

**CAUTIONARY NOTICE REGARDING  
FORWARD-LOOKING INFORMATION**

This web site may contain forward-looking statements that are intended to enhance the reader's ability to assess the future financial and business performance of Liberty Mutual Group ("LMG" or the "Company"). 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.

Such forward-looking statements should be regarded solely as the Company's current plans, estimates and beliefs. The Company does not intend, and does not undertake, any obligation to update any forward-looking statements to reflect future events or circumstances after the date of such statements.

Please refer to Risk Factors below for a discussion of the various factors that could cause an adverse effect on the business, operations and financial condition of the Company.

## RISK FACTORS

*The business, operations and financial condition of Liberty Mutual Holding Company Inc. (the "Company") are subject to various risks. Some of these risks are described below. This disclosure does not describe all risks applicable to the Company, the Company's industry or its business and it is intended only as a summary of certain material factors for the benefit of holders of debt instruments issued by various subsidiaries of the Company.*

### **Risk Factors Relating to the Company's Business and the Insurance Industry**

***Unpredictable catastrophic events could adversely affect the Company's results of operations, financial condition or liquidity.***

The Company's insurance operations expose it to claims arising out of catastrophes. Catastrophes can be caused by various natural events, including hurricanes, windstorms, earthquakes, hail, severe winter weather, wildfires and volcanic eruptions. Catastrophes can also be man-made, such as terrorist acts (including those involving nuclear, biological, chemical or radiological events), riots, oil spills, utility outages, or consequences of war or political instability. In the United States, the geographic distribution of the Company's business subjects it to catastrophe exposures, including hurricanes from Maine through Texas; tornadoes throughout the Central States and Southeast; earthquakes in California, the New Madrid region and the Pacific Northwest; and wildfires, particularly in California and the Southwest. In addition, the Company's international operations subject it to a variety of world-wide catastrophe exposures.

The incidence and severity of catastrophes are inherently unpredictable. Some scientists believe that in recent years, changing climate conditions have added to the unpredictability and frequency of natural disasters (including hurricanes, tornadoes, hail, other storms and fires) in certain parts of the world and created additional uncertainty as to future trends and exposures. It is possible that the frequency and severity of natural and man-made catastrophic events could increase. The catastrophe modeling tools that the Company uses to help manage certain of its catastrophe exposures are based on assumptions, judgments and data entry that are subject to error and may produce estimates that are materially different from actual results. Changing climate conditions could cause the Company's catastrophe models to be even less predictive, thus limiting the Company's ability to effectively manage those exposures.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Where the Company has geographic concentrations of policyholders, a single catastrophe or destructive weather trend affecting a region may significantly impact the Company's financial condition and results of operations. States have from time to time passed legislation, and regulators have taken action, that has the effect of limiting the ability of insurers to manage catastrophe risk, such as legislation prohibiting insurers from reducing exposures or withdrawing from catastrophe-prone areas or mandating that insurers participate in residual market mechanisms. Participation in residual market mechanisms has resulted in, and may continue to result in, significant losses or assessments to insurers, including the Company, and, in certain states, those losses or assessments may not be commensurate with the Company's catastrophe exposure in those states. If the Company's competitors leave those states having residual market mechanisms, remaining insurers, including the Company, may be subject to significant increases in losses or assessments following a catastrophe. In addition, following catastrophes, there are sometimes legislative initiatives and court decisions that seek to expand insurance coverage for catastrophe claims beyond the original intent of the policies. Also, the Company's ability to increase pricing to the extent necessary to offset rising costs of catastrophes, particularly in the Company's personal lines, requires approval of the regulatory authorities of certain states. The Company's ability or willingness to manage its catastrophe exposure by raising prices, modifying underwriting terms or reducing exposure to certain geographies may be limited due to considerations of public policy, the evolving political environment and changes in the general economic climate. The Company also may choose for strategic purposes, such as improving its access to other underwriting opportunities, to write business in catastrophe-prone areas that it might not otherwise write.

There are also risks that affect the estimation of ultimate costs for catastrophes. For example, the estimation of reserves related to hurricanes can be affected by the inability to access portions of the affected areas, the complexity of factors contributing to the losses, legal and regulatory uncertainties and the nature of the information available to establish the reserves. Complex factors include: determining whether damage was caused by flooding versus wind, evaluating general liability and pollution exposures, estimating additional living expenses, estimating

the impact of demand surge, infrastructure disruption, fraud, the effect of mold damage, business interruption costs and reinsurance collectability. The timing of a catastrophe's occurrence, such as at or near the end of a reporting period, can also affect the information available to the Company in estimating reserves for that reporting period. The estimates related to catastrophes are adjusted as actual claims emerge and additional information becomes available.

Catastrophe losses could have a material adverse effect on the Company's results of operations for any fiscal quarter or year and may materially harm its financial position, which in turn could adversely affect its financial strength and claims-paying ratings and could impair its ability to raise capital on acceptable terms or at all. Also, as a result of the Company's exposure to catastrophe losses or actual losses following a catastrophe, rating agencies may further increase their capital requirements, which may require the Company to raise capital to maintain its ratings or, if unsuccessful, suffer an adverse effect on its ratings. A ratings downgrade could hurt the Company's ability to compete effectively or attract new business. In addition, catastrophic events could cause the Company to exhaust its available reinsurance limits and could adversely affect the cost and availability of reinsurance. Such events can also affect the credit of the Company's reinsurers. Catastrophic events could also adversely affect the credit of the issuers of securities, such as states or municipalities, in which the Company has invested, which could have a material adverse effect on the Company's results of operations, financial position or liquidity.

In addition to catastrophe losses, the accumulation and development of losses from smaller weather-related events in any fiscal quarter or year could have a material adverse effect on the Company's results of operations, financial condition or liquidity in those periods.

Because of the risks set forth above, catastrophes and the accumulation of losses from smaller weather-related events could have a material adverse effect on the Company's results of operations, financial condition or liquidity.

***The Company's claims and claim adjustment expense reserves may be inadequate to cover its ultimate liability for unpaid claims and claim adjustment expenses, and as a result, any inadequacy could have a material adverse effect on the Company's results of operations, financial condition or liquidity.***

The Company's success depends in part on its ability to accurately assess the risks associated with the businesses and individuals that it insures. The Company is required to maintain adequate reserves to cover its estimated ultimate liabilities for unpaid claims and claim adjustment expenses ("loss reserves" or "unpaid claims and claim adjustment expenses"). Reserves for these liabilities are typically composed of (1) case reserves for claims reported and (2) reserves for losses that have occurred but for which claims have not yet been reported, referred to as incurred but not reported ("IBNR") reserves. Loss reserves do not represent an exact calculation of liability. Case reserves represent reserves established for reported claims. IBNR reserves include a reserve for unreported claims, future claims payments in excess of case reserves on recorded open claims, additional claims payments on closed claims, claims that have been reported but not recorded and the cost of claims that have been incurred but have not yet been reported to the Company to arrive at management's best estimate. IBNR reserves represent management estimates, generally utilizing actuarial expertise and projection techniques, at a given accounting date. In arriving at management's best estimate, management utilizes actuarial indications in conjunction with their knowledge and judgment about operational and environmental conditions. Consideration is given to any limitations in the actuarial methodologies and assumptions that may not be completely reflective of future loss emergence as well as to historical development on immature years and the historical movement of unpaid claims and claim adjustment expense estimates as these years typically mature. Loss reserve estimates are refined periodically as experience develops and claims are reported and settled. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the costs of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserve determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more the ultimate settlement can vary. Establishing an appropriate level of loss reserves is an inherently uncertain process. Because of this uncertainty, it is possible that the Company's loss reserves at any given time could prove inadequate.

If in the future the Company determines that its loss reserves are insufficient to cover its actual unpaid claims and claim adjustment expenses, it would have to add to its loss reserves, which could have a material adverse effect on its results of operations, financial condition or liquidity.

***The Company's business could be harmed because its potential exposure for asbestos and environmental claims and related litigation is unique and very difficult to predict, and the Company's ultimate liability may exceed its currently recorded loss reserves.***

The Company has exposure to A&E claims that emanate principally from general liability policies written prior to the mid-1980s. Asbestos claims relate primarily to injuries asserted by those who allegedly came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up cost obligations, particularly as mandated by federal and state environmental protection agencies. The process of establishing loss reserves for A&E claims is subject to greater uncertainty than the establishment of loss reserves for liabilities relating to other types of insurance claims. If the Company has not established adequate loss reserves to cover current and future A&E claims, it could have a material adverse effect on its results of operations, financial condition or liquidity.

The Company estimates its net A&E loss reserves based upon numerous factors, including the facts surrounding reported cases and exposures to claims, such as policy limits and deductibles, current law, past and projected claim activity and past settlement values for similar claims, reinsurance coverage as well as analysis of industry studies and events, such as recent settlements and asbestos-related bankruptcies. Several factors make it difficult to establish A&E loss reserves, including: (i) the lack of available and reliable historical claims data as an indicator of future loss development; (ii) the long waiting periods between exposure and manifestation of bodily injury or property damage; (iii) the difficulty in identifying the source of A&E contamination; (iv) the difficulty in properly allocating liability for asbestos or environmental damage; (v) the uncertainty as to the number and identity of insureds with potential exposure; (vi) the cost to resolve claims; and (vii) the collectability of reinsurance.

The uncertainties associated with establishing loss reserves for A&E claims and claim adjustment expenses are compounded by the differing, and at times inconsistent, court rulings on A&E coverage issues involving: (i) differing interpretations of various insurance policy provisions and whether A&E losses are, or were ever intended to be, covered; (ii) when the loss occurred and what policies provide coverage; (iii) whether there is an insured obligation to defend; (iv) whether a compensable loss or injury has occurred; (v) whether lung cancer claims can be attributable to A&E; (vi) how policy limits are determined; (vii) how policy exclusions are applied and interpreted; (viii) the impact of entities seeking bankruptcy protection as a result of asbestos-related liabilities; (ix) whether clean-up costs are covered as insured property damage; and (x) applicable coverage defenses or determinations, if any, including the determination as to whether or not an asbestos claim is a product or completed operation claim subject to an aggregate limit and the available coverage, if any, for that claim.

As a result of the significant uncertainty inherent in determining a company's A&E liabilities and establishing related reserves, the amount of reserves required to adequately fund the Company's A&E 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. Thus, the ultimate amount of the Company's A&E exposures may vary materially from the reserves currently recorded and could exceed the currently recorded reserves. This could have a material adverse effect on the Company's results of operations, financial condition or liquidity. For more information about A&E claims, see "Business—Legal Proceedings."

