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

Quarter Ended June 30, 2019

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 six months ended June 30, 2019 and 2018. 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, 2018 Audited Consolidated Financial Statements and June 30, 2019 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

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 direct investments in natural resources; difficulty in valuing certain of the Company's investments; subjectivity in the determination of the amount of impairments taken on the Company's investments; unfavorable outcomes from litigation and other legal proceedings, including the effects of emerging claim and coverage issues and investigations by state and federal authorities; the Company's exposure to credit risk in certain of its business operations; the Company's inability to obtain price increases or maintain market share due to competition or otherwise; inadequacy of the Company's pricing models; changes to insurance laws and regulations; changes in the amount of statutory capital that the Company must hold to maintain its financial strength and credit ratings; regulatory restrictions on the Company's ability to change its methods of marketing and underwriting in certain areas; assessments for guaranty funds and mandatory pooling arrangements; a downgrade in the Company's claims-paying and financial strength ratings; the ability of the Company's subsidiaries to pay dividends to the Company; inflation, including inflation in medical costs and automobile and home repair costs; the cyclicality of the property and casualty insurance industry; political, legal, operational and other risks faced by the Company's international business; potentially high severity losses involving the Company's surety products; loss or significant restriction on the Company's ability to use credit scoring in the pricing and underwriting of personal lines policies; inadequacy of the Company's controls to ensure compliance with legal and regulatory standards; changes in federal or state tax laws; risks arising out of the Company's securities lending program; the Company's utilization of information technology systems and its implementation of technology innovations; difficulties with technology or data security; insufficiency of the Company's business continuity plan in the event of a disaster; the Company's ability to successfully integrate operations, personnel and technology from its acquisitions; insufficiency of the Company's enterprise risk management models and modeling techniques; and changing climate conditions. The Company's forward looking statements speak only as of the date of this report or as of the date they are made and should be regarded solely as the Company's current plans, estimates and beliefs. For a detailed discussion of these and other cautionary statements, visit the Company's Investor Relations website at www.libertymutualgroup.com/investors. The Company undertakes no obligation to update these forward looking statements.

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

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 2019 Unaudited Consolidated Financial Statements.

Consolidated Results of Operations

	Three Months Ended June 30,			**Six Months Ended June 30,**		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Net written premium ("NWP")	$10,039	$10,071	(0.3%)	$19,738	$19,505	1.2%
Pre-tax operating income ("PTOI") before partnerships, LLC and other equity method income	211	471	(55.2)	873	864	1.0
Partnerships, LLC and other equity method income	311	291	6.9	394	507	(22.3)
Net realized gains (losses)	62	(59)	NM	312	96	NM
Unit linked life insurance	(16)	-	NM	(77)	-	NM
Ironshore Inc. ("Ironshore") acquisition & integration costs	(6)	(10)	(40.0)	(12)	(24)	(50.0)
Restructuring costs	(1)	(28)	(96.4)	(3)	(31)	(90.3)
Loss on extinguishment of debt	(49)	(3)	NM	(49)	(3)	NM
Discontinued operations, net of tax	-	471	(100.0)	(50)	530	NM
Consolidated net income	399	980	(59.3)	1,070	1,629	(34.3)
Less: Net loss attributable to non-controlling interest	-	(1)	(100.0)	-	-	-
Net income attributable to LMHC	399	981	(59.3)	1,070	1,629	(34.3)
Net income attributable to LMHC excluding unrealized impact[1]	393	981	(59.9)	860	1,629	(47.2)
Cash flow provided by continuing operations	$1,310	$1,120	17.0%	$1,545	$1,156	33.7%

1 Excludes unrealized gains on equity securities, unit linked life insurance, and the corresponding tax impact.
NM = Not Meaningful

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change (Points)	2019	2018	Change (Points)
Combined ratio before catastrophes[1], net incurred losses attributable to prior years[2], and current accident year re-estimation[3]	93.9%	92.3%	1.6	93.5%	93.7%	(0.2)
Combined ratio[4]	101.2%	97.9%	3.3	98.7%	98.5%	0.2

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.

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

3 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2019.

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.

$ in Millions	As of June 30, 2019	As of December 31, 2018	Change
Short-term debt	$-	$-	-%
Long-term debt	8,614	8,233	4.6
Total debt	$8,614	$8,233	4.6%
Unassigned equity	$24,983	$24,114	3.6%
Accumulated other comprehensive loss	(1,458)	(3,379)	(56.9)
Non-controlling interest	27	27	-
Total equity	$23,552	$20,762	13.4%

Subsequent Events

Management has assessed material subsequent events through August 7, 2019, the date the financial statements were available to be issued.

CONSOLIDATED RESULTS OF OPERATIONS

The Company has identified consolidated pre-tax operating income ("PTOI"), and PTOI 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 (losses), unit linked life insurance, loss on extinguishment of debt, 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 direct investments in natural resources. PTOI before partnerships, LLC and other equity method income and PTOI 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 impacted by permanent differences. 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.

During the second quarter, the Company completed a number of debt transactions, including the issuance of a new hybrid security, redemption of the Junior Subordinated notes due 2067, and completion of a tender offer for the Junior Subordinated notes due 2087 which was financed by cash along with a senior note issuance. These transactions are described further in "Liquidity and Capital Resources".

On May 31, 2019, the Company completed the acquisition of the US Surety business ("Insco Dico") of AmTrust Financial Services, Inc. The acquisition of the international surety and credit reinsurance operations of AmTrust Financial Services, Inc. is expected to close in the third quarter, subject to regulatory approval and customary closing conditions.

On March 14, 2019, the Company concluded a strategic review of certain operations and reached an agreement to sell its investment in Pembroke Managing Agency Ltd., Visionary Underwriting Agency Ltd., Ironshore Europe Designated Activity Company, and Ironshore Corporate Capital 3 Ltd. ("certain international Ironshore entities") to Hamilton Insurance Group. The transaction is expected to close in the third quarter, subject to regulatory approval and customary closing conditions.

On January 28, 2019, Liberty Mutual Group Inc. ("LMGI") exchanged $1 billion par value of Senior Notes due 2029 (the "2029 Notes") for $270 million of its 5.00% Notes due 2021, $277 million of its 4.95% Notes due 2022 and $453 million of its 4.25% Notes due 2023. LMGI paid an aggregate of $40 million cash consideration, including accrued and unpaid interest, for the existing notes accepted for exchange. Interest on the 2029 Notes is payable semi-annually at a fixed rate of 4.569%. The 2029 Notes mature on February 1, 2029.

On May 3, 2018, the Company's Spanish subsidiary, Liberty Seguros Compania de Seguros y Reaseguros S.A., completed the sale of its entire 99.44% interest in its Turkish insurance affiliate, Liberty Sigorta A.S., to Talanx International.

On May 1, 2018, the Company completed the sale of Liberty Life Assurance Company of Boston ("LLAC"), which provides group disability, group life, individual life and annuity products, to Lincoln Financial Group. The results of LLAC are presented as discontinued operations in the accompanying Consolidated Statements of Income.

In connection with the Company's May 2018 sale of LLAC to Lincoln Financial Group, the Company agreed, pursuant to the master transaction agreement, to indemnify Protective Life Corporation and Protective Life Insurance Company (together with certain of their respective affiliates, "Protective"), Lincoln and other parties against certain liabilities. In late 2018, Protective initiated informal discussions with the Company regarding potential indemnification claims (the "Initial Claims") and in 2019 the Company began an investigation and evaluation of such Initial Claims. This investigation is ongoing. On April 30, 2019, Protective delivered to the Company a formal demand for indemnification related to the Initial Claims and in addition, demands for indemnification including matters unrelated to the Initial Claims (the "New Claims"). The Company is in the very early stages of investigating the New Claims and whether they have any merit or significant monetary value. Based on the Company's investigation to date of the claims generally, the Company has accrued a reserve of $52 million, net of tax, in the first quarter of 2019 presented in discontinued operations in the Consolidated Statements of Income, which is primarily related to the Initial Claims, and may be adjusted up or down as the Company's investigation of all claims continues. The Company intends to vigorously defend all claims.

At this time, if the Initial Claims and all of the New Claims are ultimately determined to have merit and if the monetary value of those claims were equal to the amount alleged to be due, the aggregate potential liability represented by the claims would not have a material adverse effect on the financial condition of the Company, although such aggregate potential liability may be material relative to the Company's results of operations for a single reporting period, depending on the facts and circumstances at such time.

In addition, the Company is engaged in the customary process of determining post-closing adjustments to the purchase price for LLAC, however, the final outcome of that process is not expected to materially change the $3.3 billion initial purchase price agreed in connection with the master transaction agreement.

The Company's two businesses are as follows:

- Global Retail Markets combines the Company's local expertise in growth markets outside the U.S. with strong and scalable U.S. capabilities in order to take advantage of opportunities to grow its business globally. Global Retail Markets is organized into the following segments: U.S., West, East, and Reinsurance.

- Global Risk Solutions offers a wide array of property, casualty, specialty and reinsurance coverage distributed through brokers and independent agents globally. Global Risk Solutions is organized into the following market segments: Liberty Specialty Markets, National Insurance, North America Specialty, Global Surety, and Other Global Risk Solutions.

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Private passenger automobile	$3,516	$3,517	-%	$6,954	$7,008	(0.8%)
Homeowners	1,790	1,793	(0.2)	3,074	3,165	(2.9)
Global Risk Solutions specialty insurance[1]	1,195	1,173	1.9	2,350	2,132	10.2
Global Risk Solutions reinsurance	500	600	(16.7)	1,308	1,446	(9.5)
Commercial multiple-peril	586	542	8.1	1,137	1,086	4.7
Commercial automobile	534	534	-	1,073	1,038	3.4
Workers compensation	504	516	(2.3)	1,059	1,093	(3.1)
General liability	355	430	(17.4)	767	825	(7.0)
Surety	266	244	9.0	514	462	11.3
Commercial property	211	219	(3.7)	341	357	(4.5)
Global Risk Solutions inland marine	140	127	10.2	277	269	3.0
Corporate reinsurance[2]	1	(32)	NM	76	(168)	NM
Other[3]	441	408	8.1	808	792	2.0
Total NWP	$10,039	$10,071	(0.3%)	$19,738	$19,505	1.2%

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

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

3 Primarily includes NWP from allied lines, domestic inland marine, internal reinsurance, and life and health reported within Global Retail Markets.

