU as of December 31, 2013, as respects injuries or accidents occurring prior to January 1, 2014.

Since the NICO Reinsurance Transaction is accounted for as retroactive reinsurance in the Company's GAAP Consolidated Financial Statements, to the extent there is unfavorable development of losses covered by this reinsurance, an additional reinsurance benefit is recognized in the Consolidated Statements of Operations until those benefits exceed the original loss on the transaction. Reinsurance benefits in excess of the original loss will be deferred and recognized over the claims paying period of the reinsured policies.

As the aggregate of workers compensation and asbestos and environmental development has exceeded the original pre-tax loss of \$128 million, deferred gains are now being recorded. Deferred gains are amortized into earnings over the period when underlying claims are settled. The Company reported deferred gain amortization of \$18 million and \$13 million at September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017 and December 31, 2016, deferred gains were \$205 million and \$62 million, respectively, and are included in other liabilities within the accompanying Consolidated Balance Sheets.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include (1) unpaid claims and claim adjustment expense reserves, including asbestos and environmental liability reserves and loss sensitive premium attributable to prior years, (2) reinsurance recoverables and associated uncollectible allowance, (3) fair value determination and other-than-temporary impairments of the investment portfolio and direct working interests in oil and gas properties, (4) valuation of goodwill and intangible assets, (5) deferred income tax valuation allowance, and (6) pension and postretirement benefit obligations.

While the amounts included in the Consolidated Financial Statements reflect management's best estimates and assumptions, these amounts ultimately could vary.

For additional discussion, please refer to footnote 1 in the Company's December 31, 2016 Audited Consolidated Financial Statements.

Unpaid Claims and Claim Adjustment Expenses

Property and casualty insurance unpaid claims and claim adjustment expenses represent the Company's best estimate of amounts necessary to settle all outstanding claims, including claims that are incurred but not reported as of the reporting date. The Company's reserve projections are based primarily on detailed analysis of the facts in each case, experience with similar cases and various historical development patterns. Consideration is given to such historical patterns as field reserving trends and claims settlement practices, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions and public attitudes. All of these factors can affect the estimation of reserves.

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve.

For additional discussion, please refer to footnote 6 in the Company's December 31, 2016 Audited Consolidated Financial Statements and footnote 6 in the Company's September 30, 2017 Unaudited Consolidated Financial Statements.

Asbestos and Environmental

As a result of the significant uncertainty inherent in determining a company's asbestos and environmental liabilities and establishing related reserves, the amount of reserves required to adequately fund the Company's asbestos and environmental claims cannot be accurately estimated using conventional reserving methodologies based on historical data and trends. As a result, the use of conventional reserving methodologies frequently has to be supplemented by subjective considerations including managerial judgment. In that regard, the estimation of asbestos claims and associated liabilities and the analysis of environmental claims considered prevailing applicable law and certain inconsistencies of court decisions as to coverage, plaintiffs' expanded theories of liability, and the risks inherent in major litigation and other uncertainties, the Company believes that in future periods it is possible that the outcome of the continued uncertainties regarding asbestos and environmental related claims could result in an aggregate liability that differs from current reserves and would be covered under the NICO Reinsurance Transaction.

For additional discussion, please refer to footnote 6 in the Company's December 31, 2016 Audited Consolidated Financial Statements.

Reinsurance Recoverables

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies. The Company

reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing and other relevant factors. Accordingly, the establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. Changes in these estimates could result in additional charges to the accompanying Consolidated Statements of Operations.

Ceded transactions that transfer risk but are retroactive are included in reinsurance recoverables. The excess of estimated liabilities for claims and claim costs over the consideration paid net of experience adjustments is established as a deferred credit at inception. The deferred amounts are subsequently amortized using the effective interest method over the expected settlement period. The periodic amortization is reflected in the accompanying Consolidated Statements of Operations through benefits, claims and claim adjustment expenses. In transactions where the consideration paid exceeds the estimated liabilities for claims and claim costs a loss is recognized. If the adverse development net of experience adjustments exceeds the original loss, deferred gains are recorded. The deferred gains are subsequently recognized into earnings over the expected settlement period of the reserves.

For additional discussion, please refer to footnote 5 in the Company's December 31, 2016 Audited Consolidated Financial Statements and footnote 4 in the Company's September 30, 2017 Unaudited Consolidated Financial Statements.

Fair Value Determination

Fair value is the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company primarily uses the market approach, which generally utilizes market transaction data for identical or similar instruments.

The hierarchy level assigned to each security in the Company's available for sale portfolio is based on the Company's assessment of the transparency and reliability of the inputs used in the valuation of each instrument at the measurement date. Securities are classified into three hierarchy levels: Level 1, Level 2 or Level 3.

Regarding fair value measurements, as of September 30, 2017, excluding other assets, the Company reflected \$5.140 billion (6.9%) as level 1 (quoted prices in active markets) primarily consisting of U.S. Treasuries and common equity securities. The majority of the Company's invested assets are reported as level 2 (quoted prices from other observable inputs). As of September 30, 2017, the Company reported \$68.021 billion (91.4%) as level 2, consisting primarily of fixed maturity securities. Finally, the Company reported \$1.298 billion (1.7%) as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

For additional discussion, please refer to footnote 10 in the Company's December 31, 2016 Audited Consolidated Financial Statements and footnote 9 in the Company's September 30, 2017 Unaudited Consolidated Financial Statements.

