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

Quarter Ended September 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 nine months ended September 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 September 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).

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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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Net written premium	$10,325	$10,189	1.3%	$30,063	$29,694	1.2%
Pre-tax operating income before partnerships, LLC and other equity method income	125	312	(59.9)	998	1,176	(15.1)
Partnerships, LLC and other equity method income	162	186	(12.9)	556	693	(19.8)
Net realized gains (losses)	81	(104)	NM	393	(8)	NM
Unit linked life insurance	(12)	-	NM	(89)	-	NM
Ironshore Inc. ("Ironshore") acquisition & integration costs	(4)	(7)	(42.9)	(16)	(31)	(48.4)
Restructuring costs	(3)	(26)	(88.5)	(6)	(57)	(89.5)
Loss on extinguishment of debt	-	(5)	(100.0)	(49)	(8)	NM
Discontinued operations, net of tax	-	-	-	(50)	530	NM
Consolidated net income	274	283	(3.2)	1,344	1,912	(29.7)
Less: Net income attributable to non-controlling interest	-	1	(100.0)	-	1	(100.0)
Net income attributable to LMHC	274	282	(2.8)	1,344	1,911	(29.7)
Net income attributable to LMHC excluding unrealized impact[1]	291	282	3.2	1,151	1,911	(39.8)
Cash flow provided by continuing operations	$1,494	$1,256	18.9%	$3,039	$2,412	26.0%

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

	Three Months Ended September 30,			Nine Months Ended September 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]	95.6%	94.7%	0.9	94.6%	94.0%	0.6
Combined ratio[4]	102.5%	99.5%	3.0	100.0%	98.8%	1.2

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 six months ended June 30, 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 September 30, 2019	As of December 31, 2018	Change
Short-term debt	$-	$-	-%
Long-term debt	8,138	8,233	(1.2)
Total debt	$8,138	$8,233	(1.2%)
Unassigned equity	$25,257	$24,114	4.7%
Accumulated other comprehensive loss	(1,279)	(3,379)	(62.1)
Non-controlling interest	27	27	-
Total equity	$24,005	$20,762	15.6%

Subsequent Events

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

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

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

CONSOLIDATED RESULTS OF OPERATIONS

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 Net Written Premium ("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.

On August 23, 2019 the Company completed the sale of the Venezuelan business, Seguros Caracas de Liberty Mutual, which was previously deconsolidated in 2015.

On September 27, 2019, LMGI exchanged $1.25 billion par value of Senior Notes due 2050 (the "2050 Notes") for $78 million of its 7.00% Senior Notes due 2034, $170 million of its 6.50% Senior Notes due 2035, $480 million of its 6.50% Senior Notes due 2042, $436 million of its 4.85% Senior Notes due 2044, $67 million of its 7.80% Junior Subordinated Notes due 2087 (the" 2087 Notes") and $17 million of its 10.75% Junior Subordinated Notes due 2088. LMGI paid an aggregate of $411 million cash consideration, including accrued and unpaid interest, for the existing notes accepted for exchange. Interest on the 2050 Notes is payable semi-annually at a fixed rate of 3.951%. The 2050 Notes mature on October 15, 2050.

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 2087 Notes 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. closed October 2, 2019.

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 closed on August 20, 2019.

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.

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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Private passenger automobile	$3,622	$3,656	(0.9%)	$10,576	$10,664	(0.8%)
Homeowners	1,814	1,821	(0.4)	4,888	4,986	(2.0)
Global Risk Solutions specialty insurance[1]	1,298	1,181	9.9	3,648	3,313	10.1
Global Risk Solutions reinsurance	476	644	(26.1)	1,784	2,090	(14.6)
Commercial multiple-peril	628	598	5.0	1,765	1,684	4.8
Workers compensation	544	485	12.2	1,603	1,578	1.6
Commercial automobile	529	520	1.7	1,602	1,558	2.8
General liability	434	424	2.4	1,201	1,249	(3.8)
Surety	256	230	11.3	770	692	11.3
Commercial property	246	238	3.4	587	595	(1.3)
Global Risk Solutions inland marine	143	131	9.2	420	400	5.0
Corporate reinsurance[2]	(109)	(145)	(24.8)	(33)	(313)	(89.5)
Other[3]	444	406	9.4	1,252	1,198	4.5
Total NWP	$10,325	$10,189	1.3%	$30,063	$29,694	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.

NWP for the three months ended September 30, 2019 was $10.325 billion, an increase of $136 million over the same period in 2018.

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

- Private passenger automobile decreased $34 million. The decrease reflects unfavorable foreign exchange due to the strengthening of the U.S. dollar versus the Columbian peso 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.
- Global Risk Solutions specialty insurance NWP increased $117 million. The increase reflects new business and positive rate partially offset by lower premium from the disposal of certain international Ironshore entities 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.
- Global Risk Solutions reinsurance NWP decreased $168 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 $30 million. The increase reflects growth due to increases in new business, rate, and retention.
- Workers compensation NWP increased $59 million. The increase reflects growth due to increases in new business and retention in Global Retail Markets.
- Surety NWP increased $26 million. The increase reflects growth, primarily within the contract bond business and from the Insco Dico acquisition.
- Corporate reinsurance NWP increased $36 million. The increase was primarily due to the booked as billed adjustment and reinsurance as a result of shifting the purchase of homeowners quota share reinsurance treaties to GRM.

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

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

- Private passenger automobile NWP decreased $88 million. The decrease reflects unfavorable foreign exchange due to the strengthening of the U.S. dollar versus the Brazilian real, Chilean and Columbian peso, 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 $98 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 $335 million. The increase reflects lower reinsurance purchased in the current year, new business and positive rate partially offset by lower premium from the disposal of certain international Ironshore entities 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.
- Global Risk Solutions reinsurance NWP decreased $306 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 $48 million. The decrease reflects a new ceded global casualty program, partially offset by growth due to increases in rate as well as increases in new business and retention in Global Retail Markets.
- Surety NWP increased $78 million. The increase reflects growth within all bond businesses and from the Insco Dico acquisition.
- Corporate reinsurance NWP increased $280 million. The increase primarily reflects higher assumed premium due to increased property catastrophe protection purchased by the businesses from Corporate and reinsurance as a result of shifting the purchase of homeowners quota share reinsurance treaties to GRM.