NM = Not Meaningful

NWP for the three months ended June 30, 2019 was $10.039 billion, a decrease of $32 million from the same period in 2018.

Significant changes by major line of business for the three months ended June 30, 2019 include:

- Global Risk Solutions specialty insurance NWP increased $22 million. The increase reflects new business, partially offset by unfavorable foreign exchange due to the strengthening of the U.S. dollar versus the euro and British pound as compared to the average rates in 2018.
- Global Risk Solutions reinsurance NWP decreased $100 million. The decrease reflects a new ceded global casualty program and unfavorable foreign exchange due to the strengthening of the U.S. dollar versus the euro and British pound as compared to the average rates in 2018.
- Commercial multiple-peril NWP increased $44 million. The increase reflects growth due to increases in new business, production, rate, and retention.
- General liability NWP decreased $75 million. The decrease reflects a new ceded global casualty program.
- Surety NWP increased $22 million. The increase reflects growth, primarily within the international bond business and from the Insco Dico acquisition.
- Corporate reinsurance NWP increased $33 million. The increase was primarily due to Corporate no longer purchasing the homeowners' quota share reinsurance treaties.

NWP for the six months ended June 30, 2019 was $19.738 billion, an increase of $233 million over the same period in 2018.

Significant changes by major line of business for the six months ended June 30, 2019 include:

- Private passenger automobile NWP decreased $54 million. The decrease reflects unfavorable foreign exchange due to the strengthening of the U.S. dollar versus the Brazilian real and euro as compared to the average rates in 2018 and decreased policies in force, partially offset by organic growth in Global Retail Markets' East and West segments.
- Homeowners NWP decreased $91 million. The decrease reflects increased purchases of property catastrophe protection through internal reinsurance within Global Retail Markets' U.S. segment (offset in the Corporate reinsurance line of business) and decreased policies in force.
- Global Risk Solutions specialty insurance NWP increased $218 million. The increase reflects lower reinsurance purchased in the current year and new business, partially offset by unfavorable foreign exchange due to the strengthening of the U.S. dollar versus the euro and British pound as compared to the average rates in 2018.
- Global Risk Solutions reinsurance NWP decreased $138 million. The decrease reflects a new ceded global casualty program, increased purchases of property catastrophe protection through internal reinsurance (offset in the Corporate reinsurance line of business), and unfavorable foreign exchange due to the strengthening of the U.S. dollar versus the euro and British pound as compared to the average rates in 2018.
- General liability NWP decreased $58 million. The decrease reflects a new ceded global casualty program, partially offset by growth due to increases in new business, production, rate, and retention in Global Retail Markets.
- Surety NWP increased $52 million. The increase reflects growth, within all bond businesses and from the Insco Dico acquisition.
- Corporate reinsurance NWP increased $244 million. The increase primarily reflects higher assumed premium due to increased property catastrophe protection purchased by the businesses from Corporate and Corporate no longer purchasing the homeowners' quota share reinsurance treaties.

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 business was as follows:

	Three Months Ended June 30,			**Six Months Ended June 30,**		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Global Retail Markets	$7,279	$7,161	1.6%	$13,782	$13,783	-%
Global Risk Solutions	2,692	2,911	(7.5)	5,866	5,866	-
Corporate and Other	68	(1)	NM	90	(144)	NM
Total NWP	$10,039	$10,071	(0.3%)	$19,738	$19,505	1.2%
Foreign exchange effect on growth			(1.0)			(1.2)
NWP growth excluding foreign exchange[1]			0.7%			2.4%

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

Major drivers of NWP growth were as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
$ in Millions	**2019**	**2018**	**$ Change**	**Points Attribution**	**2019**	**2018**	**$ Change**	**Points Attribution**
Components of growth:								
Domestic personal automobile	2,858	2,853	5	-	5,732	5,733	(1)	-
Domestic homeowners	1,740	1,743	(3)	-	2,974	3,060	(86)	(0.4)
Global Retail Markets East | West (ex foreign exchange)[1]	1,153	1,080	73	0.7	2,181	2,116	65	0.3
Global Risk Solutions specialty insurance (ex foreign exchange)[1]	1,215	1,173	42	0.4	2,395	2,132	263	1.3
Global Risk Solutions reinsurance (ex foreign exchange)[1]	508	600	(92)	(0.9)	1,333	1,446	(113)	(0.6)
Domestic workers compensation	479	489	(10)	(0.1)	983	1,016	(33)	(0.2)
Surety	258	237	21	0.2	501	451	50	0.3
Global Risk Solutions inland marine (ex foreign exchange)[1]	142	127	15	0.1	282	269	13	0.1
Corporate reinsurance (ex foreign exchange)[1,2]	1	(32)	33	0.3	76	(168)	244	1.3
Global Retail Markets Reinsurance (ex foreign exchange)[1]	18	-	18	0.2	24	-	24	0.1
Other lines	1,771	1,801	(30)	(0.2)	3,496	3,450	46	0.2
Foreign exchange[1]	(104)	-	(104)	(1.0)	(239)	-	(239)	(1.2)
Total NWP	$10,039	$10,071	($32)	(0.3)	$19,738	$19,505	$233	1.2

1 Determined by assuming constant foreign exchange rates between periods.
2 NWP associated with internal reinsurance assumed into Corporate, net of corporate external placements.

Consolidated NWP by geographic distribution channels was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
U.S.	$7,697	$7,966	(3.4%)	$15,477	$15,473	-%
International excluding foreign exchange[1]	2,446	2,105	16.2	4,500	4,032	11.6
Foreign exchange[1]	(104)	-	NM	(239)	-	NM
Total NWP	$10,039	$10,071	(0.3%)	$19,738	$19,505	1.2%

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

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenues	$10,789	$10,314	4.6%	$21,456	$20,604	4.1%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method income	$907	$1,005	(9.8%)	$1,872	$1,744	7.3%
Catastrophes[1]	(477)	(513)	(7.0)	(756)	(865)	(12.6)
Net incurred losses attributable to prior years:						
- Asbestos and environmental[2]	-	(3)	(100.0)	(3)	(13)	(76.9)
- All other[2,3]	(204)	(18)	NM	(240)	(2)	NM
Current accident year re-estimation[4]	(15)	-	NM	-	-	-
Pre-tax operating income before partnerships, LLC and other equity method income	211	471	(55.2)	873	864	1.0
Partnerships, LLC and other equity method income[5]	311	291	6.9	394	507	(22.3)
Pre-tax operating income	522	762	(31.5)	1,267	1,371	(7.6)
Net realized gains (losses)	62	(59)	NM	312	96	NM
Unit linked life insurance	(16)	-	NM	(77)	-	NM
Ironshore acquisition & integration costs	(6)	(10)	(40.0)	(12)	(24)	(50.0)
Restructuring costs	(1)	(28)	(96.4)	(3)	(31)	(90.3)
Loss on extinguishment of debt	(49)	(3)	NM	(49)	(3)	NM
Pre-tax income	512	662	(22.7)	1,438	1,409	2.1
Income tax expense	113	153	(26.1)	318	310	2.6
Consolidated net income from continuing operations	399	509	(21.6)	1,120	1,099	1.9
Discontinued operations, net of tax	-	471	(100.0)	(50)	530	NM
Consolidated net income	399	980	(59.3)	1,070	1,629	(34.3)
Less: Net loss attributable to non-controlling interest	-	(1)	(100.0)	-	-	-
Net income attributable to LMHC	399	981	(59.3)	1,070	1,629	(34.3)
Net income attributable to LMHC excluding unrealized impact[6]	$393	$981	(59.9%)	$860	$1,629	(47.2%)
Cash flow provided by continuing operations	$1,310	$1,120	17.0%	$1,545	$1,156	33.7%

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.
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 ($9) million and ($9) million for the three and six months ended June 30, 2019, and $3 million and $5 million for the same periods in 2018.
4 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2019.
5 Partnerships, LLC and other equity method income includes LP, LLC and other equity method income within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from direct investments in natural resources.
6 Excludes unrealized gains on equity securities, unit linked life insurance, and the corresponding tax impact.
NM = Not Meaningful

Partnerships, LLC and Other Equity Method Income	**Three Months Ended June 30,**			**Six Months Ended June 30,**		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
LP, LLC and other equity method income[1]	$299	$280	6.8%	$392	$483	(18.8%)
Direct investment in natural resources revenues[2]	105	85	23.5	231	181	27.6
Direct investment in natural resources expenses[3]	(93)	(74)	25.7	(229)	(157)	45.9
Partnerships, LLC and other equity method income	$311	$291	6.9%	$394	$507	(22.3%)

1 Included within net investment income in the accompanying Consolidated Statements of Income.
2 Included within fee & other revenues in the accompanying Consolidated Statements of Income.
3 Included within operating costs and expenses in the accompanying Consolidated Statements of Income.

Net Investment Income	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
$ in Millions	**2019**	**2018**	**2019**	**2018**
Taxable interest income	$466	$413	$919	$812
Tax-exempt interest income	45	45	91	94
Dividends	27	23	38	30
LP, LLC and other equity method income	299	280	392	483
Commercial mortgage loans	21	18	40	36
Other investment income	3	2	5	3
Gross investment income	861	781	1,485	1,458
Investment expenses[1]	(63)	(57)	(120)	(115)
Total net investment income	$798	$724	$1,365	$1,343

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

Net Realized Gains (Losses) $ in Millions	Sales & Settlements	Impairments	Unrealized Gains (Losses)	Total
Three Months Ended June 30, 2019:				
Fixed maturities	$165	$-	$-	$165
Equities	44	-	18	62
Derivatives	(67)	-	(9)	(76)
Other	(2)	(88)	1	(89)
Total	$140	($88)	$10	$62
Three Months Ended June 30, 2018:				
Fixed maturities	($31)	($1)	$-	($32)
Equities	5	(4)	-	1
Derivatives	4	-	-	4
Other	5	(37)	-	(32)
Total	($17)	($42)	$-	($59)

Net Realized Gains $ in Millions	Sales & Settlements	Impairments	Unrealized Gains (Losses)	Total
Six Months Ended June 30, 2019:				
Fixed maturities	$166	($3)	$-	$163
Equities	35	-	343	378
Derivatives	(75)	-	(13)	(88)
Other	(35)	(105)	(1)	(141)
Total	$91	($108)	$329	$312
Six Months Ended June 30, 2018:				
Fixed maturities	($44)	($6)	$-	($50)
Equities	8	(4)	-	4
Derivatives	(13)	-	-	(13)
Other	196	(41)	-	155
Total	$147	($51)	$-	$96

Unrealized Gains Related to Equity Securities	Three Months Ended June 30,	Six Months Ended June 30,
$ in Millions	**2019**	**2019**
Net gains recognized during the period on equity securities	$19	$342
Less: Net (losses) gains recognized during the period on equity securities sold during the period	(25)	73
Unrealized gains recognized during the reporting period on equity securities still held at the reporting date	$44	$269

Second Quarter Results:

Pre-tax operating income before partnerships, LLC and other equity method income for the three months ended June 30, 2019 was $211 million, a decrease of $260 million from the same period in 2018. The decrease reflects unfavorable net incurred losses attributable to prior years and higher current year large loss activity in Global Risk Solutions, higher non-catastrophe loss activity including an increase in U.S. business liability lines loss ratios (also reflected in unfavorable current accident year re-estimation) in Global Retail Markets, and unfavorable foreign exchange. These decreases were partially offset by the profit margin on higher earned premium, lower catastrophe losses, higher net investment income excluding partnerships, LLC and other equity method investments, and lower employee benefit expenses in Corporate.