Impairment Losses on Investments

The Company reviews fixed maturity securities, equity securities and other investments which include limited partnership and other equity method investments (primarily traditional private equity, natural resource and real estate) for impairment on a quarterly basis. These investments are reviewed for both quantitative and qualitative considerations including, but not limited to: (a) the extent of the decline in fair value below book value, (b) the duration of the decline, (c) significant adverse changes in the financial condition or near term prospects of the investment or issuer, (d) significant change in the business climate or credit ratings of the issuer, (e) general market conditions and volatility, (f) industry factors, (g) the past impairment of the security holding or the issuer, and (h) impact of foreign exchange rates on foreign currency denominated securities.

The Company is required to review its natural resource and other equity method investments when facts and circumstances indicate that carrying values may not be recoverable. In performing a quarterly review, the fair value of the Company's investment is estimated using indicators including, but not limited to, market comparables and

analyses, commodity prices, and discounted cash flows and a realized loss is recognized for the excess, if any, of the investment's carrying value over its estimated fair value.

The Company is required to review its oil and gas properties when facts and circumstances indicate the possible existence of impairment. When a property's carrying value is greater than the expected future cash flows, impairment expense is recognized to the extent that the carrying value of the property exceeds its estimated fair market value. In employing the discounted cash flow method described, key inputs include commodity prices, locational basis difference, production, project development costs and the discount rate which are based on management's expectations about outcomes with respect to these variables. Unproved properties are assessed at least annually to determine whether impairment has occurred.

For additional discussion, please refer to footnote 1 in the Company's December 31, 2016 Audited Consolidated Financial Statements and footnote 3 in the Company's September 30, 2017 Unaudited Consolidated Financial Statements.

Goodwill and Intangible Assets

Goodwill is tested for impairment at least annually using either a qualitative or a quantitative process. Election of the approach can be made at the reporting unit level. The Company has determined that each of its SBUs is a reporting unit. The reporting unit has the option to skip the qualitative test and move directly to completion of the quantitative process.

Indefinite-lived intangible assets held by the Company are reviewed for impairment on at least an annual basis using a qualitative process. The classification of the asset as indefinite-lived is reassessed, and an impairment is recognized if the carrying amount of the asset exceeds its fair value.

For additional discussion, please refer to footnote 1 in the Company's December 31, 2016 Audited Consolidated Financial Statements.

Deferred Income Taxes

The income tax provision is calculated under the liability method. Deferred income tax assets and liabilities are recorded based upon the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. The principal assets and liabilities giving rise to such differences are unearned premiums, employee benefits, credits, net operating losses, insurance loss reserves, deferred policy acquisition costs, net unrealized gains and losses on investments, fixed assets, and intangibles.

For additional discussion, please refer to footnote 8 in the Company's December 31, 2016 Audited Consolidated Financial Statements and footnote 7 in the Company's September 30, 2017 Unaudited Consolidated Financial Statements.

Pension and Postretirement Benefit Obligations

On an annual basis, the Company reviews the discount rate assumption used to determine the benefit obligations and the composition of various yield curves to ensure that the assumed discount rate reflects the Company's best estimate of the rate of return inherent in a portfolio of high-quality debt instruments that would provide the cash flows necessary to settle the Company's projected benefit payments.

The discount rate assumption used to determine the benefit obligations was based on a yield curve approach where the cash flows related to the benefit plans' liability stream were discounted at an interest rate specifically applicable to the timing of the cash flows. The discount rate assumption used to determine the benefit obligations is based on the yield curve where the cash flows related to each of the benefit plans' liability stream is discounted using spot rates specifically applicable to the timing of the cash flows of each plan. Effective January 1, 2016, service cost is calculated by discounting the future cash flows attributable to the current year of service using spot rates specifically applicable to the timing of the cash flows. Interest cost is determined by multiplying each benefit obligation cash flow by the spot rate applicable to that timing of the cash flow. The spot rate change, which is accounted for as a change in

estimate, had a \$57 million impact on the net periodic benefit cost reported for 2016. There was no impact on the benefit obligation.

In choosing the expected long-term rate of return on plan assets, the Company's Retirement Committee considered the historical returns of equity and fixed income markets in conjunction with current economic and financial market conditions.

For additional discussion, please refer to footnote 9 in the Company's December 31, 2016 Audited Consolidated Financial Statements and footnote 8 in the Company's September 30, 2017 Unaudited Consolidated Financial Statements.

ABOUT THE COMPANY

Boston-based LMHC, the parent corporation of the Liberty Mutual Insurance group of entities, is a diversified global insurer and fourth largest property and casualty insurer in the U.S. based on 2016 direct written premium. The Company also ranks 75th on the Fortune 100 list of largest corporations in the U.S. based on 2016 revenue. As of December 31, 2016, LMHC had \$125.592 billion in consolidated assets, \$105.205 billion in consolidated liabilities, and \$38.308 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, LMIC, LMFIC and EICOW, each became separate stock insurance companies under the ownership of LMHC.

Functionally, the Company conducts substantially all of its business through the SBUs, 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 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.