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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Global Retail Markets	$7,292	$7,209	1.2%	$21,074	$20,992	0.4%
Global Risk Solutions	3,121	3,150	(0.9)	8,987	9,016	(0.3)
Corporate and Other	(88)	(170)	(48.2)	2	(314)	NM
Total NWP	$10,325	$10,189	1.3%	$30,063	$29,694	1.2%
Foreign exchange effect on growth			(0.6)			(1.0)
NWP growth excluding foreign exchange[1]			1.9%			2.2%

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

Major drivers of NWP growth were as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
$ in Millions	2019	2018	$ Change	Points Attribution	2019	2018	$ Change	Points Attribution
Components of growth:								
Domestic personal automobile	2,964	3,012	(48)	(0.5)	8,696	8,745	(49)	(0.2)
Domestic homeowners	1,763	1,772	(9)	(0.1)	4,737	4,832	(95)	(0.3)
Global Retail Markets East | West (ex foreign exchange)[1]	1,101	1,042	59	0.6	3,282	3,158	124	0.4
Global Risk Solutions specialty insurance (ex foreign exchange)[1]	1,314	1,181	133	1.3	3,709	3,313	396	1.3
Global Risk Solutions reinsurance (ex foreign exchange)[1]	482	644	(162)	(1.6)	1,814	2,090	(276)	(0.9)
Domestic workers compensation	523	460	63	0.6	1,506	1,476	30	0.1
Surety	249	223	26	0.3	750	674	76	0.3
Global Risk Solutions inland marine (ex foreign exchange)[1]	145	131	14	0.1	427	400	27	0.1
Corporate reinsurance (ex foreign exchange)[1,2]	(109)	(145)	36	0.4	(33)	(313)	280	0.9
Global Retail Markets Reinsurance (ex foreign exchange)[1]	17	-	17	0.2	41	-	41	0.1
Other lines	1,933	1,869	64	0.6	5,430	5,319	111	0.4
Foreign exchange[1]	(57)	-	(57)	(0.6)	(296)	-	(296)	(1.0)
Total NWP	$10,325	$10,189	$136	1.3	$30,063	$29,694	$369	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 September 30,			Nine Months Ended September 30,		
$ in Millions	2019	2018	Change	2019	2018	Change
U.S.	$7,952	$9,147	(13.1%)	$23,429	$24,620	(4.8%)
International excluding foreign exchange[1]	2,430	1,042	133.2	6,930	5,074	36.6
Foreign exchange[1]	(57)	-	NM	(296)	-	NM
Total NWP	$10,325	$10,189	1.3%	$30,063	$29,694	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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenues	$10,839	$10,408	4.1%	$32,295	$31,012	4.1%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method income	$789	$771	2.3%	$2,547	$2,514	1.3%
Catastrophes[1]	(425)	(505)	(15.8)	(1,197)	(1,369)	(12.6)
Net incurred losses attributable to prior years:						
- Asbestos and environmental[2]	-	(255)	(100.0)	(3)	(268)	(98.9)
- All other[2,3]	(109)	301	NM	(349)	299	NM
Current accident year re-estimation[4]	(130)	-	NM	-	-	-
Pre-tax operating income before partnerships, LLC and other equity method income	125	312	(59.9)	998	1,176	(15.1)
Partnerships, LLC and other equity method income[5]	162	186	(12.9)	556	693	(19.8)
Pre-tax operating income	287	498	(42.4)	1,554	1,869	(16.9)
Net realized gains (losses)	81	(104)	NM	393	(8)	NM
Unit linked life insurance	(12)	-	NM	(89)	-	NM
Ironshore acquisition & integration costs	(4)	(7)	(42.9)	(16)	(31)	(48.4)
Restructuring costs	(3)	(26)	(88.5)	(6)	(57)	(89.5)
Loss on extinguishment of debt	-	(5)	(100.0)	(49)	(8)	NM
Pre-tax income	349	356	(2.0)	1,787	1,765	1.2
Income tax expense	75	73	2.7	393	383	2.6
Consolidated net income from continuing operations	274	283	(3.2)	1,394	1,382	0.9
Discontinued operations, net of tax	-	-	-	(50)	530	NM
Consolidated net income	274	283	(3.2)	1,344	1,912	(29.7)
Less: Net income attributable to non-controlling interest	-	1	(100.0)	-	1	(100.0)
Net income attributable to LMHC	274	282	(2.8)	1,344	1,911	(29.7)
Net income attributable to LMHC excluding unrealized impact[6]	$291	$282	3.2%	$1,151	$1,911	(39.8%)
Cash flow provided by continuing operations	$1,494	$1,256	18.9%	$3,039	$2,412	26.0%

1 Catastrophes are defined as a natural catastrophe or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

2 Asbestos and environmental is gross of the related adverse development reinsurance (the "NICO Reinsurance Transaction"), and All other includes all cessions related to the NICO Reinsurance Transaction, which is described further in "Reinsurance".

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

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

5 Partnerships, LLC and other equity method income includes LP, LLC and other equity method income within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from direct investments in natural resources.

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

NM = Not Meaningful

Partnerships, LLC and Other Equity Method Income	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	2019	2018	Change	2019	2018	Change
LP, LLC and other equity method income[1]	$160	$176	(9.1%)	$552	$659	(16.2%)
Direct investment in natural resources revenues[2]	118	84	40.5	349	265	31.7
Direct investment in natural resources expenses[3]	(116)	(74)	56.8	(345)	(231)	49.4
Partnerships, LLC and other equity method income	$162	$186	(12.9%)	$556	$693	(19.8%)

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 September 30,		Nine Months Ended September 30,	
$ in Millions	2019	2018	2019	2018
Taxable interest income	$459	$429	$1,378	$1,241
Tax-exempt interest income	43	43	134	137
Dividends	11	18	49	48
LP, LLC and other equity method income	160	176	552	659
Commercial mortgage loans	22	18	62	54
Other investment income	1	3	6	6
Gross investment income	696	687	2,181	2,145
Investment expenses[1]	(66)	(60)	(186)	(175)
Total net investment income	$630	$627	$1,995	$1,970

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 September 30, 2019:				
Fixed maturities	$170	($2)	$-	$168
Equities	(12)	-	(4)	(16)
Derivatives	(32)	-	(8)	(40)
Other	(10)	(21)	-	(31)
Total	$116	($23)	($12)	$81
Three Months Ended September 30, 2018:				
Fixed maturities	($11)	($23)	$-	($34)
Equities	5	(2)	-	3
Derivatives	40	-	-	40
Other	144	(257)	-	(113)
Total	$178	($282)	$-	($104)

Net Realized Gains (Losses) $ in Millions	Sales & Settlements	Impairments	Unrealized Gains (Losses)	Total
Nine Months Ended September 30, 2019:				
Fixed maturities	$336	($5)	$-	$331
Equities	23	-	339	362
Derivatives	(107)	-	(21)	(128)
Other	(45)	(126)	(1)	(172)
Total	$207	($131)	$317	$393
Nine Months Ended September 30, 2018:				
Fixed maturities	($55)	($29)	$-	($84)
Equities	13	(6)	-	7
Derivatives	27	-	-	27
Other	340	(298)	-	42
Total	$325	($333)	$-	($8)

Unrealized Gains Related to Equity Securities	Three Months Ended September 30,	Nine Months Ended September 30,
$ in Millions	**2019**	**2019**
Net (losses) gains recognized during the period on equity securities	($4)	$338
Less: Net (losses) gains recognized during the period on equity securities sold during the period	(14)	101
Unrealized gains recognized during the reporting period on equity securities still held at the reporting date	$10	$237

Third Quarter Results:

Pre-tax operating income before partnerships, LLC and other equity method income for the three months ended September 30, 2019 was $125 million, a decrease of $187 million from the same period in 2018. The decrease reflects unfavorable net incurred losses attributable to prior years and higher current year loss activity including resetting of the current accident year to a higher baseline based on prior year loss indications primarily within liability lines. These decreases were partially offset by the profit margin on higher earned premium, lower catastrophe losses, 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 September 30, 2019 was $162 million, a decrease of $24 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 more favorable valuations and distributions in private capital investments in 2019 as compared to the same period in 2018.

