Liberty Mutual®
INSURANCE

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

Quarter Ended March 31, 2021

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

The following discussion highlights significant factors influencing results of operations and changes in financial position of Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Insurance group of entities (the "Company" or "LMHC"), for the three months ended March 31, 2021 and 2020. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's December 31, 2020 Audited Consolidated Financial Statements and March 31, 2021 Unaudited Consolidated Financial Statements located on the Company's Investor Relations website at www.libertymutualgroup.com/investors. The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted. Further, the Company notes that it may make material information regarding the Company available to the public, from time to time, via the Company's Investor Relations website at www.libertymutualgroup.com/investors (or any successor site).

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Cautionary Statement Regarding Forward Looking Statements

This report contains forward looking statements that are intended to enhance the reader's ability to assess the Company's future financial and business performance. Forward looking statements include, but are not limited to, statements that represent the Company's beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as "may," "expects," "should," "believes," "anticipates," "estimates," "intends" or similar expressions. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond the Company's control or are subject to change, actual results could be materially different.

Some of the factors that could cause actual results to differ include, but are not limited to the following: the occurrence of catastrophic events (including terrorist acts, civil unrest, hurricanes, hail, tornados, tsunamis, earthquakes, floods, snowfall and winter conditions); inadequacy of loss reserves; adverse developments involving asbestos, environmental or toxic tort claims and litigation; adverse developments in the cost, availability or ability to collect reinsurance; disruptions to the Company's relationships with its independent agents and brokers; financial disruption or a prolonged economic downturn; prolonged epidemic or pandemic in countries in which we operate; the performance of the Company's investment portfolios; a rise in interest rates; risks inherent in the Company's alternative investments in private limited partnerships ("LP"), limited liability companies ("LLC"), commercial mortgages and direct investments in natural resources; difficulty in valuing certain of the Company's investments; subjectivity in the determination of the amount of impairments taken on the Company's investments; unfavorable outcomes from litigation and other legal proceedings, including the effects of emerging claim and coverage issues and investigations by state and federal authorities; the Company's exposure to credit risk in certain of its business operations; the Company's inability to obtain price increases or maintain market share due to competition or otherwise; inadequacy of the Company's pricing models; changes to insurance laws and regulations; changes in the amount of statutory capital that the Company must hold to maintain its financial strength and credit ratings; regulatory restrictions on the Company's ability to change its methods of marketing and underwriting in certain areas; assessments for guaranty funds and mandatory pooling arrangements; a downgrade in the Company's claims-paying and financial strength ratings; the ability of the Company's subsidiaries to pay dividends to the Company; inflation, including inflation in medical costs and automobile and home repair costs; the cyclicality of the property and casualty insurance industry; political, legal, operational and other risks faced by the Company's international business; potentially high severity losses involving the Company's surety products; loss or significant restriction on the Company's ability to use credit scoring in the pricing and underwriting of personal lines policies; inadequacy of the Company's controls to ensure compliance with legal and regulatory standards; changes in federal or state tax laws; risks arising out of the Company's securities lending program; the Company's utilization of information technology systems and its implementation of technology innovations; difficulties with technology or data security; insufficiency of the Company's business continuity plan in the event of a disaster; the Company's ability to successfully integrate operations, personnel and technology from its acquisitions; insufficiency of the Company's enterprise risk management models and modeling techniques; the Company's ability to identify and accurately assess complex and emerging risks, and changing climate conditions. The Company's forward-looking statements speak only as of the date of this report or as of the date they are made and should be regarded solely as the Company's current plans, estimates and beliefs. For a detailed discussion of these and other cautionary statements, visit the Company's Investor Relations website at www.libertymutualgroup.com/investors. The Company undertakes no obligation to update these forward-looking statements.

The United Kingdom's withdrawal from the European Union occurred on January 31, 2020. That date also marks the beginning of a transition period during which the United Kingdom will remain in the EU's customs union and single market but will negotiate with the European Union regarding the terms of the future UK-EU relationship. The withdrawal could have a negative impact on economic conditions in the United Kingdom and could result in unintended consequences in other countries as well. The Company acknowledges that there are risks and uncertainties associated with the United Kingdom's withdrawal from the European Union and has developed a course of action related to the withdrawal but will continue to monitor the negotiations as they develop.

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 and are ongoing. 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 continued period of business disruption and reduced operations. The extent to which the coronavirus impacts our future results will depend on developments which are highly uncertain and cannot be predicted, including litigation developments, legislative or regulatory actions and intervention, the length and severity of the coronavirus (including of second waves), the level of acceptance of the vaccines, and the actions of government actors 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; disruptions to business operations resulting from our customers having lower payrolls and revenues which could have an impact on insurance revenue; increased claims related to trade credit, general liability, workers compensation, and event cancellation coverage, among others; executive or legislative mandates or court decisions expanding property insurance policy coverage to cover business interruptions resulting from COVID-19 notwithstanding any exclusions set forth in such policies or conditions precedent generally required for liability under such policies; 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.

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 June 15, 2020. Several state insurance departments have inquired about further premium refunds. Private class actions have been filed in two states (Illinois and Nevada) seeking premium refunds beyond those provided by the PACRR program. 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 were 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 remained in effect for all personal auto policies in all states for losses occurring from March 16 to June 1, 2020 and reported by July 1, 2020. The aggregate payments made under the PACRR and BOP customer support programs was approximately $305 million.

EXECUTIVE SUMMARY

The following highlights do not address all of the matters covered in the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations or contain all of the information that may be important to the investing public. This summary should be read in conjunction with the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations and the Company's 2021 Unaudited Consolidated Financial Statements.

Consolidated Results of Operations

	Three Months Ended March 31,		
$ in Millions	**2021**	**2020**	**Change**
Net written premium	$10,401	$10,039	3.6%
Pre-tax operating income before partnerships, LLC and other equity method income	76	705	(89.2)
Partnerships, LLC and other equity method income	838	100	NM
Net realized gains (losses)	254	(247)	NM
Unit linked life insurance	(56)	114	NM
Ironshore Inc. ("Ironshore") acquisition & integration costs	(4)	(4)	-
Restructuring costs	(1)	(2)	(50.0)
Discontinued operations, net of tax	-	-	-
Consolidated net income	857	519	65.1
Less: Net income attributable to non-controlling interest	1	-	NM
Net income attributable to LMHC	856	519	64.9
Net income attributable to LMHC excluding unrealized impact[1]	793	803	(1.2)
Cash flow provided by continuing operations	$1,046	$419	149.6%

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

	Three Months Ended March 31,		
	2021	**2020**	**Change (Points)**
Combined ratio before catastrophes[1], COVID-19[2] and net incurred losses attributable to prior years[3]	91.6%	92.4%	(0.8)
Combined ratio[4]	101.5%	96.3%	5.2

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

2 Includes Global Risk Solutions estimated loss activity directly related to COVID-19.

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

4 The combined ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense less managed care income to earned premium; the ratio of insurance operating costs plus amortization of deferred policy acquisition costs less third-party administration income and fee income (primarily related to the Company's involuntary market servicing carrier operations) and installment charges to earned premium; and the ratio of policyholder dividends to earned premium. Provisions for uncollectible premium and reinsurance are not included in the combined ratio unless related to an asbestos and environmental commutation and certain other run off. Restructuring and Ironshore acquisition and integration costs are not included in the combined ratio.

$ in Millions	As of March 31, 2021	As of December 31, 2020	Change
Short-term debt[1]	$330	$330	-
Long-term debt	9,210	8,497	8.4%
Total debt	$9,540	$8,827	8.1%
Unassigned equity	$26,564	$25,708	3.3%
Accumulated other comprehensive (loss) income	(944)	218	NM
Non-controlling interest	32	31	3.2
Total equity	$25,652	$25,957	(1.2%)

1 Short-term debt is the current maturity of the 5.00% Notes, due June 1, 2021.
NM = Not Meaningful

Subsequent Events

Management has assessed material subsequent events through May 5, 2021, the date the financial statements were available to be issued.

CONSOLIDATED RESULTS OF OPERATIONS

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

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

On February 1, 2021, LMGI issued $800 million of Series E Junior Subordinated Notes, due 2061 (the "Series E Notes"). Interest is payable semi-annually at a fixed rate of 4.30%. The Notes may be redeemed in whole or in part on February 1, 2026, after which the notes may be redeemed on any interest payment date thereafter until February 1, 2061.

The Company has offered eligible employees an early retirement option. The Company calculated the cost of irrevocable acceptances of this special termination benefit to be $577 million, which was recognized in the fourth quarter of 2020 and is reflected in restructuring costs in the Consolidated Statements of Income.

On July 19, 2020, the Company entered into an agreement with an investment firm, whereby both parties contributed various energy assets into a new joint venture vehicle. The Company contributed its entire interest in Liberty Energy, LLC to the joint venture in exchange for a minority interest in the new entity ("Liberty Energy, LLC transaction"). A $231 million impairment and subsequent gain of $26 million upon finalizing the sale are reflected in the Consolidated Statements of Income.

On May 7, 2020, LMGI issued $500 million of Senior Notes due 2060 (the "2060 Notes") and LMGI exchanged $246 million par value of 2060 Notes for $29 million of its 7.00% Senior Notes due 2034, $29 million of its 6.50% Senior Notes due 2035, $20 million of its 6.50% Senior Notes due 2042, $50 million of its 4.85% Senior Notes due 2044 and $118 million of its 4.50% Senior Notes due 2049 (all such series of Senior Notes subject to the exchange offer, the "Target Notes"). Interest is payable semi-annually at a fixed rate of 3.95%. The exchanged notes are fully fungible with the 2060 Notes. The 2060 Notes mature on May 15, 2060. LMGI has determined to utilize a portion of the cash proceeds received from the issuance of the 2060 Notes for the retirement of its 5.00% Senior Notes, due 2021 at the time of their maturity.

Concurrently with the 2060 Notes exchange offer, LMGI completed a tender offer for the Target Notes with investors not eligible to participate in the 2020 Exchange Offer for an aggregate cash consideration of $2 million, including accrued and unpaid interest, for the tender of $1 million of its 6.50% Senior Notes due 2035 and a nominal amount of its 6.50% Senior Notes due 2042.

