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

Quarter Ended March 31, 2017

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

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

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Cautionary Statement Regarding Forward Looking Statements

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

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

EXECUTIVE SUMMARY

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

Consolidated Results of Operations

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Net written premium ("NWP")	$9,234	$8,772	5.3%
Pre-tax operating income ("PTOI") before partnerships, LLC and other equity method income	168	614	(72.6)
Net operating income before partnerships, LLC and other equity method income	144	415	(65.3)
Partnerships, LLC and other equity method income	162	23	NM
Net realized gains (losses)	169	(39)	NM
Ironshore Inc. ("Ironshore") acquisition costs	(10)	-	NM
Loss on extinguishment of debt	(1)	(8)	(87.5)
Consolidated net income	351	403	(12.9)
Net income attributable to LMHC	351	393	(10.7)
Cash flow (used in) provided by operations	($66)	$299	NM

NM = Not Meaningful

	Three Months Ended March 31,		
	2017	**2016**	**Change (Points)**
Combined ratio before catastrophes[1] and net incurred losses attributable to prior years[2]	93.9%	92.3%	1.6
Combined ratio[3]	101.5%	96.3%	5.2

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

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

3 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 asbestos and environmental and certain other run off. Restructuring and Ironshore acquisition costs are not included in the combined ratio.

$ in Millions	As of March 31, 2017	As of December 31, 2016	Change
Short-term debt	$-	$-	-
Long-term debt	8,146	7,603	7.1
Total debt	$8,146	$7,603	7.1%
Unassigned equity	$22,021	$21,670	1.6%
Accumulated other comprehensive loss	(1,030)	(1,304)	(21.0)
Non-controlling interest	23	21	9.5
Total equity	$21,014	$20,387	3.1%

Subsequent Events

On May 1, 2017, the Company acquired Ironshore for approximately $2.9 billion subject to standard post-closing adjustments. Transaction related costs primarily consist of non-recurring banking, legal, tax, and accounting expenses and are reflected on the Consolidated Statements of Income separately. Concurrent with the acquisition, the Company will combine its existing Liberty International Underwriters' U.S. business and Ironshore's U.S. specialty lines business under the Ironshore brand. On May 2, 2017, Ironshore exercised its option to redeem in full its outstanding $250 million Ironshore Holdings (US) Inc. 8.5% Senior Notes maturing in 2020 in accordance with the contractual make whole provisions.

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

Management has assessed material subsequent events through May 4, 2017, the date the financial statements were available to be issued.

CONSOLIDATED RESULTS OF OPERATIONS

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

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

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

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

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

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

On December 5, 2016, the Company entered into an agreement to purchase Ironshore from Fosun International Ltd. On May 1, 2017, the Company acquired Ironshore for approximately $2.9 billion subject to standard post-closing adjustments. Transaction related costs primarily consist of non-recurring banking, legal, tax, and accounting expenses and are reflected on the Consolidated Statements of Income separately.

On August 16, 2016, the Company entered into an agreement to sell a 51% interest of its Chinese operations to Sanpower Group. The transaction is subject to regulatory approval. A gain is expected on the sale.

Effective as of September 30, 2015, the Company deconsolidated the Venezuelan subsidiaries and made the Venezuelan operations available for sale. The evolving conditions in Venezuela, including the increasingly restrictive foreign exchange control regulations and other factors, significantly impacted our control over the Venezuelan operations. As a result of these factors, which we believe to be other-than-temporary, we concluded that effective September 30, 2015, we do not meet the accounting criteria for control over the Venezuelan operations, and deconsolidated these operations in the accompanying financial statements. As a result of deconsolidating, the Company recognized an impairment charge of approximately $690 million which included the write down of the investment in the previously consolidated Venezuelan operations to fair value and the write-off of related intercompany balances. The Company's Venezuelan operations and the related impairment charge are classified as discontinued operations in the Consolidated Financial Statements. Subsequent to deconsolidation, the Company accounts for its ongoing investment in the Venezuela operation on a cost basis.

The Company's three SBUs are as follows:

- Global Consumer Markets comprises two market segments: U.S. Consumer Markets and Global Consumer Markets East | West. These market segments comprise three operating regions: U.S. Consumer Markets, Global Consumer Markets East and Global Consumer Markets West.

    - U.S. Consumer Markets includes all domestic personal lines business. Products are distributed through multiple distribution channels, including employee sales representatives, telesales counselors, independent agents, third-party producers and the Internet.

    - Global Consumer Markets East | West sells property and casualty, health and life insurance products and services to individuals and businesses in two operating regions: West, including Brazil, Colombia, Chile, Ecuador, Spain, Portugal, Ireland, and West Other; and East, including Thailand, Singapore, Hong Kong, Vietnam, Malaysia, India, China, Russia, Turkey, and East Other.

- Commercial Insurance offers a wide array of property and casualty, benefits, and life insurance coverages through independent agents, brokers, benefit consultants, captive agents, and bank partners throughout the United States. Commercial Insurance is organized into the following four market segments: Business Insurance, National Insurance, Liberty Mutual Benefits, and Other Commercial Insurance.

- Global Specialty comprises a wide array of products and services offered through three market segments: Liberty Specialty Markets ("LSM"), Liberty International Underwriters ("LIU"), and Liberty Mutual Surety ("LM Surety"). On May 1, 2017, the Company acquired Ironshore, which will be reported as part of Global Specialty.

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Private passenger automobile	$3,316	$3,060	8.4%
Homeowners	1,373	1,338	2.6
Specialty insurance[1]	535	559	(4.3)
Commercial multiple-peril	537	504	6.5
Workers compensation – Voluntary	493	529	(6.8)
Workers compensation – Involuntary	30	24	25.0
Commercial automobile	481	438	9.8
Global specialty reinsurance	480	498	(3.6)
Employer disability, life and A&H	470	396	18.7
General liability	389	369	5.4
Surety	203	207	(1.9)
Individual life and annuity	151	106	42.5
Commercial property	146	178	(18.0)
Global specialty inland marine	131	122	7.4
Corporate reinsurance[2]	224	179	25.1
Other[3]	275	265	3.8
Total NWP	$9,234	$8,772	5.3%

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

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

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

NWP for the three months ended March 31, 2017 was $9.234 billion, an increase of $462 million over the same period in 2016.

Significant changes by major line of business for the three months ended March 31, 2017 include:

- Private passenger automobile NWP increased $256 million. The increase reflects rate, model year increases, and growth in policies in-force in U.S. Consumer Markets, and organic growth in Global Consumer Markets East | West. The quarter was further impacted by favorable foreign exchange due to the U.S. dollar weakening against the Brazilian real.
- Homeowners NWP increased $35 million. The increase reflects rate and coverage increases, as well as growth in homeowners policies-in-force in U.S. Consumer Markets.
- Specialty insurance decreased $24 million. The decrease reflects re-underwriting and pricing actions, as well as the strengthening of the U.S. dollar versus the British pound and euro.
- Employer disability, life and A&H NWP increased $74 million. The increase reflects strong new business sales.
- Individual life and annuity NWP increased $45 million. The increase reflects higher life-contingent structured settlement sales.
- Corporate reinsurance NWP increased $45 million. The increase reflects new internal programs and changes in terms and coverage to both internal and external programs.