Revenues for the three months ended September 30, 2019 were $10.839 billion, an increase of $431 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 September 30, 2019 was $9.821 billion, an increase of $199 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 three months of 2018.

Net investment income for the three months ended September 30, 2019 was $630 million, an increase of $3 million over the same period in 2018. The increase reflects investment income from a higher net invested asset base partially offset by lower earned yields in 2019 as compared to the same period in 2018. Also driving the increase were more 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 September 30, 2019 were $81 million versus ($104) million for the same period in 2018. The net realized gains in the current quarter were primarily driven by $170 million net gains on fixed maturity sales. This was partially offset by $23 million of impairment charges and $40 million of derivative losses. The prior period was impacted by a $232 million impairment on an energy investment, partially offset by a $148 million gain from the sale of a privately held equity security.

Fee and other revenues for the three months ended September 30, 2019 were $307 million, an increase of $44 million over the same period in 2018. The increase primarily reflects higher natural resource revenues.

Claims, benefits and expenses for the three months ended September 30, 2019 were $10.471 billion, an increase of $457 million over the same period in 2018. The increase reflects unfavorable net incurred losses attributable to prior years and higher current year loss activity including resetting of the current accident year to a higher baseline based on prior year loss indications primarily within liability lines. The increase was also driven by higher insurance operating costs and losses associated with growth 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 September 30, 2019 was $75 million, an increase of $2 million over the same period in 2018. The Company's effective tax rate on continuing operations for the three months ended September 30, 2019 was 22%, compared to 21% for the same period in 2018. The increase in the effective tax rate on continuing operations from 2018 to 2019 was primarily driven by the impact of non-U.S. operations.

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

Cash flow provided by continuing operations for the three months ended September 30, 2019 was $1.494 billion, an increase of $238 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. These increases were partially offset by unfavorable catastrophe payments and underwriting expense payments in Global Retail Markets and unfavorable expense payment timing in Corporate.

Year-to-date Results:

Pre-tax operating income before partnerships, LLC and other equity method income for the nine months ended September 30, 2019 was $998 million, a decrease of $178 million from the same period in 2018. The decrease reflects unfavorable net incurred losses attributable to prior years, higher current year loss activity including resetting of the current accident year to a higher baseline based on prior year loss indications primarily within liability lines, and

unfavorable foreign exchange. This was partially offset by higher net investment income excluding partnerships, LLC and other equity method investments, lower catastrophe losses, 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 nine months ended September 30, 2019 was $556 million, a decrease of $137 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 more favorable valuations and distributions in private capital investments in 2019 as compared to the same period in 2018.

Revenues for the nine months ended September 30, 2019 were $32.295 billion, an increase of $1.283 billion 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 nine months ended September 30, 2019 was $28.990 billion, an increase of $720 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 three months of 2018.

Net investment income for the nine months ended September 30, 2019 was $1.995 billion, an increase of $25 million over the same period in 2018. The increase reflects investment income from a higher net invested asset base and slightly higher earned yields in 2019 as compared to the same period in 2018. Also driving the increase were more 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 nine months ended September 30, 2019 were $393 million versus ($8) million for the same period in 2018. The net realized gains in the current period were primarily driven by a $317 million net change in unrealized gains primarily due to a change in accounting standards and $336 million net gain on the sale of fixed maturities in 2019. This was partially offset by $131 million of impairment charges, primarily related to corporate real estate and natural resources, and a $25 million loss from sale of certain international Ironshore entities. The prior period was impacted by impairments on natural resources investments and corporate real estate, as well as fixed maturity net losses, partially offset by a $162 million gain as a result of the acquisition of a previously held equity method investment and a $148 million gain from the sale of a privately held equity security.

Fee and other revenues for the nine months ended September 30, 2019 were $917 million, an increase of $137 million over the same period in 2018. The increase primarily reflects higher natural resource revenues.

Claims, benefits and expenses for the nine months ended September 30, 2019 were $30.348 billion, an increase of $1.197 billion over the same period in 2018. The increase reflects unfavorable incurred losses attributable to prior years higher current year loss activity including resetting of the current accident year to a higher baseline based on prior year loss indications primarily within liability lines. The increase was also driven by 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 nine months ended September 30, 2019 was $393 million, an increase of $10 million over the same period in 2018. The Company's effective tax rate on continuing operations for the nine months ended September 30, 2019 was 22%, which is consistent with the same period in 2018.

Discontinued operations, net of tax, for the nine months ended September 30, 2019 were ($50) million versus $530 million for the same period in 2018. 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 nine months ended September 30, 2019 was $1.344 billion, a decrease of $567 million from the same period in 2018.

Cash flow provided by continuing operations for the nine months ended September 30, 2019 was $3.039 billion, an increase of $627 million over the same period in 2018. The increase reflects higher premium collections in both Global Retail Markets and Global Risk Solutions, favorable paid loss activity and favorable catastrophe payments in Global Risk Solutions, as well as 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 September 30,			Nine Months Ended September 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	66.9%	65.0%	1.9	65.8%	64.2%	1.6
Underwriting expense ratio	28.7	29.7	(1.0)	28.8	29.8	(1.0)
Subtotal	95.6	94.7	0.9	94.6	94.0	0.6
Catastrophes[1]	4.3	5.3	(1.0)	4.1	4.9	(0.8)
Net incurred losses attributable to prior years:						
- Asbestos and environmental	0.6	2.6	(2.0)	0.2	0.9	(0.7)
- All other[2]	0.7	(3.1)	3.8	1.1	(1.0)	2.1
Current accident year re-estimation[3]	1.3	-	1.3	-	-	-
Total combined ratio[4]	102.5%	99.5%	3.0	100.0%	98.8%	1.2

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 six months ended June 30, 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.

Third Quarter Results:

The consolidated combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three months ended September 30, 2019 was 95.6%, an increase of 0.9 points over the same period in 2018. The increase in the claims and claim adjustment expense ratio reflects higher current year loss activity including resetting of the current accident year to a higher baseline based on prior year loss indications primarily within liability lines. 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 September 30, 2019 was 102.5%, an increase of 3.0 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 nine months ended September 30, 2019 was 94.6%, an increase of 0.6 points over the same period in 2018. The increase in the claims and claim adjustment expense ratio reflects higher current year loss activity including the resetting of the current accident year to a higher baseline based on prior year loss indications primarily within liability lines. 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 nine months ended September 30, 2019 was 100.0%, an increase of 1.2 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, 830 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.

On August 23, 2019, the Company completed the sale of its Venezuela operations. The Company previously deconsolidated the Venezuela operations as of September 30, 2015 due to restrictive exchange control regulations significantly impacting control of the operations.