***The Company may not be able to successfully alleviate risk through reinsurance arrangements. Additionally, it may be unable to collect all amounts due from its reinsurers under its reinsurance arrangements.***

The Company attempts to limit its risk of loss through reinsurance arrangements, such as excess of loss and catastrophe coverage, and through customized coverages such as that provided by the reinsurance arrangements with National Indemnity Company ("NICO"), a subsidiary of Berkshire Hathaway Inc., relating to the Company's A&E and workers compensation liabilities (the "NICO Reinsurance Transaction"). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Reinsurance Recoverables." The availability and cost of reinsurance protection is subject to market conditions, which are outside of the Company's control. In addition, the coverage under the Company's existing and future reinsurance contracts may be inadequate to cover the Company's liabilities. As a result, the Company may not be able to successfully alleviate risk through these arrangements, which could have a material adverse effect on its results of operations, financial condition or liquidity. In particular, the hardening of the reinsurance market in past years has led to increased prices or less favorable terms during the renewal of some of the Company's reinsurance programs.

The Company is not relieved of its obligation to its policyholders by purchasing reinsurance. Accordingly, it is subject to credit risk with respect to its reinsurance if a reinsurer is unable to pay amounts owed to the Company as a result of a deterioration in the reinsurer's financial condition or if the reinsurer simply is unwilling to pay due to a dispute or other factors beyond the Company's control. In the past, certain reinsurers have ceased writing business and entered into run-off. Some of the Company's reinsurance claims may be disputed by the reinsurers, and the Company may ultimately receive partial or no payment. This is a particular risk in the case of claims that relate to insurance policies written many years ago, including those relating to A&E claims. The ability of reinsurers to transfer their risks to other, less creditworthy reinsurers may adversely affect the Company's ability to collect amounts due to the Company.

Included in reinsurance recoverables are certain amounts related to structured settlements. Structured settlements comprise annuities purchased from various life insurance companies to settle certain personal physical injury claims, of which workers compensation claims constitute a significant portion. In cases where the Company did not receive a release from the claimant, the structured settlement is included in reinsurance recoverables as the Company retains the contingent liability to the claimant. If the life insurance company fails to make the required annuity payments, the Company would be required to make such payments.

Because of the risks set forth above, the Company may not be able to collect all amounts due to it from reinsurers, and reinsurance coverage may not be available to the Company in the future at commercially reasonable rates or at all. In addition, life insurance companies may fail to make required annuity payments. As a result, there could be a material adverse effect on the Company's results of operations, financial condition or liquidity.

***Disruptions to the Company's relationships with its independent agents and brokers could materially adversely affect it.***

Other than in the personal insurance segment of the Company's Global Retail Markets business, the Company markets substantially all of its insurance products through independent agents and brokers. Independent agents and brokers may sell the Company's competitors' products and may stop selling the Company's products altogether. Many insurers offer products similar to those of the Company. In choosing an insurance carrier, the Company's independent agents and brokers may consider ease of doing business, reputation, price of product, customer service, claims handling and the insurer's compensation structure. The Company may be unable to compete with insurers that adopt more aggressive pricing policies or more generous compensation structures, offer a broader array of products or have extensive promotional and advertising campaigns. Loss of the business provided through independent agents and brokers could have a material adverse effect on the Company's future business volume and results of operations.

***During or following a period of financial market disruption or economic downturn, the Company's business could be materially and adversely affected.***

During the last decade, worldwide financial markets experienced significant disruptions and, during a portion of this period, the United States and many other economies experienced a prolonged economic downturn, resulting in heightened credit risk, reduced valuation of investments and decreased economic activity. While economic conditions have generally improved, there is continued uncertainty regarding the duration and strength of the economic recovery. Even if growth continues, it may be at a slow rate for an extended period of time, and other economic conditions, such as employment rates, may continue to be weak. In addition, while inflation has recently been limited and that trend may continue, it is possible that steps taken by the federal government to stabilize financial markets and improve economic conditions could lead to an inflationary environment. Furthermore, financial markets may again experience significant and prolonged disruption.

Economic uncertainty has been exacerbated in recent years by the increased potential for default by one or more European sovereign debt issuers, the potential partial or complete dissolution of the Eurozone and its common currency and the negative impact of such events on global financial institutions and capital markets generally. Actions or inactions of European governments may affect these actual or perceived risks. In addition, future actions or inactions of the U.S. government, including a failure to increase the government debt limit or a shutdown of the federal government, could increase the actual or perceived risk that the United States may not ultimately pay its obligations when due and may disrupt financial markets.

A deterioration of economic conditions, or a significant disruption of the financial markets could have a material adverse effect on the Company's results of operations, financial condition or liquidity. Several of the risk factors discussed in this offering memorandum identify risks that result from, or are exacerbated by, an economic slowdown or financial disruption. These include risks related to the Company's investment portfolio, reinsurance arrangements, other credit exposures, estimates of claims and claim adjustment expense reserves, emerging claim and coverage issues, the competitive environment, regulatory developments and the impact of rating agency actions.

Many of these risks could materialize, and the Company's financial results could be negatively affected, even after the end of an economic downturn or financial disruption. During or following an economic downturn, lower levels of economic activity could reduce (and historically have reduced) exposure changes at renewal, which generally results in decreased premiums. They also could adversely affect (and historically have adversely affected) audit premium adjustments, policy endorsements and mid-term cancellations after policies are written, which could adversely affect the Company's written premiums. In addition, because earned premiums lag written premiums, the Company's results can be adversely affected after general economic conditions have improved.

An inflationary environment (which may follow government efforts to stabilize the economy) may also, as discussed in this offering memorandum, adversely affect the Company's loss costs and could adversely affect the valuation of its investment portfolio. Finally, as a result of the financial market disruptions over the past several years, the Company may, as discussed in this offering memorandum, face increased regulation.

***The Company's investment portfolio may suffer reduced returns or material losses.***

Investment returns are an important part of the Company's overall profitability and investment values can materially impact equity.

The Company's investment portfolio may be adversely affected by changes in interest rates. If the market value of the Company's fixed maturity portfolio decreases, the Company may realize losses if it deems the value of its fixed income portfolio to be other-than-temporarily impaired.

The Company's investment-grade bond portfolio is invested, in substantial part, in obligations of states, municipalities and political subdivisions (collectively referred to as the municipal bond portfolio). Notwithstanding the relatively low historical rates of default on many of these obligations, the occurrence of a major economic downturn, widening credit spreads, budgetary deficits or other events that adversely affect the issuers or guarantors of these securities could cause the value of the Company's fixed maturity securities portfolio and the Company's net income to decline and the default rate of the Company's fixed maturity securities portfolio to increase.

Supplementing the Company's broadly based portfolio of investment-grade bonds, the Company invests 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 investments, non-investment-grade bonds, private equity, direct investments in natural resources and common and preferred stock.

During or following an economic downturn or period of financial market disruption, the Company's investment portfolio could be subject to higher risk. The value of the Company's investment portfolio is subject to the risk that certain investments may default or become impaired due to a deterioration in the financial condition of one or more issuers of the securities held in the portfolio. Such defaults and impairments could reduce the Company's net investment income and result in realized investment losses. In 2008 and 2009, worldwide financial markets experienced significant disruptions and the United States and many other economies experienced a prolonged economic downturn, resulting in heightened credit risk, reduced valuation of investments and decreased economic activity. The financial market volatility and the resulting negative economic impact could recur and it is possible that it may be prolonged, which could adversely affect the Company's current investment portfolio, make it difficult to determine the value of certain assets in the Company's portfolio or make it difficult for the Company to purchase suitable investments that meet its risk and return criteria. These factors could cause the Company to realize less than expected returns on invested assets, sell investments for a loss or write off or write down investments, any of which could have a material adverse effect on the Company's results of operations or financial condition.

With economic uncertainty, the credit quality and ratings of securities in the Company's portfolio could be adversely affected. The National Association of Insurance Commissioners ("NAIC") could potentially apply a lower

class code on a security than was originally assigned, which could adversely affect statutory surplus because securities with NAIC class codes 3 through 6 are required to be carried at lower of amortized cost or fair market value for statutory accounting purposes as compared to securities with NAIC class codes of 1 or 2 that are carried at amortized cost.

Because of the risks set forth above, the value of the Company's investment portfolio could decrease, the Company could experience reduced net investment income and the Company could incur realized investment losses, which could have a material adverse effect on its results of operations, financial condition or liquidity.

***The concentration of our investment portfolios in any particular single issuer or sector of the economy may have an adverse effect on our financial position or results of operations.***

Negative events or developments affecting any particular single issuer, industry, group of related industries or geographic sector may have an adverse impact on a particular holding or set of holdings. To the extent we have concentrated positions, it could have an adverse effect on our results of operations and financial position. Our investment guidelines establish concentration limits for our investment portfolios.

***Our derivative transactions may adversely affect our liquidity and expose us to counterparty credit risk.***

Derivative instruments we hold to hedge and manage risks (and occasionally for income generation) associated with our business and other risks might not perform as intended or expected resulting in higher realized losses and unforeseen stresses on liquidity. Market conditions can limit availability of hedging instruments and require us to post collateral. Our derivative strategies also rely on the performance of counterparties to such derivatives. These counterparties may fail to perform for various reasons resulting in losses on uncollateralized positions.

***Interest rates may rise or decline, resulting in a change in the carrying value of the Company's investments or a reduction in its liquidity.***

Interest rates are currently low relative to historical levels. Changes in interest rates (inclusive of credit spreads) affect the carrying value of the Company's investment-grade bonds and returns on the Company's investment-grade bonds and short-term investments. A decline in interest rates reduces the returns available on new investments, thereby negatively impacting the Company's net investment income. Conversely, rising interest rates reduce the market value of existing investments in investment-grade bonds. During periods of declining market interest rates, the Company would be forced to reinvest the cash it receives as interest or return of principal on its investments in lower-yielding high-grade instruments or in lower-credit instruments to maintain comparable returns. Issuers of fixed income securities could also decide to prepay their obligations in order to borrow at lower market rates, which would increase the percentage of the Company's portfolio that the Company would have to reinvest in lower-yielding investments of comparable credit quality or in lower quality investments offering similar yields. In the event that the Company incurs debt on which interest is tied to a floating interest rate, a rise in interest rates could increase the interest expense associated with such debt, resulting in a reduction to the Company's liquidity.