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

Consolidated NWP by SBU was as follows:

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Global Consumer Markets	$5,215	$4,882	6.8%
U.S. Consumer Markets	4,345	4,124	5.4
Global Consumer Markets East | West	870	758	14.8
Commercial Insurance	2,480	2,294	8.1
Global Specialty	1,343	1,380	(2.7)
Corporate and Other	196	216	(9.3)
Total NWP	$9,234	$8,772	5.3%
Foreign exchange effect on NWP change			0.2
NWP change excluding foreign exchange[1]			5.1%

1 Determined by assuming constant foreign exchange rates between periods.

Major drivers of NWP growth were as follows:

	Three Months Ended March 31,			
$ in Millions	**2017**	**2016**	**$ Change**	**Points Attribution**
Total NWP	$9,234	$8,772	$462	5.3
Components of growth:				
Domestic personal automobile	2,782	2,604	178	2.0
Domestic homeowners	1,330	1,294	36	0.4
Global Consumer Markets East | West Local Business (ex foreign exchange)[1]	833	758	75	0.9
Specialty insurance (ex foreign exchange)[1]	546	559	(13)	(0.1)
Domestic workers compensation	495	527	(32)	(0.4)
Global specialty reinsurance (ex foreign exchange)[1]	490	498	(8)	(0.1)
Domestic employer disability, life and A&H	419	351	68	0.8
Corporate reinsurance (ex foreign exchange)[1,2]	222	179	43	0.5
Surety	203	207	(4)	-
Global specialty inland marine (ex foreign exchange)[1]	134	122	12	0.1
Domestic individual life and annuity	121	81	40	0.5
Foreign exchange[1]	15	-	15	0.2
Other lines	1,644	1,592	52	0.5
Total NWP	$9,234	$8,772	$462	5.3

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

Consolidated NWP by geographic distribution channels was as follows:

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
U.S.	$7,638	$7,193	6.2%
International[1]	1,596	1,579	1.1
Global Consumer Markets East | West	870	758	14.8
Global Specialty[1]	726	821	(11.6)
Total NWP	$9,234	$8,772	5.3%

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

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

Results of Operations – Consolidated

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Net operating income before partnerships, LLC and other equity method income	$144	$415	(65.3%)
Partnerships, LLC and other equity method income, net of tax	105	18	NM
Net realized gains (losses), net of tax	110	(25)	NM
Ironshore acquisition costs, net of tax	(7)	-	NM
Loss on extinguishment of debt, net of tax	(1)	(5)	(80.0)
Less: Net income attributable to non-controlling interest	-	10	(100.0)
Net income attributable to LMHC	$351	$393	(10.7%)

NM = Not Meaningful

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Revenues	$10,097	$9,362	7.9%
PTOI before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income	$801	$941	(14.9%)
Catastrophes[1]	(639)	(381)	67.7
Net incurred losses attributable to prior years:			
- Asbestos and environmental[2]	(4)	-	NM
- All other[2,3]	10	54	(81.5)
PTOI before partnerships, LLC and other equity method income	168	614	(72.6)
Partnerships, LLC and other equity method income[4]	162	23	NM
PTOI	330	637	(48.2)
Net realized gains (losses)	169	(39)	NM
Ironshore acquisition costs	(10)	-	NM
Loss on extinguishment of debt	(1)	(8)	(87.5)
Pre-tax income	488	590	(17.3)
Income tax expense	137	187	(26.7)
Consolidated net income	351	403	(12.9)
Less: Net income attributable to non-controlling interest	-	10	(100.0)
Net income attributable to LMHC	$351	$393	(10.7%)
Cash flow provided by operations before pension contributions	$335	$400	(16.3%)
Pension contributions	(401)	(101)	NM
Cash flow (used in) provided by operations	($66)	$299	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 related adverse development cover (the "NICO Reinsurance Transaction"), and All other includes all cessions related to the NICO Reinsurance Transaction, which is described further in "Reinsurance Recoverables".

3 Net of earned premium and reinstatement premium attributable to prior years of $3 million and $1 million for the three months ended March 31, 2017 and 2016, respectively.

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

Partnerships, LLC and Other Equity Method Income	Three Months Ended March 31,		
$ in Millions	2017	2016	Change
LP, LLC and other equity method income[1]	$169	$73	131.5%
Direct investment in natural resources revenues[2]	49	38	28.9
Direct investment in natural resources expenses[3]	(56)	(88)	(36.4)
Partnerships, LLC and other equity method income	$162	$23	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	2017	2016
Taxable interest income	$534	$527
Tax-exempt interest income	67	83
Dividends	13	11
LP, LLC and other equity method income	169	73
Commercial mortgage loans	30	28
Other investment income	3	6
Gross investment income	816	728
Investment expenses[1]	(50)	(41)
Net investment income	$766	$687

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

Net Realized Gains (Losses) $ in Millions	Sales & Dispositions	Impairments	Change in Derivatives Value	Total
Three Months Ended March 31, 2017:				
Fixed maturities	$46	($13)	$-	$33
Equities	56	(1)	-	55
Other	112	(31)	-	81
Total	$214	($45)	$-	$169
Three Months Ended March 31, 2016:				
Fixed maturities	($12)	($7)	$-	($19)
Equities	14	(10)	-	4
Other	-	-	(24)	(24)
Total	$2	($17)	($24)	($39)

PTOI before partnerships, LLC, and other equity method income for the three months ended March 31, 2017 was $168 million, a decrease of $446 million from the same period in 2016. The decrease reflects higher catastrophe losses and higher current accident year losses, including the impact of unfavorable domestic auto liability loss trends reflected in U.S. Consumer Markets and Commercial Insurance, higher non-catastrophe property losses in Commercial Insurance, and large loss activity in Global Specialty and Corporate. The decrease also reflects lower net investment income excluding partnerships, LLC, and other equity method investments and favorable net incurred losses attributable to prior years in Global Specialty and Corporate in 2016 that did not recur. These decreases were partially offset by the profit margin on growth in earned premium.

Partnerships, LLC, and other equity method income including operating income from direct working interests for the three months ended March 31, 2017 was $162 million, an increase of $139 million over the same period in 2016. The increase reflects improved energy operations PTOI (reflects partnerships and direct investment in oil and gas wells) and more favorable traditional private equity valuations in 2017.

Revenues for the three months ended March 31, 2017 were $10.097 billion, an increase of $735 million over the same period in 2016. The major components of revenues are net premium earned, net investment income, net realized gains (losses), and fee and other revenues.

Net premium earned for the three months ended March 31, 2017 was $8.895 billion, an increase of $431 million over the same period in 2016. The increase primarily reflects the premium earned associated with the changes in NWP previously discussed and growth during the last nine months of 2016.

Net investment income for the three months ended March 31, 2017 was $766 million, an increase of $79 million over the same period in 2016. The increase was primarily a result of more favorable valuations in both the energy sector and traditional private equity investments in 2017 as compared to the same period in 2016.