Global Retail Markets NWP by market segment was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
U.S.	$6,208	$6,167	0.7%	$17,949	$17,834	0.6%
West	756	772	(2.1)	2,200	2,327	(5.5)
East	314	270	16.3	895	831	7.7
Global Retail Markets Reinsurance	14	-	NM	30	-	NM
Total NWP	$7,292	$7,209	1.2%	$21,074	$20,992	0.4%
Foreign exchange effect on growth			(0.5)			(0.9)
NWP growth excluding foreign exchange[1]			1.7%			1.3%

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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Private passenger automobile	$3,622	$3,656	(0.9%)	$10,576	$10,664	(0.8%)
Homeowners	1,814	1,821	(0.4)	4,888	4,986	(2.0)
Commercial multiple-peril	508	483	5.2	1,573	1,489	5.6
Commercial automobile	356	346	2.9	1,157	1,118	3.5
General liability	221	195	13.3	657	595	10.4
Workers compensation	179	165	8.5	604	558	8.2
Commercial property	142	129	10.1	341	359	(5.0)
Life and health	105	93	12.9	300	282	6.4
Other[1]	345	321	7.5	978	941	3.9
Total NWP	$7,292	$7,209	1.2%	$21,074	$20,992	0.4%

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.

Third Quarter Results:

NWP for the three months ended September 30, 2019 was $7.292 billion, an increase of $83 million over the same period in 2018. The increase was primarily driven by growth in U.S. business lines due to increases in retention and new business production; 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. 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 Colombian peso as compared to average rates in 2018 and decreased policies in force in U.S. personal auto line due to lower retention.

Year-to-date Results:

NWP for the nine months ended September 30, 2019 was $21.074 billion, an increase of $82 million over the same period in 2018. The increase was primarily driven by growth in U.S. business lines due to increases in retention and new business production, as well as organic growth in East and West private passenger automobile and accident and health lines. Additionally, the increase reflects NWP retained through our internal reinsurance, of which the largest programs are written on commercial property and homeowners. The increase was partially offset by foreign exchange due to the strengthening of the U.S. dollar primarily versus the euro, Brazilian real, and both the Chilean and Colombia peso as compared to average rates in 2018, 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 in U.S. personal auto line due to lower retention.

Results of Operations – Global Retail Markets

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenues	$7,245	$7,137	1.5%	$21,477	$21,138	1.6%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$668	$751	(11.1%)	$2,087	$2,288	(8.8%)
Catastrophes[1]	(317)	(305)	3.9	(1,035)	(1,126)	(8.1)
Net incurred losses attributable to prior years	45	197	(77.2)	74	202	(63.4)
Current accident year re-estimation[2]	(83)	-	NM	-	-	-
PTOI	$313	$643	(51.3%)	$1,126	$1,364	(17.4%)

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

NM = Not Meaningful

Third Quarter Results:

Pre-tax operating income for the three months ended September 30, 2019 was $313 million, a decrease of $330 million from the same period in 2018. The decrease was primarily driven by the unfavorable change in net incurred losses attributable to prior years due to less favorable prior year catastrophe reserve releases, partially offset by prior year liability strengthening in 2018. Additionally, the change reflects higher non-catastrophe losses including an increase in U.S. business liability lines loss ratios to align the current accident year to higher loss indications primarily within liability lines and an increase in U.S personal homeowners line reserves, both also reflected in unfavorable current accident year re-estimation, and higher current year catastrophe losses due to an increase in events. The decrease was partially offset by profit margin on higher earned premium due to strong topline results in the U.S. over the last three months of 2018.

Revenues for the three months ended September 30, 2019 were $7.245 billion, an increase of $108 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 three months of 2018, and increases in net investment income and other revenues.

Claims, benefits and expenses for the three months ended September 30, 2019 were $6.927 billion, an increase of $432 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 to align the current accident year to higher loss indications primarily within liability lines and an increase in U.S. personal homeowners line reserves, higher insurance operating costs in the U.S. due to topline growth and an increase in advertising spend, and the unfavorable change in net incurred losses attributable to prior years driven by less favorable prior year catastrophe reserve releases, partially offset by prior year liability strengthening in 2018.

Year-to-date Results:

Pre-tax operating income for the nine months ended September 30, 2019 was $1.126 billion, a decrease of $238 million from the same period in 2018. The decrease was primarily driven by higher non-catastrophe losses due to an increase in U.S. business liability lines loss ratios to align the current accident year to higher loss indications primarily within liability lines and the unfavorable change in net incurred losses attributable to prior years driven by less favorable prior year catastrophe reserve releases, partially offset by prior year liability strengthening in 2018. Additionally, the change reflects higher insurance operating costs from increased expenses consistent with topline growth and an increase in advertising spend. The decrease was partially offset by lower catastrophe losses due to lower severity.

Revenues for the nine months ended September 30, 2019 were $21.477 billion, an increase of $339 million over the same period in 2018. The increase reflects premium earned associated with growth over the last three 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 nine months ended September 30, 2019 were $20.276 billion, an increase of $498 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 to align the current accident year to higher loss indications primarily within liability lines, higher insurance operating costs from increased expenses consistent with topline growth and an increase in advertising spend, and the unfavorable change in net incurred losses attributable to prior years. Partially offsetting the increase was lower catastrophe losses due to lower severity.

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
GLOBAL RETAIL MARKETS	**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	65.0%	63.4%	1.6	64.3%	63.1%	1.2
Underwriting expense ratio	28.1	27.8	0.3	28.3	28.1	0.2
Subtotal	93.1	91.2	1.9	92.6	91.2	1.4
Catastrophes[1]	4.6	4.5	0.1	5.1	5.6	(0.5)
Net incurred losses attributable to prior years	(0.7)	(2.9)	2.2	(0.5)	(1.0)	0.5
Current accident year re-estimation[2]	1.2	-	1.2	-	-	-
Total combined ratio	98.2%	92.8%	5.4	97.2%	95.8%	1.4

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

Third 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 September 30, 2019 was 93.1%, an increase of 1.9 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 loss ratios to align the current accident year to higher loss indications primarily within liability lines and an increase in U.S. personal homeowners line reserves.

Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the total combined ratio for the three months ended September 30, 2019 was 98.2%, an increase of 5.4 points over the same period in 2018. The increase was driven by the unfavorable change in net incurred losses attributable to prior years due to less favorable prior year catastrophe reserve releases, higher current accident year re-estimation from adverse development on U.S. business liability lines, and the changes to the combined ratio mentioned above.

Year-to-date Results:

The Global Retail Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2019 was 92.6%, an increase of 1.4 points over the same period in 2018. The increase was primarily driven by the claims and claim adjustment expense ratio due to higher non-catastrophe losses primarily due to an increase in U.S. business liability lines loss ratios to align the current accident year to higher loss indications primarily within liability lines.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the nine months ended September 30, 2019 was 97.2%, an increase of 1.4 points over the same period in 2018. The increase was driven by the unfavorable change to net incurred losses attributable to prior years due to less favorable prior year catastrophe reserve releases and the changes to the combined ratio mentioned above, partially offset by lower catastrophe losses due to lower severity.

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 ("NI") – 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. closed on October 2, 2019.

On August 20, 2019, GRS disposed of certain international Ironshore entities.