On May 1, 2018, the Company completed the sale of Liberty Life Assurance Company of Boston ("LLAC"), which provides group disability, group life, individual life and annuity products, to Lincoln Financial Group. In connection with the Company's May 2018 sale of LLAC to Lincoln Financial Group, the Company agreed, pursuant to the master transaction agreement, to indemnify Protective Life Corporation and Protective Life Insurance Company (together with certain of their respective affiliates, "Protective"), Lincoln and other parties against certain liabilities. In late 2018, Protective initiated informal discussions with the Company regarding potential indemnification claims (the "Initial Claims") and in 2019 the Company began an investigation and evaluation of such Initial Claims. This investigation is ongoing. On April 30, 2019, Protective delivered to the Company a formal demand for indemnification related to the Initial Claims and in addition, demands for indemnification including matters unrelated to the Initial Claims (the "New Claims"). Based on the Company's investigation to date of the claims generally, the Company has accrued a reserve of $52 million, net of tax, year to date December 31, 2019, presented in discontinued operations in the Consolidated Statements of Income, which is primarily related to the Initial Claims, and may be adjusted up or down as the Company's investigation of all claims continues. The Company intends to vigorously defend all claims. During 2020, the Company booked an additional $17 million, net of tax, presented in discontinued operations in the Consolidated Statements of Income to reflect a final closing balance sheet settlement related to the sale of LLAC.

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

The Company's two businesses are as follows:

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

- Global Risk Solutions offers a wide array of property, casualty, specialty and reinsurance products distributed through brokers and independent agents globally. In Q1 2020, Global Risk Solutions combined National Insurance (NI) and North America Specialty (NAS) to form a single North America segment. This includes admitted and non-admitted property and casualty in North America. Global Risk Solutions is organized into the following market segments: Liberty Specialty Markets, North America, Global Surety, and Other Global Risk Solutions.

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2021**	**2020**	**Change**
Private passenger automobile	$3,718	$3,471	7.1%
Homeowners	1,495	1,329	12.5
Global Risk Solutions specialty insurance[1]	1,069	802	33.3
Global Risk Solutions reinsurance	826	766	7.8
Commercial multiple-peril	480	546	(12.1)
Global Risk Solutions casualty[2]	476	448	6.3
Commercial automobile	458	500	(8.4)
Workers compensation	424	498	(14.9)
Commercial property	380	247	53.8
Surety	298	304	(2.0)
Global Retail Markets general liability	236	215	9.8
Global Risk Solutions inland marine	141	142	(0.7)
Corporate reinsurance[3]	16	53	(69.8)
Global Risk Solutions other reinsurance	(5)	355	NM
Other[4]	389	363	7.2
Total NWP	$10,401	$10,039	3.6%

1 Global Risk Solutions specialty insurance includes marine, energy, construction, aviation, warranty and indemnity, directors and officers, errors and omissions, trade credit, contingent lines and other.
2 Global Risk Solutions casualty primarily includes general liability, excess & umbrella and environmental lines of business.
3 NWP associated with internal reinsurance assumed into Corporate, net of corporate external placements.
4 Primarily includes NWP from allied lines, domestic inland marine, internal reinsurance, and life and health reported within Global Retail Markets.
NM = Not Meaningful

NWP for the three months ended March 31, 2021 was $10.401 billion, an increase of $362 million over the same period in 2020.

Significant changes by major line of business for the three months ended March 31, 2021 include:

- Private passenger automobile NWP increased $247 million. The increase reflects the impact of strong new business production in U.S. personal lines and favorable results in China and the Asia Market.
- Homeowners NWP increased $166 million. The increase reflects strong personal property results in the U.S. driven by an increase in new business production, partially offset by shortfalls in the Andes Market.
- Global Risk Solutions specialty insurance NWP increased $267 million. The increase reflects favorable rate, the impact of internal reinsurance changes, favorable foreign exchange due to the weakening of the U.S. dollar, and strong new business.
- Global Risk Solutions reinsurance NWP increased $60 million. The increase reflects favorable rate and the impact of internal reinsurance changes.
- Commercial multiple-peril NWP decreased $66 million. The decrease reflects unfavorable retention and new business.
- Commercial automobile NWP decreased $42 million. The decrease reflects underperformance in the Western Europe Market.
- Workers compensation NWP decreased $74 million. The decrease reflects lower premium due to competitive market conditions.
- Commercial property NWP increased $133 million. The increase reflects favorable rate and the impact of internal reinsurance changes.

- Global Risk Solutions other reinsurance NWP decreased $360 million. The decrease reflects the net impact of internal reinsurance changes.

Consolidated NWP by business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2021**	**2020**	**Change**
Global Retail Markets	$6,845	$6,508	5.2%
Global Risk Solutions	3,560	3,525	1.0
Corporate and Other	(4)	6	NM
Total NWP	$10,401	$10,039	3.6%
Foreign exchange effect on growth			0.9
NWP growth excluding foreign exchange[1]			2.7%

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

Consolidated NWP by geographic distribution channels was as follows:

	Three Months Ended March 31,		
$ in Millions	**2021**	**2020**	**Change**
U.S.	$8,006	$7,952	0.7%
International excluding foreign exchange[1]	2,309	2,087	10.6
Foreign exchange[1]	86	-	NM
Total NWP	$10,401	$10,039	3.6%

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

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

Results of Operations – Consolidated

$ in Millions	**Three Months Ended March 31, 2021**	**2020**	**Change**
Revenues	$11,815	$10,457	13.0%
PTOI before catastrophes, COVID-19, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method income	$1,077	$1,060	1.6%
Catastrophes[1]	(1,040)	(306)	NM
COVID-19[2]	-	(36)	(100.0)
Net incurred losses attributable to prior years:			
- Asbestos and environmental[3]	-	-	-
- All other[4]	39	(13)	NM
Pre-tax operating income before partnerships, LLC and other equity method income	76	705	(89.2)
Partnerships, LLC and other equity method income[5]	838	100	NM
Pre-tax operating income	914	805	13.5
Net realized gains (losses)	254	(247)	NM
Unit linked life insurance	(56)	114	NM
Ironshore acquisition & integration costs	(4)	(4)	-
Restructuring costs	(1)	(2)	(50.0)
Pre-tax income	1,107	666	66.2
Income tax expense	250	147	70.1
Consolidated net income from continuing operations	857	519	65.1
Discontinued operations, net of tax	-	-	-
Consolidated net income	857	519	65.1
Less: Net income attributable to non-controlling interest	1	-	NM
Net income attributable to LMHC	856	519	64.9
Net income attributable to LMHC excluding unrealized impact[6]	$793	$803	(1.2%)
Cash flow provided by continuing operations	$1,046	$419	149.6%

1 Catastrophes are defined as a natural catastrophe, civil unrest, or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Includes Global Risk Solutions estimated loss activity directly related to COVID-19.
3 Asbestos and environmental is gross of the related adverse development reinsurance (the "NICO Reinsurance Transaction", which is described further in Reinsurance).
4 Net of earned premium and reinstatement premium attributable to prior years of $36 million for the three months ended March 31, 2021, and $8 million for the same period in 2020.
5 Partnerships, LLC and other equity method income includes LP, LLC and other equity method income within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from direct investments in natural resources.
6 Excludes unrealized gains on equity securities, unit linked life insurance, and the corresponding tax impact.
NM = Not Meaningful

Partnerships, LLC and Other Equity Method Income **$ in Millions**	**Three Months Ended March 31, 2021**	**2020**	**Change**
LP, LLC and other equity method income[1]	$857	$126	NM
Direct investment in natural resources revenues[2]	26	85	(69.4)
Direct investment in natural resources expenses[3]	(45)	(111)	(59.5)
Partnerships, LLC and other equity method income	$838	$100	NM

1 Included within net investment income in the accompanying Consolidated Statements of Income.
2 Included within fee & other revenues in the accompanying Consolidated Statements of Income.
3 Included within operating costs and expenses in the accompanying Consolidated Statements of Income.
NM = Not Meaningful

Net Investment Income	Three Months Ended March 31,	
$ in Millions	**2021**	**2020**
Taxable interest income	$444	$445
Tax-exempt interest income	36	40
Dividends	5	8
LP, LLC and other equity method income	857	126
Mortgage loans	20	21
Other investment income	3	6
Gross investment income	1,365	646
Investment expenses[1]	(75)	(64)
Total net investment income	$1,290	$582

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

Net Realized Gains (Losses) $ in Millions	Sales & Settlements	Impairments	Unrealized Gains (Losses)	Total
Three Months Ended March 31, 2021:				
Fixed maturities	$67	($5)	$-	$62
Equities	(2)	-	121	119
Derivatives	81	-	17	98
Other	(21)	-	(4)	(25)
Total	$125	($5)	$134	$254
Three Months Ended March 31, 2020:				
Fixed maturities	$328	($15)	$-	$ 313
Equities	30	-	(426)	(396)
Derivatives	(68)	-	(57)	(125)
Other	(28)	(11)	-	(39)
Total	$262	($26)	($483)	($247)

Unrealized Gains (Losses) Related to Equity Securities[1]	Three Months Ended March 31,		
$ in Millions	**2021**	**2020**	**Change**
Net gains (losses) recognized during the period on equity securities	$117	($426)	NM
Less: Net (losses) gains recognized during the period on equity securities sold during the period	(4)	(6)	(33.3)
Unrealized gains (losses) recognized during the reporting period on equity securities still held at the reporting date	$121	($420)	NM

1 Includes equities and equity like securities classified as other.
NM = Not Meaningful

Pre-tax operating income before partnerships, LLC and other equity method income for the three months ended March 31, 2021 was $76 million, a decrease of $629 million from the same period in 2020. Pre-tax operating income before catastrophes, COVID-19, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income was $1.077 billion, an increase of $17 million over the same period in 2020. The increase reflects the profit margin on higher earned premium in Global Retail Markets and Global Risk Solutions and an improved current accident year loss ratio due to underwriting actions in Global Risk Solutions, partially offset by higher non-catastrophe property losses in Global Retail Markets. Including the impact of catastrophes, net incurred losses attributable to prior years and COVID-19, the decrease in pre-tax operating income primarily reflects higher catastrophe losses in the U.S. primarily due to the winter ice storm events in February.