Net realized gains (losses) for the three months ended March 31, 2017 were $169 million versus ($39) million for the same period in 2016. The increase in net realized gains primarily relates to a $109 million gain on the sale of company-owned real estate. In addition, 2017 reflects higher fixed maturity and equity gains realized from sales, partially offset by an impairment of a direct oil and gas well investment. The prior period was impacted by derivative losses that did not recur in 2017.

Fee and other revenues for the three months ended March 31, 2017 were $267 million, an increase of $17 million over the same period in 2016. The change reflects higher bill fees in U.S. Consumer Markets.

Claims, benefits and expenses for the three months ended March 31, 2017 were $9.598 billion, an increase of $834 million over the same period in 2016. The increase reflects higher catastrophe losses and current accident year losses, including the impact of unfavorable domestic auto liability loss trends reflected in U.S. Consumer Markets and Commercial Insurance, higher non-catastrophe property losses in Commercial Insurance, large loss activity in Global Specialty and Corporate and business growth, and lower favorable incurred losses attributable to prior years.

Loss on extinguishment of debt for the three months ended March 31, 2017 was $1 million, a decrease of $7 million from the same period in 2016. The Company repurchased $2 million and $16 million of the 10.75% Junior Subordinated notes due 2088 during the three months ended March 31, 2017 and March 31, 2016, respectively.

Income tax expense on operations for the three months ended March 31, 2017 was $137 million, a decrease of $50 million from the same period in 2016. The Company's effective tax rate on operations for the three months ended March 31, 2017 was 28% compared to 32% for the same period in 2016. The decrease in the effective tax rate on operations was primarily due to revisions to prior year estimates. The Company's effective tax rate on operations differs from the U.S. Federal statutory rate of 35% principally due to tax-exempt investment income.

Net income attributable to LMHC for the three months ended March 31, 2017 was $351 million, a decrease of $42 million from the same period in 2016.

Cash flow (used in) provided by operations for the three months ended March 31, 2017 was ($66) million versus $299 million for the same period in 2016. The change reflects higher pension funding in Corporate and higher auto line of business loss payments in U.S. Consumer Markets and Commercial Insurance, partially offset by higher premium collections due to growth.

CONSOLIDATED	Three Months Ended March 31, 2017	2016	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	64.0%	61.7%	2.3
Underwriting expense ratio	29.9	30.6	(0.7)
Subtotal	93.9	92.3	1.6
Catastrophes[1]	7.7	4.8	2.9
Net incurred losses attributable to prior years:			
- Asbestos and environmental	-	-	-
- All other[2]	(0.1)	(0.8)	0.7
Total combined ratio[3]	101.5%	96.3%	5.2

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

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

3 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 asbestos and environmental and certain other run off. Restructuring and Ironshore acquisition costs are not included in the combined ratio.

The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2017 was 93.9%, an increase of 1.6 points over the same period in 2016. The claims and claim adjustment expense ratio reflects higher severity in the auto line of business in U.S. Consumer Markets and Commercial Insurance, higher non-catastrophe property losses in Commercial Insurance and large loss activity in Global Specialty and Corporate. The decrease in the underwriting expense ratio reflects lower employee related costs in U.S. Consumer Markets, lower employee benefits expense in Commercial Insurance, and higher earned premium.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2017 was 101.5%, an increase of 5.2 points over the same period in 2016. The increase reflects higher catastrophe losses, favorable net incurred losses attributable to prior years in Global Specialty and Corporate in 2016 that did not recur and the increases in the combined ratio previously discussed.

GLOBAL CONSUMER MARKETS

Overview – Global Consumer Markets

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

Global Consumer Markets NWP by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
U.S. Consumer Markets	$4,345	$4,124	5.4%
Global Consumer Markets East | West	870	758	14.8
Total NWP	$5,215	$4,882	6.8%

Results of Operations – Global Consumer Markets

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Revenues	$5,466	$5,208	5.0%
PTOI before catastrophes and net incurred losses attributable to prior years	$538	$547	(1.6%)
Catastrophes[1]	(542)	(330)	64.2
Net incurred losses attributable to prior years	17	9	88.9
PTOI	$13	$226	(94.2%)

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

	Three Months Ended March 31,		
			Change
GLOBAL CONSUMER MARKETS	**2017**	**2016**	**(Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	65.1%	63.6%	1.5
Underwriting expense ratio	27.1	28.0	(0.9)
Subtotal	92.2	91.6	0.6
Catastrophes[1]	10.4	6.6	3.8
Net incurred losses attributable to prior years	(0.3)	(0.2)	(0.1)
Total combined ratio	102.3%	98.0%	4.3

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

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

U.S. CONSUMER MARKETS

Overview – U.S. Consumer Markets

U.S. Consumer Markets sells automobile, homeowners and other types of property and casualty insurance coverage to individuals in the United States. U.S. Consumer Markets' products are distributed through approximately 2,000 licensed employee sales representatives, approximately 700 licensed telesales counselors, independent agents, third-party producers and the Internet. U.S. Consumer Markets has more than 22,000 sponsored affinity groups (including employers, professional and alumni associations, credit unions, and other partnerships) which are a significant source of new business.

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

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Private passenger automobile	$2,782	$2,604	6.8%
Homeowners and other	1,563	1,520	2.8
Total NWP	$4,345	$4,124	5.4%

NWP for the three months ended March 31, 2017 was $4.345 billion, an increase of $221 million over the same period in 2016.

Private passenger automobile NWP for the three months ended March 31, 2017 was $2.782 billion, an increase of $178 million over the same period in 2016. The growth reflects a 5.1% increase in weighted average written premiums (adjusted for changes in six and twelve month policy term mix) resulting from rate and model year increases, and growth in policies in-force of 1.2% for the twelve months ended March 31, 2017. The increase in weighted average written premium reflects additional rate required to keep pace with industry loss cost trends.

Homeowners and other NWP for the three months ended March 31, 2017 was $1.563 billion, an increase of $43 million over the same period in 2016. The growth reflects a 0.7% increase in homeowners average written premiums (resulting from rate and coverage changes) and growth in homeowners policies in-force of 1.6% for the twelve months ended March 31, 2017.

Results of Operations – U.S. Consumer Markets

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Revenues	$4,481	$4,304	4.1%
PTOI before catastrophes and net incurred losses attributable to prior years	$551	$548	0.5%
Catastrophes[1]	(542)	(330)	64.2
Net incurred losses attributable to prior years	5	(5)	NM
PTOI	$14	$213	(93.4%)

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

PTOI for the three months ended March 31, 2017 was $14 million, a decrease of $199 million from the same period in 2016. The decrease was driven by worsening trends in the auto line of business and higher current accident year catastrophe losses due primarily to property losses related to hail storms in Texas, partially offset by the profit margin on growth in earned premium.

Revenues for the three months ended March 31, 2017 were $4.481 billion, an increase of $177 million over the same period in 2016. The increase reflects the premium earned associated with the changes in NWP previously discussed and growth during the last nine months of 2016.

Claims, benefits and expenses for the three months ended March 31, 2017 were $4.467 billion, an increase of $376 million over the same period in 2016. The increase was driven by higher catastrophe losses due primarily to hail storms in Texas, and higher auto losses driven by business growth and worsening loss trends.