***The Company is subject to the types of risks inherent in making alternative investments in private limited partnerships, limited liability companies, commercial mortgages and direct investments in natural resources.***

The Company's investments include investments in private limited partnerships, limited liability companies, commercial mortgages and direct investments in natural resources. The Company's investments in these entities are long-term in nature and highly illiquid.

With respect to investments in private limited partnerships, limited liability companies and direct investments in natural resources, the amount and timing of income from these entities tends to be variable as a result of the performance and investment stage of the underlying investments. The timing of distributions from these entities, which depend on particular events relating to the underlying investments as well as the entities' schedules for making distributions and their need for cash, can be difficult to predict. As a result, the amount of income that the Company records from these investments can vary substantially from quarter to quarter. In addition, general volatility in the capital markets and the dislocation of the credit markets may reduce investment income from these types of investments. As of December 31, 2019, the Company had unfunded commitments in private equity

partnerships of \$1.160 billion, natural resources of \$342 million, real estate of \$796 million, private credit of \$1.168 billion and other of \$116 million.

With respect to investments in commercial mortgages, the amount and timing of distributions tends to be more consistent than the investments discussed above; however, they can vary depending on the interest rate environment. If the trend is toward falling interest rates, then the return on investments in commercial mortgages may decrease as a result of prepayments. While in a period of rising interest rates or a worsening economy, returns on mortgage investments may be affected by an increase in defaults.

With respect to investments in private limited partnerships and limited liability companies, the Company is also subject to the risks arising from the fact that the determination of the fair value of these types of investments is inherently subjective. The general partner of each of these partnerships generally reports the change in the fair value of the interests in the partnership on a one quarter lag because of the nature of the underlying assets or liabilities. Since these partnerships' underlying investments consist primarily of assets or liabilities for which there are no quoted prices in active markets for the same or similar assets, the valuation of interests in these partnerships is subject to a higher level of subjectivity than substantially all of the Company's other investments. Each of these general partners is required to determine fair value by the price obtainable for the sale of the interest at the time of determination. Valuations based on unobservable inputs are subject to greater scrutiny and reconsideration from one reporting period to the next, and therefore the changes in the fair value of these investments may be subject to significant fluctuations which could lead to significant decreases in their fair value from one reporting period to the next. Since the Company records its investments in these various entities under the equity method of accounting, any decreases in the valuation of these investments would negatively affect its results of operations.

***The valuation of the Company's investments includes methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may have a material adverse effect on the Company's results of operations, financial condition or liquidity.***

Fixed maturity, equity and short-term investments, which are reported at fair value on the balance sheet, represented the majority of the Company's total cash and invested assets as of December 31, 2019. As required under accounting rules, the Company has categorized these securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1); the next priority to quoted prices in markets that are not active or inputs that are observable either directly or indirectly, including (i) quoted prices (a) for similar assets or liabilities other than quoted prices in Level 1 or (b) in markets that are not active or (ii) other inputs that can be derived principally from, or corroborated by, observable market data for substantially the full term of the assets or liabilities (Level 2); and the lowest priority to unobservable inputs supported by little or no market activity and that reflect the reporting entity's own assumptions about the exit price, including assumptions that market participants might use in pricing the asset or liability (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. At December 31, 2019, approximately 16.5% and 82.1% of these securities represented Level 1 and Level 2, respectively. The Company generally uses a combination of independent pricing services and broker quotes to price its investment securities. However, prices provided by independent pricing services and independent broker quotes can vary widely even for the same security. To the extent that the Company is incorrect in its determination of fair value of its investment securities or its determination that a decline in their value is other-than-temporary, the Company may realize losses that never actually materialize or may fail to recognize losses within the appropriate period.

Rapidly changing and unprecedented credit and equity market conditions could increase the difficulty in valuing certain of the Company's securities and materially impact the valuation of securities as reported within the Company's financial statements and the period-to-period changes in value could vary significantly. Decreases in value may result in an increase in non-cash other-than-temporary impairment charges and may have a material adverse effect on the Company's results of operations, financial condition or liquidity.

***The determination of the amount of impairments taken on the Company's investments has a degree of subjectivity and could have a material adverse effect on the Company's results of operations, financial condition or liquidity.***



The determination of the amount of impairments taken on the Company's investments is based on the Company's periodic evaluation and assessment of its investments and known and inherent risks associated with the various asset classes. Such evaluations and assessments are revised as conditions change and new information becomes available. Management updates its evaluations regularly and reflects changes in impairments as such evaluations are revised. There can be no assurance that management has accurately assessed the level of impairments reflected in the Company's financial statements. Furthermore, additional impairments may need to be taken in the future. Historical trends may not be indicative of future impairments. For further information on the Company's review of investments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Impairment Loss on Investments."

***The Company may suffer losses from unfavorable outcomes from litigation and other legal proceedings, which may have a material adverse effect on its results of operations, financial condition or liquidity, and the effects of emerging claim and coverage issues on its business are uncertain.***

In the ordinary course of business, the Company is subject to litigation and other legal proceedings as part of the claims process, the outcomes of which are uncertain. The Company maintains reserves for these legal proceedings as part of its reserves for unpaid claims and claim adjustment expenses. The Company also maintains separate reserves for legal proceedings that are not related to the claims process. In the event of an unfavorable outcome in one or more legal matters, the Company's ultimate liability may be in excess of amounts the Company has currently reserved for, and such additional amounts may have a material adverse effect on the Company's results of operations, financial condition or liquidity.

As industry practices and legal, judicial, social, financial, technological and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect the Company's business by either extending coverage beyond the Company's underwriting intent or by increasing the number or size of claims. Examples of emerging claims and coverage issues include:

judicial expansion of policy coverage and the impact of new theories of liability;

plaintiffs targeting property and casualty insurers, including the Company, in purported class action litigation relating to claims-handling and other practices;

claims relating to construction defects, which often present complex coverage and damage valuation questions;

the assertion of "public nuisance" theories of liability, pursuant to which plaintiffs seek to recover money spent to administer public health care programs or to abate hazards to public health and safety; and

claims relating to unanticipated consequences of current or new technologies.

In some instances, these emerging issues may not become apparent for some time after the Company has issued the affected insurance policies. As a result, the full extent of liability under the Company's insurance policies may not be known for many years after the policies are issued.

In addition, the potential passage of new legislation designed to expand the right to sue, to remove limitations on recovery, to extend the statutes of limitations or otherwise to repeal or weaken tort reforms could have an adverse impact on the Company's business.

The importance of environmental, social and governance issues ("ESG") and the Company's rankings on indices regarding ESG issues have become increasingly important to the Company's investors, customers and employees. Failure of the Company to respond to the pressures brought about by such interested parties in a timely and adequate manner could have an adverse effect on the Company's reputation and its ability to issue additional securities, to sell its products and to hire and maintain skilled employees, which could have an adverse impact on the Company's results of operations and financial position.

The effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict and could harm the Company's business and have a material adverse effect on the Company's results of operations, financial condition or liquidity.

***The Company is exposed to credit risk in certain of its business operations.***

In addition to exposure to credit risk related to its investment portfolio, reinsurance recoverables and surety insurance operations discussed elsewhere in this offering memorandum, the Company is exposed to credit risk in several other areas of its business operations, including credit risk relating to policyholders and independent agencies.

A portion of the Company's commercial business is written with large deductible insurance policies. Under some commercial insurance contracts with deductible features, the Company is obligated to pay the claimant the full amount of the claim. The Company is subsequently reimbursed by the contract holder for the deductible amount, and is subject to credit risk until such reimbursement is made. Additionally, retrospectively rated policies are also used, primarily for workers compensation coverage, whereby the ultimate premium is determined based on actual loss activity. Although the retrospectively rated feature of the policy substantially reduces insurance risk for the Company, it does introduce credit risk to the Company. The Company's results of operations could be adversely affected if a significant portion of such contract holders failed to reimburse the Company for the deductible amount or the retrospectively rated policyholders failed to pay additional premiums owed.

The Company is exposed to credit risk in its surety operations, where it guarantees to a third party that the Company's customer will satisfy certain performance obligations (for example, a construction contract) or certain financial obligations. If the Company's customer defaults, the Company may suffer losses and be unable to be reimbursed by that customer. In addition, in accordance with industry practice, multiple insurers participate as co-sureties on large surety bonds and the co-surety obligations under these arrangements are typically joint and several. In that context, the Company is exposed to credit risk with respect to its co-sureties.

In accordance with industry practice, when customers purchase insurance policies from the Company through independent agents and brokers, the premiums relating to those policies are often paid to the agents and brokers for payment to the Company. In most jurisdictions, the premiums will be deemed to have been paid to the Company whether or not they are actually received by the Company. Consequently, the Company assumes a degree of credit risk associated with amounts due from independent agents and brokers.

To a large degree, the credit risk the Company faces is a function of the economy. Accordingly, the Company faces a greater risk in an economic downturn. While the Company attempts to manage the risks discussed above through underwriting and investment guidelines, collateral requirements and other oversight mechanisms, the Company's efforts may not be successful. For example, collateral obtained may subsequently have little or no value. As a result, the Company's exposure to the above credit risks could have a material adverse effect on its results of operations, financial condition or liquidity.