Partnerships, LLC and other equity method income, including operating income from direct investments in natural resources, for the three months ended June 30, 2019 was $311 million, an increase of $20 million over the same period in 2018. The increase reflects favorable valuations and distributions in private capital investments in 2019 as compared to the same period in 2018. The increase was partially offset by less favorable valuations in energy investments in 2019 as compared to the same period in 2018.

Revenues for the three months ended June 30, 2019 were $10.789 billion, an increase of $475 million over the same period in 2018. 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 three months ended June 30, 2019 was $9.635 billion, an increase of $237 million over the same period in 2018. The increase primarily reflects the premium earned associated with the changes in NWP previously discussed and growth during the last six months of 2018.

Net investment income for the three months ended June 30, 2019 was $798 million, an increase of $74 million over the same period in 2018. The increase reflects investment income from a higher net invested asset base and higher earned yields in 2019 as compared to the same period in 2018. The increase also reflects favorable valuations and distributions in private capital investments in 2019 as compared to the same period in 2018. The increase was partially offset by less favorable valuations in energy investments in 2019 as compared to the same period in 2018.

Net realized gains (losses) for the three months ended June 30, 2019 were $62 million versus ($59) million for the same period in 2018. The net realized gains in the current quarter were primarily driven by $165 million net gains on fixed maturity sales. This was partially offset by $88 million of impairment charges, primarily driven by corporate real estate, and derivative losses. The prior period was impacted by $42 million of impairment charges, as well as $31 million in fixed maturity losses driven by active portfolio management strategy.

Fee and other revenues for the three months ended June 30, 2019 were $294 million, an increase of $43 million over the same period in 2018. The increase primarily reflects higher natural resource revenues.

Claims, benefits and expenses for the three months ended June 30, 2019 were $10.205 billion, an increase of $594 million over the same period in 2018. The increase reflects unfavorable incurred losses attributable to prior years and higher current year large loss activity in Global Risk Solutions, higher non-catastrophe loss activity including an increase in U.S. business liability lines loss ratios in Global Retail Markets, higher insurance operating costs and losses associated with growth, unfavorable foreign exchange and higher expenses related to natural resource investments. These increases were partially offset by lower catastrophe losses and lower employee benefit expenses in Corporate.

Income tax expense on continuing operations for the three months ended June 30, 2019 was $113 million, a decrease of $40 million from the same period in 2018. The Company's effective tax rate on continuing operations for the three months ended June 30, 2019 was 22%, compared to 23% for the same period in 2018. The decrease in the effective tax rate on continuing operations from 2018 to 2019 was primarily driven by the impact of non-U.S. operations.

Discontinued operations, net of tax, for the three months ended June 30, 2019 were zero versus $471 million for the same period in 2018. The change was driven by the net gain recognized on the sale of LLAC in 2018.

Net income attributable to LMHC for the three months ended June 30, 2019 was $399 million, a decrease of $582 million from the same period in 2018.

Cash flow provided by continuing operations for the three months ended June 30, 2019 was $1.310 billion, an increase of $190 million over the same period in 2018. The increase reflects higher premium collections in Global Retail Markets and Global Risk Solutions, as well as favorable paid loss activity in Global Risk Solutions, and favorable investment results. These increases were partially offset by unfavorable catastrophe payments and underwriting expense payments in Global Retail Markets.

Year-to-date Results:

Pre-tax operating income before partnerships, LLC and other equity method income for the six months ended June 30, 2019 was $873 million, an increase of $9 million over the same period in 2018. The increase reflects higher net investment income excluding partnerships, LLC and other equity method investments, lower catastrophe losses, the profit margin on higher earned premium, lower employee benefit expenses in Corporate, and more favorable net incurred losses attributable to prior years in Global Retail Markets. These increases were partially offset by unfavorable net incurred losses attributable to prior years and higher current year large loss activity in Global Risk Solutions, an increase in U.S. business liability lines loss ratios in Global Retail Markets, and unfavorable foreign exchange.

Partnerships, LLC and other equity method income, including operating income from direct investments in natural resources, for the six months ended June 30, 2019 was $394 million, a decrease of $113 million from the same period in 2018. The decrease reflects less favorable valuations in energy investments in 2019 as compared to the same period in 2018. The decrease was partially offset by favorable valuations in private capital investments in 2019 as compared to the same period in 2018.

Revenues for the six months ended June 30, 2019 were $21.456 billion, an increase of $852 million over the same period in 2018. 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 six months ended June 30, 2019 was $19.169 billion, an increase of $521 million over the same period in 2018. The increase primarily reflects the premium earned associated with the changes in NWP previously discussed and growth during the last six months of 2018.

Net investment income for the six months ended June 30, 2019 was $1.365 billion, an increase of $22 million over the same period in 2018. The increase reflects investment income from a higher net invested asset base and higher earned yields in 2019 as compared to the same period in 2018. Also driving the increase were favorable valuations in private capital investments in 2019 as compared to the same period in 2018. The increase was partially offset by less favorable valuations in energy investments in 2019 as compared to the same period in 2018.

Net realized gains for the six months ended June 30, 2019 were $312 million, an increase of $216 million over the same period in 2018. The net realized gains in the current period were primarily driven by a $329 million net change in unrealized gains primarily due to the adoption of ASU 2016-01 in 2019. This was partially offset by $108 million of impairment charges, primarily related to corporate real estate and natural resources, and a $28 million loss upon classifying certain international Ironshore entities as held for sale. The prior period was impacted by a $162 million gain as a result of the acquisition of a previously held equity method investment.

Fee and other revenues for the six months ended June 30, 2019 were $610 million, an increase of $93 million over the same period in 2018. The increase primarily reflects higher natural resource revenues.

Claims, benefits and expenses for the six months ended June 30, 2019 were $19.877 billion, an increase of $740 million over the same period in 2018. The increase reflects unfavorable incurred losses attributable to prior years and higher current year large loss activity in Global Risk Solutions, an increase in U.S. business liability lines loss ratios in Global Retail Markets, higher insurance operating costs and losses associated with growth, unfavorable foreign exchange and higher expenses related to natural resource investments. These increases were partially offset by lower catastrophe losses, lower employee benefit expenses in Corporate, and more favorable incurred losses attributable to prior years in Global Retail Markets.

Income tax expense on continuing operations for the six months ended June 30, 2019 was $318 million, an increase of $8 million over the same period in 2018. The Company’s effective tax rate on continuing operations for the six months ended June 30, 2019 was 22%, which is consistent with the same period in 2018.

Discontinued operations, net of tax, for the six months ended June 30, 2019 were ($50) million versus $530 million for the same period in 2018. The change was driven by additional expense in 2019 related to the sale of LLAC versus the net gain recognized on the sale of LLAC in 2018.

Net income attributable to LMHC for the six months ended June 30, 2019 was $1.070 billion, a decrease of $559 million from the same period in 2018.

Cash flow provided by continuing operations for the six months ended June 30, 2019 was $1.545 billion, an increase of $389 million over the same period in 2018. The increase reflects higher premium collections and favorable paid loss activity in Global Retail Markets and Global Risk Solutions, as well as favorable catastrophe payments in Global Risk Solutions, and favorable investment results. These increases were partially offset by unfavorable catastrophe payments and underwriting expense payments in Global Retail Markets, and unfavorable expense payment timing in Corporate.

	Three Months Ended June 30,			**Six Months Ended June 30,**		
CONSOLIDATED	**2019**	**2018**	**Change (Points)**	**2019**	**2018**	**Change (Points)**
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	64.7%	62.8%	1.9	64.6%	63.8%	0.8
Underwriting expense ratio	29.2	29.5	(0.3)	28.9	29.9	(1.0)
Subtotal	93.9	92.3	1.6	93.5	93.7	(0.2)
Catastrophes[1]	5.0	5.5	(0.5)	3.9	4.6	(0.7)
Net incurred losses attributable to prior years:						
- Asbestos and environmental	-	-	-	-	0.1	(0.1)
- All other[2]	2.1	0.1	2.0	1.3	0.1	1.2
Current accident year re-estimation[3]	0.2	-	0.2	-	-	-
Total combined ratio[4]	101.2%	97.9%	3.3	98.7%	98.5%	0.2

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.

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

3 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2019.

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.

Second 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 June 30, 2019 was 93.9%, an increase of 1.6 points over the same period in 2018. The increase in the claims and claim adjustment expense ratio reflects higher current year large loss activity in Global Risk Solutions and higher non-catastrophe loss activity including an increase in U.S. business liability lines in Global Retail Markets. The decrease in the underwriting expense ratio reflects earned premium growth, lower employee benefit expenses in Corporate, and expense management efforts and synergies achieved in Global Risk Solutions.

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 June 30, 2019 was 101.2%, an increase of 3.3 points over the same period in 2018. The increase primarily reflects unfavorable net incurred losses attributable to prior years and the changes in the combined ratio previously discussed, partially offset by lower catastrophe losses.