U.S. CONSUMER MARKETS	Three Months Ended March 31, 2017	2016	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	64.6%	63.1%	1.5
Underwriting expense ratio	24.3	25.5	(1.2)
Subtotal	88.9	88.6	0.3
Catastrophes[1]	12.5	7.9	4.6
Net incurred losses attributable to prior years	(0.1)	0.1	(0.2)
Total combined ratio	101.3%	96.6%	4.7

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

The U.S. Consumer Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2017 was 88.9%, an increase of 0.3 points over the same period in 2016. The increase was driven by an increase in the claims and claim adjustment expense ratio driven by current accident year non-catastrophe losses due to higher severity in the auto line of business. The decrease in the underwriting expense ratio was due to earned premium growth and lower employee related costs.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2017 was 101.3%, an increase of 4.7 points over the same period in 2016. The increase was driven by higher catastrophe losses and changes in the claims and claim adjustment expense ratio previously discussed, partially offset by favorable changes in the underwriting expense ratio previously discussed.

GLOBAL CONSUMER MARKETS EAST | WEST

Overview – Global Consumer Markets East | West

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

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

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

On August 16, 2016, the Company entered into an agreement to sell a 51% interest of its Chinese operations to Sanpower Group. The transaction is subject to regulatory approval.

On January 14, 2016, the Company completed the acquisition of Compañia de Seguros Generales Penta Security S.A. (“Penta”), the fourth largest non-life insurer in Chile. Penta had approximately $160 million of net written premium in 2015.

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

	Three Months Ended March 31,			
$ in Millions	**2017**	**2016**	**Change**	**Change ex. foreign exchange[1]**
West	$641	$557	15.1%	7.8%
East	229	201	13.9	15.8
Total NWP	$870	$758	14.8%	9.9%

1 Determined by assuming constant foreign exchange rates between periods.

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

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Private passenger automobile	$534	$456	17.1%
Life and health	81	70	15.7
Commercial automobile	70	61	14.8
Homeowners	43	44	(2.3)
Other[1]	142	127	11.8
Total NWP	$870	$758	14.8%

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

NWP for the three months ended March 31, 2017 was $870 million, an increase of $112 million over the same period in 2016. The increase reflects foreign exchange driven by the weakening of the U.S. dollar against the Brazilian real, changes in terms and coverage to internal reinsurance programs, increased auto business in smaller provinces and favorable renewal of a large liability policy agreement in China, rate increases in auto with favorable retention in Portugal, and strong motor growth due to rate increases in Ireland.

Results of Operations – Global Consumer Markets East | West

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Revenues	$985	$904	9.0%
West pre-tax operating (loss) income before catastrophes and net incurred losses attributable to prior years	($2)	$2	NM
East pre-tax operating loss before catastrophes and net incurred losses attributable to prior years	(11)	(3)	NM
Catastrophes[1]	-	-	-
Net incurred losses attributable to prior years	12	14	(14.3)
Pre-tax operating (loss) income	($1)	$13	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.
NM = Not Meaningful

Pre-tax operating loss for the three months ended March 31, 2017 was $1 million versus pre-tax operating income of $13 million for the same period in 2016. The decrease was primarily due to weather related losses in Spain, higher frequency and severity in most lines in Singapore, wildfires and other fire losses in property in Chile, less favorable net incurred losses attributable to prior years in Malaysia and Singapore, and unfavorable net incurred losses attributable to prior years in Thailand. The decrease was partially offset by lower underwriting losses in Ireland as a result of re-underwriting, the exit from the personal insurance market in Great Britain, and favorable net incurred losses attributable to prior years in Ireland.

Revenues for the three months ended March 31, 2017 were $985 million, an increase of $81 million over the same period in 2016. The increase was primarily driven by premiums earned associated with the organic growth changes in NWP previously discussed and growth over the last nine months of 2016, partially offset by Ireland as a result of re-underwriting and the exit from the personal insurance market in Great Britain.

Claims, benefits and expenses for the three months ended March 31, 2017 were $986 million, an increase of $95 million over the same period in 2016. The increase reflects foreign exchange driven by the weakening of the U.S. dollar against the Brazilian real, weather related losses in Spain, losses and expenses in China and Portugal associated with business growth, higher frequency and severity in most lines in Singapore, less favorable incurred losses attributable to prior years in Malaysia and Singapore, and reserve releases in 2016 that did not recur in Malaysia. The increase was partially offset by Ireland as a result of re-underwriting, the exit from the personal insurance market in Great Britain, and favorable incurred losses attributable to prior years in Ireland.

GLOBAL CONSUMER MARKETS EAST | WEST	Three Months Ended March 31, 2017	2016	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	67.5%	66.3%	1.2
Underwriting expense ratio	41.1	40.8	0.3
Subtotal	108.6	107.1	1.5
Catastrophes[1]	-	-	-
Net incurred losses attributable to prior years	(1.5)	(1.8)	0.3
Total combined ratio	107.1%	105.3%	1.8
GCM West combined ratio	106.3%	105.8%	0.5
GCM East combined ratio	109.0%	100.9%	8.1

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

The Global Consumer Markets East | West combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2017 was 108.6%, an increase of 1.5 points over the same period in 2016. The increase in the claims and claim adjustment expense ratio was primarily due to weather related losses in Spain and higher frequency and severity in most lines in Singapore. The increase in the underwriting expense ratio was primarily driven by higher commissions in non-auto lines in Brazil.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2017 was 107.1%, an increase of 1.8 points over the same period in 2016. The total combined ratio reflects the changes in the combined ratio previously discussed, as well as less favorable net incurred losses attributable to prior years in Malaysia and Singapore and unfavorable net incurred losses attributable to prior years in Thailand, partially offset by favorable net incurred losses attributable to prior years in Ireland.

COMMERCIAL INSURANCE

Overview – Commercial Insurance

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

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

Commercial Insurance NWP by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Business Insurance	$1,084	$1,015	6.8%
National Insurance	809	808	0.1
Liberty Mutual Benefits	540	432	25.0
Other Commercial Insurance	47	39	20.5
Total NWP	$2,480	$2,294	8.1%

Commercial Insurance NWP by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Commercial multiple-peril	$537	$504	6.5%
Workers compensation – Voluntary	495	489	1.2
Workers compensation – Involuntary	30	24	25.0
Employer disability, life and A&H	419	351	19.4
Commercial automobile	411	377	9.0
General liability	310	295	5.1
Commercial property	157	173	(9.2)
Individual life and annuity	121	81	49.4
Total NWP	$2,480	$2,294	8.1%

NWP for the three months ended March 31, 2017 was $2.480 billion, an increase of $186 million over the same period in 2016. The increase reflects higher employer disability, life and A&H premium due to strong new business sales and greater individual life and annuity premium due to higher life-contingent structured settlement sales. The increase further reflects higher retention and rate increases across the casualty lines, with the most significant rate increase in commercial auto in order to mitigate higher industry-wide loss trends. These increases were partially offset by a decrease in workers compensation audit and retrospective premium, lower workers compensation construction wrap-up premium and lower property premium due to continued competitive market pressures.