***Terrorist acts could have a material adverse effect on the Company's business, results of operations, financial condition or liquidity, and the Company's ability to reinsure or manage such risk is limited.***

The Terrorism Risk Insurance Program (the "Program") established under the Terrorism Risk Insurance Act of 2002, as amended by the Terrorism Risk Insurance Extension Act of 2005 and the Terrorism Risk Insurance Program Reauthorization Acts of 2007, 2015 and 2019 (collectively, the "Terrorism Acts"), generally requires all commercial property and casualty insurers writing business in the United States to make terrorism coverage available to commercial policyholders and provides a federal backstop for certified terrorist acts, which result in losses above insurance company deductible amounts. The Terrorism Acts directly apply to the Company's U.S. property and casualty insurance business. For a loss to be covered under the Program, the loss must meet certain aggregate industry loss minimums and must be the result of an event that is certified as an act of terrorism by the U.S. Secretary of the Treasury. In calendar year 2015, on eligible lines of business, participating insurers are entitled to receive reimbursement for "certified" acts of terrorism from the federal government for 85% of paid losses in excess of the insurer's deductible, provided the aggregate industry losses exceed \$100 million to a maximum industry loss of \$100 billion. As of January 1, 2016: (1) the amount of reimbursement from the federal government decreases by one percentage point each calendar year, until it equals 80%; and (2) the aggregate industry loss

minimum increases by \$20 million each calendar year, until it equals \$200 million. The deductible for any calendar year is equal to 20% of an insurer's and its affiliates' direct premiums earned for covered lines for the preceding calendar year. The Company estimates that the amount that it will have to pay in the context of a "certified" act of terrorism, before the federal backstop under the Program becomes available, is \$1.828 billion for 2020. Certain lines of business that the Company writes, including commercial automobile, professional liability (excluding directors and officers), surety, burglary and theft and farmowners multiple-peril are exempted from coverage under the Program. In the case of a war declared by Congress, only workers compensation losses are covered by the Program. The U.S. Secretary of the Treasury may "certify," for coverage under the Program, acts of terrorism committed by any individual(s), foreign or domestic. Damage outside the United States is not covered except in limited circumstances. The Program will remain in effect until December 31, 2027. There can be no assurance that it will be extended beyond that date. In the event that the Program is not extended beyond December 31, 2027 and in the absence of a private reinsurance market for terrorism reinsurance, the Company may be required to accept financial responsibility for losses that it would not otherwise insure unless state insurance departments allow for the non-renewal of business with significant terrorism risk exposure or the exclusion of coverage for terrorism risks under policy renewals. Because the interpretation of the Program is untested, there is substantial uncertainty as to how it will be applied to specific circumstances. It is also possible that future legislative action could change the Program. Further, given the unpredictable frequency and severity of terrorism losses, as well as the limited terrorism coverage in the Company's own reinsurance program, future losses from acts of terrorism, particularly "unconventional" acts of terrorism involving nuclear, biological, chemical or radiological events, could have a material adverse effect on the Company's results of operations, financial condition or liquidity in future periods.

Independent of limitations on coverage under the Program, the occurrence of one or more terrorist attacks in the geographic areas the Company serves could result in substantially higher claims under its insurance policies than it has anticipated. Private sector catastrophe reinsurance is extremely limited and generally unavailable for terrorism losses caused by attacks with nuclear, biological, chemical or radiological weapons. Accordingly, the effects of a terrorist attack in the geographic areas the Company serves may result in claims and related losses for which it does not have adequate reinsurance. This would likely cause the Company to increase its loss reserves. Further, the continued threat of terrorism and the occurrence of terrorist attacks, as well as heightened security measures and military action in response to these threats and attacks, may cause significant volatility in global financial markets, disruptions to commerce and reduced economic activity. These consequences could have an adverse effect on the value of the assets in the Company's investment portfolio. The continued threat of terrorism also could result in increased reinsurance prices and potentially cause the Company to retain more risk than it otherwise would retain if it were able to obtain reinsurance at lower prices. Terrorist attacks also could disrupt the Company's operation centers and business capabilities generally. As a result, it is possible that any, or a combination of all, of these factors may have a material adverse effect on the Company's results of operations, financial condition or liquidity.

***The property and casualty insurance industry is highly competitive, and the Company may not be able to compete effectively in the future.***

The property and casualty insurance industry is highly competitive and has, from time to time, experienced severe price competition. The Company competes with both domestic insurers, including both national insurers and regional insurers, and foreign insurers. Overall, competition is increasing in all of our businesses, including as a result of increased price transparency. The competitive environment in which the Company operates could be affected by current general economic conditions, which could reduce the volume of business available to the Company as well as to its competitors. In addition, the competitive environment could be affected by changes in customer preferences, such as a possible increase in customer focus on price over other competitive criteria. Over time, this increased focus on price may provide a relative advantage to carriers that have more efficient cost structures and that are better able to accurately estimate, and price for, claims and claim adjustment expenses. Furthermore, some competitors may have greater financial, marketing or management resources than the Company, or have longer-term business relationships with customers, which may be a significant competitive advantage. If we are not able to operate with a competitive cost structure or accurately estimate and price for claims and claim adjustment expenses, the Company's underwriting margins could be adversely affected over time.

A number of the Company's competitors may offer products at prices and on terms that are not consistent with the Company's economic standards in an effort to maintain their business or write new business. The

Company's competitive position is based not only on its ability to profitably price its business, but also on product features and quality, scale, customer service, financial strength, claims-paying ratings, credit ratings, e-business capabilities, name recognition and agent compensation. The Company may have difficulty in continuing to compete successfully on any of these bases in the future.

In addition, the advent of driverless cars and technologies that facilitate ride sharing could materially alter the way automobile insurance is marketed, priced and underwritten.

***The Company's underwriting results are dependent on its ability to match rate to risk. If the Company's pricing models fail to price risks accurately, its profitability may be adversely affected.***

The profitability of the Company's property and casualty business substantially depends on the extent to which its actual claims experience is consistent with the assumptions it uses in pricing its policies. The Company uses automated underwriting tools for many of its property and casualty products, as well as tiered pricing structures to match its premium rates to the risks it insures. If the Company expands its appetite into different markets and products, it will write more policies in markets and geographical areas where it has less data specific to these new markets and accordingly may be more susceptible to error in its models or claims adjustment. If the Company fails to appropriately price the risks it insures, if it fails to change its pricing model to reflect its current experience or if its claims experience is more frequent or severe than its underlying risk assumptions, its profit margins may be negatively affected. To the extent the Company has overpriced risks, new-business growth and retention of its existing business may be adversely affected.

***The Company's businesses are heavily regulated, and changes in regulation may reduce its profitability and limit its growth.***

The Company is extensively regulated and supervised in the jurisdictions in which it conducts business. This regulatory system is generally designed to protect the interests of policyholders and not necessarily the interests of insurers and investors. This system addresses, among other things:

- licensing companies and agents to transact business and authorizing lines of business;
- calculating the value of assets to determine compliance with statutory requirements;
- mandating certain insurance benefits;
- regulating certain premium rates;
- reviewing and approving policy forms;
- regulating unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements;
- establishing statutory capital and surplus requirements;
- approving changes in control of insurance companies;
- restricting the payment of dividends and other transactions between affiliates;
- establishing assessments and surcharges for guaranty funds, second-injury funds and other mandatory pooling arrangements;
- requiring insurers to dividend to policyholders any excess profits;
- regulating the types, amounts and valuation of investments; and
- regulating a variety of other financial and non-financial components of an insurer's business.

In recent years, the state insurance regulatory framework has come under increased scrutiny, and some state legislatures have considered legislation or enacted laws and state insurance departments have adopted regulations that may alter or increase state authority to regulate insurance companies and insurance holding companies. Further, the NAIC and state insurance regulators continually reexamine existing laws and regulations, specifically focusing on modifications to statutory accounting principles, holding company regulations, interpretations of existing laws and the development of new laws and regulations. The NAIC has undertaken a Solvency Modernization Initiative focused on updating the solvency regulatory framework, including capital requirements, governance, risk management, accounting and financial reporting, group supervision and reinsurance.

In a time of financial uncertainty or a prolonged economic downturn, regulators may choose to adopt more restrictive insurance laws and regulations. For example, insurance regulators may choose to restrict the ability of Insurance Subsidiaries to make payments to their parent companies or reject rate increases due to the economic environment.

In addition, in connection with the current COVID-19 pandemic, some state legislatures are considering enacting laws that would retroactively nullify existing insurance policy exclusions for pandemics, illnesses or viruses, in particular, with respect to business interruption insurance. Policymakers are considering similar proposals in non-US jurisdictions where the Company writes business.

The Company's ability to change its rates in response to competition or to increased costs depends, in part, on whether the applicable state insurance rate regulation laws require the prior approval of a rate increase by or notification to the applicable insurance regulators either before or after a rate increase is imposed.

Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may materially increase the Company's direct and indirect compliance and other expenses of doing business, thus having a material adverse effect on its financial condition and results of operations. If there were to be changes to statutory or regulatory requirements, the Company may be unable to fully comply with or maintain all required insurance licenses and approvals. Regulatory authorities have relatively broad discretion to grant, renew and revoke licenses and approvals. If the Company does not have all requisite licenses and approvals or does not comply with applicable statutory and regulatory requirements, the regulatory authorities could preclude or temporarily suspend the Company from carrying on some or all of its insurance activities or monetarily penalize it, which could have a material adverse effect on its results of operations, financial condition or liquidity. The Company cannot predict with certainty the effect any proposed or future legislation or regulatory initiatives may have on the conduct of its business.

While the U.S. federal government has not historically regulated the insurance business, in 2010 the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") established a Federal Insurance Office (the "FIO") within the U.S. Department of the Treasury. The FIO has limited regulatory authority and is empowered to gather data and information regarding the insurance industry and insurers. In December 2013, the FIO released a report recommending ways to modernize and improve the system of insurance regulation in the United States. While the report did not recommend full federal regulation of insurance, it did suggest an expanded federal role in some circumstances. In addition, the report suggested that Congress should consider direct federal involvement to fill regulatory gaps identified in the report, should those gaps persist, for example, by considering either establishing a federal coordinating body or a direct regulator of select aspects of the industry, such as large complex institutions or institutions that seek a federal charter, if a law is passed to allow a federal charter. In November 2016, the FIO released a report on consumer protection and access to insurance that highlighted purported gaps and inconsistencies in state insurance consumer protections in such areas such as the use of consumer data in underwriting and pricing, cybersecurity, environmental hazards, underwriting classifications and policy language, among others. The report suggests options at the state and federal levels to address these gaps and inconsistencies. It is not clear as to the extent, if any, either of these reports will lead to regulatory changes or how any such changes would impact the Company. Further, the Dodd-Frank Act gives the Federal Reserve supervisory authority over a number of non-bank financial services holding companies, including insurance companies, if they are designated by a two-thirds vote of the Financial Stability Oversight Council (the "FSOC") as systemically important financial institutions ("SIFI"). To date, the FSOC has not designated the Company as a non-bank SIFI. However, the FSOC may conclude in the future that the Company is a SIFI. If the Company were designated as a SIFI, the Federal Reserve's supervisory authority would include the ability to impose heightened financial regulation and could impact requirements regarding the Company's capital, liquidity and leverage as well as its business and

investment conduct. This potential outcome may be less likely in the future. In December 2019, the FSOC issued final guidance on an activities-based approach – or “ABA” – to identifying and addressing potential risks to U.S. financial stability. While retaining back-up ability to designate entities, the new FSOC focus will be on identifying activities that present potential systemic risk to the U.S. economy and applying measures through existing functional regulation or fashioning other approaches to resolve the risk. The Company could face the risk of having one or more activities in which it is presently engaged, or a future business initiative, identified, which could subject the Company to additional regulation and reporting obligations. As a result of the foregoing, the Dodd-Frank Act, or other additional federal regulation that is adopted in the future, could impose significant burdens on the Company, including impacting the ways in which it conducts its business, increasing compliance costs and duplicating state regulation, and could result in a competitive disadvantage, particularly relative to smaller insurers that may not be subject to the same level of regulation.