Partnerships, LLC, and other equity method income, including operating income from direct investments in natural resources, for the three months ended March 31, 2021 was $838 million, an increase of $738 million over the same period in 2020. The increase reflects favorable valuations across the LP, LLC, and other equity method investments as a result of improving market conditions, primarily driven by private capital investments.

Revenues for the three months ended March 31, 2021 were $11.815 billion, an increase of $1.358 billion over the same period in 2020. The major components of revenues are net premium earned, net investment income, net realized gains (losses), and fee and other revenues.

Net premium earned for the three months ended March 31, 2021 was $10.053 billion, an increase of $212 million over the same period in 2020. The increase primarily reflects the premium earned associated with the changes in NWP previously discussed.

Net investment income for the three months ended March 31, 2021 was $1.290 billion, an increase of $708 million over the same period in 2020. The increase reflects favorable valuations across the LP, LLC, and other equity method investments, primarily driven by private capital investments.

Net realized gains for the three months ended March 31, 2021 were $254 million, versus net realized losses of $247 million for the same period in 2020. The net realized gains in the current quarter were primarily driven by a $121 million net change in equity unrealized gains, $98 million of net gains on derivatives, and $67 million of net gains on fixed maturity sales. The prior period was impacted by a $426 million net change in equity unrealized losses and $125 million net losses on derivatives. This was partially offset by $328 million of net gains from fixed maturity sales.

Fee and other revenues for the three months ended March 31, 2021 were $218 million, a decrease of $63 million from the same period in 2020. The decrease primarily reflects lower natural resource revenues due to the Liberty Energy, LLC transaction in 2020.

Claims, benefits and expenses for the three months ended March 31, 2021 were $10.647 billion, an increase of $748 million over the same period in 2020. The increase reflects higher catastrophe losses in the U.S. primarily due to the winter ice storm events in February and higher non-catastrophe property losses in Global Retail Markets, partially offset by an improved current accident year loss ratio due to underwriting actions in Global Risk Solutions.

Income tax expense on continuing operations for the three months ended March 31, 2021 was $250 million, an increase of $103 million over the same period in 2020. The Company’s effective tax rate on continuing operations for the three months ended March 31, 2021 was 23% compared to 22% for the same period in 2020. The Company’s effective tax rate on continuing operations differs from the U.S. Federal statutory rate of 21% primarily due to the impact of non-U.S. operations partially offset by tax-exempt investment income.

Net income attributable to LMHC for the three months ended March 31, 2021 was $856 million, an increase of $337 million over the same period in 2020.

Cash flow provided by continuing operations for the three months ended March 31, 2021 was $1.046 billion, an increase of $627 million over the same period in 2020. The increase reflects higher premium collection and favorable paid loss activity across most segments, partially offset by reinsurer payments in Corporate.

	Three Months Ended March 31,		
CONSOLIDATED	**2021**	**2020**	**Change (Points)**
Combined ratio before catastrophes, COVID-19 and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	62.1%	61.9%	0.2
Underwriting expense ratio	29.5	30.5	(1.0)
Subtotal	91.6	92.4	(0.8)
Catastrophes[1]	10.4	3.1	7.3
COVID-19[2]	-	0.4	(0.4)
Net incurred losses attributable to prior years:			
- Asbestos and environmental	-	0.2	(0.2)
- All other[3]	(0.5)	0.2	(0.7)
Total combined ratio[4]	101.5%	96.3%	5.2

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

2 Includes Global Risk Solutions estimated loss activity directly related to COVID-19.

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

4 The combined ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense less managed care income to earned premium; the ratio of insurance operating costs plus amortization of deferred policy acquisition costs less third-party administration income and fee income (primarily related to the Company's involuntary market servicing carrier operations) and installment charges to earned premium; and the ratio of policyholder dividends to earned premium. Provisions for uncollectible premium and reinsurance are not included in the combined ratio unless related to an asbestos and environmental commutation and certain other run off. Restructuring and Ironshore acquisition and integration costs are not included in the combined ratio.

The consolidated combined ratio before catastrophes, COVID-19 and net incurred losses attributable to prior years for the three months ended March 31, 2021 was 91.6%, a decrease of 0.8 points from the same period in 2020. The decrease was primarily due to a lower underwriting expense ratio driven by higher earned premium.

Including the impact of catastrophes, COVID-19 and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2021 was 101.5%, an increase of 5.2 points over the same period in 2020. The increase was driven by higher current year catastrophe losses, partially offset by lower net incurred losses attributable to prior years, lower COVID-19 related losses, and the changes to the underwriting expense ratio previously mentioned.

GLOBAL RETAIL MARKETS

Overview – Global Retail Markets

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

U.S. consists of Personal Lines and Business Lines. U.S. Personal Lines sells automobile, homeowners and other types of property and casualty insurance coverage to individuals in the United States. These products are distributed through approximately 1,850 licensed employee sales representatives, 910 licensed telesales counselors, independent agents, third-party producers, the Internet, and sponsored affinity groups. U.S. Business Lines serves small commercial customers through an operating model that combines local underwriting, market knowledge and service with the scale advantages of a national company.

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

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

Global Retail Markets Reinsurance consists of certain internal reinsurance programs.

On December 24, 2019, UKH entered into an agreement to sell its entire 99.99% interest in its Russian insurance affiliate, Liberty Insurance (JSC) to PJSC Sovcombank. The transaction closed on February 6, 2020.

Global Retail Markets NWP by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2021**	**2020**	**Change**
U.S.	$5,966	$5,599	6.6%
West	542	603	(10.1)
East	329	302	8.9
Global Retail Markets Reinsurance	8	4	100.0
Total NWP	$6,845	$6,508	5.2%
Foreign exchange effect on growth			0.1
NWP growth excluding foreign exchange[1]			5.1%

1 Determined by assuming constant foreign exchange rates between periods.

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

	Three Months Ended March 31,		
$ in Millions	**2021**	**2020**	**Change**
Private passenger automobile	$3,718	$3,471	7.1%
Homeowners	1,495	1,329	12.5
Commercial multiple-peril	452	506	(10.7)
Commercial automobile	326	365	(10.7)
General liability	236	215	9.8
Workers compensation	164	192	(14.6)
Life and health	123	108	13.9
Commercial property	60	60	-
Other[1]	271	262	3.4
Total NWP	$6,845	$6,508	5.2%

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

NWP for the three months ended March 31, 2021 was $6.845 billion, an increase of $337 million over the same period in 2020. The increase was led by the U.S. driven by strong new business production and rate increases, specifically in private passenger automobile and personal property. Adding to the increase was the East region driven by strong private passenger automobile results in China and the Asia Market. This growth was partially offset by the West region due to shortfalls in property in the Andes Market and an underperformance in auto in the Western Europe Market. Adding to the offset was U.S. Business Lines due to unfavorable retention and new business.

Results of Operations – Global Retail Markets

	Three Months Ended March 31,		
$ in Millions	**2021**	**2020**	**Change**
Revenues	$7,287	$7,007	4.0%
PTOI before catastrophes and net incurred losses attributable to prior years	$873	$851	2.6%
Catastrophes[1]	(861)	(227)	NM
Net incurred losses attributable to prior years	113	9	NM
Pre-tax operating income	$125	$633	(80.3%)

1 Catastrophes are defined as a natural catastrophe, civil unrest, or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
NM = Not Meaningful

Pre-tax operating income for the three months ended March 31, 2021 was $125 million, a decrease of $508 million from the same period in 2020. Pre-tax operating income before catastrophes and net incurred losses attributable to prior years was $873 million, an increase of $22 million over the same period in 2020. The increase was driven by higher earned premium due to strong topline results in U.S. personal lines. Partially offsetting this increase were higher non-catastrophe property losses in U.S. personal lines and lower net investment income. Including the impact of catastrophes and net incurred losses attributable to prior years, the decrease was driven by higher catastrophe losses in the U.S. due to both higher frequency and severity compared to 2020. Contributing to the large increase in catastrophe losses were the February winter ice storms that caused extremely low temperatures and power outages across many southern U.S. states, mostly notably Texas and Oklahoma. Partially offsetting the decrease were prior year catastrophe reserve releases in the U.S. related to accident year 2020 events that have favorably developed.

Revenues for the three months ended March 31, 2021 were $7.287 billion, an increase of $280 million over the same period in 2020. The increase was primarily driven by the increase in earned premiums due to the topline impacts previously discussed. Adding to the increase were unrealized and realized gains due to market valuation changes on unit-linked life insurance where the policyholder bears the investment risk, versus unrealized and realized losses for the same period in 2020. Partially offsetting the increase in revenue was lower net investment income.

Claims, benefits and expenses for the three months ended March 31, 2021 were $7.105 billion, an increase of $599 million over the same period in 2020. The increase was driven by higher catastrophe losses in the U.S. primarily due to the winter ice storm events in February. Adding to the increase were higher non-catastrophe property losses in U.S. personal lines and higher advertising and variable expenses in the U.S. due to the increase in topline. This increase was partially offset by a decrease in employee-related costs in the U.S. and lower non-catastrophe auto losses in the West.

GLOBAL RETAIL MARKETS	Three Months Ended March 31, 2021	2020	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	61.0%	61.2%	(0.2)
Underwriting expense ratio	28.6	29.2	(0.6)
Subtotal	89.6	90.4	(0.8)
Catastrophes[1]	12.5	3.3	9.2
Net incurred losses attributable to prior years	(1.6)	(0.1)	(1.5)
Total combined ratio	100.5%	93.6%	6.9

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

The Global Retail Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2021 was 89.6%, a decrease of 0.8 points from the same period in 2020. The decrease was driven by a decrease in the underwriting expense ratio, primarily due to earned premium growth, and general expenses staying flat versus prior year, as lower employee-related costs in the U.S. were offset by an increase in advertising and variable expenses in the U.S. due to the increase in topline. Adding to the decrease was the claims and claim adjustment expense ratio due to earned premium growth and a decrease in non-catastrophe losses in the West, partially offset by an increase in non-catastrophe losses in the U.S.

Including the impact of catastrophes and net incurred losses attributable to prior years the total combined ratio for the three months ended March 31, 2021 was 100.5%, an increase of 6.9 points over the same period in 2020. The increase is primarily driven by the previously mentioned catastrophe losses in the U.S., partially offset by lower net incurred losses attributable to prior years driven by prior year catastrophe reserve releases in the U.S. related to accident year 2020 events that have favorably developed.