Year-to-date Results:

The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2019 was 93.5%, a decrease of 0.2 points from the same period in 2018. The increase in the claims and claim adjustment expense ratio reflects higher current year large loss activity in Global Risk Solutions and an increase in U.S. business liability lines in Global Retail Markets. The decrease in the underwriting expense ratio reflects earned premium growth, lower employee benefit expenses in Corporate, and expense management efforts and synergies achieved in Global Risk Solutions.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the six months ended June 30, 2019 was 98.7%, an increase of 0.2 points over the same period in 2018. The increase primarily reflects unfavorable net incurred losses attributable to prior years, partially offset by lower catastrophe losses and the changes in the combined ratio previously discussed.

GLOBAL RETAIL MARKETS

Overview – Global Retail Markets

Global Retail Markets combines the Company’s local expertise in growth markets outside the U.S. with strong and scalable U.S. capabilities in order to take advantage of opportunities to grow its business globally. Global Retail Markets is comprised of four segments: U.S., West, East, and Reinsurance.

U.S. consists of Personal Lines and Business Lines. U.S. Personal Lines sells automobile, homeowners and other types of property and casualty insurance coverage to individuals in the United States. These products are distributed through approximately 1,900 licensed employee sales representatives, 850 licensed telesales counselors, independent agents, third-party producers, the Internet, and sponsored affinity groups. U.S. Business Lines serves small commercial customers through an operating model that combines local underwriting, market knowledge and service with the scale advantages of a national company.

West sells property and casualty, health and life insurance products and services to individuals and businesses in Brazil, Colombia, Chile, Ecuador, Spain, Portugal, and Ireland. Private passenger automobile insurance is the single largest line of business.

East sells property and casualty, health and life insurance products and services to individuals and businesses in Thailand, Singapore, Hong Kong, Vietnam, Malaysia, India, China, and Russia. Private passenger automobile insurance is the single largest line of business.

Global Retail Markets Reinsurance consists of certain internal reinsurance programs.

On May 3, 2018, the Company’s Spanish subsidiary, Liberty Seguros Compania de Seguros y Reaseguros S.A., completed the sale of its entire 99.44% interest in its Turkish insurance affiliate, Liberty Sigorta A.S., to Talanx International.

Global Retail Markets NWP by market segment was as follows:

	Three Months Ended June 30,			**Six Months Ended June 30,**		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
U.S.	$6,182	$6,081	1.7%	$11,741	$11,667	0.6%
West	782	800	(2.3)	1,444	1,555	(7.1)
East	299	280	6.8	581	561	3.6
Global Retail Markets Reinsurance	16	-	NM	16	-	NM
Total NWP	$7,279	$7,161	1.6%	$13,782	$13,783	-%
Foreign exchange effect on growth			(1.0)			(1.2)
NWP growth excluding foreign exchange[1]			2.6%			1.2%

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

Global Retail Markets NWP by line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Private passenger automobile	$3,516	$3,517	-%	$6,954	$7,008	(0.8%)
Homeowners	1,790	1,793	(0.2)	3,074	3,165	(2.9)
Commercial multiple-peril	558	510	9.4	1,065	1,006	5.9
Commercial automobile	411	394	4.3	801	772	3.8
General liability	229	209	9.6	436	400	9.0
Workers compensation	195	180	8.3	425	393	8.1
Commercial property	129	144	(10.4)	199	230	(13.5)
Life and health	96	85	12.9	195	189	3.2
Other[1]	355	329	7.9	633	620	2.1
Total NWP	$7,279	$7,161	1.6%	$13,782	$13,783	-%

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

Second Quarter Results:

NWP for the three months ended June 30, 2019 was $7.279 billion, an increase of $118 million over the same period in 2018. The increase was primarily driven by growth in U.S. business lines due to increases in new business production, rate, and retention and growth in U.S. personal lines excluding automobile and homeowners; in addition to NWP retained through our internal reinsurance, of which the largest programs are written on commercial property and homeowners. The increase also reflects organic growth in the East and West segments, particularly private passenger automobile, however, this growth was offset by the negative impacts of foreign exchange due to the strengthening of the U.S. dollar primarily versus the euro and Brazilian real as compared to average rates in 2018 and decreased policies in force across U.S. personal lead lines.

Year-to-date Results:

NWP for the six months ended June 30, 2019 was $13.782 billion, a decrease of $1 million from the same period in 2018. The decrease was primarily driven by foreign exchange due to the strengthening of the U.S. dollar primarily versus the Brazilian real and euro as compared to average rates in 2018. Adding to the unfavorability was personal property results in the U.S. due to increased purchases of property catastrophe protection through internal reinsurance, unfavorable commercial property results in Chile, and decreased policies in force across U.S. personal lead lines. The decrease was almost entirely offset by growth in U.S. business lines due to increases in new business production, rate, and retention, as well as organic growth in East and West private passenger automobile and accident and health lines. Also offsetting the decrease in NWP was growth in U.S. personal lines excluding automobile and homeowners and NWP retained through our internal reinsurance, of which the largest programs are written on commercial property and homeowners.

Results of Operations – Global Retail Markets

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenues	$7,138	$7,053	1.2%	$14,232	$14,001	1.6%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$727	$825	(11.9%)	$1,486	$1,537	(3.3%)
Catastrophes[1]	(440)	(491)	(10.4)	(702)	(821)	(14.5)
Net incurred losses attributable to prior years	(7)	(8)	(12.5)	29	5	NM
Current accident year re-estimation[2]	(15)	-	NM	-	-	-
PTOI	$265	$326	(18.7%)	$813	$721	12.8%

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.

2 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2019.

NM = Not Meaningful

Second Quarter Results:

Pre-tax operating income for the three months ended June 30, 2019 was $265 million, a decrease of $61 million from the same period in 2018. The decrease was primarily driven by higher non-catastrophe losses including an increase in U.S. business liability lines loss ratios (also reflected in unfavorable current accident year re-estimation). The decrease was partially offset by a decrease in catastrophe losses due to lower severity compared to the prior year and profit margin on higher earned premium due to strong topline results in the U.S. over the last six months of 2018.

Revenues for the three months ended June 30, 2019 were $7.138 billion, an increase of $85 million over the same period in 2018. The increase reflects the premium earned associated with the changes in NWP previously discussed, growth during the last six months of 2018, and increases in net investment income and other revenues.

Claims, benefits and expenses for the three months ended June 30, 2019 were $6.864 billion, an increase of $138 million over the same period in 2018. The increase was driven by higher non-catastrophe losses including an increase in U.S. business liability lines loss ratios, and higher insurance operating costs in the U.S. due to topline growth. The increase was partially offset by a decrease in catastrophe losses due to lower severity.

Year-to-date Results:

Pre-tax operating income for the six months ended June 30, 2019 was $813 million, an increase of $92 million over the same period in 2018. The increase was primarily driven by lower catastrophe losses due to fewer events and favorable net incurred losses attributable to prior years due to catastrophe reserve releases, primarily on 2018 and 2017 events. The increase was partially offset by an increase in U.S. business liability lines loss ratios.

Revenues for the six months ended June 30, 2019 were $14.232 billion, an increase of $231 million over the same period in 2018. The increase reflects premium earned associated with growth over the last six months of 2018 and growth in unrealized and realized gains due to market valuation changes on unit linked life insurance where the policyholder bears the investment risk. Additionally, the increase reflects increases in net investment income and other revenues.

Claims, benefits and expenses for the six months ended June 30, 2019 were $13.349 billion, an increase of $66 million over the same period in 2018. The increase was driven by higher non-catastrophe losses including an increase in U.S. business liability lines and higher insurance operating costs from increased expenses consistent with topline growth. Partially offsetting the increase was lower catastrophe losses due to fewer events and more favorable incurred losses attributable to prior years due to catastrophe reserve releases, primarily on 2018 and 2017 events.

GLOBAL RETAIL MARKETS	Three Months Ended June 30, 2019	2018	Change (Points)	Six Months Ended June 30, 2019	2018	Change (Points)
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	63.5%	62.2%	1.3	63.4%	62.8%	0.6
Underwriting expense ratio	28.4	28.1	0.3	28.4	28.4	-
Subtotal	91.9	90.3	1.6	91.8	91.2	0.6
Catastrophes[1]	6.5	7.3	(0.8)	5.2	6.1	(0.9)
Net incurred losses attributable to prior years	0.2	0.1	0.1	(0.2)	-	(0.2)
Current accident year re-estimation[2]	0.2	-	0.2	-	-	-
Total combined ratio	98.8%	97.7%	1.1	96.8%	97.3%	(0.5)

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 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2019.

Second Quarter Results:

The Global Retail Markets combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three months ended June 30, 2019 was 91.9%, an increase of 1.6 points over the same period in 2018. The increase was primarily driven by an increase in the claims and claim adjustment expense ratio due to higher non-catastrophe losses including an increase in U.S. business liability lines.

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 June 30, 2019 was 98.8%, an increase of 1.1 points over the same period in 2018. The increase was driven by higher current accident year re-estimation from adverse development on U.S. business liability lines and the changes to the combined ratio mentioned above, partially offset by lower catastrophe losses due to lower severity.

Year-to-date Results:

The Global Retail Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2019 was 91.8%, an increase of 0.6 points over the same period in 2018. The increase was driven by the claims and claim adjustment expense ratio due to an increase in U.S. business liability lines, while the underwriting expense ratio remained flat.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the six months ended June 30, 2019 was 96.8%, a decrease of 0.5 points from the same period in 2018. The decrease was driven by lower catastrophe losses due to fewer events and favorable net incurred losses attributable to prior years in 2019 due to catastrophe reserve releases, primarily on 2018 and 2017 events, partially offset by the changes to the combined ratio mentioned above.

GLOBAL RISK SOLUTIONS

Overview – Global Risk Solutions

Global Risk Solutions ("GRS") offers a wide array of property, casualty, specialty and reinsurance coverage distributed through brokers and independent agents globally. Admitted market commercial property and casualty annual premiums in excess of $150 thousand are included in Global Risk Solutions. The segments for Global Risk Solutions are as follows:

- Liberty Specialty Markets ("LSM") – Includes most Global Risk Solutions business outside of North America and global reinsurance.
- National Insurance – Includes U.S. admitted and non-admitted property and casualty in excess of $150 thousand annual premium.
- North America Specialty ("NAS") – Primarily includes specialty lines and non-admitted property and casualty in North America.
- Global Surety – Leading global provider of contract and commercial surety bonds to businesses of all sizes.
- Other Global Risk Solutions primarily consists of internal reinsurance programs.

On May 31, 2019, the Company completed the acquisition of Insco Dico of AmTrust Financial Services, Inc. The acquisition of the international surety and credit reinsurance operations of AmTrust Financial Services, Inc. is expected to close in the third quarter, subject to regulatory approval and customary closing conditions.