***Changes in legislation, regulation and government policy, including as a result of the upcoming 2020 presidential and congressional elections, may have a material adverse effect on the Company’s business in the future.***

The upcoming elections in the United States could result in significant changes in, and uncertainty with respect to, legislation, regulation and government policy. While it is not possible to predict whether and when any such changes will occur, changes at the local, state or federal level could significantly impact the Company’s business and the insurance industry. Specific legislative and regulatory proposals discussed during and after the election that could have a material impact on us include, but are not limited to, changes to the U.S. federal tax code and regulations or other guidance thereunder; potential changes to the federal healthcare law; modifications to international trade policy, including changes in trade agreements, such as the United States-Mexico-Canada Agreement, and changes to taxes on imports; and changes to financial legislation, including changes to environmental regulation and antitrust enforcement. Any such changes may make it more difficult and/or more expensive for us to offer the types of services we do to our customers.

On February 3, 2017, President Trump signed an executive order calling for the administration to review U.S. financial laws and regulations, including the Dodd-Frank Act. Even if the Company is not subject to additional regulation by the federal government, significant financial sector regulatory reform, including the Dodd-Frank Act, could have a significant impact on the Company. For example, regulatory reform could have an unexpected impact on the Company’s rights as a creditor or on its competitive position. While there are no non-bank SIFIs at this time, even if the Company is not designated as a SIFI, regulations imposed by the Federal Reserve on designated non-bank SIFIs could affect other regulators’ approaches toward regulations, which could affect the Company. In particular, the Dodd-Frank Act authorizes assessments to pay for the resolution of SIFIs that have become insolvent. The Company (as a financial company with more than \$50 billion in assets) could be assessed, and, although any such assessment is required to be risk weighted (that is, riskier firms pay more), such costs could be material to the Company and are not currently estimable. President Trump’s legislative agenda tends to include certain deregulatory measures that could have a material impact on our business.

Other potential changes in U.S. federal legislation, regulation and administrative policies could also significantly adversely affect the insurance industry, including the Company.

Insurance laws or regulations that are adopted or amended, in addition to changes in federal statutes, may be more restrictive than current laws or regulations and may result in lower revenues or higher costs of compliance and thus could have a material adverse effect on the Company’s results of operations and limit its growth.

New laws or regulations, or different interpretations of existing laws or regulations, including unexpected policy changes, applicable to our income, operations, assets or another aspect of our business, could have a material adverse impact on our earnings, cash flow, financial condition and results of operations. Currently some jurisdictions are considering legislation to monitor insurance company investments in fossil fuel companies and underwriting in respect of fossil fuel businesses. This information could be used to determine a company’s exposure to climate change risk as a precursor to other action.

***The amount of statutory capital that the Company has and must hold to maintain its financial strength and credit ratings and meet other requirements can vary significantly from time to time and is sensitive to a number of factors outside of the Company’s control.***

Accounting standards and statutory capital and reserve requirements for the Insurance Subsidiaries are prescribed by the applicable insurance regulators and the NAIC. Insurance regulators have established regulations that provide minimum capitalization requirements based on risk-based capital (“RBC”) formulas for insurance companies. The RBC formula for property and casualty companies adjusts statutory surplus levels for certain underwriting, asset, credit and off-balance sheet risks.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors—the amount of statutory income or losses generated by Insurance Subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital Insurance Subsidiaries must hold to support business growth, changes in equity market levels, the value of certain fixed-income and equity securities in the Company’s investment portfolio, the value of certain derivative instruments, changes in interest rates and foreign currency exchange rates, as well as changes to the NAIC RBC formulas. Most of these factors are outside of the Company’s control. The Company’s financial strength ratings are significantly influenced by the Insurance Subsidiaries’ statutory surplus amounts and RBC ratios. In addition, the NAIC is also developing a Group Capital Calculation for U.S. insurance groups. While still in its nascent stage and even though it is not intended to be a prescribed capital requirement, this calculation could have an impact on our group capital or the insurance that we write. Due to all of these factors, projecting statutory capital and the related RBC ratios is complex.

***Changes to methods of marketing and underwriting in certain areas are subject to state-imposed restrictions.***

The Company’s ability to change its methods of marketing and underwriting in certain areas, such as in California and in the coastal areas of Florida and New York, are subject to state-imposed restrictions. These restrictions include restrictions on the use of named storm deductibles, restrictions on the use of underwriting guidelines that use an insured’s geographic area as a factor, restrictions on exiting certain lines of business based on geographic or other considerations without notice to or approval by the state insurance department and restrictions on the ability to write private passenger automobile insurance unless an insurer also writes homeowners coverage in the state. As a result, it may be more difficult for the Company to significantly reduce its exposure in these areas.

***Mandated market mechanisms may require the Company to underwrite policies with a higher risk of loss and assessments and other surcharges for guaranty funds, and second-injury funds may reduce its profitability.***

The Company is often required to participate directly or indirectly in mandatory shared market mechanisms as a condition of its licenses to do business in certain states. These markets, which are commonly referred to as “residual markets” or “involuntary markets,” generally consist of risks considered to be undesirable from a standard or routine underwriting perspective. Underwriting performance related to assigned risk plans, a form of mandated market mechanism is typically adverse and, as a result, the Company is required to underwrite some policies with a higher risk of loss than it would normally accept.

Each state dictates the level of insurance coverage that is mandatorily assigned to participating insurers within these markets. Typically, the amount of involuntary policies the Company is obligated to write in a given year is based on its historical market share of all voluntary policies written within that state for particular lines of business. Liabilities for guaranty fund and other insurance-related assessments are accrued when an assessment is probable, when it can be reasonably estimated, and when the event obligating the entity to pay an imposed or probable assessment has occurred (based on future premiums for property and casualty insurance lines of business). The related asset is limited to the amount that is determined based on future premium collections or policy surcharges from policies in force. Current Guaranty Fund Association assessments are expected to be paid over one year while loss-based assessments are expected to be paid over a period ranging from one year to the life expectancy of certain workers’ compensation claimants.

In addition, virtually all states require insurers licensed to do business in their state to bear a portion of the loss suffered by some insureds as the result of impaired or insolvent insurance companies. These guaranty funds are funded by assessments. The effect of these assessments or changes in them could reduce the Company’s profitability in any given period or limit its ability to grow its business. The Company cannot predict the impact, if any, that these matters may have on its financial condition, results of operations or liquidity or on the property and casualty insurance industry.

***The Company may not maintain favorable financial strength ratings, which could adversely affect its ability to conduct business.***

The Company may not maintain favorable financial strength ratings, which could adversely affect its ability to conduct business. Third party rating agencies assess and rate the financial strength, including claims-paying ability, of insurers and reinsurers. These ratings are based upon criteria established by the rating agencies and are subject to revision at any time at the sole discretion of the agencies. Some of the criteria relate to general economic conditions and other circumstances outside the rated company's control. These financial strength ratings are used by policyholders, as well as independent agents and brokers, as an important means of assessing the suitability of insurers as business counterparties and have become an increasingly important factor in establishing the competitive position of insurance companies. These financial strength ratings do not refer to the Company's ability to meet non-insurance obligations and are not a recommendation to purchase or discontinue any policy issued by the Company or to buy, hold or sell its securities. The principal Insurance Subsidiaries' current financial strength ratings are "A" (the third highest of 16 ratings, stable outlook) from A.M. Best, "A2" (the sixth highest of 21 ratings, stable outlook) from Moody's and "A" (the sixth highest of 21 ratings, stable outlook) from Standard & Poor's. Periodically, the rating agencies evaluate the Company to confirm that it continues to meet the criteria of the ratings previously assigned to it. A downgrade or withdrawal of the Company's financial strength ratings could limit or prevent the Insurance Subsidiaries from writing new insurance policies or renewing existing insurance policies, which would have a material adverse effect on its results of operations, financial condition or liquidity.

The Insurance Subsidiaries are also parties to an intercompany reinsurance pooling arrangement that allows them to obtain a uniform rating from A.M. Best. If one or a few of the Insurance Subsidiaries experience a deterioration in its financial condition, the uniform rating of the entire pool could suffer a downgrade.

In reaction to any difficulties that may arise in the insurance industry or financial markets, it is possible that the external rating agencies: (1) could heighten the level of scrutiny that they apply to insurance institutions; (2) could increase the frequency and scope of their reviews; and (3) could adjust upward the capital and other requirements employed in their models for maintenance of certain rating levels.

The Company cannot predict what actions rating agencies may take, or what actions it may take in response to the actions of rating agencies, which could adversely affect the Company's business. As with other companies in the financial services industry, the Company's ratings could be downgraded at any time and without any notices by any rating agency, which could have a material adverse effect on the Company's results of operations, financial condition or liquidity. These ratings reflect the agencies' opinions as to the financial strength, operating performance and ability to meet obligations to policyholders of the Insurance Subsidiaries, but are not ratings of the Notes offered hereby.

***Inflation, including repair costs and medical inflation, could have a material adverse effect on the Company's results.***

Historically, massive government spending aimed at spurring the economy has been followed by increased inflation. The effects of inflation could cause the severity of claims from catastrophes or other events to rise in the future. The Company's reserves for claims and claim adjustment expenses include assumptions about future payments for settlement of claims and claims handling expenses, such as repair costs, medical expenses and litigation costs. To the extent that actual inflation increases significantly more than such assumptions, the Company may be required to increase its loss reserves with a corresponding reduction in its net income in the period in which the deficiency is identified.

***Cyclicality of the property and casualty insurance industry may cause fluctuations in the Company's results of operations, financial condition or liquidity.***

The property and casualty insurance business is cyclical in nature and has historically been characterized by periods of intense price competition, which could have an adverse effect on the Company's results of operations and financial condition. Periods of intense price competition historically have alternated with periods when shortages of underwriting capacity have permitted attractive premium levels. Any significant decrease in the premium rates the Company can charge for property and casualty insurance would adversely affect its results.



Factors that affect loss cost trends in automobile underwriting include inflation in the cost of automobile repairs, medical care, litigation of liability claims, improved automobile safety features, legislative changes and general economic conditions. Factors that affect loss costs trends in property underwriting include inflation in the cost of building materials and labor costs and demand caused by weather-related catastrophes. Factors that affect loss cost trends in workers compensation underwriting include inflation in the cost of medical care, litigation of liability claims and general economic conditions. Property and casualty insurers, including the Company, are often unable to increase premium rates until sometime after the costs associated with the coverage have increased, primarily as a result of state insurance regulation and laws. Therefore, in a period of increasing loss costs, profit margins decline.