GLOBAL RISK SOLUTIONS

Overview – Global Risk Solutions

Global Risk Solutions ("GRS") offers a wide array of property, casualty, specialty and reinsurance products and services distributed through brokers and independent agents globally. The segments for Global Risk Solutions are as follows:

- Liberty Specialty Markets ("LSM") – Includes most Global Risk Solutions business outside of North America along with global reinsurance.
- North America ("NA") – In Q1 2020, GRS combined National Insurance (NI) and North America Specialty (NAS) to form a single North America segment. This includes admitted and non-admitted property and casualty in North America.
- Global Surety – A global leader providing surety guarantees to businesses ranging from multinational to local in most industry segments.
- Other Global Risk Solutions primarily consists of internal reinsurance programs, Ironshore international entities and a large global inland marine program.

Global Risk Solutions NWP by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2021**	**2020**	**Change**
Liberty Specialty Markets	$1,834	$1,347	36.2%
North America	1,296	1,367	(5.2)
Global Surety	290	291	(0.3)
Other Global Risk Solutions	140	520	(73.1)
Total NWP	$3,560	$3,525	1.0%
Foreign exchange effect on growth			2.3
NWP growth excluding foreign exchange[1]			(1.3%)

1 Determined by assuming constant foreign exchange rates between periods.

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

	Three Months Ended March 31,		
$ in Millions	**2021**	**2020**	**Change**
Specialty insurance[1]	$1,069	$802	33.3%
Reinsurance	826	766	7.8
Casualty[2]	476	448	6.3
Commercial property	320	187	71.1
Surety	298	301	(1.0)
Workers Compensation	275	349	(21.2)
Inland marine[3]	141	142	(0.7)
Commercial automobile	132	135	(2.2)
Commercial multiple-peril	28	40	(30.0)
Other reinsurance	(5)	355	NM
Total NWP	$3,560	$3,525	1.0%

1 Includes marine, energy, construction, aviation, warranty and indemnity, directors and officers, errors and omissions, trade credit, contingent lines and other.
2 Primarily includes general liability, excess & umbrella and environmental lines of business.
3 Includes handset protection coverage for lost or damaged wireless devices
NM = Not Meaningful

NWP for the three months ended March 31, 2021 was $3.560 billion, an increase of $35 million over the same period in 2020.

The increase was driven by:

- Renewal rate increases across most lines of business, totaling 12% including the impact of changing terms and conditions resulting in higher renewed premium despite a lower renewal retention rate due to underwriting actions taken;
- Higher new business premium;
- Favorable foreign exchange due to weakening of the U.S. dollar

Partially offset by:

- Lower premium due to the competitive market conditions, primarily within workers compensation;
- Non-renewal due to re-underwriting of business; and
- Ceded reinsurance program changes

Additionally, internal reinsurance changes in 2021 created offsetting differences amongst segments and lines (driver of Other Global Risk Solutions / Liberty Specialty Markets and Other reinsurance / various lines of business changes in above tables).

Results of Operations – Global Risk Solutions

	Three Months Ended March 31,		
$ in Millions	**2021**	**2020**	**Change**
Revenues	$3,548	$3,385	4.8%
PTOI before catastrophes, COVID-19 and net incurred losses attributable to prior years	$438	$360	21.7
Catastrophes[1]	(195)	(79)	146.8
COVID-19[2]	-	(36)	(100.0)
Net incurred losses attributable to prior years[3]	4	(31)	NM
Pre-tax operating income	$247	$214	15.4%

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

2 Includes estimated current year loss activity directly related to COVID-19.

3 Net of earned premium and reinstatement premium attributable to prior years of $36 million for the three months ended March 31, 2021, and $8 million for the same period in 2020.

NM = Not Meaningful

Pre-tax operating income for the three months ended March 31, 2021 was $247 million, an increase of $33 million over the same period in 2020. Pre-tax operating income before catastrophes, COVID-19, and net incurred losses attributable to prior years for the three months ended March 31, 2021 was $438 million, an increase of $78 million over the same period in 2020. The increase reflects an improved current accident year loss ratio due to underwriting actions and rate increases and profit margin on higher earned premium. Including the impact of catastrophes, COVID-19 and net incurred losses attributable to prior years, the increase in pre-tax operating income was due to the drivers mentioned above, lower COVID-19 related losses and lower incurred losses attributable to prior years partially offset by higher catastrophe losses driven by the winter ice storm events in February.

Revenues for the three months ended March 31, 2021 were $3.548 billion, an increase of $163 million over the same period in 2020. The increase primarily reflects premium earned associated with the changes in NWP previously discussed and prior year net written premium growth partially offset by lower net investment income.

Claims, benefits and expenses for the three months ended March 31, 2021 were $3.295 billion, an increase of $108 million over the same period in 2020. The increase reflects attritional losses due to growth and higher current year catastrophe losses partially offset by the impact of COVID-19 related losses and incurred losses attributable to prior years.

	Three Months Ended March 31,		
GLOBAL RISK SOLUTIONS	**2021**	**2020**	**Change (Points)**
Combined ratio before catastrophes, COVID-19 and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	63.3%	64.4%	(1.1)
Underwriting expense ratio	30.2	31.1	(0.9)
Dividend ratio	0.1	0.1	-
Subtotal	93.6	95.6	(2.0)
Catastrophes[1]	6.1	2.6	3.5
COVID-19[2]	-	1.2	(1.2)
Net incurred losses attributable to prior years[3]	(0.4)	1.1	(1.5)
Total combined ratio	99.3%	100.5%	(1.2)

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

2 Includes estimated current year loss activity directly related to COVID-19.

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

The Global Risk Solutions combined ratio before catastrophes, COVID-19 and net incurred losses attributable to prior years for the three months ended March 31, 2021 was 93.6%, a decrease of 2.0 points from the same period in 2020. The decrease in the claims and claim adjustment expense ratio was primarily driven by improved current accident year loss ratio due to underwriting actions and rate increases. The decrease in the underwriting expense ratio was primarily driven by expense management and higher earned premium.

Including the impact of catastrophes, COVID-19 and net incurred losses attributable to prior years the total combined ratio for the three months ended March 31, 2021 was 99.3%, a decrease of 1.2 points from the same period in 2020. The change was driven by the decreases to the combined ratio mentioned above, the impact of COVID-19 losses and lower net incurred losses attributable to prior years, partially offset by higher current year catastrophe losses driven by the winter ice storm events in February.

CORPORATE AND OTHER

Overview – Corporate and Other

Corporate and Other includes the following significant items:

- Certain internal discontinued operations, which comprises: the run-off of certain commercial lines business, the run-off of the California workers compensation business of Golden Eagle Insurance Corporation and certain distribution channels related to Prudential Property and Casualty Insurance Company, Prudential General Insurance Company and Prudential Commercial Insurance Company (together, "PruPac") and Liberty Re annuity business.

- Cessions related to certain retroactive reinsurance agreements, including the NICO Reinsurance Transaction and NICO Casualty Reinsurance Transaction, which are described further in "Reinsurance".

- Effective January 1, 2015, Corporate began assuming certain pre-2014 voluntary and involuntary workers compensation claims from the businesses. The covered business materially aligns with the workers compensation business covered by the retroactive reinsurance agreement defined as the NICO Reinsurance Transaction, which is described further in "Reinsurance".

- Effective January 1, 2019, Corporate began assuming certain U.S. workers compensation, commercial auto, and general liability claims from the businesses. The covered business materially aligns with the casualty business covered by the retroactive reinsurance agreement defined as the NICO Casualty Reinsurance Transaction, which is described further in "Reinsurance," with two notable differences: 1) the internal treaty attaches at held reserves at inception and does not include a loss corridor, and 2) the internal treaty includes umbrella claims related to Business Lines within Global Retail Markets.

- Effective September 30, 2020, Corporate began assuming certain pre-2018 construction defect liabilities from Global Risk Solutions.

- Reserve changes on certain other casualty and property lines of business.

- Interest expense on the Company's outstanding debt.

- Certain risks of its businesses that the Company reinsures as part of its risk management program and pre-2019 and post-2020 risks on U.S. homeowners business covered by externally ceded homeowners' quota share reinsurance treaties.

- The Company reports its written premium on workers compensation contracts on the "booked as billed" method. The businesses report workers compensation written premium on the "booked at inception" method. Corporate and Other results reflect the difference between these two methods.

- Costs associated with certain long-term compensation plans and other corporate costs not fully allocated to the businesses.

- Property and casualty operations' investment income is allocated to the businesses based on planned ordinary investment income returns by investment category. The difference between allocated net investment income and actual net investment income is included in Corporate and Other.

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

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

- Fee and other revenues include revenues from certain non-insurance subsidiaries, including Liberty Energy, Liberty Metals and Mining and Liberty Mutual Agriculture and Timber. These subsidiaries generate revenue from the production and sale of oil, gas, and other natural resources and related LP, LLC and other equity method investments. On July 19, 2020, the Company entered into an agreement with an investment firm, whereby both parties contributed various energy assets into a new joint venture vehicle. The Company contributed its entire interest in Liberty Energy, LLC to the joint venture in exchange for a minority interest in the new entity. A $231 million impairment and subsequent gain of $26 million upon finalizing the sale were reflected in the Consolidated Statements of Income.

- The results of LLAC presented as discontinued operations to the extent there have been adjustments since the 2018 sale.

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

	Three Months Ended March 31,		
$ in Millions	**2021**	**2020**	**Change**
Reinsurance, net	$16	$53	(69.8%)
Workers compensation[1]	(15)	(43)	(65.1)
Other	(5)	(4)	25.0
Total NWP	($4)	$6	NM

1 Booked as billed adjustment.
NM = Not Meaningful

NWP for the three months ended March 31, 2021 was ($4) million, versus $6 million for the same period in 2020. The change is driven by the reinsurance line of business primarily due to shifting the purchase of the homeowners quota share reinsurance treaty to Corporate, partially offset by decreases to the booked as billed adjustment.