Results of Operations – Commercial Insurance

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Revenues	$2,914	$2,716	7.3%
PTOI before catastrophes and net incurred losses attributable to prior years	$249	$305	(18.4%)
Catastrophes[1]	(106)	(58)	82.8
Net incurred losses attributable to prior years[2]	(3)	6	NM
PTOI	$140	$253	(44.7%)

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

2 Net of earned premium and reinstatement premium attributable to prior years of $8 million for the three months ended March 31, 2017 and ($4) million for the same period in 2016.

NM = Not Meaningful

PTOI for the three months ended March 31, 2017 was $140 million, a decrease of $113 million from the same period in 2016. The decrease reflects higher catastrophe and non-catastrophe property losses and increased current accident year casualty losses driven by higher loss trends in the commercial auto line of business not recognized into earnings until the fourth quarter of 2016. The decrease further reflects a favorable prior year workers compensation reserve release in 2016 that did not recur, a higher commission expense ratio and unfavorable employer disability and life experience. These decreases were partially offset by lower employee benefits expense and profit margin on growth in earned premium.

Revenues for the three months ended March 31, 2017 were $2.914 billion, an increase of $198 million over the same period in 2016. The increase reflects the earned impact of the 2017 written premium growth previously mentioned and the impact of higher earnings associated with the casualty lines written premium growth during 2016. The increase further reflects net investment income growth due to higher invested assets in Liberty Mutual Benefits and higher fees associated with the individual life and employer disability business, partially offset by lower commission revenue from servicing carrier operations.

Claims, benefits, and expenses for the three months ended March 31, 2017 were $2.774 billion, an increase of $311 million over the same period in 2016. The increase reflects higher catastrophe and non-catastrophe property losses and increased current accident year casualty losses driven by higher loss trends in the commercial auto line of business not recognized into earnings until the fourth quarter of 2016. The increase further reflects a favorable prior year workers compensation reserve release in 2016 that did not recur, higher commission expense and unfavorable employer disability and life experience, partially offset by lower employee benefits expense.

	Three Months Ended March 31,		
COMMERCIAL INSURANCE	**2017**	**2016**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	61.6%	58.4%	3.2
Underwriting expense ratio	34.8	35.5	(0.7)
Dividend ratio	0.1	0.1	-
Subtotal	96.5	94.0	2.5
Catastrophes[1]	5.7	3.2	2.5
Net incurred losses attributable to prior years[2]	0.3	(0.4)	0.7
Total combined ratio	102.5%	96.8%	5.7

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

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

The Commercial Insurance combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2017 was 96.5%, an increase of 2.5 points over the same period in 2016. The increase reflects higher current accident year casualty losses driven by higher loss trends in the commercial auto line of business not recognized into earnings until the fourth quarter of 2016 and higher non-catastrophe property losses. The increase was partially offset by a lower underwriting expense ratio driven by lower employee benefits expense and higher casualty lines earned premium, partially offset by increased commission expense and lower servicing carrier commission revenue.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2017 was 102.5%, an increase of 5.7 points over the same period in 2016. The increase reflects higher catastrophe losses, a favorable prior year workers compensation reserve release in 2016 that did not recur and the combined ratio increase previously discussed.

GLOBAL SPECIALTY

Overview – Global Specialty

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

Global Specialty NWP by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
LSM	$804	$871	(7.7%)
LIU	299	272	9.9
LM Surety	193	196	(1.5)
Other	47	41	14.6
Total NWP	$1,343	$1,380	(2.7%)
Foreign exchange effect on growth			(1.7)
NWP growth excluding foreign exchange[1]			(1.0%)

1 Determined by assuming constant foreign exchange rates between periods.

Global Specialty's major product lines are as follows:

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

Global Specialty NWP by line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Specialty insurance	$535	$559	(4.3%)
Reinsurance	480	498	(3.6)
Surety	197	201	(2.0)
Inland marine	131	122	7.4
Total NWP	$1,343	$1,380	(2.7%)

NWP for the three months ended March 31, 2017 was $1.343 billion, a decrease of $37 million from the same period in 2016. The decrease reflects re-underwriting and pricing actions for selective products in specialty insurance as well as a change in premium recognition methodology within reinsurance, partially offset by inland marine growth. Additionally, foreign exchange negatively impacted the quarter due to the strengthening of the U.S. dollar versus the British pound and euro.

Results of Operations – Global Specialty

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Revenues	$1,250	$1,235	1.2%
PTOI before catastrophes and net incurred losses attributable to prior years	$137	$144	(4.9%)
Catastrophes[1]	(1)	-	NM
Net incurred losses attributable to prior years[2]	2	17	(88.2)
PTOI	$138	$161	(14.3%)

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

2 Net of earned premium and reinstatement premium attributable to prior years of ($5) million for the three months ended March 31, 2017, and $5 million for the same period in 2016.

NM = Not Meaningful

PTOI for the three months ended March 31, 2017 was $138 million, a decrease of $23 million from the same period in 2016. The decrease reflects higher current year large loss activity within LSM and LIU US as well as lower favorable incurred losses attributable to prior years, partially offset by lower current year loss activity within LM Surety.

Revenues for the three months ended March 31, 2017 were $1.250 billion, an increase of $15 million over the same period in 2016. The increase is driven by an increase in earned premium, which reflects higher writings in prior years within LSM reinsurance, partially offset by LSM specialty due to underwriting actions.

Claims, benefits and expenses for the three months ended March 31, 2017 were $1.112 billion, an increase of $38 million over the same period in 2016. The increase reflects higher current year large loss activity within LSM and LIU US as well as lower favorable incurred losses attributable to prior years, partially offset by lower current year loss activity within LM Surety.

GLOBAL SPECIALTY	Three Months Ended March 31, 2017	2016	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	59.4%	57.8%	1.6
Underwriting expense ratio	34.1	34.6	(0.5)
Dividend ratio	0.2	0.2	-
Subtotal	93.7	92.6	1.1
Catastrophes[1]	-	-	-
Net incurred losses attributable to prior years[2]	(0.1)	(1.4)	1.3
Total combined ratio	93.6%	91.2%	2.4

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

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

The Global Specialty combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2017 was 93.7%, an increase of 1.1 points over the same period in 2016. The increase in the claims and claim adjustment expense ratio reflects higher current year large loss activity within LSM and LIU US, partially offset by lower current year loss activity within LM Surety. The decrease in the underwriting expense ratio reflects the impact of higher earned premium.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2017 was 93.6%, an increase of 2.4 points over the same period in 2016. The increase reflects the changes to the combined ratio mentioned above as well as lower favorable net incurred losses attributable to prior years.

CORPORATE AND OTHER

Overview – Corporate and Other

Corporate and Other includes the following significant items:

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

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

- Effective January 1, 2015, Corporate and Commercial Insurance entered into a new agreement including certain pre-2014 voluntary and involuntary workers compensation claims. The covered business materially aligns with the workers compensation business covered by the retroactive reinsurance agreement defined as the NICO Reinsurance Transaction, which is described further in "Reinsurance Recoverables."

- Interest expense on the Company's outstanding debt.

- Certain risks of its SBUs that the Company reinsures as part of its risk management program and risks on U.S. Consumer Markets homeowners business covered by externally ceded homeowners quota share reinsurance treaties.