Global Risk Solutions NWP by market segment was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Liberty Specialty Markets	$1,185	$1,010	17.3%	$3,399	$2,950	15.2%
National Insurance	1,110	1,074	3.4	2,829	2,831	(0.1)
North America Specialty	494	463	6.7	1,397	1,342	4.1
Global Surety	246	218	12.8	735	658	11.7
Other Global Risk Solutions	86	385	(77.7)	627	1,235	(49.2)
Total NWP	$3,121	$3,150	(0.9%)	$8,987	$9,016	(0.3%)
Foreign exchange effect on growth			(0.7)			(1.1)
NWP growth excluding foreign exchange[1]			(0.2%)			0.8%

1 Determined by assuming constant foreign exchange rates between periods.

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Specialty insurance[1]	$1,298	$1,181	9.9%	$3,648	$3,313	10.1%
Reinsurance	476	644	(26.1)	1,784	2,090	(14.6)
Workers compensation	345	344	0.3	958	1,014	(5.5)
Surety	249	223	11.7	750	674	11.3
General liability	213	229	(7.0)	544	654	(16.8)
Commercial automobile	173	174	(0.6)	445	440	1.1
Inland marine[2]	143	131	9.2	420	400	5.0
Commercial property	104	109	(4.6)	246	236	4.2
Commercial multiple-peril	120	115	4.3	192	195	(1.5)
Total NWP	$3,121	$3,150	(0.9%)	$8,987	$9,016	(0.3%)

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.

Third Quarter Results:

NWP for the three months ended September 30, 2019 was $3.121 billion, a decrease of $29 million from the same period in 2018. The decrease was driven by:

- Reinsurance primarily due to a new ceded global casualty program and other reinsurance structure changes;
- The negative impact of lower new business due to re-underwriting on general liability, commercial property, and commercial automobile lines of business;
- Lower premium in Specialty insurance from the disposal of certain international Ironshore entities; and
- 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.

These decreases were partially offset by:

- New business and positive rate in Specialty insurance;
- Surety due to growth, primarily within the contract bond business and from the Insco Dico acquisition;
- Positive rate in general liability, commercial property, commercial automobile, and commercial multiple-peril

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 nine months ended September 30, 2019 was $8.987 billion, a decrease of $29 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, increased purchases of property catastrophe protection through internal reinsurance and other reinsurance structure changes;
- The negative impact of lower new business due to re-underwriting on general liability, commercial property, commercial automobile and workers compensation lines of business;
- Lower premium in Specialty insurance from the disposal of certain international Ironshore entities;
- Lower involuntary business and modest rate declines in workers compensation; and
- 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

These decreases were partially offset by:

- Specialty insurance due to lower reinsurance purchased in the current year, new business and positive rate;
- Surety due to growth within all bond businesses and from the Insco Dico acquisition;
- Positive rate in commercial automobile, general liability and commercial property;
- Workers compensation driven by return premium on experience rated accounts.

Additionally, certain internal reinsurance agreements were extended in 2019 and certain businesses have been internally transferred amongst segments creating offsetting differences

Results of Operations – Global Risk Solutions

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenues	$3,240	$3,166	2.3%	$9,533	$9,155	4.1%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$240	$225	6.7%	$760	$826	(8.0%)
Catastrophes[1]	(108)	(204)	(47.1)	(162)	(261)	(37.9)
Net incurred losses attributable to prior years[2]	(115)	144	NM	(377)	125	NM
Current accident year re-estimation[3]	(47)	-	NM	-	-	-
Pre-tax operating (loss) income	($30)	$165	NM	$221	$690	(68.0%)

1 Catastrophes are defined as a natural catastrophe or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.

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

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

NM = Not Meaningful

Third Quarter Results:

Pre-tax operating (loss) income for the three months ended September 30, 2019 was ($30) million versus $165 million for the same period in 2018. The decrease reflects unfavorable net incurred losses attributable to prior years, including higher liability, specialty casualty and reinsurance losses in 2019 versus net reserve releases in 2018, as well as resetting of the current accident year to a higher baseline based on prior year loss indications primarily within liability lines. This was partially offset by profit margin on higher earned premium, favorable current year catastrophe losses, higher net investment income and lower expenses from expense management efforts and synergies achieved through the GRS structure.

Revenues for the three months ended September 30, 2019 were $3.240 billion, an increase of $74 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 September 30, 2019 were $3.266 billion, an increase of $268 million over the same period in 2018. The increase reflects unfavorable net incurred losses attributable to prior years, including higher liability, specialty casualty and reinsurance losses in 2019 versus net reserve releases in 2018, resetting of the current accident year to a higher baseline based on prior year loss indications primarily within liability lines, and attritional losses associated with growth. This was partially offset by favorable current year catastrophe losses and lower expenses from expense management efforts and synergies achieved through the GRS structure.

Year-to-date Results:

Pre-tax operating (loss) income for the nine months ended September 30, 2019 was $221 million, a decrease of $469 million from the same period in 2018. The decrease reflects unfavorable net incurred losses attributable to prior years, including higher liability, specialty casualty and reinsurance losses in 2019 versus net reserve releases in 2018, resetting of the current accident year to a higher baseline based on prior year loss indications primarily within liability lines as well as unfavorable foreign exchange. This was partially offset by profit margin on higher earned premium, favorable current year catastrophe losses, higher net investment income and lower expenses from expense management efforts and synergies achieved through the GRS structure.

Revenues for the nine months ended September 30, 2019 were $9.533 billion, an increase of $378 million over the same period in 2018. The increase primarily reflects premium earned associated prior year and first quarter net written premium growth, as well as favorable net investment income.

Claims, benefits and expenses for the nine months ended September 30, 2019 were $9.335 billion, an increase of $873 million over the same period in 2018. The increase reflects unfavorable net incurred losses attributable to prior years, including higher liability, specialty casualty and reinsurance losses in 2019 versus net reserve releases in 2018, resetting of the current accident year to a higher baseline based on prior year loss indications primarily within liability lines and attritional losses associated with growth. This was partially offset by favorable current year catastrophe losses and lower expenses from expense management efforts and synergies achieved through the GRS structure.

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
GLOBAL RISK SOLUTIONS	**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	68.2%	67.4%	0.8	67.9%	66.0%	1.9
Underwriting expense ratio	30.8	31.6	(0.8)	30.7	31.6	(0.9)
Dividend ratio	0.1	0.1	-	0.1	0.1	-
Subtotal	99.1	99.1	-	98.7	97.7	1.0
Catastrophes[1]	3.7	7.2	(3.5)	1.9	3.2	(1.3)
Net incurred losses attributable to prior years[2]	4.5	(5.1)	9.6	4.6	(1.6)	6.2
Current accident year re-estimation[3]	1.6	-	1.6	-	-	-
Total combined ratio	108.9%	101.2%	7.7	105.2%	99.3%	5.9

1 Catastrophes are defined as a natural catastrophe or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Net of earned premium and reinstatement premium attributable to prior years.
3 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2019.

Third Quarter Results:

The Global Risk Solutions combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three months ended September 30, 2019 was 99.1%, which was no change from 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 liability lines. 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, net incurred losses attributable to prior years and current accident year-re-estimation, the total combined ratio for the three months ended September 30, 2019 was 108.9%, an increase of 7.7

points over the same period in 2018. The increase reflects unfavorable net incurred losses attributable to prior years, including higher liability, specialty casualty and reinsurance losses in 2019 versus net reserve releases in 2018, current accident year re-estimation from the resetting of the current accident year to a higher baseline based on prior year loss indications primarily within liability lines and the changes to the combined ratio mentioned above, partially offset by lower current year catastrophe losses.