The Company expects to continue to experience the effects of this cyclicity which, during down periods, could have a material adverse effect on its results of operations, financial condition or liquidity.

***The Company's international business faces political, legal, operational and other risks that could adversely affect its results of operations.***

The Company's international operations face political, legal, operational and other risks not encountered in the Company's U.S. operations. The Company faces the risk of discriminatory regulation, nationalization or expropriation of assets, price controls and exchange controls or other restrictions that could prevent the Company from transferring funds from these operations out of the countries in which they operate or converting local currencies it holds into U.S. dollars or other currencies. In addition, the Company relies on local sales forces in these countries and may encounter labor problems resulting from workers associations and trade unions in some countries. Also, in some markets, the Company has invested as part of a joint venture with a local counterparty. Because the Company's governance rights may be limited, it may not have control over the ability of the joint venture to make certain decisions or mitigate risks it faces, and significant disagreements with a joint venture counterparty may adversely affect the Company's investment.

The Company's foreign insurance operations generally write policies denominated in local currencies and in large part invest in local currencies. Although investing in local currencies limits the effect of currency exchange rate fluctuation on local operating results, fluctuations in such rates affect the translation of these results into the Company's financial statements and could have a material adverse effect on the Company's business, financial condition or results of operations.

The European Union's executive body, the European Commission, implemented capital adequacy and risk management regulations, called Solvency II, that apply to the Company's businesses in the European Union as of January 1, 2016. Under Solvency II, the direct or indirect parent of a European Union subsidiary (including a U.S. parent company) could be subject to certain Solvency II requirements if the regulator determines that the subsidiary's capital position is dependent on an affiliated or parent company and the affiliated or parent company is not already subject to regulations deemed equivalent to Solvency II. Effective September 22, 2017, the U.S. and EU entered into an agreement providing that Solvency II would not be applied to a U.S.-based worldwide insurance group on a provisional basis.

In addition, regulators in countries where the Company has operations are working with the International Association of Insurance Supervisors ("IAIS") (and in the United States, with the NAIC) to develop a Common Framework for the Supervision of Internationally Active Insurance Groups ("ComFrame"), which is intended to establish a set of international supervisory requirements focusing on the effective group-wide supervision of internationally active insurance groups ("IAIGs"). The IAIS adopted ComFrame in November 2019.

The IAIS also has been developing and field testing an insurance capital standard ("ICS") intended to be a prescribed capital standard applicable to IAIGs. The IAIS adopted a so-called reference ICS in November 2019. The reference ICS will be used for reporting to an IAIG's group-wide supervisor and supervisory colleges during a five-year monitoring period. Final adoption of the standard as a prescribed capital standard is expected in late 2024, when it will be included as part of ComFrame. Under the IAIS definition, the Company would be identified as an IAIG. The NAIC has stated that state regulators will not be implementing the ICS, but instead is developing an aggregation method for assessing an insurance group's solvency capital. The IAIS will determine in 2024 whether the aggregation method provides comparable outcomes to the ICS based on as-yet undefined principles and criteria. Consequently, it is not yet known what impact the aggregation method will have on the Company, whether the

aggregation method will be deemed comparable to the ICS, or what impact a global insurance capital standard included as part of ComFrame would have on the Company.

The IAIS worked with the Financial Stability Board of the G-20 to develop a methodology to identify and designate insurance companies that pose a systemic risk to the global economy, known as “global systemically important insurers” (“G-SIIs”), including additional capital and related requirements. In 2013, the Financial Stability Board named the insurers that are designated as G-SIIs and the Company was not one of them. It is possible, however, that the Financial Stability Board may in the future conclude that the Company is a G-SII. Designation as a G-SII could result in heightened financial regulation and could impact requirements regarding the Company’s liquidity and leverage as well as its business and investment conduct. In November 2017, the FSB announced that it had decided to suspend publication of a new list of G-SIIs. Instead, in November 2019, the IAIS adopted a ‘holistic framework’ for assessing systemic risk, which is intended to replace the primarily entity-based designation system with one focused on activities that might pose systemic risk to the global financial system. The holistic framework is available for implementation beginning in 2020. G-SII designations are suspended until November 2022, when the FSB will review the operation of the holistic framework and decide whether to reinstate or discontinue the annual G-SII designation. While the holistic framework is to be applied proportionally, it is possible that one or more of the Company’s activities or some future business initiative could subject the Company to further regulation and reporting obligations.

Furthermore, the Company’s international businesses are focused on emerging markets, which can be subject to severe economic and financial disruptions, including significant devaluations of their currencies and low or negative growth rates in economies.

***COVID-19, or coronavirus, could have a material effect on our results of operations, but at this time a clear determination cannot be made.***

In December 2019, a novel coronavirus commonly referred to as “COVID-19” surfaced in Wuhan, China. The outbreak has since spread to other countries, including the United States, and efforts to contain the spread of this coronavirus have intensified. The outbreak and any preventative or protective actions that governments, other third parties or we may take in respect of the coronavirus may result in a period of business disruption and reduced operations. The extent to which the coronavirus impacts the Company’s results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact, among others. Possible effects on our business and operations include:

- disruptions to business operations resulting from working from home or from closures of our corporate or sales offices and the offices of our agents and brokers and quarantines of employees, customers, agents, brokers and suppliers in areas affected by the outbreak;
- disruptions to business operations resulting from travel restrictions and reduced consumer spending on new homes or new automobiles which could reduce demand for insurance;
- increased claims related to general liability, workers comp, event cancellation coverage, business interruption and other insurance, and litigation relating thereto; and
- disruption of the financial markets resulting in reductions in the value of our investment portfolio.

A significant rise in the number of COVID-19 infections, infections in a wide range of countries and regions, or a prolongation of the outbreak, could create an adverse economic effect on the Company.

Currently, several states are considering mandating, by executive order or by legislation, that notwithstanding the terms of property insurance policies (including any endorsement thereto or exclusions to coverage included therewith), the covered perils in such policies for insureds shall include coverage for business interruptions resulting from COVID-19 which would indemnify an insured for any loss of business or business interruption, subject to policy limits. Further, some state legislatures are considering bills designed to grant “essential employees” (often broadly defined to include such occupations as health care workers, first responders, correction officers, military, activated National Guard, grocery store workers, postal service workers and others) an

additional benefit from worker's compensation coverage if they are diagnosed with COVID-19. In addition, plaintiffs are bringing class action suits seeking business interruption coverage for business closures caused by COVID-19. Their arguments include that business interruption insurance should be triggered by a civil authority shutdown order and that the infection of a premises with coronavirus or the clean-up of those infected premises constitutes the physical damage necessary to trigger business interruption coverage. In a non-insurance case, the Supreme Court of Pennsylvania recently held that COVID-19 must be treated similar to natural disasters such as hurricanes and earthquakes, which result in substantial damage to property. These additional insurance coverages, whether as a consequence of legislative or judicial action, could have a material adverse effect on the Company's results of operation, financial condition or liquidity.

Furthermore, as a consequence of the COVID-19 stay at home orders in effect throughout much of the United States and abroad, policyholders are driving fewer miles than normal. Accordingly on April 7, 2020, the Company announced its Personal Auto Customer Relief Refund ("PACRR") plan which gives personal auto insurance customers a 15% refund on two months of their annual 2020 premium. On April 23, 2020, the Company launched its Liberty Mutual Businessowners Policy ("BOP") Refund for small commercial customers issuing a 15% refund of two months of premium for all BOP policies. In addition, late fee charges were automatically stopped and cancellations due to non-payment were temporarily paused for both personal auto and home customers from March 23 through at least May 22, 2020. The Company will work with individual customers to extend payment dates if needed and provide personalized support on an ad hoc basis. All personal auto policy coverages have been expanded to cover customers who use their personal vehicles to deliver food and medicine even though some of our standard personal auto policies typically exclude such coverage. This additional protection will remain in effect for all personal auto policies in all states for losses occurring from March 16 to May 22, 2020, and reported by July 1, 2020. The aggregate payments under the PACRR and BOP customer support programs will be approximately \$300 million.

***The potential impact of Brexit may affect Liberty Mutual's EU/UK operations.***

The United Kingdom's ("UK") departure from the European Union ("EU"), commonly referred to as "Brexit," could affect insurance firms such as Liberty Mutual that conduct substantial operations in the EU. Brexit occurred on January 31, 2020. The exit was the beginning of a transition period during which the UK will remain in the EU's customs union and single market but will negotiate with the EU regarding the terms of the future UK-EU relationship. That period will expire on December 31, 2020. The expiration of the transition period with no appropriate UK-EU agreement may create some issues for the Company's EU specialty (re)insurance business.

Liberty Mutual has been making modifications to its legal entity structure and operations in the EU to address the departure of the UK from the EU. However, due to considerations such as operating expenses, liquidity, leverage and capital, there is a risk that the modified European operating framework may over time become more complex, less efficient and more costly than would otherwise have been the case. In particular:

Liberty Mutual's UK specialty (re)insurance company, which operates throughout the EU via a network of branches, has been re-domiciled into the EU (Luxembourg). Its UK operation thus became a branch of the Luxembourg entity, and is expected to become a "third country" branch at the end of the transition period (subject to UK regulatory approval). While this structure is not contingent on the UK-EU negotiations and enables the Company to continue to trade substantively in the same way as before, the capital impact of this is as yet unknown.

There is a medium-term risk that the entity described in the previous paragraph may need to fragment. This is dependent on a number of factors and the evolving regulatory landscape, which are not necessarily connected to the outcome of the UK-EU negotiations.

Lloyd's is applying to the UK courts to transfer to the new EU operation its syndicates' EU portfolios underwritten through its pre-Brexit UK structure. Lloyd's is planning to complete this transfer by the end of the transition period. In the event that the transfer is not completed by the end of the transition period, there is a risk that Liberty's Syndicate, along with all other Lloyd's Syndicates, could face complications in administering and paying claims on affected policies unless national EU regulators act to avoid any such disruption to their resident policyholders.

If the UK is not granted “equivalence” by the EU in relation to market access after the end of the transition period, this could cause additional regulatory costs and challenges for Liberty Mutual’s EU specialty operation.

If the UK and EU do not reach an appropriate agreement at the end of the transition period, there is the potential for an adverse economic impact on businesses operating in the region, including the Company.