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

- The Company discounts the long-term indemnity portion of its settled unpaid workers compensation claims at risk-free discount rates. Commercial Insurance reports its discount based on statutory discount rates. Corporate and Other results reflect the difference between the statutory and risk-free rate.

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

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

- Investment related realized gains (losses).

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

- Fee and other revenues include revenues from certain wholly owned non-insurance subsidiaries, primarily Liberty Energy. Liberty Energy generates revenue from the production and sale of oil and gas and related LP, LLC and other equity method investments.

- The prior period results of the Polish operation, which was sold on September 30, 2016, are presented in the Corporate and Other section.

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

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Reinsurance, net	$224	$179	25.1%
Workers compensation – Voluntary[1]	(31)	13	NM
Other[2]	3	24	(87.5)
Total NWP	$196	$216	(9.3%)

1 Booked as billed adjustment.
2 Other includes the Polish operation.
NM = Not Meaningful

NWP for the three months ended March 31, 2017 was $196 million, a decrease of $20 million from the same period in 2016. The decrease reflects the book as billed adjustment and premium written by the Polish operation in 2016, partially offset by the reinsurance line of business due to new internal programs and changes in terms and coverage to both internal and external programs.

Results of Operations – Corporate and Other

	Three Months Ended March 31,		
$ in Millions	**2017**	**2016**	**Change**
Revenues	$467	$203	130.0%
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income	($123)	($55)	123.6%
Catastrophes[1]	10	7	42.9
Net incurred losses attributable to prior years:			
- Asbestos and environmental[2]	(4)	-	NM
- All other[2,3]	(6)	22	NM
Pre-tax operating loss before partnerships, LLC and other equity method income	(123)	(26)	NM
Partnerships, LLC and other equity method income[4]	162	23	NM
Pre-tax operating income (loss)	$39	($3)	NM

1 Catastrophes are defined as a natural catastrophe or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Asbestos and environmental is gross of the NICO Reinsurance Transaction, and All other includes all cessions related to the NICO Reinsurance Transaction, which is described further in "Reinsurance Recoverables".
3 Net of earned premium attributable to prior years of zero for the three months ended March 31, 2017 and 2016.
4 Partnerships, LLC and other equity method income includes LP, LLC and other equity method income within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from the production and sale of oil and gas.
NM = Not Meaningful

Pre-tax operating income (loss) for the three months ended March 31, 2017 was $39 million versus ($3) million for the same period in 2016. The change reflects higher partnerships, LLC, and other equity method income and lower expenses retained in Corporate, partially offset by higher current accident year losses and favorable net incurred losses attributable to prior years in 2016 that did not recur within the reinsurance segment, lower net investment income excluding partnerships, LLC, and other equity method investments, and a release of legal reserves in the prior year that did not recur.

Revenues for the three months ended March 31, 2017 were $467 million, an increase of $264 million over the same period in 2016. The major components of revenues are net premium earned, net investment income (including LP, LLC and other equity method investments), net realized gains (losses), and fee and other revenues.

Net premium earned for the three months ended March 31, 2017 was $56 million, a decrease of $14 million from the same period in 2016. The decrease was driven by premium earned by the Polish operation in 2016.

Net investment income for the three months ended March 31, 2017 was $193 million, an increase of $67 million over the same period in 2016. The increase was primarily a result of more favorable valuations in both the energy sector and traditional private equity investments in 2017 as compared to the same period in 2016.

Net realized gains (losses) for the three months ended March 31, 2017 were $169 million versus ($39) million for the same period in 2016. The increase in net realized gains primarily relates to a $109 million gain on the sale of company-owned real estate. In addition, 2017 reflects higher fixed maturity and equity gains realized from sales, partially offset by an impairment of a direct oil and gas well investment. The prior period was impacted by derivative losses that did not recur in 2017.

Fee and other revenues for the three months ended March 31, 2017 were $49 million, an increase of $3 million over the same period in 2016.

Claims, benefits and expenses for the three months ended March 31, 2017 were $259 million, an increase of $14 million over the same period in 2016. The increase reflects higher current accident year losses and favorable incurred losses attributable to prior years in 2016 that did not recur within the reinsurance segment and a release of legal reserves in the prior year that did not recur, partially offset by lower depreciation, depletion and amortization expenses related to Liberty Energy and lower expenses retained in Corporate.

INVESTMENTS

General

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

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

Invested Assets (including cash and cash equivalents)

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

Invested Assets by Type	**As of March 31, 2017**		**As of December 31, 2016**	
$ in Millions	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$64,904	77.6%	$64,700	79.2%
Equity securities, available for sale, at fair value	2,705	3.2	2,576	3.2
LP, LLC and other equity method investments	5,640	6.8	5,316	6.5
Commercial mortgage loans	2,665	3.2	2,582	3.2
Short-term investments	635	0.8	1,147	1.4
Other investments	715	0.9	709	0.9
Cash and cash equivalents	6,256	7.5	4,608	5.6
Total invested assets	$83,520	100.0%	$81,638	100.0%

Total invested assets as of March 31, 2017 were $83.520 billion, an increase of $1.882 billion or 2.3% over December 31, 2016. The increase primarily reflects increases in cash from investing and financing.

Fixed maturities as of March 31, 2017 were $64.904 billion, an increase of $204 million or 0.3% over December 31, 2016. As of March 31, 2017, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost and fair value of $353 million and $356 million, respectively.

Equity securities as of March 31, 2017 were $2.705 billion ($2.352 billion common stock and $353 million preferred stock) versus $2.576 billion as of December 31, 2016 ($2.239 billion common stock and $337 million preferred stock), an increase of $129 million or 5.0% from December 31, 2016. Of the $2.352 billion of common stock at March 31, 2017, $575 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The increase in total equity securities was primarily due to market appreciation.

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

LP, LLC and other equity method investments	**As of March 31, 2017**		**As of December 31, 2016**	
$ in Millions	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Traditional private equity	$3,184	56.5%	$3,034	57.1%
Natural resources – Energy	455	8.1	384	7.2
Natural resources – Other	287	5.1	292	5.5
Real estate	743	13.2	713	13.4
Other	971	17.1	893	16.8
Total LP, LLC and other equity method investments	$5,640	100.0%	$5,316	100.0%

Commercial mortgage loans as of March 31, 2017 were $2.665 billion (net of $7 million of loan loss reserves or 0.26% of the outstanding loan portfolio), an increase of $83 million or 3.21% over December 31, 2016. The increase primarily reflects $135 million in funding partially offset by $53 million in principal reductions. The entire commercial mortgage loan portfolio is U.S.-based. The number of loans in the portfolio increased from 4,856 at December 31, 2016 to 4,898 at March 31, 2017.

Short-term investments as of March 31, 2017 were $635 million, a decrease of $512 million or 44.6% from December 31, 2016. The decrease was primarily due to maturing commercial paper that was purchased in 2016 to take advantage of favorable yields.

Cash and cash equivalents as of March 31, 2017 were $6.256 billion, an increase of $1.648 billion or 35.8% over December 31, 2016. The increase was primarily related to investing and financing activities.