Year-to-date Results:

The Global Risk Solutions combined ratio before catastrophes and net incurred losses attributable to prior years for the nine months ended September 30, 2019 was 98.7%, an increase of 1.0 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 liability lines. 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 nine months ended September 30, 2019 was 105.2%, an increase of 5.9 points over the same period in 2018. The increase reflects unfavorable net incurred losses attributable to prior years, including higher liability, specialty casualty and reinsurance losses in 2019 versus net reserve releases in 2018 and the changes to the combined ratio mentioned above, partially offset by lower current year 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 and 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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Reinsurance, net	($109)	($145)	(24.8%)	($33)	($313)	(89.5%)
Workers compensation[1]	20	(24)	NM	41	6	NM
Other	1	(1)	NM	(6)	(7)	(14.3)
Total NWP	($88)	($170)	(48.2%)	$2	($314)	NM

1 Booked as billed adjustment.
NM = Not Meaningful

Third Quarter Results:

NWP for the three months ended September 30, 2019 was ($88) million versus ($170) million for the same period in 2018. The increase reflects changes in the booked as billed adjustment and the reinsurance line of business due to shifting the purchase of the homeowners quota share reinsurance treaties to GRM.

Year-to-date Results:

NWP for the nine months ended September 30, 2019 was $2 million versus ($314) 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 and due to shifting the purchase of homeowners quota share reinsurance treaties to GRM.

Results of Operations – Corporate and Other

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**
Revenues	$354	$105	NM	$1,285	$719	78.7%
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income	($119)	($205)	(42.0%)	($300)	($600)	(50.0%)
Catastrophes[1]	-	4	(100.0)	-	18	(100.0)
Net incurred losses attributable to prior years:						
-Asbestos and environmental[2]	-	(255)	(100.0)	(3)	(268)	(98.9)
-All other[2,3]	(39)	(40)	(2.5)	(46)	(28)	64.3
Pre-tax operating loss before partnerships, LLC and other equity method income	(158)	(496)	(68.1)	(349)	(878)	(60.3)
Partnerships, LLC and other equity method income[4]	162	186	(12.9)	556	693	(19.8)
Pre-tax operating income (loss)	$4	($310)	NM	$207	($185)	NM

1 Catastrophes are defined as a natural catastrophe or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Asbestos and environmental is gross of the NICO Reinsurance Transaction, and All other includes all cessions related to the NICO Reinsurance Transaction, which is described further in “Reinsurance”.
3 Net of earned premium attributable to prior years of zero for the three and nine months ended September 30, 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

Third Quarter Results:

Pre-tax operating income (loss) for the three months ended September 30, 2019 was $4 million versus ($310) million in the same period in 2018. The change reflects higher profit margin within the reinsurance segment due to higher earned premium and a lower reduction of prior year expected recoveries on external reinsurance treaties due to less favorable reserve releases for prior year catastrophes in the businesses. The change is also driven by lower employee benefit expenses. These are partially offset by the net favorable impact of the NICO Reinsurance Transaction covered workers compensation releases and asbestos and environmental strengthening in 2018 that did not recur in 2019 and lower net investment income.

Revenues for the three months ended September 30, 2019 were $354 million, an increase of $249 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 September 30, 2019 was ($12) million, an increase of $69 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 due to shifting the purchase of the homeowners quota share reinsurance treaties to GRM.

Net investment income for the three months ended September 30, 2019 was $162 million, a decrease of $34 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 and distributions in private capital investments in 2019 as compared to the same period in 2018.

Net realized gains (losses) for the three months ended September 30, 2019 were $72 million versus ($106) million for the same period in 2018. The increase reflects investment income from a higher net invested asset base partially offset by lower earned yields in 2019 as compared to the same period in 2018. Also driving the increase were more 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.

Fee and other revenues for the three months ended September 30, 2019 were $132 million, an increase of $36 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 September 30, 2019 were $278 million, a decrease of $243 million from the same period in 2018. The decrease reflects a lower reduction of prior year expected recoveries on external reinsurance treaties due to less favorable reserve releases for prior year catastrophes in the businesses and lower employee benefit expenses. These are partially offset by the net favorable impact of the NICO Reinsurance Transaction covered workers compensation releases and asbestos and environmental strengthening in 2018 that did not recur in 2019.

Year-to-date Results:

Pre-tax operating income (loss) for the nine months ended September 30, 2019 was $207 million versus ($185) million in the same period in 2018. The change reflects higher profit margin within the reinsurance segment due to higher earned premium and a lower reduction of prior year expected recoveries on external reinsurance treaties due to less favorable reserve releases for prior year catastrophes in the businesses. The change is also driven by lower employee benefit expenses. These are partially offset by the net favorable impact of the NICO Reinsurance Transaction covered workers compensation releases and asbestos and environmental strengthening in 2018 that did not recur in 2019 and lower partnerships, LLC and other equity method income.

Revenues for the nine months ended September 30, 2019 were $1.285 billion, an increase of $566 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 nine months ended September 30, 2019 was ($34) million, an increase of $208 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 due to shifting the purchase of homeowners quota share reinsurance treaties to GRM.

Net investment income for the nine months ended September 30, 2019 was $593 million, a decrease of $88 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 investment income from a higher net invested asset base and slightly higher earned yields in 2019 as compared to the same period in 2018 and more favorable valuations and distributions in private capital investments in 2019 as compared to the same period in 2018.

Net realized gains for the nine months ended September 30, 2019 were $341 million, an increase of $348 million over the same period in 2018. The net realized gains in the current period were primarily driven by a $317 million net change in unrealized gains primarily due to a change in accounting standards and $336 million net gain on the sale of fixed maturities in 2019. This was partially offset by $131 million of impairment charges, primarily related to corporate real estate and natural resources, and a $25 million loss from sale of certain international Ironshore entities. The prior period was impacted by impairments on natural resources investments and corporate real estate, as well as fixed maturity net losses, partially offset by a $162 million gain as a result of the acquisition of a previously held equity method investment and a $148 million gain from the sale of a privately held equity security.

Fee and other revenues for the nine months ended September 30, 2019 were $385 million, an increase of $98 million over the same period in 2018. The increase was primarily driven by higher natural resource revenues.

Claims, benefits and expenses for the nine months ended September 30, 2019 were $737 million, a decrease of $174 million from the same period in 2018. The decrease reflects a lower reduction of prior year expected recoveries on external reinsurance treaties due to less favorable reserve releases for prior year catastrophes in the businesses and lower employee benefit expenses. These are partially offset by the net favorable impact of the NICO Reinsurance Transaction covered workers compensation releases and asbestos and environmental strengthening in 2018 that did not recur in 2019.