***The Company’s surety products expose it to potentially high severity losses.***

The Company provides surety products through its Global Surety operating unit, a part of its Global Risk Solutions business. The majority of its surety obligations are performance based guarantees. This business exposes the Company to infrequent, but potentially high severity, losses. The Company has customers with bonded exposure in excess of \$100 million. The deterioration of one or more of these large customers could have a material adverse effect on the Company’s results of operations, financial condition or liquidity.

***The Company’s ability to compete effectively with respect to certain surety products is dependent on the underwriting limitations assigned to several of the Insurance Subsidiaries.***

Global Surety’s ability to attract large contract business depends on the underwriting limitations assigned to several of the Insurance Subsidiaries. Federal law requires a contractor awarded a federal construction contract to supply a surety bond issued by a company holding a U.S. Treasury Department certificate of authority. Upon review of each company’s financial information, the Treasury Department determines the underwriting limitation for each company. The underwriting limitation represents 10% of the Company’s paid-in capital and surplus less certain deductions. Pursuant to Treasury Department regulations, a company may not issue a single bond that exceeds its underwriting limitation absent co-insurance or reinsurance for the amount in excess of its underwriting limitation. A surety carrier that writes business through a company with a high underwriting limitation has a competitive advantage in the surety marketplace. A company with a high underwriting limitation can write large surety bonds on its own financial strength without the need for co-insurance or reinsurance. Agents and surety bond customers view a high underwriting limitation as a sign of financial strength and stability when assessing a potential surety relationship. If the Insurance Subsidiaries were no longer qualified for U.S. Treasury Department certificates of authority or if their underwriting limitations were substantially reduced, that could have a material adverse effect on the Company’s results of operations, financial condition or liquidity.

***Loss of or significant restriction on the use of credit scoring, education and occupation data in the pricing and underwriting of the Company’s products could reduce its future profitability.***

The Company uses credit scoring, education and occupation data as factors in pricing decisions where permitted under state law. Some consumer groups and regulators have questioned whether the use of credit scoring, education and occupation data unfairly discriminates against lower-income, minority and elderly consumers and are calling for the prohibition of or restriction on the use of such factors in underwriting and pricing. Enactment in a large number of states of laws or regulations that significantly curtail the use of credit scoring, education or occupation data in the underwriting process could reduce the Company’s future profitability.

***The Company could be adversely affected if its controls to ensure compliance with guidelines, policies and legal and regulatory standards are not effective.***

The Company’s business is highly dependent on the Company’s ability to engage on a daily basis in a large number of insurance underwriting, claim processing and investment activities, many of which are highly complex. These activities often are subject to internal guidelines and policies, as well as legal and regulatory standards. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system’s objectives will be met. If the Company’s controls are not effective, it could lead to financial loss, unanticipated risk exposure (including underwriting, credit and investment risk) or damage to the Company’s reputation.

***Potential changes in federal or state tax laws could adversely affect the Company’s business, results of operations, financial condition or liquidity.***

The Company's investment portfolio has benefited from tax exemptions and certain other tax laws, including those governing dividends-received deductions and tax credits. Whether in connection with crisis management, deficit reduction or various types of fundamental tax reform, federal and state tax legislation could be enacted that would result in higher taxes on insurance companies and their policyholders, lessen or eliminate some or all of the tax advantages currently benefiting the Company and adversely affect the value of its investment portfolio.

***The Company's participation in a securities lending program subjects it to potential liquidity and other risks.***

The Company has engaged in securities lending activities from which it generates net investment income from the lending of certain of its investments to other institutions. The Company generally obtains cash or securities as collateral from borrowers of these securities in an amount equal to at least 102% of the fair value of the loaned securities plus accrued interest, which is obtained at the inception of a loan and maintained at a level greater than or equal to 102% for the duration of the loan. At December 31, 2019, the Company had no loans outstanding at the program level where the loan collateral was less than 102% of the fair value of such loaned securities. This collateral is held by a third-party custodian, and the Company has the right to access the collateral only in the event that the institution borrowing the Company's securities is in default under the lending agreement. The loaned securities remain the Company's recorded asset. The Company does not recognize the receipt of securities collateral held by the third-party custodian or the obligation to return the securities collateral; however, the Company does recognize the receipt of cash collateral and the corresponding obligation to return the cash collateral. The cash collateral is held in a segregated account with the agent bank and is re-invested according to preset reinvestment guidelines.

Returns of loaned securities by the third parties would require the Company to return any collateral associated with such loaned securities. In some cases, the maturity of the securities held as invested collateral (i.e., securities that the Company has purchased with cash received from the third parties) may exceed the term of the related securities on loan and the estimated fair value may fall below the amount of cash received as collateral and invested. If the Company is required to return significant amounts of cash collateral on short notice and it is forced to sell securities to meet the return obligation, the Company may have difficulty selling such collateral that is invested in securities in a timely manner, be forced to sell securities in a volatile or illiquid market for less than the Company otherwise would have been able to realize under normal market conditions, or both. In addition, under stressful capital market and economic conditions, such as those conditions the Company experienced during 2008 and 2009, liquidity broadly deteriorates, which may further restrict the Company's ability to loan securities and to meet its obligations under these transactions. If the Company decreases the amount of its securities lending activities over time, the amount of investment income generated by these activities will also likely decline.

***The Company's business success and profitability depend, in part, on effective utilization of information technology systems and its implementation of technology innovations.***

The Company depends on information technology systems for conducting business and processing insurance claims. Critical elements of the Company's business operations are dependent on the continued maintenance and availability of these existing technology systems. The Company's continued long-term success requires that it remain innovative and select strategic technology initiatives, in a cost and resource efficient manner, to drive down overall expenses and improve the value to the business.

The Company engages in a variety of technology system development projects. These types of strategic initiatives are long-term in nature and may be affected by a variety of unknown business and technology related factors. As a result, the potential associated expenses relating to these projects may adversely impact the Company's expense ratios if they exceed its current estimates. Further, the technology system development process may not deliver the benefits and efficiencies that the Company expected during the initial stages of the projects.

The Company relies on a variety of software license agreements with third party vendors. The Company expects to continue to rely on agreements with such third party vendors for the provision of necessary software and information technology services.

The Company's ability to provide competitive services to agents and brokers, as well as new and existing policyholders, in a cost effective manner and its ability to implement strategic initiatives could be adversely affected by an increase in costs for these projects. The Company may not be able to meet its information technology

requirements in a manner or on terms and conditions, including costs, as favorable as those it has previously received, which could have a material adverse effect on its operations, financial condition or liquidity.

***The Company faces substantial legal and operational risks in complying with privacy laws and regulations governing the privacy and protection of personal information.***

The Company's businesses are subject to complex and evolving laws and regulations, both within and outside the U.S., governing the privacy and protection of personal information of individuals. The protected parties can include:

- the Company's clients and customers, and prospective clients and customers;
- clients and customers of the Company's clients and customers;
- claimants, third-party claimants, and witnesses;
- brokers, agents, and third-party administrators;
- employees and prospective employees; and
- employees of the Company's vendors, counterparties and other external parties.

Taking steps to ensure that the Company's collection, use, transfer and storage of personal information comply with all applicable laws and regulations in all relevant jurisdictions, including where the laws of different jurisdictions are in conflict, can:

- increase the Company's compliance and operating costs;
- hinder the development of new products or services, curtail the offering of existing products or services, or affect how products and services are offered to clients and customers;
- demand significant oversight by the Company's management; and
- require the Company to structure its businesses, operations and systems in less efficient ways.

Furthermore, the Company cannot guarantee that all its clients and customers, vendors, counterparties and other external parties have appropriate controls in place to protect the confidentiality of the information exchanged between them and the Company, particularly where information is transmitted by electronic means. The Company could be exposed to litigation or regulatory fines, penalties or other sanctions if personal, confidential or proprietary information of clients, customers, employees or others were to be mishandled or misused, such as situations where such information is:

erroneously provided to parties who are not permitted to have the information;

- intercepted or otherwise compromised by third parties;
- used for a purpose not previously disclosed; or
- transferred out of the country without meeting regulatory requirements.

Concerns regarding the effectiveness of the Company's measures to safeguard personal information, or even the perception that those measures are inadequate, could cause the Company to lose existing or potential clients and customers, and thereby reduce the Company's revenues. Any failure or perceived failure by the Company to comply with applicable privacy or data protection laws and regulations may subject it to inquiries, examinations and investigations that could result in requirements to modify or cease certain operations or practices, significant liabilities or regulatory fines, penalties or other sanctions. Any of these could damage the Company's reputation and otherwise adversely affect its businesses.

Recent regulations with a significant impact on our operations include the European Union's ("EU") General Data Protection Regulation, or "GDPR", the recently enacted California Consumer Privacy Act, or "CCPA", and the New York Department of Financial Services Part 500 cybersecurity requirements for financial services companies. GDPR, which became effective in May 2018 for EU data subjects, imposes numerous technical and operational obligations on processors and controllers of personal data and provides numerous protections for individuals in the EU, including but not limited to notification requirements for data breaches, the right to access personal data, and the right to be forgotten. GDPR provides data protection authorities with new enforcement powers (including the ability to restrict processing activities and impose fines of up to €20 million or 4% of an organisation's total worldwide annual turnover for the preceding financial year, whichever is higher). Other countries have enacted, or are considering enacting, legislation that is similar in scope to GDPR. The California Consumer Privacy Act became effective on January 1, 2020 and requires companies that process information on California residents to make new disclosures to consumers about their data collection, use and sharing practices, provide consumers with rights to know and delete information relating to them and allow consumers to opt out of certain data sharing with third parties. The New York Department of Financial Services Part 500 cybersecurity requirements, which became effective in March 2017, focus on minimum standards for cybersecurity programs and empowers the New York Department of Financial Services to issue fines for noncompliance. Similar standards are set forth in the NAIC's Insurance Data Security Model Law, which has to date been adopted by eight U.S. states. It is anticipated that additional federal, state and international regulations will continue to be enacted in the future. Compliance with cybersecurity and privacy laws and regulations requires ongoing investment in systems, policies and personnel and will continue to impact the Company's business in the future by increasing our legal, operational and compliance costs and reduce our profitability. In addition, while the Company has taken steps to comply with data privacy laws, the Company cannot guarantee that its efforts will meet the evolving standards imposed by data protection authorities. If the Company is found to have failed to comply with data privacy laws, we may be subject to regulatory inquiries, governmental investigations and proceedings and may incur reputational damage, material fines and other monetary penalties and damages, diversion of management's time and attention and increased regulatory scrutiny, all of which could have a material adverse effect on the Company's business and results of operations.