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

	As of March 31, 2017			
$ in Millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$3,027	$117	($22)	$3,122
Residential MBS [1]	6,256	135	(46)	6,345
Commercial MBS	1,688	25	(6)	1,707
Other MBS and ABS [2]	2,752	39	(16)	2,775
U.S. state and municipal	13,542	485	(164)	13,863
Corporate and other	31,056	1,164	(173)	32,047
Foreign government securities	4,873	193	(21)	5,045
Total fixed maturities	63,194	2,158	(448)	64,904
Common stock	1,838	539	(25)	2,352
Preferred stock	363	14	(24)	353
Total equity securities	2,201	553	(49)	2,705
Total securities available for sale	$65,395	$2,711	($497)	$67,609

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

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

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of March 31, 2017:

Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	As of March 31, 2017							
$ in Millions	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$1,857	$-	$-	$-	$-	$-	$1,857	17.1%
GNMA residential mortgage	2,217	-	-	-	-	-	2,217	20.5
FNMA residential mortgage	2,166	1	-	-	-	-	2,167	20.0
FHLMC residential mortgage	1,760	-	-	-	-	-	1,760	16.3
Non-agency residential mortgage	26	2	-	2	9	162	201	1.8
Commercial MBS	1,592	83	13	19	-	-	1,707	15.8
Non-mortgage ABS	459	-	76	368	15	-	918	8.5
Total	$10,077	$86	$89	$389	$24	$162	$10,827	100.0%
% of Total	93.1%	0.8%	0.8%	3.6%	0.2%	1.5%	100.0%	

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

Approximately 74% of the Company's mortgage and asset-backed fixed maturity portfolio is explicitly backed by the U.S. government (SBA and GNMA) or by government-sponsored entities (FNMA and FHLMC). Approximately 93% of the holdings are rated AAA. The commercial mortgage-backed securities portfolio is well diversified and of high quality with approximately 93% 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, 2017 and December 31, 2016:

U.S. State and Municipal by Credit Quality[1]	**As of March 31, 2017**			**As of December 31, 2016**		
$ in Millions	**Fair Value**	**% of Total**	**Average Credit Rating**	**Fair Value**	**% of Total**	**Average Credit Rating**
State general obligation	$1,931	13.9%	AA	$1,954	13.7%	AA
Local general obligation	1,365	9.8	AA	1,430	10.0	AA
Revenue	9,811	70.8	AA	9,818	68.7	AA
Pre-refunded	756	5.5	AAA	1,080	7.6	AAA
Total U.S. state and municipal	$13,863	100.0%	AA	$14,282	100.0%	AA

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

The municipal bond portfolio (taxable and tax-exempt) includes general obligation and revenue bonds issued by states, cities, counties, school districts, hospitals, educational institutions, and similar issuers. Included in the municipal bond portfolio at March 31, 2017 and December 31, 2016 were $756 million and $1.080 billion, respectively, of pre-refunded bonds, which are bonds for which states or municipalities have established irrevocable trusts, which were created to satisfy their responsibility for payments of principal and interest.

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

Fixed Maturities by Credit Quality[1]	**As of March 31, 2017**		**As of December 31, 2016**	
$ in Millions	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$17,185	26.5%	$18,057	27.9%
AA+, AA, AA-	12,528	19.3	12,563	19.4
A+, A, A-	15,259	23.5	15,336	23.7
BBB+, BBB, BBB-	15,700	24.2	14,530	22.5
Total investment grade	60,672	93.5	60,486	93.5
BB+, BB, BB-	2,404	3.7	2,358	3.6
B+, B, B-	1,454	2.2	1,483	2.3
CCC or lower	374	0.6	373	0.6
Total below-investment grade	4,232	6.5	4,214	6.5
Total fixed maturities	$64,904	100.0%	$64,700	100.0%

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

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, 2017.

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

Fixed Maturity by Maturity Date	**As of March 31, 2017**		**As of December 31, 2016**	
$ in Millions	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
One year or less	$3,399	5.2%	$3,323	5.1%
Over one year through five years	18,349	28.3	17,696	27.4
Over five years through ten years	17,188	26.5	17,341	26.8
Over ten years	15,141	23.3	15,031	23.2
MBS and ABS	10,827	16.7	11,309	17.5
Total fixed maturities	$64,904	100.0%	$64,700	100.0%

During 2017, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company has made only minor adjustments to the average duration of its investment portfolio. The average duration of the investment portfolio as of March 31, 2017 was 5.2 (domestic P&C was 4.2).

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

Unrealized Losses & Fair Value by Security Type	**As of March 31, 2017**			
$ in Millions	**Less Than 12 Months**		**12 Months or Longer**	
	Unrealized Losses	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Government and agency securities	($22)	$1,693	$ -	$5
Residential MBS	(45)	2,899	(1)	30
Commercial MBS	(6)	590	-	10
Other MBS and ABS	(11)	991	(5)	110
U.S. state and municipal	(158)	3,741	(6)	61
Corporate and other	(136)	6,708	(37)	635
Foreign government securities	(19)	1,178	(2)	104
Total fixed maturities	(397)	17,800	(51)	955
Common stock	(14)	227	(11)	85
Preferred stock	-	17	(24)	256
Total equity securities	(14)	244	(35)	341
Total securities available for sale	($411)	$18,044	($86)	$1,296

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

Unrealized losses decreased from $641 million as of December 31, 2016 to $497 million as of March 31, 2017. Of the $11 million of unrealized losses 12 months or longer on common stock, $3 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The Company monitors the difference between the amortized cost and estimated fair value of fixed maturity securities to ascertain whether declines in value are temporary in nature. The Company currently does not have the intent to sell these securities and has determined it is not more likely than not that it would be required to sell these fixed maturity securities before they recover their fair value. The Company has concluded that the gross unrealized losses of fixed maturity securities as of March 31, 2017 are temporary.

For equity securities, if the decline is believed to be other-than-temporary, the carrying value of the investment is written down to fair value and a realized loss is recorded. The Company has concluded that the gross unrealized losses of equity securities as of March 31, 2017 are temporary, and the Company has the intent and ability to hold these securities until recovery.

The following tables summarize the Company's issuer and sector exposure[1] as of March 31, 2017:

Top 10 Issuers	**As of March 31, 2017**				
$ in Millions	**Fixed Maturity**	**Equity**	**Short Term**	**Total Exposure**	**% of Invested Assets**
1. Government of United Kingdom	$687	$-	$5	$692	0.83%
2. Government of Brazil	616	-	-	616	0.75
3. Invenergy	-	396	-	396	0.47
4. Bank of America Corp	241	77	-	318	0.38
5. Anheuser-Busch InBev NV	310	6	-	316	0.38
6. State of Washington	296	-	-	296	0.35
7. Government of Colombia	294	-	-	294	0.35
8. Wells Fargo & Co	284	3	-	287	0.34
9. Government of Spain	283	-	-	283	0.34
10. Government of Canada	268	-	5	273	0.33
Total	$3,279	$482	$10	$3,771	4.52%