Global Risk Solutions NWP by market segment was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Liberty Specialty Markets	$1,104	$995	11.0%	$2,214	$1,940	14.1%
National Insurance	740	859	(13.9)	1,719	1,757	(2.2)
North America Specialty	380	450	(15.6)	903	879	2.7
Global Surety	251	231	8.7	489	440	11.1
Other Global Risk Solutions	217	376	(42.3)	541	850	(36.4)
Total NWP	$2,692	$2,911	(7.5%)	$5,866	$5,866	-%
Foreign exchange effect on growth			(1.0)			(1.3)
NWP growth excluding foreign exchange[1]			(6.5%)			1.3%

1 Determined by assuming constant foreign exchange rates between periods.

Global Risk Solutions NWP by line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Specialty insurance[1]	$1,195	$1,173	1.9%	$2,350	$2,132	10.2%
Reinsurance	500	600	(16.7)	1,308	1,446	(9.5)
Workers compensation	240	306	(21.6)	613	670	(8.5)
Surety	258	237	8.9	501	451	11.1
General liability	126	221	(43.0)	331	425	(22.1)
Inland marine[2]	140	127	10.2	277	269	3.0
Commercial automobile	123	140	(12.1)	272	266	2.3
Commercial property	82	75	9.3	142	127	11.8
Commercial multiple-peril	28	32	(12.5)	72	80	(10.0)
Total NWP	$2,692	$2,911	(7.5%)	$5,866	$5,866	-%

1 Includes marine, energy, construction, aviation, property, casualty, warranty and indemnity, excess casualty, directors and officers, errors and omissions, environmental impairment liability, trade credit, crisis management, contingent lines and other.
2 Includes handset protection coverage for lost or damaged wireless devices.

Second Quarter Results:

NWP for the three months ended June 30, 2019 was $2.692 billion, a decrease of $219 million from the same period in 2018. The decrease was driven by:

- Reinsurance and general liability primarily due to a new ceded global casualty program
- Workers compensation primarily driven by lower new business due to a competitive market, return premium on experience rated accounts, lower involuntary business, and modest rate declines
- Commercial automobile driven by non-renewed business due to re-underwriting partially offset by rate increases
- These decreases were partially offset by:
    - Specialty insurance due to new business
    - Surety due to growth, primarily within the international bond business and from the Insco Dico acquisition
- Foreign exchange was unfavorable due to the strengthening of the U.S. dollar versus the euro and British pound as compared to the average rates in 2018.
- Additionally, certain internal reinsurance agreements were extended in 2019 and certain businesses have been internally transferred amongst segments and lines creating offsetting differences.

Year-to-date Results:

NWP for the six months ended June 30, 2019 was $5.866 billion, no change versus the same period in 2018. This was driven by the below offsetting impacts:

- Specialty insurance due to lower reinsurance purchased in the current year and new business
- Surety due to growth within all bond businesses and from the Insco Dico acquisition
- Commercial automobile, general liability and commercial property were favorably impacted by positive rate
- These increases were offset by:
    - Reinsurance and general liability primarily due to a new ceded global casualty program and increased purchases of property catastrophe protection through internal reinsurance
    - Workers compensation driven by lower new business due to a competitive market, return premium on experience rated accounts, lower involuntary business, and modest rate declines
- Foreign exchange was unfavorable due to the strengthening of the U.S. dollar versus the euro and British pound as compared to the average rates in 2018.
- Additionally, certain internal reinsurance agreements were extended in 2019 and certain businesses have been internally transferred amongst segments and lines creating offsetting differences.

Results of Operations – Global Risk Solutions

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenues	$3,171	$3,016	5.1%	$6,293	$5,989	5.1%
PTOI before catastrophes and net incurred losses attributable to prior years	$271	$354	(23.4%)	$567	$602	(5.8%)
Catastrophes[1]	(37)	(30)	23.3	(54)	(58)	(6.9)
Net incurred losses attributable to prior years[2]	(189)	(22)	NM	(262)	(19)	NM
PTOI	$45	$302	(85.1%)	$251	$525	(52.2%)

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.

2 Net of earned premium and reinstatement premium attributable to prior years of ($9) million and ($9) million for the three and six months ended June 30, 2019, and $3 million and $5 million for the same periods in 2018.

NM = Not Meaningful

Second Quarter Results:

Pre-tax operating income for the three months ended June 30, 2019 was $45 million, a decrease of $257 million from the same period in 2018. The decrease reflects unfavorable net incurred losses attributable to prior years, including higher liability lines, resetting of the current accident year to a higher baseline based on prior year loss indications primarily within casualty lines, higher current year large loss activity, unfavorable foreign exchange and higher current year catastrophe losses. This was partially offset by profit margin on higher earned premium, higher net investment income and lower expenses from expense management efforts and synergies achieved through the GRS structure.

Revenues for the three months ended June 30, 2019 were $3.171 billion, an increase of $155 million over the same period in 2018. The increase primarily reflects premium earned associated with prior year and first quarter net written premium growth, as well as favorable net investment income.

Claims, benefits and expenses for the three months ended June 30, 2019 were $3.119 billion, an increase of $405 million over the same period in 2018. The increase reflects unfavorable incurred losses attributable to prior years, including higher liability lines, resetting of the current accident year to a higher baseline based on prior year loss indications primarily within casualty lines, higher current year large loss activity, higher current year catastrophe losses and attritional losses associated with growth. This was partially offset by lower expenses from expense management efforts and synergies achieved through the GRS structure.

Year-to-date Results:

Pre-tax operating income for the six months ended June 30, 2019 was $251 million, a decrease of $274 million from the same period in 2018. The decrease reflects unfavorable net incurred losses attributable to prior years, including higher liability lines, resetting of the current accident year to a higher baseline based on prior year loss indications primarily within casualty lines, higher current year large loss activity, as well as unfavorable foreign exchange. This was partially offset by profit margin on higher earned premium, favorable catastrophe losses, higher net investment income and lower expenses from expense management efforts and synergies achieved through the GRS structure.

Revenues for the six months ended June 30, 2019 were $6.293 billion, an increase of $304 million over the same period in 2018. The increase primarily reflects premium earned associated with prior year and first quarter net written premium growth, as well as favorable net investment income.

Claims, benefits and expenses for the six months ended June 30, 2019 were $6.069 billion, an increase of $605 million over the same period in 2018. The increase reflects unfavorable incurred losses attributable to prior years, including higher liability lines, resetting of the current accident year to a higher baseline based on prior year loss indications primarily within casualty lines, higher current year large loss activity, and attritional losses associated with growth. This was partially offset by favorable catastrophe losses and lower expenses from expense management efforts and synergies achieved through the GRS structure.

	Three Months Ended June 30,			Six Months Ended June 30,		
GLOBAL RISK SOLUTIONS	**2019**	**2018**	**Change (Points)**	**2019**	**2018**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	66.8%	63.1%	3.7	66.9%	65.2%	1.7
Underwriting expense ratio	31.2	31.8	(0.6)	30.7	31.6	(0.9)
Dividend ratio	0.1	0.1	-	0.1	0.1	-
Subtotal	98.1	95.0	3.1	97.7	96.9	0.8
Catastrophes[1]	1.3	1.1	0.2	1.0	1.1	(0.1)
Net incurred losses attributable to prior years[2]	6.6	0.6	6.0	4.6	0.2	4.4
Total combined ratio	106.0%	96.7%	9.3	103.3%	98.2%	5.1

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.

Second Quarter Results:

The Global Risk Solutions combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended June 30, 2019 was 98.1%, an increase of 3.1 points over the same period in 2018. The increase in the claims and claim adjustment expense ratio was primarily driven by resetting of the current accident year to a higher baseline based on prior year loss indications primarily within casualty lines and higher current year large loss activity. The decrease in the underwriting expense ratio was primarily driven by higher earned premium as well as expense management efforts and synergies achieved through the GRS structure.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended June 30, 2019 was 106.0%, an increase of 9.3 points over the same period in 2018. The increase reflects the changes to the combined ratio mentioned above, unfavorable net incurred losses attributable to prior years, including higher liability lines, and higher catastrophe losses.

Year-to-date Results:

The Global Risk Solutions combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2019 was 97.7%, an increase of 0.8 points over the same period in 2018. The increase in the claims and claim adjustment expense ratio was primarily driven by resetting of the current accident year to a higher baseline based on prior year loss indications primarily within casualty lines and higher current year large loss activity. The decrease in the underwriting expense ratio was primarily driven by higher earned premium as well as expense management efforts and synergies achieved through the GRS structure.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the six months ended June 30, 2019 was 103.3%, an increase of 5.1 points over the same period in 2018. The increase reflects the changes to the combined ratio mentioned above and unfavorable net incurred losses attributable to prior years, including higher liability lines, partially offset by lower catastrophe losses.

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 lines 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 began assuming certain pre-2014 voluntary and involuntary workers compensation claims from the businesses. 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 businesses that the Company reinsures as part of its risk management program and pre-2019 risks on U.S. 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. The businesses report 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. For 2018 and prior years, the businesses reported their discount based on statutory discount rates and Corporate and Other results reflected 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 businesses.

- Property and casualty operations' investment income is allocated to the businesses 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.

- Investment-related realized gains (losses) and real estate impairments.

- Income related to LP, LLC and other equity method investments.

- Fee and other revenues include revenues from certain wholly owned non-insurance subsidiaries, including Liberty Energy, Liberty Metals and Mining and Liberty Mutual Agriculture and Timber. These subsidiaries generate revenue from the production and sale of oil, gas, and other natural resources related LP, LLC and other equity method investments.

- The results of LLAC presented as discontinued operations, including the net gain on the sale of LLAC.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	2019	2018	Change	2019	2018	Change
Reinsurance, net	$1	($32)	NM	$76	($168)	NM
Workers compensation[1]	69	30	130.0	21	30	(30.0)
Other	(2)	1	NM	(7)	(6)	16.7
Total NWP	$68	($1)	NM	$90	($144)	NM

1 Booked as billed adjustment.
NM = Not Meaningful

Second Quarter Results:

NWP for the three months ended June 30, 2019 was $68 million versus ($1) million for the same period in 2018. The change reflects the booked as billed adjustment as well as the reinsurance line of business primarily due to Corporate no longer purchasing the homeowners' quota share reinsurance treaties.