In addition to the existing framework of data privacy laws and regulations, the U.S. Congress, U.S. state legislatures and many states and countries outside the U.S. are considering new privacy and security requirements that would apply to the Company's business. Compliance with new privacy and security laws, requirements and regulations may result in material cost increases due to necessary systems changes, new limitations or constraints on the Company's business models, the development of new administrative processes, and the effects of potential noncompliance by the Company and its business associates. They also may impose further restrictions on the Company's collection, storage, disclosure and use of customer identifiable data that are housed in one or more of the Company's administrative databases. Noncompliance with any privacy and data security laws could have a material adverse effect on the Company's business, reputation, brand and results of operations, including: material fines and penalties; compensatory, special, punitive and statutory damages; consent orders regarding the Company's privacy and security practices; adverse actions against the Company's licenses to do business; and injunctive relief.

***If the Company experiences data breaches, cyberattacks or other difficulties with technology or data security, its ability to conduct its business could be negatively affected.***

While technology can streamline many business processes and ultimately reduce the cost of operations, technology initiatives present certain risks. The Company uses computer systems, including its automated underwriting platforms, to store, retrieve, evaluate and utilize customer and company data and information. The Company's information technology and telecommunications systems, in turn, interface with and rely upon third-party information networks and systems. The Company's business is highly dependent on the availability, speed and reliability of these networks and systems to perform necessary business functions, such as providing new-business quotes, processing new and renewal business, making changes to existing policies, filing and paying claims, and providing customer support.

The information technology systems and the networks on which the Company relies may be vulnerable to physical or electronic intrusions, viruses or other cybersecurity threats and attacks and similar disruptions, particularly in light of the growing frequency and sophistication of malicious efforts to infiltrate private computer networks. The information that these systems and networks store and protect includes non-public personal information of our policyholders and claimants which could include names, addresses, information on insured

assets, business information, and banking information, all of which pose a target for malicious actors. In addition, these threat actors have become better organized and better funded than they were in previous years with imposing infrastructures and capabilities and possibly include organized crime groups. However with the rise in computer automation used in hacking even small scale attackers have expanded their attacks. A shut-down of, or inability to access, one or more of the Company's facilities, a power outage or a disruption of one or more of these information technology, telecommunications or other systems or networks could significantly impair the Company's ability to perform those functions on a timely basis, which could hurt the Company's business and the Company's relationships with its policyholders, agents and brokers. Computer viruses, cyberattacks, data breaches and other external hazards and unauthorized access to or misuse (including by employees and other authorized persons) of personal or confidential data and information collected, used or stored by the Company could expose such data or the information technology systems and the networks on which the Company relies to unauthorized persons or to the public. Furthermore, certain of the Company's businesses have access to sensitive or personal data or information that is subject to laws and regulations enacted by U.S. federal and state governments, the European Union or other jurisdictions relating to breaches of such information. For instance, the CCPA provides a new private right of action for data breaches.

The Company devotes significant resources to maintain and regularly upgrade its systems and processes to protect against, detect, prevent, respond to and mitigate cybersecurity incidents, as well as to organizational training for employees to develop an understanding of cybersecurity risks and threats. However, the Company cannot guarantee it can prevent material security breaches, theft, modification or loss of data, employee malfeasance and additional known and unknown threats, and the Company's insurance may not protect the Company against related damages. Such incidents could result in reputational harm, private consumer (including class action), business partner, or securities litigation and governmental investigations and proceedings, any of which could result in the Company's exposure to material civil or criminal liability. Third parties to whom the Company outsources certain of its functions, including, but not limited to, third party service providers, are also subject to security breaches, theft, modification or loss of data, employee malfeasance and additional known and unknown threats, along with the other risks outlined above.

These increased risks, and expanding regulatory requirements regarding data security, could expose the Company to data loss, disruption of service, monetary and reputational damage, capital investments and other expenditures required to remedy incidents and prevent future ones, litigation and significant increases in compliance costs. As a result, the Company's ability to conduct its business and its results of operations might be adversely affected.

***In the event of a disaster, the Company's business continuity plan may not be sufficient, which could have a material adverse effect on the Company's results of operations, financial condition or liquidity.***

The Company's infrastructure supports a combination of local and remote recovery solutions for business resumption in the event of a disaster. In the event of either the destruction of any of the Company's office buildings or the inability to access any of those buildings, the Company's business recovery plan provides for the Company's employees to perform their work functions by remote access from an employee's home or by relocation of employees to the Company's other offices. However, in the event of a full scale local or regional disaster, the Company's business recovery plan may be inadequate, and the Company's employees, including sales representatives, may be unable to carry out their work, which could have a material adverse effect on the Company's results of operations, financial condition or liquidity.

***Acquisitions and integration of acquired businesses may result in operating difficulties and other unintended consequences while divestitures may result in operation distraction and unexpected consequences.***

The Company will selectively investigate and pursue acquisition opportunities if it believes that such opportunities are consistent with the Company's long-term objectives and that the potential rewards exceed the risks. The process of integrating an acquired company or business can be complex and costly, however, and may create unforeseen operating difficulties and expenditures. For example, acquisitions may present significant risks, including:

the potential disruption of the Company's ongoing business;



the reduction in cash available for operations and other uses and the potential dilutive issuance of equity securities or the incurrence of debt;

the ineffective integration of underwriting, claims handling and actuarial practices and systems;

the increase in the inherent uncertainty of reserve estimates for a period of time, until stable trends re-establish themselves within the combined organization, as past trends (that were a function of past products, past claims handling procedures, past claims departments and past legal and other experts) may not repeat themselves;

the diversion of management time and resources to acquisition integration challenges;

the loss of key employees; and

the cultural challenges associated with integrating employees.

There is no guarantee that any businesses acquired in the future will be successfully integrated, and the ineffective integration of the Company's businesses and processes may result in substantial costs or delays and adversely affect the Company's ability to compete. Also, the acquired business may not perform as projected, and any cost savings and other synergies anticipated from the acquisition may not materialize.

In addition, the Company may divest or wind-down businesses that it believes are no longer consistent with its long-term objectives. In that regard, we may be subject to legal and regulatory actions in the ordinary course of business for those businesses that we have divested or placed in wind-down status that may adversely distract the Company's management or result in unexpected substantial costs.

***The Company is subject to a variety of modeling risks that could have a material adverse impact on its business results; in the absence of an industry standard for catastrophe modeling, the Company's estimates may not be comparable to other insurance companies.***

Property and casualty business is exposed to many risks. These risks are a function of the environments within which the Company operates. Certain exposures can be correlated with other exposures, and an event or a series of events can impact multiple areas of the Company simultaneously and have a material effect on the Company's results of operations, financial position and liquidity. These exposures require an entity-wide view of risk and an understanding of the potential impact on all areas of the Company.

The Company relies on complex financial models, including computer models and modeling techniques, which have been developed internally or by third parties to provide information on items such as historical loss costs and pricing, trends in claims severity and frequency, the effects of certain catastrophe losses, investment performance and portfolio risk. For example, the Company estimates a probable maximum loss for certain catastrophe exposures using models and other tools that require assumptions around several variables to model the event and its potential impact. Inadequacies in the models and modeling techniques that the Company uses or faulty assumptions or granularity of data could lead to actual losses being materially higher than the Company anticipated based on its analysis of the modeled scenarios. As a result, the Company could experience unexpectedly high losses through concentrated risk in certain geographic areas, could make ineffective or inefficient reinsurance purchases and could suffer unnecessary investment losses. While the models and modeling techniques that the Company uses are relatively sophisticated, the value of the quantitative market risk information they generate is limited by the limitations of the modeling process. The Company believes that financial and computer modeling techniques alone do not provide a reliable method of monitoring and controlling market risk. Therefore, such modeling techniques do not substitute for the experience or judgment of the Company's senior management.

There is no industry standard for the modeling of catastrophe risk. As a result, the Company's estimates may not be comparable to those of other insurance companies.

***The Company cannot predict the impact that changing climate conditions, including legal, regulatory and social responses thereto, may have on the Company's business.***

Various scientists, environmentalists, international organizations, regulators and other commentators believe that global climate change has added, and will continue to add, to the unpredictability, frequency and severity of natural disasters (including hurricanes, tornadoes, freezes, other storms and fires) in certain parts of the world. In response to this belief, a number of legal and regulatory measures as well as social initiatives have been introduced in an effort to reduce greenhouse gas and other carbon emissions, which some believe may be chief contributors to global climate change. The Company cannot predict the impact that changing climate conditions, if any, will have on its results of operations or financial condition. Moreover, the Company cannot predict how legal, regulatory and social responses to concerns about global climate change will impact the Company's business.

***A change in or replacement of the London Inter-Bank Offered Rate ("LIBOR") may adversely affect the value of certain derivatives and floating rate securities we hold and floating rate securities we have issued, and any other assets or liabilities whose value may be tied to LIBOR.***

Should financial institutions stop reporting the benchmark interest rate known as LIBOR or change how the rate is calculated, the Company could suffer economic loss to the extent it has fixed maturity investments or other financial instruments that do not provide for a replacement reference rate and which mature after the date LIBOR is changed or is no longer published. LIBOR is the interest rate at which banks have historically offered to lend funds to one another for short-term loans. Actions by regulators or law enforcement agencies, as well as the Intercontinental Exchange (ICE) Benchmark Administration (the current administrator of LIBOR) may result in changes to the way LIBOR is determined or the establishment of alternative reference rates. For example, on July 27, 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. The U.S. Federal Reserve, based on the recommendations of the New York Federal Reserve's Alternative Reference Rate Committee (constituted of major derivative market participants and their regulators), has begun publishing a Secured Overnight Funding Rate ("SOFR") which is intended to replace U.S. dollar LIBOR. Plans for alternative reference rates for other currencies have also been announced. At this time, it is not possible to predict how markets will respond to these new rates, and the effect that any changes in LIBOR or discontinuation of LIBOR might have on new or existing financial instruments. If LIBOR ceases to exist or if the methods of calculating LIBOR change from current methods for any reason, outstanding contracts with interest rates tied to LIBOR may be adversely affected if those contracts either do not automatically provide for a replacement rate such as SOFR or convert to another reference rate that could be less favorable to the Company. Outstanding contracts that could be affected include interest rates on certain derivatives and floating rate securities or loans we hold, securities we have issued or loans we have received, and any other assets or liabilities whose value is tied to or otherwise affected by LIBOR. Further, any uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the value of such instruments.