Results of Operations – Corporate and Other

	Three Months Ended March 31,		
$ in Millions	**2021**	**2020**	**Change**
Revenues	$980	$65	NM
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income	($234)	($151)	55.0%
Catastrophes[1]	16	-	NM
Net incurred losses attributable to prior years:			
-Asbestos and environmental[2]	-	-	-
-All other[2,3]	(78)	9	NM
Pre-tax operating loss before partnerships, LLC and other equity method income	(296)	(142)	108.5
Partnerships, LLC and other equity method income[4]	838	100	NM
Pre-tax operating income (loss)	$542	($42)	NM

1 Catastrophes are defined as a natural catastrophe or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Asbestos and environmental is gross of the NICO Reinsurance Transaction, which is described further in "Reinsurance".
3 Net of earned premium attributable to prior years of zero for the three months ended March 31, 2021 and 2020.
4 Partnerships, LLC and other equity method income includes LP, LLC and other equity method income within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from the production and sale of oil and gas.
NM = Not Meaningful

Pre-tax operating income for the three months ended March 31, 2021 was $542 million, versus pre-tax operating loss of $42 million for the same period in 2020. Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income was $234 million, an increase of $83 million over the same period in 2020. The increase in loss reflects favorable litigation expenses in the prior year that did not recur, higher reinsurance costs and increased employee-related costs. Including the impact of catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income, the change in pre-tax operating income (loss) is primarily driven by higher partnership, LLC and other equity method income.

Revenues for the three months ended March 31, 2021 were $980 million, an increase of $915 million over the same period in 2020. The major components of revenues are net premium earned, net investment income (including LP, LLC and other equity method investments), net realized gains, and fee and other revenues.

Net premium earned for the three months ended March 31, 2021 was ($73) million, a decrease of $49 million from the same period in 2020. The decrease primarily reflects shifting the purchase of the homeowners quota share reinsurance treaty to Corporate and the reinsurance earnings impact of new property catastrophe placements.

Net investment income for the three months ended March 31, 2021 was $826 million, an increase of $736 million over the same period in 2020. The increase reflects favorable valuations across the LP, LLC, and other equity method investments, primarily driven by private capital investments.

Net realized gains for the three months ended March 31, 2021 were $191 million, versus net realized losses of $99 million for the same period in 2020. The net realized gains in the current quarter were primarily driven by a $68 million net change in equity unrealized gains, $98 million of net gains on derivatives, and $67 million of net gains on fixed maturity sales. The prior period was impacted by a $308 million net change in equity unrealized losses and $109 net losses on derivatives, partially offset by $328 million of net gains from fixed maturity sales.

Fee and other revenues for the three months ended March 31, 2021 were $36 million, a decrease of $62 million from the same period in 2020. The decrease was primarily driven by lower natural resource revenues due to the Liberty Energy, LLC transaction.

Claims, benefits and expenses for the three months ended March 31, 2021 were $247 million, an increase of $41 million over the same period in 2020. The increase primarily reflects higher incurred losses attributable to prior years driven by strengthening of casualty runoff reserves, partially offset by lower natural resource expenses due to the Liberty Energy, LLC transaction and favorable development related to reinsurance recoverables.

INVESTMENTS

General

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

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

Invested Assets (including cash and cash equivalents)

The following table summarizes the Company's invested assets by asset category as of March 31, 2021 and December 31, 2020:

Invested Assets by Type	As of March 31, 2021		As of December 31, 2020	
$ in Millions	Carrying Value	% of Total	Carrying Value	% of Total
Fixed maturities, available for sale, at fair value	$72,355	75.8%	$71,301	75.9%
Equity securities, at fair value[1]	2,694	2.8%	2,572	2.7
LP, LLC and other equity method investments	9,601	10.0%	8,664	9.2
Mortgage loans	1,949	2.0%	2,219	2.4
Short-term investments	259	0.3%	276	0.3
Other investments	859	0.9%	723	0.8
Cash and cash equivalents	7,797	8.2%	8,224	8.7
Total invested assets	$95,514	100.0%	$93,979	100.0%

Total invested assets as of March 31, 2021 were $95.514 billion, an increase of $1.535 billion or 1.6% over December 31, 2020. The increase was primarily related to an increase in fixed maturities and LP, LLC, and other equity method investments.

Fixed maturities as of March 31, 2021 were $72.355 billion, an increase of $1.054 billion or 1.5% over December 31, 2020. The increase was primarily related to additional investment in U.S. treasuries and corporate bonds, partially offset by the unfavorable impact of the increase in treasury rates. As of March 31, 2021, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost and fair value of $1.865 billion and $1.860 billion, respectively.

Equity securities as of March 31, 2021 were $2.694 billion ($2.684 billion common stock and $10 million preferred stock) versus $2.572 billion as of December 31, 2020 ($2.562 billion common stock and $10 million preferred stock), an increase of $122 million or 4.7% from December 31, 2020. Of the $2.684 billion of common stock at March 31, 2021, $781 million relates to securities associated with non-guaranteed unit linked life insurance where the policyholder bears the investment risk.

The following table summarizes the Company's LP, LLC and other equity method investments as of March 31, 2021 and December 31, 2020:

LP, LLC and other equity method investments	As of March 31, 2021		As of December 31, 2020	
$ in Millions	Carrying Value	% of Total	Carrying Value	% of Total
Traditional private equity	$4,385	45.7%	$3,764	43.4%
Natural resources – Energy	1,240	12.9	1,233	14.2
Natural resources – Other[1]	781	8.1	793	9.2
Real estate	1,601	16.7	1,494	17.2
Private credit	1,023	10.7	805	9.3
Other	571	5.9	575	6.7
Total LP, LLC and other equity method investments	$9,601	100.0%	$8,664	100.0%

1 Included in Natural Resources – Other is $110 million and $112 million of investments in metals & mining as of March 31, 2021 and December 31, 2020 respectively, $135 million and $135 million of investments in agriculture and timber as of March 31, 2021 and December 31, 2020 respectively, and $536 million and $546 million of investments in energy transition and infrastructure as of March 31, 2021 and December 31, 2020 respectively.

Mortgage loans as of March 31, 2021 were $1.949 billion (net of $5 million of loan loss reserves or 0.3% of the outstanding loan portfolio), a decrease of $270 million or 12.2% from December 31, 2020. The decrease is primarily driven by $278 million in principal reductions partially offset by $8 million in funding. The entire mortgage loan portfolio is U.S.-based. The number of loans in the portfolio decreased from 3,717 at December 31, 2020 to 3,652 at March 31, 2021.

Cash and cash equivalents as of March 31, 2021 were $7.797 billion, a decrease of $427 million or 5.2% from December 31, 2020. The decrease primarily reflects a decrease in cash from operating activities, offset by an increase from investing and financing activities.

The following tables summarize the Company's available for sale portfolio by security type as of March 31, 2021 and December 31, 2020:

	As of March 31, 2021			
$ in Millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$8,308	$105	($40)	$8,373
Residential MBS [1]	6,318	170	(12)	6,476
Commercial MBS	4,431	235	(11)	4,655
Other MBS and ABS [2]	5,836	100	(18)	5,918
U.S. state and municipal	8,012	546	(18)	8,540
Corporate and other	32,450	1,214	(230)	33,434
Foreign government securities	4,814	196	(51)	4,959
Total securities available for sale	$70,169	$2,566	($380)	$72,355

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

	As of December 31, 2020			
$ in Millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$7,056	$159	($6)	$7,209
Residential MBS	5,755	206	(2)	5,959
Commercial MBS	4,407	328	(8)	4,727
Other MBS and ABS	5,229	118	(35)	5,312
U.S. state and municipal	8,549	740	(2)	9,287
Corporate and other	31,876	1,957	(55)	33,778
Foreign government securities	4,742	290	(3)	5,029
Total securities available for sale	$67,614	$3,798	($111)	$71,301

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of March 31, 2021:

Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	As of March 31, 2021							
$ in Millions	AAA	AA	A	BBB	BB	B or Lower	Total	% of Total
Residential MBS	$6,248	$-	$225	$-	$-	$3	$6,476	38.0%
Commercial MBS	4,178	174	169	40	94	-	4,655	27.3%
Other MBS and ABS	3,046	947	754	775	310	86	5,918	34.7%
Total	13,472	$1,121	$1,148	$815	$404	$89	$17,049	100.0%
% of Total	79.0%	6.6%	6.7%	4.8%	2.4%	0.5%	100.0%	

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

Approximately 57% of the Company's mortgage and asset-backed fixed maturity portfolio is explicitly backed by the U.S. government (SBA and GNMA) or by government-sponsored entities (FNMA and FHLMC). Approximately 79% of the holdings are rated AAA. Included in the commercial mortgage-backed securities at March 31, 2021, were $3.344 billion in Agency CMBS and $1.311 billion Non-agency CMBS. Included in the Other MBS and ABS at March 31, 2021 were $483 million AAA rated SBA Loans. The commercial mortgage-backed securities portfolio is well diversified and of high quality with approximately 90% rated AAA.

The following table summarizes the Company's U.S. state and municipal fixed maturity portfolio of securities which are obligations of states, municipalities and political subdivisions (collectively referred to as U.S. state and municipal bonds) by credit quality as of March 31, 2021and December 31, 2020:

U.S. State and Municipal by Credit Quality[1]	As of March 31, 2021			As of December 31, 2020		
$ in Millions	Fair Value	% of Total	Average Credit Rating	Fair Value	% of Total	Average Credit Rating
State general obligation	$1,877	22.0%	AA	$2,168	23.3%	A
Local general obligation	1,606	18.8	AA	1,738	18.7	AA
Revenue	4,943	57.9	A	5,271	56.8	AA
Pre-refunded	114	1.3	AAA	110	1.2	AAA
Total U.S. state and municipal	$8,540	100.0%	AA	$9,287	100.0%	AA

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

The municipal bond portfolio (taxable and tax-exempt) includes general obligation and revenue bonds issued by states, cities, counties, school districts, hospitals, educational institutions, and similar issuers. Included in the municipal bond portfolio at March 31, 2021 and December 31, 2020 were $114 million and $110 million, respectively, of pre-refunded bonds, which are bonds for which states or municipalities have established irrevocable trusts, which were created to satisfy their responsibility for payments of principal and interest.