Year-to-date Results:

NWP for the six months ended June 30, 2019 was $90 million versus ($144) million for the same period in 2018. The change reflects the reinsurance line of business primarily due to higher assumed premium due to increased property catastrophe protection purchased by the businesses from Corporate and Corporate no longer purchasing the homeowners' quota share reinsurance treaties.

Results of Operations – Corporate and Other

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	2019	2018	Change	2019	2018	Change
Revenues	$480	$245	95.9%	$931	$614	51.6%
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income	($91)	($174)	(47.7%)	($181)	($395)	(54.2%)
Catastrophes[1]	-	8	(100.0)	-	14	(100.0)
Net incurred losses attributable to prior years:						
-Asbestos and environmental[2]	-	(3)	(100.0)	(3)	(13)	(76.9)
-All other[2,3]	(8)	12	NM	(7)	12	NM
Pre-tax operating loss before partnerships, LLC and other equity method income	(99)	(157)	(36.9)	(191)	(382)	(50.0)
Partnerships, LLC and other equity method income[4]	311	291	6.9	394	507	(22.3)
PTOI	$212	$134	58.2%	$203	$125	62.4%

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 six months ended June 30, 2019 and 2018.
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 Income and revenue and expenses from the production and sale of oil and gas.
NM = Not Meaningful

Second Quarter Results:

Pre-tax operating income for the three months ended June 30, 2019 was $212 million, an increase of $78 million over the same period in 2018. The increase reflects higher profit margin within the reinsurance segment due to higher earned premium, favorability from lower employee benefit expenses, higher net investment income excluding partnerships, LLC and other equity method investments, and higher partnerships, LLC and other equity method income.

Revenues for the three months ended June 30, 2019 were $480 million, an increase of $235 million over the same period in 2018. 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 three months ended June 30, 2019 was ($13) million, an increase of $62 million over the same period in 2018. The increase primarily reflects higher assumed premium due to increased property catastrophe protection purchased by the businesses from Corporate and Corporate no longer purchasing the homeowners' quota share reinsurance treaties.

Net investment income for the three months ended June 30, 2019 was $330 million, an increase of $36 million over the same period in 2018. The increase reflects investment income from a higher net invested asset base and higher earned yields in 2019 as compared to the same period in 2018. The increase also reflects favorable valuations and distributions in private capital investments in 2019 as compared to the same period in 2018. The increase was partially offset by less favorable valuations in energy investments in 2019 as compared to the same period in 2018.

Net realized gains (losses) for the three months ended June 30, 2019 were $46 million versus ($60) million for the same period in 2018. The net realized gains in the current quarter were primarily driven by $165 million net gains on fixed maturity sales. This was partially offset by $88 million of impairment charges, primarily driven by corporate real estate, and derivative losses. The prior period was impacted by $42 million of impairment charges, as well as $31 million in fixed maturity losses driven by active portfolio management strategy.

Fee and other revenues for the three months ended June 30, 2019 were $117 million, an increase of $31 million over the same period in 2018. The increase was primarily driven by higher natural resource revenues.

Claims, benefits and expenses for the three months ended June 30, 2019 were $222 million, an increase of $51 million over the same period in 2018. The increase reflects Corporate no longer purchasing the homeowners' quota share reinsurance treaties, and higher expenses related to natural resource investments, partially offset by lower employee benefit expenses.

Year-to-date Results:

Pre-tax operating income for the six months ended June 30, 2019 was $203 million, an increase of $78 million over the same period in 2018. The increase reflects higher profit margin within the reinsurance segment due to higher earned premium, favorability from lower employee benefit expenses, and higher net investment income excluding partnerships, LLC and other equity method investments, partially offset by lower partnerships, LLC and other equity method income.

Revenues for the six months ended June 30, 2019 were $931 million, an increase of $317 million over the same period in 2018. 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 six months ended June 30, 2019 was ($22) million, an increase of $139 million over the same period in 2018. The increase primarily reflects higher assumed premium due to increased property catastrophe protection purchased by the businesses from Corporate and Corporate no longer purchasing the homeowners' quota share reinsurance treaties.

Net investment income for the six months ended June 30, 2019 was $431 million, a decrease of $54 million from the same period in 2018. The decrease reflects less favorable valuations in energy investments in 2019 as compared to the same period in 2018. The decrease was partially offset by favorable valuations in private capital investments in 2019 as compared to the same period in 2018. The decrease was also partially offset by investment income from a higher net invested asset base and higher earned yields in 2019 as compared to the same period in 2018.

Net realized gains for the six months ended June 30, 2019 were $269 million, an increase of $170 million over the same period in 2018. The net realized gains in the current period were primarily driven by a $329 million net change in unrealized gains primarily due to the adoption of ASU 2016-01 in 2019. This was partially offset by $108 million of impairment charges, primarily related to corporate real estate and natural resources. The prior period was impacted by a $162 million gain as a result of the acquisition of a previously held equity method investment.

Fee and other revenues for the six months ended June 30, 2019 were $253 million, an increase of $62 million over the same period in 2018. The increase was primarily driven by higher natural resource revenues.

Claims, benefits and expenses for the six months ended June 30, 2019 were $459 million, an increase of $69 million over the same period in 2018. The increase reflects Corporate no longer purchasing the homeowners' quota share reinsurance treaties, and higher expenses related to natural resource investments, partially offset by lower employee benefit expenses.

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 June 30, 2019 and December 31, 2018:

Invested Assets by Type	**As of June 30, 2019**		**As of December 31, 2018**	
$ in Millions	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$61,361	76.7%	$57,706	76.6%
Equity securities, at fair value[1]	2,847	3.5	-	-
Equity securities, available for sale, at fair value[1]	-	-	3,511	4.6
LP, LLC and other equity method investments	6,531	8.2	6,148	8.2
Commercial mortgage loans	1,896	2.4	1,731	2.3
Short-term investments	552	0.7	416	0.6
Other investments	295	0.4	289	0.4
Cash and cash equivalents	6,488	8.1	5,466	7.3
Total invested assets	$79,970	100.0%	$75,267	100.0%

1 Included in Equity securities, at fair value as of June 30, 2019 and Equity securities, available for sale, at fair value as of December 31, 2018, were $206 million and $936 million, respectively of investments in bond ETFs

Total invested assets as of June 30, 2019 were $79.970 billion, an increase of $4.703 billion or 6.2% over December 31, 2018. The increase was primarily related to an increase in fixed maturities and cash and cash equivalents.

Fixed maturities as of June 30, 2019 were $61.361 billion, an increase of $3.655 billion or 6.3% over December 31, 2018. The increase was primarily related to the favorable impact of the decrease in treasury rates and tightening credit spreads and an increase in commitments to purchase various residential mortgage-backed securities. As of June 30, 2019, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost and fair value of $1.130 billion and $1.135 billion, respectively.

Equity securities as of June 30, 2019 were $2.847 billion ($2.838 billion common stock and $9 million preferred stock) versus $3.511 billion as of December 31, 2018 ($3.480 billion common stock and $31 million preferred stock), a decrease of $664 million or 18.9% from December 31, 2018. Of the $2.838 billion of common stock at June 30, 2019, $671 million relates to securities associated with non-guaranteed unit linked life insurance where the policyholder bears the investment risk. The decrease in total equity securities is primarily due to the sale of bond ETFs.

The following table summarizes the Company's LP, LLC and other equity method investments as of June 30, 2019 and December 31, 2018:

LP, LLC and other equity method investments	**As of June 30, 2019**		**As of December 31, 2018**	
$ in Millions	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Traditional private equity	$2,925	44.8%	$2,727	44.4%
Natural resources – Energy	536	8.2	573	9.3
Natural resources – Other[1]	734	11.2	661	10.7
Real estate	1,048	16.0	978	15.9
Private credit	676	10.4	597	9.7
Other	612	9.4	612	10.0
Total LP, LLC and other equity method investments	$6,531	100.0%	$6,148	100.0%

1 Included in Natural Resources – Other is $182 million and $184 million of investments in metals & mining as of June 30, 2019 and December 31, 2018 respectively, $123 million and $116 million of investments in agriculture and timber as of June 30, 2019 and December 31, 2018 respectively, and $429 million and $361 million of investments in power and renewables as of June 30, 2019 and December 31, 2018 respectively.

Commercial mortgage loans as of June 30, 2019 were $1.896 billion (net of $1 million of loan loss reserves or 0.05% of the outstanding loan portfolio), an increase of $165 million or 9.5% over December 31, 2018. The increase is primarily driven by $234 million in funding, partially offset by $69 million in principal reductions. The entire commercial loan portfolio is U.S.-based. The number of loans in the portfolio decreased from 4,419 at December 31, 2018 to 4,245 at June 30, 2019.

Cash and cash equivalents as of June 30, 2019 were $6.488 billion, an increase of $1.022 billion or 18.7% over December 31, 2018. The increase primarily reflects an increase in cash from operating activities.