INVESTMENTS

General

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

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

Invested Assets (including cash and cash equivalents)

The following table summarizes the Company's invested assets by asset category as of September 30, 2019 and December 31, 2018:

Invested Assets by Type	As of September 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	$63,342	78.4%	$57,706	76.6%
Equity securities, at fair value[1]	2,121	2.6	-	-
Equity securities, available for sale, at fair value[1]	-	-	3,511	4.6
LP, LLC and other equity method investments	6,694	8.3	6,148	8.2
Commercial mortgage loans	2,035	2.5	1,731	2.3
Short-term investments	452	0.6	416	0.6
Other investments	303	0.4	289	0.4
Cash and cash equivalents	5,801	7.2	5,466	7.3
Total invested assets	$80,748	100.0%	$75,267	100.0%

1 Included in Equity securities, at fair value as of September 30, 2019 and Equity securities, available for sale, at fair value as of December 31, 2018, were $0 million and $936 million, respectively of investments in bond ETFs

Total invested assets as of September 30, 2019 were $80.748 billion, an increase of $5.481 billion or 7.3% over December 31, 2018. The increase was primarily related to an increase in fixed maturities partially offset by a decrease in equity securities.

Fixed maturities as of September 30, 2019 were $63.342 billion, an increase of $5.636 billion or 9.8% over December 31, 2018. The increase was primarily related to the favorable impact of the decrease in treasury rates and tightening credit spreads and reinvestment of proceeds from the sale of bond and equity ETFs. As of September 30, 2019, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost and fair value of $490 million and $492 million, respectively.

Equity securities as of September 30, 2019 were $2.121 billion ($2.111 billion common stock and $10 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 $1.390 billion or 39.6% from December 31, 2018. Of the $2.111 billion of common stock at September 30, 2019, $653 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 and equity ETFs.

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

LP, LLC and other equity method investments	**As of September 30, 2019**		**As of December 31, 2018**	
$ in Millions	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Traditional private equity	$3,061	45.7%	$2,727	44.4%
Natural resources – Energy	486	7.3	573	9.3
Natural resources – Other[1]	715	10.7	661	10.7
Real estate	1,135	16.9	978	15.9
Private credit	684	10.2	597	9.7
Other	613	9.2	612	10.0
Total LP, LLC and other equity method investments	$6,694	100.0%	$6,148	100.0%

1 Included in Natural Resources – Other is $178 million and $184 million of investments in metals & mining as of September 30, 2019 and December 31, 2018 respectively, $118 million and $116 million of investments in agriculture and timber as of September 30, 2019 and December 31, 2018 respectively, and $419 million and $361 million of investments in power and renewables as of September 30, 2019 and December 31, 2018 respectively.

Commercial mortgage loans as of September 30, 2019 were $2.035 billion (net of $2 million of loan loss reserves or 0.10% of the outstanding loan portfolio), an increase of $304 million or 17.6% over December 31, 2018. The increase is primarily driven by $462 million in funding, partially offset by $158 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 4,163 at September 30, 2019.

Cash and cash equivalents as of September 30, 2019 were $5.801 billion, an increase of $335 million or 6.1% 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 September 30, 2019 and December 31, 2018:

	As of September 30, 2019			
$ in Millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$8,145	$181	($8)	$8,318
Residential MBS [1]	6,297	118	(9)	6,406
Commercial MBS	4,512	189	(1)	4,700
Other MBS and ABS [2]	5,102	70	(31)	5,141
U.S. state and municipal	8,159	556	(5)	8,710
Corporate and other	24,459	874	(57)	25,276
Foreign government securities	4,538	263	(10)	4,791
Total securities available for sale	$61,212	$2,251	($121)	$63,342

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 September 30, 2019:

Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	As of September 30, 2019							
$ in Millions	AAA	AA	A	BBB	BB	B or Lower	Total	% of Total
Residential MBS	$6,372	$-	$11	$-	$2	$21	$6,406	39.5%
Commercial MBS	4,483	133	40	30	14	-	4,700	28.9%
Other MBS and ABS	3,555	456	344	552	182	52	5,141	31.6%
Total	$14,410	$589	$395	$582	$198	$73	$16,247	100.0%
% of Total	88.7%	3.6%	2.4%	3.6%	1.2%	0.5%	100.0%	

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

Approximately 67% 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 September 30, 2019, were $3.446 billion in Agency CMBS and $1.254 billion Non-agency CMBS. Included in the Other MBS and ABS at September 30, 2019 were $1.087 billion AAA rated SBA Loans. The commercial mortgage-backed securities portfolio is well diversified and of high quality with approximately 95% rated AAA.

The following table summarizes the Company's U.S. state and municipal fixed maturity portfolio of securities which are obligations of states, municipalities and political subdivisions (collectively referred to as U.S. state and municipal bonds) by credit quality as of September 30, 2019 and December 31, 2018:

U.S. State and Municipal by Credit Quality[1]	As of September 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	$1,644	18.9%	AA	$1,238	14.4%	AA
Local general obligation	1,389	15.9	AA	1,135	13.2	AA
Revenue	5,619	64.5	AA	6,143	71.8	AA
Pre-refunded	58	0.7	AAA	53	0.6	AAA
Total U.S. state and municipal	$8,710	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 September 30, 2019 and December 31, 2018 were $58 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 September 30, 2019 and December 31, 2018:

Fixed Maturities by Credit Quality[1]	As of September 30, 2019		As of December 31, 2018	
$ in Millions	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$25,153	39.7%	$20,539	35.6%
AA+, AA, AA-	9,187	14.5	8,541	14.8
A+, A, A-	11,568	18.3	11,617	20.1
BBB+, BBB, BBB-	14,078	22.2	13,708	23.8
Total investment grade	59,986	94.7	54,405	94.3
BB+, BB, BB-	1,837	2.9	2,007	3.4
B+, B, B-	1,251	2.0	1,048	1.8
CCC or lower	190	0.3	156	0.3
Unrated[2]	78	0.1	90	0.2
Total below-investment grade	3,356	5.3	3,301	5.7
Total fixed maturities	$63,342	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 September 30, 2019.

The following table summarizes available for sale fixed maturity securities by contractual maturity at September 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 September 30, 2019		As of December 31, 2018	
$ in Millions	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
One year or less	$2,765	4.4%	$2,970	5.1%
Over one year through five years	21,648	34.2	22,692	39.3
Over five years through ten years	14,547	23.0	12,346	21.4
Over ten years	8,135	12.8	6,562	11.4
MBS and ABS	16,247	25.6	13,136	22.8
Total fixed maturities	$63,342	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 September 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 September 30, 2019 and December 31, 2018 that are not deemed to be other-than-temporarily impaired:

	As of September 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	($7)	$1,385	($1)	$243
Residential MBS	(6)	871	(3)	653
Commercial MBS	(1)	96	-	87
Other MBS and ABS	(21)	796	(10)	490
U.S. state and municipal	(4)	531	(1)	14
Corporate and other	(33)	1,790	(24)	830
Foreign government securities	(9)	294	(1)	211
Total securities available for sale	($81)	$5,763	($40)	$2,528

	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 $121 million as of September 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 September 30, 2019 are temporary.