The following table summarizes the Company's allocation of fixed maturities by credit quality as of March 31, 2021 and December 31, 2020:

Fixed Maturities by Credit Quality[1]	**As of March 31, 2021**		**As of December 31, 2020**	
$ in Millions	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$24,172	33.4%	$22,756	32.0%
AA+, AA, AA-	9,545	13.2	10,006	14.0
A+, A, A-	16,435	22.7	15,764	22.1
BBB+, BBB, BBB-	16,784	23.2	17,127	24.0
Total investment grade	66,936	92.5	65,653	92.1
BB+, BB, BB-	2,922	4.0	3,078	4.3
B+, B, B-	2,225	3.1	2,211	3.1
CCC or lower	235	0.3	315	0.4
Unrated[2]	37	0.1	44	0.1
Total below-investment grade	5,419	7.5	5,648	7.9
Total fixed maturities	$72,355	100.0%	$71,301	100.0%

1 For purposes of this disclosure, credit quality is primarily based upon average credit ratings.
2 Bank loans acquired as part of Ironshore acquisition.

The Company's holdings of below investment grade securities primarily consist of an actively managed diversified portfolio of high yield securities and leveraged loans within the domestic insurance portfolios and investments in emerging market sovereign and corporate debt primarily in support of the Company's international insurance operations. Overall, the average credit quality rating stands at A+ as of March 31, 2021.

The following table summarizes available for sale fixed maturity securities by contractual maturity at March 31, 2021 and December 31, 2020. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Due to the potential for prepayment on MBS and ABS, they are not categorized by contractual maturity.

Fixed Maturity by Maturity Date	**As of March 31, 2021**		**As of December 31, 2020**	
$ in Millions	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
One year or less	$3,570	4.9%	$2,720	3.8%
Over one year through five years	25,085	34.7	24,732	34.7
Over five years through ten years	18,482	25.5	18,790	26.4
Over ten years	8,169	11.3	9,061	12.7
MBS and ABS	17,049	23.6	15,998	22.4
Total fixed maturities	$72,355	100.0%	$71,301	100.0%

During 2021, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company has made only minor adjustments to the average duration of its investment portfolio. The average duration of the investment portfolio as of March 31, 2021 was 4.2 years.

The following tables summarize the Company's gross unrealized losses and fair value of fixed income securities by the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2021 and December 31, 2020 that are not deemed to be other-than-temporarily impaired:

	As of March 31, 2021			
$ in Millions	**Less Than 12 Months**		**12 Months or Longer**	
Unrealized Losses & Fair Value by Security Type	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Government and agency securities	($40)	$4,397	$-	$-
Residential MBS	(12)	2,009	-	4
Commercial MBS	(5)	260	(6)	193
Other MBS and ABS	(12)	1,466	(6)	337
U.S. state and municipal	(17)	829	(1)	19
Corporate and other	(204)	7,908	(26)	407
Foreign government securities	(51)	1,435	-	-
Total securities available for sale	($341)	$18,304	($39)	$960

	As of December 31, 2020			
$ in Millions	**Less Than 12 Months**		**12 Months or Longer**	
Unrealized Losses & Fair Value by Security Type	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Government and agency securities	($6)	$797	$-	$-
Residential MBS	(2)	283	-	3
Commercial MBS	(5)	329	(3)	17
Other MBS and ABS	(26)	850	(9)	328
U.S. state and municipal	(2)	92	-	-
Corporate and other	(31)	1,278	(24)	282
Foreign government securities	(3)	300	-	4
Total securities available for sale	($75)	$3,929	($36)	$634

Unrealized losses for fixed maturity securities increased from $111 million as of December 31, 2020 to $380 million as of March 31, 2021. The Company monitors the difference between the amortized cost and estimated fair value of fixed maturity securities to ascertain whether declines in value are temporary in nature. The Company currently does not have the intent to sell these securities and has determined it is not more likely than not that it would be required to sell these fixed maturity securities before they recover their fair value. The Company has concluded that the gross unrealized losses of fixed maturity securities as of March 31, 2021 are temporary.

The following tables summarize the Company's issuer and sector exposure[1] as of March 31, 2021:

Top 10 Issuers	**As of March 31, 2021**				
$ in Millions	**Fixed Maturity**	**Equity**	**Short-Term**	**Total Exposure**	**% of Invested Assets**
Bank of America Corp	$727	$-	$-	$727	0.76%
JP Morgan Chase & Co	623	-	-	623	0.65
Citigroup Inc	530	-	-	530	0.55
Goldman Sachs Group Inc	530	-	-	530	0.55
Banco Santander	518	-	-	518	0.55
Morgan Stanley	499	-	-	499	0.53
Wells Fargo & Co	491	-	-	491	0.51
Government of United Kingdom	488	-	-	488	0.51
Government of Brazil	466	-	-	466	0.49
New York State Dormitory Authority	452	-	-	452	0.47
Total	$5,324	$-	$-	$5,324	5.57%

Top 10 Sectors	**As of March 31, 2021**				
$ in Millions	**Fixed Maturity**	**Equity**	**Short-Term**	**Total Exposure**	**% of Invested Assets**
Banking	$8,179	$32	$219	$8,430	8.83%
Foreign Government	3,683	-	-	3,683	3.86
REITS	905	1,623	2	2,530	2.65
Technology	2,079	254	-	2,333	2.44
Electric Utility	1,738	314	-	2,052	2.15
US Municipal - State & US Territory	2,009	-	-	2,009	2.09
Independent Energy	438	1,248	-	1,686	1.77
Insurance	1,577	72	2	1,651	1.73
US Municipal - Local Govt	1,587	-	-	1,587	1.66
Healthcare	1,191	150	2	1,343	1.41
Total	$23,386	$3,693	$225	$27,304	28.59%

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

As of March 31, 2021, investments in the energy sector accounted for $3.797 billion or 4.0% of total invested assets. The energy sector is comprised of investments in the following sub-sectors: independent energy, integrated energy, midstream, oil field services, and refining (classification per Bloomberg Barclays Industry Groups). Energy investments consist of investment grade bonds of $2.071 billion, bonds that were rated below investment grade of $478 million, publicly traded equity securities of $3 million and natural resources partnerships and other equity method investments of $1.245 billion. Agriculture and timber investments consist of natural resource partnerships of $136 million. In addition, the Company has direct investment in oil and gas wells of $5 million and agriculture and timber of $309 million which are included in other assets on the Consolidated Balance Sheets.

The following table summarizes the Company's unfunded commitments as of March 31, 2021 and December 31, 2020:

Unfunded Commitments	As of March 31, 2021		As of December 31, 2020	
$ in Millions	Total	% of Total	Total	% of Total
Traditional private equity	$1,393	27.0%	$1,394	29.2%
Natural resources – Energy	61	1.2	67	1.4
Natural resources – Other[1]	401	7.8	374	7.8
Real estate	1,420	27.5	1,267	26.5
Private credit	1,714	33.2	1,499	31.4
Other	171	3.3	176	3.7
Total unfunded commitments	$5,160	100.0%	$4,777	100.0%

1 Includes energy transition and infrastructure, and agriculture and timber commitments.

Unfunded commitments as of March 31, 2021 were $5.160 billion, an increase of $383 million over December 31, 2020. The increase is primarily driven by new commitments net of contributions related to real estate investments and private credit. The unfunded energy investment commitments at March 31, 2021 and December 31, 2020 of $61 million and $67 million, respectively, related to energy partnerships.

LIQUIDITY AND CAPITAL RESOURCES

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

- LMIC, Peerless Insurance Company ("PIC"), Liberty Mutual Fire Insurance Company ("LMFIC") and Employers Insurance Company of Wausau ("EICOW") are members of the Federal Home Loan Bank. The Company has $300 million of Federal Home Loan Bank borrowings with maturity dates in 2032. As of March 31, 2021, the outstanding Federal Home Loan Bank borrowings are fully collateralized. Ironshore Indemnity Insurance ("III") and Ironshore Specialty Insurance Company ("ISIC") memberships were cancelled on February 24 and 25, 2020, respectively, however there is a five-year waiting period requirement, so the effective date of these membership cancellations will be February 2025.

Net cash flows are generally invested in marketable securities while keeping a certain amount in cash and short-term investments to meet unpredictable cash obligations. The Company monitors the duration of these investments, and purchases and sales are executed with the objective of having adequate cash available to satisfy its maturing liabilities. As the Company's investment strategy focuses on overall asset and liability durations, and not specific cash flows, asset sales may be required to satisfy obligations or rebalance asset portfolios. The Company's invested assets as of March 31, 2021 (including cash and cash equivalents) totaled $95.514 billion.

Debt outstanding as of March 31, 2021 and December 31, 2020 was as follows:

Short-term debt:

$ in Millions	**As of March 31, 2021**	**As of December 31, 2020**
Short-term debt[1]	$ 330	$ 330

1 Short-term debt is the current maturity of the 5.00% Notes, due June 1, 2021.

Long-term debt:

$ in Millions	As of March 31, 2021	As of December 31, 2020
5.00% Notes, due 2021[1]	$ -	$ -
4.95% Notes, due 2022	473	473
4.25% Notes, due 2023	547	547
1.75% €500 Million Notes, due 2024	588	612
8.50% Surplus notes, due 2025	140	140
2.75% €750 Million Notes, due 2026	880	917
7.875% Surplus notes, due 2026	227	227
7.625% Notes, due 2028	3	3
4.569% Notes, due 2029	1,000	1,000
3.91% - 4.25% Federal Home Loan Bank Borrowings, due 2032	300	300
7.00% Notes, due 2034	124	124
6.50% Notes, due 2035	271	271
7.50% Notes, due 2036	19	19
6.50% Notes, due 2042	250	250
4.85% Notes, due 2044	564	564
4.50% Notes, due 2049	232	232
3.951% Notes, due 2050	1,248	1,248
3.625% €500 Million Junior Subordinated notes, due 2059[2]	588	612
3.95% Notes, due 2060	746	746
4.30% Junior Subordinated notes, due 2061[3]	800	-
7.80% Junior Subordinated notes, due 2087[4]	437	437
10.75% Junior Subordinated notes, due 2088[5]	35	35
7.697% Surplus notes, due 2097	260	260
Subtotal	9,732	9,017
Unamortized discount	(467)	(472)
Long-term debt excluding unamortized debt issuance costs	9,265	8,545
Unamortized debt issuance costs	(55)	(48)
Total long-term debt	$9,210	$8,497

1 Short-term debt is the current maturity of the 5.00% Notes, due June 1, 2021.
2 The par value call date and final fixed rate interest payment date is May 23, 2024, subject to certain requirements
3 The par value call date is February 1, 2026 after which the notes are callable at par on each subsequent interest payment date.
4 The par value call date and final fixed rate interest payment date is March 15, 2037, subject to certain requirements.
5 The par value call date and final fixed rate interest payment date is June 15, 2038, subject to certain requirements.