The following tables summarize the Company's available for sale portfolio by security type as of June 30, 2019 and December 31, 2018:

	As of June 30, 2019			
$ in Millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$7,037	$156	($3)	$7,190
Residential MBS [1]	7,205	102	(15)	7,292
Commercial MBS	4,168	138	(2)	4,304
Other MBS and ABS [2]	4,907	63	(27)	4,943
U.S. state and municipal	7,741	464	(2)	8,203
Corporate and other	23,717	746	(57)	24,406
Foreign government securities	4,780	248	(5)	5,023
Total securities available for sale	$59,555	$1,917	($111)	$61,361

1 Mortgage-backed securities ("MBS")
2 Asset-backed securities ("ABS")

	As of December 31, 2018			
$ in Millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$6,497	$47	($33)	$6,511
Residential MBS	5,710	31	(95)	5,646
Commercial MBS	2,965	27	(36)	2,956
Other MBS and ABS	4,595	16	(77)	4,534
U.S. state and municipal	8,452	181	(64)	8,569
Corporate and other	24,633	168	(533)	24,268
Foreign government securities	5,108	154	(40)	5,222
Total fixed maturities	57,960	624	(878)	57,706
Common stock	3,673	100	(293)	3,480
Preferred stock	29	2	-	31
Total equity securities	3,702	102	(293)	3,511
Total securities available for sale	$61,662	$726	($1,171)	$61,217

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of June 30, 2019:

Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	**As of June 30, 2019**							
$ in Millions	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
Residential MBS	$7,245	$-	$13	$-	$4	$30	$7,292	44.1%
Commercial MBS	4,115	133	40	2	14	-	4,304	26.0%
Other MBS and ABS	3,438	445	305	500	202	53	4,943	29.9%
Total	$14,798	$578	$358	$502	$220	$83	$16,539	100.0%
% of Total	89.5%	3.5%	2.2%	3.0%	1.3%	0.5%	100.0%	

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

Approximately 69% 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 89% of the holdings are rated AAA. Included in the commercial mortgage-backed securities at June 30, 2019, were $3.064 billion in Agency CMBS and $1.240 billion Non-agency CMBS. Included in the Other MBS and ABS at June 30, 2019 were $1.181 billion AAA rated SBA Loans. The commercial mortgage-backed securities portfolio is well diversified and of high quality with approximately 96% 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 June 30, 2019 and December 31, 2018:

U.S. State and Municipal by Credit Quality[1]	**As of June 30, 2019**			**As of December 31, 2018**		
$ in Millions	**Fair Value**	**% of Total**	**Average Credit Rating**	**Fair Value**	**% of Total**	**Average Credit Rating**
State general obligation	$1,355	16.5%	AA	$1,238	14.4%	AA
Local general obligation	1,262	15.4	AA	1,135	13.2	AA
Revenue	5,531	67.4	AA	6,143	71.8	AA
Pre-refunded	55	0.7	AAA	53	0.6	AAA
Total U.S. state and municipal	$8,203	100.0%	AA	$8,569	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 June 30, 2019 and December 31, 2018 were $55 million and $53 million, 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 June 30, 2019 and December 31, 2018:

Fixed Maturities by Credit Quality[1]	**As of June 30, 2019**		**As of December 31, 2018**	
$ in Millions	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$24,284	39.5%	$20,539	35.6%
AA+, AA, AA-	8,760	14.3	8,541	14.8
A+, A, A-	11,808	19.2	11,617	20.1
BBB+, BBB, BBB-	13,104	21.4	13,708	23.8
Total investment grade	57,956	94.4	54,405	94.3
BB+, BB, BB-	1,956	3.2	2,007	3.4
B+, B, B-	1,202	2.0	1,048	1.8
CCC or lower	167	0.3	156	0.3
Unrated[2]	80	0.1	90	0.2
Total below-investment grade	3,405	5.6	3,301	5.7
Total fixed maturities	$61,361	100.0%	$57,706	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 June 30, 2019.

The following table summarizes available for sale fixed maturity securities by contractual maturity at June 30, 2019 and December 31, 2018. 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 June 30, 2019**		**As of December 31, 2018**	
$ in Millions	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
One year or less	$3,225	5.3%	$2,970	5.1%
Over one year through five years	20,253	33.0	22,692	39.3
Over five years through ten years	13,897	22.6	12,346	21.4
Over ten years	7,447	12.1	6,562	11.4
MBS and ABS	16,539	27.0	13,136	22.8
Total fixed maturities	$61,361	100.0%	$57,706	100.0%

During 2019, 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 June 30, 2019 was 4.0 years.

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 June 30, 2019 and December 31, 2018 that are not deemed to be other-than-temporarily impaired:

	As of June 30, 2019			
$ in Millions	**Less Than 12 Months**		**12 Months or Longer**	
Unrealized Losses & Fair Value by Security Type	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Government and agency securities	($-)	$68	($3)	$471
Residential MBS	(1)	218	(14)	1,972
Commercial MBS	(1)	145	(1)	139
Other MBS and ABS	(12)	705	(15)	733
U.S. state and municipal	(1)	98	(1)	88
Corporate and other	(19)	1,134	(38)	1,971
Foreign government securities	-	130	(5)	440
Total securities available for sale	($34)	$2,498	($77)	$5,814

	As of December 31, 2018			
$ in Millions	**Less Than 12 Months**		**12 Months or Longer**	
Unrealized Losses & Fair Value by Security Type	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Government and agency securities	($4)	$827	($29)	$1,749
Residential MBS	(12)	738	(83)	3,187
Commercial MBS	(5)	374	(31)	1,369
Other MBS and ABS	(38)	1,812	(39)	1,555
U.S. state and municipal	(4)	472	(60)	2,567
Corporate and other	(293)	10,771	(240)	6,852
Foreign government securities	(16)	754	(24)	913
Total fixed maturities	(372)	15,748	(506)	18,192
Common stock	(232)	2,184	(61)	881
Preferred stock	-	4	-	-
Total equity securities	(232)	2,188	(61)	881
Total securities available for sale	($604)	$17,936	($567)	$19,073

Unrealized losses for fixed maturity securities decreased from $878 million as of December 31, 2018 to $111 million as of June 30, 2019. 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 June 30, 2019 are temporary.

The following tables summarize the Company's issuer and sector exposure[1] as of June 30, 2019:

Top 10 Issuers	**As of June 30, 2019**				
$ in Millions	**Fixed Maturity**	**Equity**	**Short-Term**	**Total Exposure**	**% of Invested Assets**
Government of Brazil	$690	$-	$-	$690	0.87%
Government of United Kingdom	468	-	2	470	0.59
Government of Canada	355	-	8	363	0.45
Government of Spain	362	-	-	362	0.45
Government of Italy	340	-	-	340	0.43
Bank of America Corp	330	-	-	330	0.41
JP Morgan Chase & Co	310	-	-	310	0.39
Citigroup Inc	282	-	-	282	0.35
Government of Colombia	275	-	-	275	0.34
Morgan Stanley	266	-	-	266	0.33
Total	$3,678	$-	$10	$3,688	4.61%

Top 10 Sectors	**As of June 30, 2019**				
$ in Millions	**Fixed Maturity**	**Equity**	**Short-Term**	**Total Exposure**	**% of Invested Assets**
Banking	$4,595	$2	$218	$4,815	6.03%
Foreign Government	4,029	-	26	4,055	5.07
Technology	1,818	249	-	2,067	2.58
Electric Utility	1,579	249	1	1,829	2.29
REITS	478	1,021	-	1,499	1.87
US Municipal – State	1,335	-	-	1,335	1.67
US Municipal – Local	1,260	-	-	1,260	1.58
Insurance	1,098	105	-	1,203	1.50
Pharmaceuticals	1,152	47	-	1,199	1.50
Healthcare	933	146	-	1,079	1.35
Total	$18,277	$1,819	$245	$20,341	25.44%

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

As of June 30, 2019, investments in the energy sector accounted for $2.725 billion or 3.4% 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 $1.980 billion, bonds that were rated below investment grade of $207 million, and natural resources partnerships and other equity method investments of $538 million. In addition, the Company has direct investments in oil and gas wells of $1.085 billion which are included in other assets on the Consolidated Balance Sheets.

The following table summarizes the Company's unfunded commitments as of June 30, 2019 and December 31, 2018:

Unfunded Commitments	**As of June 30, 2019**		**As of December 31, 2018**	
$ in Millions	**Total**	**% of Total**	**Total**	**% of Total**
Traditional private equity	$1,029	30.2%	$980	32.5%
Natural resources – Energy	339	10.0	521	17.3
Natural resources – Other[1]	161	4.7	99	3.3
Real estate	741	21.7	687	22.8
Private credit	987	29.0	545	18.1
Other	150	4.4	181	6.0
Total unfunded commitments	$3,407	100.0%	$3,013	100.0%

1 Includes power and renewables, and agriculture and timber commitments.

Unfunded commitments as of June 30, 2019 were $3.407 billion, an increase of $394 million over December 31, 2018. The increase was due to new commitments net of contributions, primarily related to private credit. The $339 million unfunded energy investment commitments as of June 30, 2019 included $131 million related to energy partnerships and $208 million related to direct investments in oil and gas wells. The $521 million unfunded energy investment commitments as of December 31, 2018 included $160 million related to energy partnerships and $361 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:

- A $250 million repurchase agreement for a three-year period, which terminates December 1, 2020. At June 30, 2019, no funds were borrowed under the facility.
- A $250 million repurchase agreement with an expiration date of November 24, 2020. At June 30, 2019, no funds were borrowed under the facility.
- LMIC, Peerless Insurance Company ("PIC"), 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 June 30, 2019, 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 June 30, 2019 (including cash and cash equivalents) totaled $79.970 billion.

Debt outstanding as of June 30, 2019 and December 31, 2018 was as follows:

Short-term debt:

$ in Millions	**As of June 30, 2019**	**As of December 31, 2018**
Short-term debt	$ -	$ -

Long-term debt:

$ in Millions	As of June 30, 2019	As of December 31, 2018
Junior Subordinated notes, due 2067[1]	$-	$300
5.00% Notes, due 2021	330	600
4.95% Notes, due 2022	473	750
4.25% Notes, due 2023	547	1,000
1.75% €500 Million Notes, due 2024	569	572
8.50% Surplus notes, due 2025	140	140
2.75% €750 Million Notes, due 2026	854	857
7.875% Surplus notes, due 2026	227	227
7.625% Notes, due 2028	3	3
4.569% Notes, due 2029	1,000	-
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]	504	700
10.75% Junior Subordinated notes, due 2088[3]	52	52
6.50% Notes, due 2042	750	750
4.85% Notes, due 2044	1,050	1,050
4.50% Notes, due 2049	350	-
3.625% €500 Million Junior Subordinated notes, due 2059[4]	569	-
7.697% Surplus notes, due 2097	260	260
Subtotal	8,699	8,282
Unamortized discount	(40)	(11)
Long-term debt excluding unamortized debt issuance costs	8,659	8,271
Unamortized debt issuance costs	(45)	(38)
Total long-term debt	$8,614	$8,233

1 7.00% fixed rate became 6.324% starting March 15, 2017 through a swap. Bondholders were paid 3-month LIBOR + 2.905% at redemption on June 17, 2019.

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.

4 The par value call date and final fixed rate interest payment date is May 23, 2024, 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 affect transactions in its debt, subject to applicable limitations.

Debt Transactions

On June 11, 2019, LMGI issued $350 million of Senior Notes due 2049 (the "2049 Notes"). Interest is payable semi-annually at a fixed rate of 4.50%. The 2049 Notes mature on June 15, 2049.

On June 7, 2019, LMGI tendered $196 million of 7.80% Junior Subordinated notes, due 2087 (the "2087 Notes"). LMGI paid an aggregate of $247 million cash consideration, including accrued and unpaid interest, for the tender of the 2087 Notes.