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

Top 10 Issuers	As of September 30, 2019				
$ in Millions	Fixed Maturity	Equity	Short-Term	Total Exposure	% of Invested Assets
Government of Brazil	$659	$-	$-	$659	0.82%
Government of United Kingdom	469	-	1	470	0.58
Government of Canada	375	-	10	385	0.48
Bank of America Corp	348	-	-	348	0.43
Government of Italy	334	-	-	334	0.41
Government of Spain	326	-	-	326	0.40
JP Morgan Chase & Co	312	-	-	312	0.39
Citigroup Inc	299	-	-	299	0.37
State of Washington	299	-	-	299	0.37
Morgan Stanley	280	-	-	280	0.35
Total	$3,701	$-	$11	$3,712	4.60%

Top 10 Sectors	As of September 30, 2019				
$ in Millions	Fixed Maturity	Equity	Short-Term	Total Exposure	% of Invested Assets
Banking	$4,774	$2	$179	$4,955	6.14%
Foreign Government	3,814	-	30	3,844	4.76
Technology	1,851	262	-	2,113	2.62
Electric Utility	1,649	243	2	1,894	2.35
REITS	588	1,101	-	1,689	2.09
US Municipal – State	1,634	-	-	1,634	2.03
US Municipal – Local	1,381	-	-	1,381	1.71
Insurance	1,121	108	-	1,229	1.52
Healthcare	952	150	-	1,102	1.36
Pharmaceuticals	1,047	46	-	1,093	1.35
Total	$18,811	$1,912	$211	$20,934	25.93%

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 September 30, 2019, investments in the energy sector accounted for $2.797 billion or 3.5% of total invested assets. The energy sector is comprised of investments in the following sub-sectors: independent energy, integrated energy, midstream, oil field services, and refining (*classification per Bloomberg Barclays Industry Groups*). These individual energy sub-sectors are not material enough at an individual level to appear within the top 10 rankings in the sector table above. Energy investments consist of investment grade bonds of $2.130 billion, bonds that were rated below investment grade of $178 million, and natural resources partnerships and other equity method investments of $489 million. In addition, the Company has direct investments in oil and gas wells of $1.073 billion which are included in other assets on the Consolidated Balance Sheets.

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

Unfunded Commitments	**As of September 30, 2019**		**As of December 31, 2018**	
$ in Millions	**Total**	**% of Total**	**Total**	**% of Total**
Traditional private equity	$1,073	31.2%	$980	32.5%
Natural resources – Energy	298	8.7	521	17.3
Natural resources – Other[1]	165	4.8	99	3.3
Real estate	756	21.9	687	22.8
Private credit	1,015	29.5	545	18.1
Other	135	3.9	181	6.0
Total unfunded commitments	$3,442	100.0%	$3,013	100.0%

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

Unfunded commitments as of September 30, 2019 were $3.442 billion, an increase of $429 million over December 31, 2018. The increase was due to new commitments net of contributions, primarily related to private credit. The $298 million unfunded energy investment commitments as of September 30, 2019 included $102 million related to energy partnerships and $196 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 September 30, 2019, no funds were borrowed under the facility.
- A $250 million repurchase agreement with an expiration date of November 24, 2020. At September 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 September 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 September 30, 2019 (including cash and cash equivalents) totaled $80.748 billion.

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

Short-term debt:

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

Long-term debt:

$ in Millions	As of September 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	545	572
8.50% Surplus notes, due 2025	140	140
2.75% €750 Million Notes, due 2026	817	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	153	231
6.50% Notes, due 2035	301	471
7.50% Notes, due 2036	19	19
7.80% Junior Subordinated notes, due 2087[2]	437	700
10.75% Junior Subordinated notes, due 2088[3]	35	52
6.50% Notes, due 2042	270	750
4.85% Notes, due 2044	614	1,050
4.50% Notes, due 2049	350	-
3.951% Notes, due 2050	1,248	-
3.625% €500 Million Junior Subordinated notes, due 2059[4]	545	-
7.697% Surplus notes, due 2097	260	260
Subtotal	8,614	8,282
Unamortized discount	(436)	(11)
Long-term debt excluding unamortized debt issuance costs	8,178	8,271
Unamortized debt issuance costs	(40)	(38)
Total long-term debt	$8,138	$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 September 27, 2019, LMGI exchanged $1.25 billion par value of the 2050 Notes for $78 million of its 7.00% Senior Notes due 2034, $170 million of its 6.50% Senior Notes due 2035, $480 million of its 6.50% Senior Notes due 2042, $436 million of its 4.85% Senior Notes due 2044, $67 million of the 2087 Notes and $17 million of its 10.75% Junior Subordinated Notes due 2088. LMGI paid an aggregate of $411 million cash consideration, including accrued and unpaid interest, for the existing notes accepted for exchange. Interest on the 2050 Notes is payable semi-annually at a fixed rate of 3.951%. The 2050 Notes mature on October 15, 2050.

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 for $196 million of 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 nine months ended September 30, 2019 was $110 million and $331 million, respectively, no change 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 September 30, 2019, the Company, through its downstream subsidiaries LMGI and LMFE, had $7.1 billion and $545 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	$49
LMFIC	494%	452%	$168	$11
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 nine months ended September 30, 2019. Available dividend capacity as of September 30, 2019 is calculated as 2019 dividend capacity less dividends paid for the preceding 12 months. Dividends paid October 1, 2018 through September 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 nine months ended September 30, 2019, LCS recorded $111 million and $308 million, respectively, in pre-tax income.
- Approximately $80 million of annual dividends related to non-redeemable perpetual preferred stock issuances by LMIC and LMFIC.

$ in Millions	As of September 30, 2019	As of December 31, 2018
Total debt excluding unamortized discount and debt issuance costs	$8,614	$8,282
Unamortized discount and debt issuance costs	(476)	(49)
Total debt	$8,138	$8,233
Total equity	$24,005	$20,762
Less: Accumulated other comprehensive loss	(1,279)	(3,379)
Total equity excluding accumulated other comprehensive loss	$25,284	$24,141
Total capital excluding accumulated other comprehensive loss[1]	$33,898	$32,423
Debt-to-capital capitalization excluding accumulated other comprehensive loss[1]	25.4%	25.5%
Statutory surplus	$21,409	$19,766

1 Excludes unamortized discount and debt issuance costs

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 25.4% at September 30, 2019 was within the Company's target range.

REINSURANCE

Reinsurance Recoverables

The Company reported reinsurance recoverables of $15.377 billion and $15.145 billion at September 30, 2019 and December 31, 2018, respectively, net of allowance for doubtful accounts of $123 million and $204 million, respectively. Included in these balances are $965 million and $937 million of paid recoverables and $14.535 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 $207 million and $210 million as of September 30, 2019 and December 31, 2018.

The Company reported deferred gain amortization of zero and ($35) million at September 30, 2019 and 2018, respectively. As of September 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 September 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 September 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 September 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 September 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 September 30, 2019, excluding other assets, the Company reflected $10.226 billion (15.5%) as level 1 (quoted prices in active markets) primarily consisting of U.S. Treasuries and common equity securities. The majority of the Company's invested assets are reported as level 2 (quoted prices from other observable inputs). As of September 30, 2019, the Company reported $54.886 billion (82.8%) as level 2, consisting primarily of fixed maturity securities. Finally, the Company reported $1.137 billion (1.7%) as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

For additional discussion, please refer to footnote 10 in the Company's December 31, 2018 Audited Consolidated Financial Statements and footnote 9 in the Company's September 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 September 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 September 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 September 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 September 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.