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

Debt Transactions

On February 1, 2021, LMGI issued $800 million of Series E Junior Subordinated Notes, due 2061. Interest is payable semi-annually at a fixed rate of 4.30%. The Notes may be redeemed in whole or in part on February 1, 2026, after which the notes may be redeemed on any interest payment date thereafter until February 1, 2061.

On May 7, 2020, LMGI issued $500 million of 2060 Senior Notes and LMGI exchanged $246 million par value of 2060 Senior Notes for $29 million of its 7.00% Senior Notes due 2034, $29 million of its 6.50% Senior Notes due 2035, $20 million of its 6.50% Senior Notes due 2042, $50 million of its 4.85% Senior Notes due 2044 and $118 million of its 4.50% Senior Notes due 2049. Interest is payable semi-annually at a fixed rate of 3.95%. The exchanged notes are fully fungible with the 2060 Notes. The 2060 Notes mature on May 15, 2060. LMGI has determined to utilize a portion of the cash proceeds received from the issuance of the 2060 Notes for the retirement of its 5.00% Senior Notes, due 2021 at the time of their maturity.

Concurrently with the 2060 Notes exchange offer, LMGI completed a tender offer for the Target Notes with investors not eligible to participate in the 2020 Exchange Offer for an aggregate cash consideration of $2 million, including accrued and unpaid interest, for the tender of $1 million of its 6.50% Senior Notes due 2035 and a nominal amount of its 6.50% Senior Notes due 2042.

Interest Expense

Consolidated interest expense for the three months ended March 31, 2021 was $118 million, an increase of $11 million over the same period in 2020.

Holding Company Liquidity and Capital Resources

The Company conducts substantially all of its operations through its wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of March 31, 2021, the Company, through its downstream subsidiaries LMGI and LMFE, had $8.2 billion and $588 million, respectively, of debt outstanding, excluding discount and issuance costs.

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

The authorized control level risk-based capital (as of December 31, 2020) and 2021 available dividend capacity prior to needing regulatory approval for LMIC, LMFIC and EICOW were as follows:

$ in Millions	**RBC Ratio[1]**		**Dividend Capacity[2]**	**Dividends Paid[3]**
RBC Ratios and Dividend Capacity	**2020**	**2019**	**2021**	**2021**
LMIC	354%	388%	$1,856	$16
LMFIC	525%	502%	$187	$4
EICOW	488%	468%	$185	$-

1 Authorized control level risk-based capital as defined by the NAIC.
2 Represents the estimated maximum allowable dividend without prior regulatory approval in the state of domicile.
3 Dividends paid represent amounts paid during the three months ended March 31, 2021. Available dividend capacity as of March 31, 2021 is calculated as 2021 dividend capacity less dividends paid for the preceding 12 months. Dividends paid April 1, 2020 through March 31, 2021 for LMIC, LMFIC and EICOW were $65 million, $150 million and $150 million, respectively.

LMGI also has access to the following sources of funding:

- An unsecured revolving credit facility of $1 billion with an expiration date of June 25, 2024. To date, no funds have been borrowed under the facility.
- A management services agreement with LMIC pursuant to which LMGI is entitled to collect certain costs plus a management fee for services rendered by LMGI employees.
- Investment management agreements with affiliated entities pursuant to which an LMGI subsidiary investment advisor is entitled to recover annual expenses for investment management services performed by its employees.
- Liberty Corporate Services LLC (“LCS”), which through its subsidiaries collects fees and other revenues, primarily for claims administration, agency and IT services rendered for affiliated and non-affiliated entities. For the three months ended March 31, 2021, LCS recorded $74 million in pre-tax income.
- Approximately $80 million of annual dividends related to non-redeemable perpetual preferred stock issuances by LMIC and LMFIC.

$ in Millions	**As of March 31, 2021**	**As of December 31, 2020**
Total long-term debt	$9,210	$8,497
Unamortized discount and debt issuance costs	(522)	(520)
Total long-term debt excluding unamortized discount and debt issuance costs	$9,732	$9,017
Total equity excluding accumulated other comprehensive (loss) income	$26,596	$25,739
Total capital excluding accumulated other comprehensive (loss) income[1]	$36,328	$34,756
Debt-to-capital capitalization excluding accumulated other comprehensive (loss) income[1]	26.8%	25.9%
Statutory surplus	$24,489	$22,830

1 Excludes unamortized discount and debt issuance costs

The total debt-to-capital capitalization ratio excluding accumulated other comprehensive loss is calculated by dividing (a) total debt excluding unamortized discount and debt issuance costs by (b) total capital excluding accumulated other comprehensive (loss) income. Net unrealized gains and losses on investments can be significantly impacted by both interest rate movements and other economic factors. Accordingly, in the opinion of the Company’s management, the debt-to-total capital ratio calculated on this basis provides another useful metric for investors to understand the Company’s financial leverage position. The Company’s ratio of debt-to-capital (excluding accumulated other comprehensive (loss) income of 26.8% at March 31, 2021 was within the Company’s target range.

REINSURANCE

Reinsurance Recoverables

The Company reported reinsurance recoverables of $16.741 billion and $16.163 billion at March 31, 2021 and December 31, 2020, respectively, net of allowance for doubtful accounts of $116 million and $113 million, respectively. Included in these balances are $931 million and $1.145 billion of paid recoverables and $15.926 billion and $15.131 billion of unpaid recoverables (including retroactive reinsurance), respectively.

S&P Rating[1]	**As of December 31, 2020**			
$ in Millions	**Gross Recoverables[2]**	**Collateral Held[3]**	**Net Recoverables[4]**	**% of Total Net Recoverables**
Rated Entities				
AAA	$ -	$ -	$ -	-
AA+, AA, AA-	6,839	6,779	2,158	22%
A+, A, A-	4,211	356	3,904	40%
BBB+, BBB, BBB-	-	-	-	-
BB+ or below	-	-	-	-
Subtotal	11,050	7,135	6,062	62%
Pools & Associations				
State mandated involuntary pools and associations	2,811	-	2,810	29%
Voluntary	196	120	191	2%
Subtotal	3,007	120	3,001	31%
Non-Rated Entities[5]				
Captives & fronting companies	1,342	1,548	234	3%
Other	877	1,456	409	4%
Subtotal	2,219	3,004	643	7%
Grand Total	$16,276	$10,259	$9,706	100%

1 Standard & Poor's ratings are as of December 31, 2020.

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

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

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

5 Reinsurers not rated by Standard & Poor's.

Reinsurance Groups[1]	As of December 31, 2020		
$ in Millions	Gross Recoverables[2]	Collateral Held[3]	Net Recoverables[4]
1. Berkshire Hathaway Insurance Group	$4,321	$6,070	$218
2. Swiss Re Group	1,331	545	908
3. Nationwide Group	1,286	-	1,285
4. Everest Re Group	564	160	415
5. Munich Re Group	404	8	396
6. Alleghany Corp	387	-	387
7. Partner Re Group	307	59	262
8. CUMIS Insurance Society Group	304	-	304
9. UPINSCO	303	405	-
10. Horseshoe Re Ltd.	278	233	45
11. Builders Reinsurance S.A.	259	359	-
12. Exchange Indemnity Company	248	121	128
13. Lloyd's of London	219	-	219
14. Hannover Re Group	207	36	172
15. Markel Corp	204	2	202
State Mandated Involuntary pools and associations	2,811	-	2,810
Voluntary pools and associations	196	120	191
All Other	2,647	2,141	1,764
Total Reinsurance Recoverables	$16,276	$10,259	$9,706

1 Reinsurance Groups are defined as all reinsurance subsidiaries owned by a common parent.
2 Gross recoverables are defined as paid and unpaid claims and claim adjustment expense including IBNR and before both bad debt reserve set aside for potential uncollectible reinsurance and consideration of collateral.
3 Collateral refers to letters of credit, trust accounts, and funds held against outstanding and potential future claims and claim adjustment expenses related to reinsurance recoverable balances.
4 Net recoverables are defined as the difference between the amount of gross recoverables and collateral held for each reinsurer. If the collateral held for a reinsurer is greater than the gross recoverable, net recoverables are reported as $0.

Approximately 94% and 93% of the Company's reinsurance recoverable balance, net of collateral held and including voluntary and involuntary pools and associations, was from reinsurers rated A- or better from A.M. Best and Standard & Poor's, respectively, at December 31, 2020. Collateral held against outstanding gross reinsurance recoverable balances was $10.259 billion at December 31, 2020.

The remaining 6% and 7% of the Company's net reinsurance recoverable balance is well diversified. No single reinsurer rated below A- or not rated by A.M. Best or Standard & Poor's accounts for more than 1% of GAAP equity. In addition, the average net reinsurance recoverable balance from individual reinsurers rated below A- or not rated by A.M. Best and Standard & Poor's was approximately $1 million as of December 31, 2020.

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

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

Adverse Development Reinsurance

On November 5, 2019, LMIC entered into a reinsurance transaction with NICO, a subsidiary of Berkshire Hathaway Inc, on a combined aggregate excess of loss agreement for certain GRM U.S. Business Lines and GRS National Insurance workers compensation, commercial auto liability and general liability excluding umbrella and warranty liabilities. The first layer of the contract attaches at $300 million below applicable held reserves at inception of $8.342 billion of combined aggregate reserves. The second layer of the contract provides adverse development coverage for $1.000 billion above a retention equal to $8.742 billion. The contract includes a sublimit of $100 million for certain general liability liabilities. At the closing of the NICO Casualty Reinsurance Transaction, but effective as of January 1, 2019, the Company ceded $300 million of existing undiscounted liabilities, paid NICO total consideration of $462 million and recorded a pre-tax loss of $173 million. This contract is accounted for on a retroactive basis.