On May 23, 2019, LMGI redeemed $300 million Junior Subordinated Notes due 2067 (the redeemed "2067 Notes"). LMGI terminated the two interest rate swap transactions with respect to the redeemed 2067 Notes. LMGI paid $43 million for the early termination of the swap transactions.

On May 23, 2019, LMGI issued €500 million of Series D Junior Subordinated notes (the "Series D Notes") scheduled for redemption on May 23, 2059. The Series D Notes have a par value call date of May 23, 2024 (the "First Call Date") and may be redeemed in whole or in part on each date falling on the fifth anniversary thereafter (the "Reset Period"). Interest is payable annually at a fixed rate of 3.625% up to but excluding the first call date. In the event the Series D Notes are not redeemed on the First Call Date, interest will be payable annually at a rate equal to the relevant Euro 5 Year Swap rate plus 3.700% per year (the "Margin") in respect of the Reset Period commencing on the First Call Date and each subsequent Reset Period, up to but excluding May 23, 2044 (the "Step-up Date"). In the event the Series D Notes are not redeemed on or before the Step-up Date, interest will be payable annually, including the Step-up Date but excluding the stated maturity, in respect of each Reset Period between the Step-up Date and the stated maturity, the relevant Euro 5 Year Swap Rate plus the Margin plus 1.00% per year. LMGI has the right to defer interest payments on the Series D Notes for a period up to ten years. Interest compounds during periods of deferral.

On January 28, 2019, LMGI exchanged $1 billion par value of the 2029 Notes for $270 million of its 5.00% Notes due 2021, $277 million of its 4.95% Notes due 2022 and $453 million of its 4.25% Notes due 2023. LMGI paid an aggregate of $40 million cash consideration, including accrued and unpaid interest, for the existing notes accepted for exchange. Interest on the 2029 Notes is payable semi-annually at a fixed rate of 4.569%. The 2029 Notes mature on February 1, 2029.

Interest Expense

Consolidated interest expense for the three months and six months ended June 30, 2019 was $111 million and $221 million, respectively, an increase of $1 million and zero over the same period in 2018.

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 June 30, 2019, the Company, through its downstream subsidiaries LMGI and LMFE, had $7.2 billion and $569 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, 2018) and 2019 available dividend capacity prior to needing regulatory approval for LMIC, LMFIC and EICOW were as follows:

$ in Millions	RBC Ratio[1]		Dividend Capacity[2]	Dividends Paid[3]
RBC Ratios and Dividend Capacity	**2018**	**2017**	**2019**	**2019**
LMIC	399%	354%	$2,843	$32
LMFIC	494%	452%	$168	$8
EICOW	454%	422%	$165	$-

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 six months ended June 30, 2019. Available dividend capacity as of June 30, 2019 is calculated as 2019 dividend capacity less dividends paid for the preceding 12 months. Dividends paid July 1, 2018 through June 30, 2019 for LMIC, LMFIC and EICOW were $65 million, $15 million and zero, respectively.

LMGI also has access to the following sources of funding:

- An unsecured revolving credit facility of $1 billion with an expiration date of June 25, 2024. 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, agency and IT services rendered for affiliated and non-affiliated entities. For the three and six months ended June 30, 2019, LCS recorded $99 million and $198 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 June 30, 2019	As of December 31, 2018
Total debt	$8,614	$8,233
Total equity	$23,552	$20,762
Less: Accumulated other comprehensive loss	(1,458)	(3,379)
Total equity excluding accumulated other comprehensive loss	$25,010	$24,141
Total capital excluding accumulated other comprehensive loss	$33,624	$32,374
Total debt-to-capital capitalization excluding accumulated other comprehensive loss	25.6%	25.4%
Statutory surplus	$21,196	$19,766

The total debt-to-capital capitalization ratio excluding accumulated other comprehensive loss is calculated by dividing (a) total 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 25.6% at June 30, 2019 was within the Company's target range.

REINSURANCE

Reinsurance Recoverables

The Company reported reinsurance recoverables of $15.343 billion and $15.145 billion at June 30, 2019 and December 31, 2018, respectively, net of allowance for doubtful accounts of $197 million and $204 million, respectively. Included in these balances are $1.041 billion and $937 million of paid recoverables and $14.499 billion and $14.412 billion of unpaid recoverables (including retroactive reinsurance), respectively.

S&P Rating[1]	**As of December 31, 2018**			
$ in Millions	**Gross Recoverables[2]**	**Collateral Held[3]**	**Net Recoverables[4]**	**% of Total Net Recoverables**
Rated Entities				
AAA	$ -	$ -	$ -	-
AA+, AA, AA-	5,990	4,685	2,126	22%
A+, A, A-	4,269	354	3,943	41%
BBB+, BBB, BBB-	-	-	-	-
BB+ or below	1	-	1	-
Subtotal	10,260	5,039	6,070	63%
Pools & Associations				
State mandated involuntary pools and associations	2,744	-	2,744	29%
Voluntary	198	107	191	2%
Subtotal	2,942	107	2,935	31%
Non-Rated Entities[5]				
Captives & fronting companies	1,433	1,689	219	2%
Other	714	1,452	335	4%
Subtotal	2,147	3,141	554	6%
Grand Total	$15,349	$8,287	$9,559	100%

1 Standard & Poor's ratings are as of December 31, 2018.

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, 2018		
$ in Millions	Gross Recoverables[2]	Collateral Held[3]	Net Recoverables[4]
1. Berkshire Hathaway Insurance Group	$3,482	$3,784	$191
2. Nationwide Group	1,405	-	1,405
3. Swiss Re Group	1,346	749	911
4. Everest Re Group	460	130	339
5. Munich Re Group	435	13	427
6. Lloyd's of London	425	-	425
7. Alleghany Corp	402	40	362
8. UPINSCO	360	557	-
9. Builders Reinsurance S.A.	285	344	-
10. CUMIS Insurance Society Group	257	-	257
11. Exchange Indemnity Company	225	110	117
12. Partner Re Group	218	26	196
13. Markel Corp	206	3	204
14. Hannover Re Group	174	16	162
15. AEGIS Group	164	173	-
State Mandated Involuntary pools and associations	2,744	-	2,744
Voluntary pools and associations	198	107	191
All Other	2,563	2,235	1,628
Total Reinsurance Recoverables	$15,349	$8,287	$9,559

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% and 94% 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, respectively, at December 31, 2018. Collateral held against outstanding gross reinsurance recoverable balances was $8.287 billion at December 31, 2018.

The remaining 5% and 6% 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 1% 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, 2018.

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 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 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 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 retroactive reinsurance agreement. NICO will provide $3.180 billion of additional aggregate adverse development reinsurance. The Company paid NICO total consideration of $3.046 billion. 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 former Commercial Insurance Strategic Business Unit 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 Income until those benefits exceed the loss on the transaction. Reinsurance benefits will be deferred and are amortized into earnings over the period when underlying claims are settled.

During 2018, the Company had net reserve releases driven by favorable development in workers compensation, partially offset by unfavorable development in asbestos and environmental. The Company reported the net position of the contract as a loss of $210 million as of June 30, 2019 and December 31, 2018.

The Company reported deferred gain amortization of zero and $6 million at June 30, 2019 and 2018, respectively. As of June 30, 2019 and December 31, 2018, deferred gains were zero.

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 investments in natural resources, (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, 2018 Audited Consolidated Financial Statements and footnote 1 in the Company's June 30, 2019 Unaudited 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, 2018 Audited Consolidated Financial Statements and footnote 6 in the Company's June 30, 2019 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, 2018 Audited Consolidated Financial Statements and footnote 6 in the Company's June 30, 2019 Unaudited 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 Income.

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 Income 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, 2018 Audited Consolidated Financial Statements and footnote 4 in the Company's June 30, 2019 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 investments 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 June 30, 2019, excluding other assets, the Company reflected $9.846 billion (15.1%) 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 June 30, 2019, the Company reported $54.029 billion (83.1%) as level 2, consisting primarily of fixed maturity securities. Finally, the Company reported $1.157 billion (1.8%) 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, 2018 Audited Consolidated Financial Statements and footnote 9 in the Company's June 30, 2019 Unaudited Consolidated Financial Statements.

Impairment Losses on Investments

The Company reviews fixed maturity 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, 2018 Audited Consolidated Financial Statements and footnote 3 in the Company's June 30, 2019 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 reporting unit has the option to skip the qualitative test and move directly to completion of the quantitative process. As of June 30, 2019, the Company has two reporting units – Global Retail Markets and Global Risk Solutions.

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.

The Company had no material goodwill impairments or intangible asset impairments recognized in 2018.

For additional discussion, please refer to footnote 1 in the Company's December 31, 2018 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 insurance loss reserves, unearned premiums, net operating losses, employee benefits, accrued expenses, deferred policy acquisition costs, net unrealized gains and losses on investments, intangibles, equalization reserves and fixed assets.

The Company's effective tax rate on continuing operations differs from the U.S. Federal statutory rate of 21% primarily due to the impact of non-U.S. operations partially offset by tax-exempt investment income.

For additional discussion, please refer to footnote 8 in the Company's December 31, 2018 Audited Consolidated Financial Statements and footnote 7 in the Company's June 30, 2019 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. 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.

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, 2018 Audited Consolidated Financial Statements and footnote 8 in the Company's June 30, 2019 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 third largest property and casualty insurer in the U.S. based on 2018 direct written premium. The Company also ranks 75th on the Fortune 100 list of largest corporations in the U.S. based on 2018 revenue. As of December 31, 2018, LMHC had $125.989 billion in consolidated assets, $105.227 billion in consolidated liabilities, and $41.568 billion in annual consolidated revenue.

LMHC, through its subsidiaries and affiliated companies, offers a wide range of property and casualty insurance products and services to individuals and businesses alike. In 2001 and 2002, the Company formed a mutual holding company structure, whereby the three principal mutual insurance companies, 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 two business units, with each operating independently of the other in certain areas such as sales, underwriting, and claims, but, as appropriate, collaborating in other areas such as actuarial and financial. Management believes this structure provides increased synergy to the Company and permits each business unit to execute its business strategy and/or to make acquisitions without impacting or disrupting the operations of the other business unit.

LMHC employs nearly 50,000 people in over 800 offices throughout the world. For a full description of the Company's business operations, products and distribution channels, please visit Liberty Mutual's Investor Relations web site at www.libertymutualgroup.com/investors.