In general terms, the covered business includes post December 31, 2018 development for Global Retail Markets U.S. Business Lines and Global Risks Solutions National Insurance segment on: (1) certain workers compensation liabilities arising under policies on the books as of December 31, 2018 as respects injuries or accidents occurring after December 31, 2013 and prior to January 1, 2019; (2) commercial auto liabilities arising under policies on the books as of December 31, 2018 as respects injuries or accidents occurring prior to January 1, 2019; and (3) general liability excluding umbrella and warranty arising under policies as of December 31, 2018 as respects injuries or accidents occurring prior to January 1, 2019.

Since the NICO Casualty Reinsurance Transaction is accounted for as retroactive reinsurance in the Company's GAAP Consolidated Financial Statements, to the extent there is unfavorable development of losses covered by this reinsurance, an additional reinsurance benefit is recognized in the Consolidated Statements of Income until those benefits exceed the loss on the transaction. Reinsurance benefits will be deferred and are amortized into earnings over the period when underlying claims are settled.

As the aggregate development on the contract has exceeded the original pre-tax loss of $173 million, deferred gains are now being recorded. The Company reported deferred gain amortization of $28 million and $25 million at March 31, 2021 and December 31, 2020, respectively. As of March 31, 2021 and December 31, 2020, deferred gains were $235 million and $240 million. Limits remaining on the contract as of March 31, 2021 were $551 million.

In conjunction with the Ironshore acquisition and effective May 1, 2017, the Company entered into a reinsurance transaction with NICO on a combined aggregate excess of loss agreement providing coverage for substantially all of Ironshore's reserves related to losses occurring prior to January 1, 2017. The first layer of the contract transfers $400 million of held reserves at inception, for which the Company established reinsurance recoverables on the Consolidated Balance Sheet. The second layer of the contract provides adverse development coverage for 95% of $500 million above a retention equal to $3.006 billion, minus paid losses between January 1, 2017 and May 1, 2017, which retention approximates the total held reserves on the covered business on Ironshore's opening balance sheet. The contract includes a sublimit of $277 million for certain construction liability liabilities. The Company paid NICO consideration of $550 million, including interest accrued at the time of the settlement. The contract is accounted for on a prospective basis. Limits remaining on the contracts in total, and for construction liability liabilities, respectively, were $475 million and zero as of March 31, 2021.

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

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

The Company reported the net position of the contract as a loss of $8 million and $4 million as of March 31, 2021 and December 31, 2020, respectively. Limits remaining on the contracts in total, and for asbestos and environmental liabilities, respectively, were $3.173 billion and $613 million as of March 31, 2021.

Non Catastrophe Reinsurance

The Company purchases facultative and treaty reinsurance protection on a per risk, per policy, per loss and/or per occurrence basis. Treaty coverage is provided on a pro rata and excess of loss basis for portions of the Company's property, marine, terrorism, energy, third party motor, cyber, financial risk, surety, aviation and casualty lines portfolios.

Catastrophe Reinsurance

The Company has property catastrophe reinsurance coverage for its domestic business and certain specialty operations including: 1) hurricanes and earthquake reinsurance covering a substantial portion of $3.3 billion of loss in excess of $300 million of retained loss in the United States, Canada and the Caribbean, excluding certain reinsurance exposures; 2) aggregate excess of loss programs; and 3) quota share reinsurance programs. These programs are structured to meet the Company's established tolerances under its Enterprise Risk Management Program.

The Company purchases property catastrophe reinsurance coverage for the international property books to protect against international catastrophe events.

The Company purchases workers compensation catastrophe reinsurance, including coverage for its domestic commercial operations and certain specialty operations' U.S. exposures. This program provides significant reinsurance protection in excess of $360 million per occurrence retention, including coverage for terrorism events and/or losses for a single event at a single insured location in excess of $75 million. These contracts generally exclude acts of terrorism which are "certified" by the U.S. government where such certified terrorism events involve the intentional use of nuclear, chemical, or biological materials.

Catastrophe Bond Reinsurance

On January 1, 2021, the Company entered into a multi-year property catastrophe reinsurance agreement with Mystic Re IV Ltd. ("Mystic IV"), a Bermuda domiciled reinsurer, to provide a total of $300 million of reinsurance coverage for the Company and its affiliates for named storms covering U.S. and earthquakes covering U.S. and Canada. The reinsurance agreement is collateralized. Such collateral is provided by Mystic IV using proceeds from the issuance of certain catastrophe bonds. The reinsurance agreement provides per occurrence coverage based on weighted industry insured loss index. This loss index is weighted to align with the Company's assumed reinsurance portfolio. The Company has not recorded any recoveries under this program. Mystic IV does not have any other reinsurance in force.

Florida Hurricane Catastrophe Fund

The Company participates in the Florida Hurricane Catastrophe Fund ("FHCF"), a state-mandated catastrophe fund that provides reimbursement to insurers for a portion of their Florida hurricane losses. FHCF resources may be insufficient to meet the obligations of FHCF. Limits, premium and reimbursements from FHCF apply on a per company basis. If losses fall disproportionately on one insurance entity within the Company, recovery from FHCF could be less than anticipated. On June 1, 2020, the Company renewed coverage for 90% of approximately $56 million excess of $22 million. Recoveries from FHCF inure to the sole benefit of the Company. If the Company fails to recover as anticipated from FHCF there could be an adverse effect on the Company's business, financial condition or results of operations.

CRITICAL ACCOUNTING ESTIMATES

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

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

For additional discussion, please refer to footnote 1 in the Company's December 31, 2020 Audited Consolidated Financial Statements and footnote 1 in the Company's March 31, 2021 Unaudited Consolidated Financial Statements.

Unpaid Claims and Claim Adjustment Expenses

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

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

For additional discussion, please refer to footnote 6 in the Company's December 31, 2020 Audited Consolidated Financial Statements and footnote 6 in the Company's March 31, 2021 Unaudited Consolidated Financial Statements.

Asbestos and Environmental

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

For additional discussion, please refer to footnote 6 in the Company's December 31, 2020 Audited Consolidated Financial Statements and footnote 6 in the Company's March 31, 2021 Unaudited Consolidated Financial Statements.

Reinsurance Recoverables

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies. The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing and other relevant factors. Accordingly, the establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. Changes in these estimates could result in additional charges to the accompanying Consolidated Statements of Income.

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

For additional discussion, please refer to footnote 5 in the Company's December 31, 2020 Audited Consolidated Financial Statements and footnote 4 in the Company's March 31, 2021 Unaudited Consolidated Financial Statements.

Fair Value Determination

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

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

Regarding fair value measurements, as of March 31, 2021, excluding other assets, the Company reflected $10.849 billion (14.3%) as level 1 (quoted prices in active markets) primarily consisting of U.S. Treasuries and common equity securities. The majority of the Company's invested assets are reported as level 2 (quoted prices from other observable inputs). As of March 31, 2021, the Company reported $63.324 billion (83.5%) as level 2, consisting primarily of fixed maturity securities. Finally, the Company reported $1.666 billion (2.2%) as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

For additional discussion, please refer to footnote 10 in the Company's December 31, 2020 Audited Consolidated Financial Statements and footnote 9 in the Company's March 31, 2021 Unaudited Consolidated Financial Statements.

Impairment Losses on Investments

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

The Company is required to review its natural resource and other equity method investments when facts and circumstances indicate that carrying values may not be recoverable. In performing a quarterly review, the fair value of the Company's investment is estimated using indicators including, but not limited to, market comparables and analyses, commodity prices, and discounted cash flows and a realized loss is recognized for the excess, if any, of the investment's carrying value over its estimated fair value.

For additional discussion, please refer to footnote 1 in the Company's December 31, 2020 Audited Consolidated Financial Statements and footnote 3 in the Company's March 31, 2021 Unaudited Consolidated Financial Statements.

Goodwill and Intangible Assets

Goodwill is tested for impairment at least annually using either a qualitative or a quantitative process. Election of the approach can be made at the reporting unit level. The reporting unit has the option to skip the qualitative test and move directly to completion of the quantitative process. As of March 31, 2021, the Company has two reporting units – Global Retail Markets and Global Risk Solutions.

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

The Company had no material goodwill or intangible asset impairments recognized in 2020.

For additional discussion, please refer to footnote 1 in the Company's December 31, 2020 Audited Consolidated Financial Statements.

Deferred Income Taxes

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

For additional discussion, please refer to footnote 8 in the Company's December 31, 2020 Audited Consolidated Financial Statements and footnote 7 in the Company's March 31, 2021 Unaudited Consolidated Financial Statements.

Pension and Postretirement Benefit Obligations

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

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

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

For additional discussion, please refer to footnote 9 in the Company's December 31, 2020 Audited Consolidated Financial Statements and footnote 8 in the Company's March 31, 2021 Unaudited Consolidated Financial Statements.

ABOUT THE COMPANY

Boston-based LMHC, the parent corporation of the Liberty Mutual Insurance group of entities, is a diversified global insurer and fourth largest property and casualty insurer in the U.S. based on 2020 direct written premium. The Company also ranks 77th on the Fortune 100 list of largest corporations in the U.S. based on 2019 revenue. As of December 31, 2020, LMHC had \$145.377 billion in consolidated assets, \$119.420 billion in consolidated liabilities, and \$43.796 billion in annual consolidated revenue.

LMHC, through its subsidiaries and affiliated companies, offers a wide range of property and casualty insurance products and services to individuals and businesses alike. In 2001 and 2002, the Company formed a mutual holding company structure, whereby the three principal mutual insurance companies, LMIC, LMFIC and EICOW, each became separate stock insurance companies under the ownership of LMHC.

Functionally, the Company conducts substantially all of its business through two business units, with each operating independently of the other in certain areas such as sales, underwriting, and claims, but, as appropriate, collaborating in other areas such as actuarial and financial. Management believes this structure provides increased synergy to the Company and permits each business unit to execute its business strategy and/or to make acquisitions without impacting or disrupting the operations of the other business unit.

LMHC employs over 45,000 people in 29 countries and economies around the world. For a full description of the Company's business operations, products and distribution channels, please visit Liberty Mutual's Investor Relations web site at www.libertymutualgroup.com/investors.