Top 10 Sectors	**As of March 31, 2017**				
$ in Millions	**Fixed Maturity**	**Equity**	**Short Term**	**Total Exposure**	**% of Invested Assets**
1. Banking	$4,942	$551	$281	$5,774	6.91%
2. Foreign Government	4,016	-	19	4,035	4.84
3. Electric Utility	3,077	179	-	3,256	3.90
4. Technology	1,793	456	-	2,249	2.69
5. US Municipal - Education	2,070	-	-	2,070	2.48
6. US Municipal – State	1,931	-	-	1,931	2.31
7. Food and Beverage	1,636	77	-	1,713	2.05
8. US Municipal – Water & Sewer	1,513	-	-	1,513	1.81
9. Insurance	1,308	176	-	1,484	1.78
10. Diversified Manufacturing	1,429	40	3	1,472	1.76
Total	$23,715	$1,479	$303	$25,497	30.53%

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

As of March 31, 2017, investments in the energy sector accounted for $3.344 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 Bargics Industry Groups*). These individual energy sub-sectors are not material enough at an individual level to appear within the top 10 rankings in the sector table above. Energy investments consist of investment grade bonds of $2.367 billion, bonds that were rated below investment grade of $322 million, publicly traded equity securities of $198 million, and natural resources partnerships and other equity method investments of $457 million. In addition, the Company has direct investments in oil and gas wells of $1.127 billion which are included in other assets on the Consolidated Balance Sheets.

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

Unfunded Commitments	**As of March 31, 2017**		**As of December 31, 2016**	
$ in Millions	**Total**	**% of Total**	**Total**	**% of Total**
Traditional private equity	$1,682	50.6%	$1,698	46.7%
Natural resources – Energy	566	17.0	652	17.9
Natural resources – Other	-	-	1	-
Real estate	597	18.0	746	20.5
Other	477	14.4	541	14.9
Total unfunded commitments	$3,322	100.0%	$3,638	100.0%

The $566 million unfunded energy investment commitments as of March 31, 2017 included $495 million related to natural resource partnerships and $71 million related to direct investments in oil and gas wells. The $652 million unfunded energy investment commitments as of December 31, 2016 included $563 million related to natural resource partnerships and $89 million related to direct investments in oil and gas wells. Energy commitments declined $86 million in the quarter, primarily due to net contributions of $70 million 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.

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, 2017 (including cash and cash equivalents) totaled $83.520 billion.

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

Current maturities of long-term debt:

$ in Millions	**As of March 31, 2017**	**As of December 31, 2016**
Current maturities of long-term debt	$ -	$ -

Long-term debt:

$ in Millions	**As of March 31, 2017**	**As of December 31, 2016**
Junior Subordinated notes, due 2067[1, 2]	$ 300	$ 300
5.00% Notes, due 2021	600	600
4.95% Notes, due 2022	750	750
4.25% Notes, due 2023	1,000	1,000
1.75% €500 Million Notes, due 2024	535	-
8.50% Surplus notes, due 2025	140	140
2.75% €750 Million Notes, due 2026	802	791
7.875% Surplus notes, due 2026	227	227
7.625% Notes, due 2028	3	3
3.91% - 4.25% Federal Home Loan Bank Borrowings, due 2032	300	300
7.00% Notes, due 2034	231	231
6.50% Notes, due 2035	471	471
7.50% Notes, due 2036	19	19
7.80% Junior Subordinated notes, due 2087[2]	700	700
10.75% Junior Subordinated notes, due 2088[3]	66	68
6.50% Notes, due 2042	750	750
4.85% Notes, due 2044	1,050	1,050
7.697% Surplus notes, due 2097	260	260
Subtotal	8,204	7,660
Unamortized discount	(15)	(15)
Long-term debt excluding unamortized debt issuance costs	8,189	7,645
Unamortized debt issuance costs	(43)	(42)
Total long-term debt	$8,146	$7,603

[1] 7.00% fixed rate became 6.324% starting March 15, 2017 through a swap. Bondholders will be paid 3-month LIBOR + 2.905%
[2] The par value call date and final fixed rate interest payment date is March 15, 2037, subject to certain requirements.
[3] The par value call date and final fixed rate interest payment date is June 15, 2038, subject to certain requirements.

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

Debt Transactions and In-force Credit Facilities

The Company repurchased $2 million and $16 million of the 10.75% Junior Subordinated notes due 2088 during the three months ended March 31, 2017 and March 31, 2016, respectively. Pre-tax losses of $1 million and $8 million were recorded on these transactions for the three months ended March 31, 2017 and March 31, 2016, respectively, and are included in loss on extinguishment of debt in the accompanying Consolidated Statements of Income.

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

On May 5, 2016, Liberty Mutual Insurance Company ("LMIC") extended the termination date of a $1 billion repurchase agreement from July 3, 2017 to July 3, 2018, unless extended. At March 31, 2017, no funds were borrowed under the facility.

On May 4, 2016, Liberty Mutual Group Inc. ("LMGI") issued €750 million par value of Senior Notes due 2026 (the "2026 Notes"). Interest is payable annually at a fixed rate of 2.75%. The 2026 Notes mature on May 4, 2026. The Company has designated non-derivative foreign-currency denominated long-term debt and the related accrued interest as hedges of its net investment in certain foreign operations.

Effective December 21, 2015, LMIC renewed a $1 billion repurchase agreement for a two-year period, which terminates December 21, 2017. At March 31, 2017, no funds were borrowed under the facility.

On April 8, 2015, LMGI increased its commercial paper program from $750 million to $1 billion. There was no commercial paper outstanding at March 31, 2017.

On March 5, 2015, LMGI amended and restated its unsecured revolving credit facility from $750 million to $1 billion with an expiration date of March 5, 2020. This facility backs the Company's commercial paper program that is guaranteed by LMIC. To date, no funds have been borrowed under the facility.

LMIC, Peerless Insurance Company ("PIC"), Liberty Life Assurance Company of Boston ("LLAC"), Liberty Mutual Fire Insurance Company ("LMFIC") and Employers Insurance Company of Wausau ("EICOW") are members of the Federal Home Loan Bank. On March 21, 2012, LMFIC borrowed $150 million at a rate of 3.91% with a maturity date of March 22, 2032. On March 23, 2012 and April 2, 2012, LMIC borrowed $127 million at a rate of 4.24% with a maturity date of March 23, 2032 and $23 million at a rate of 4.25% with a maturity date of April 2, 2032, respectively. As of March 31, 2017, all of the outstanding Federal Home Loan Bank borrowings are fully collateralized.

On January 20, 2012, LMGI entered into two interest rate swap transactions having a notional amount of $300 million with respect to LMGI's $300 million 7.00% Junior Subordinated Notes due 2067. Pursuant to the terms of the swap agreements, commencing on March 15, 2017 and effective through March 15, 2037, LMGI has agreed with the counterparties to pay a fixed rate of interest on the notional amount and the counterparties have agreed to pay a floating rate of interest on the notional amount.

Interest Expense

Consolidated interest expense for the three months ended March 31, 2017 was $108 million, a decrease of $1 million from the same period in 2016.

Holding Company Liquidity and Capital Resources

The Company conducts substantially all of its operations through its wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of March 31, 2017, the Company, through its downstream subsidiary LMGI, had $6.739 billion of debt outstanding, excluding discount and issuance costs. As of March 31, 2017, the Company, through Liberty Mutual Finance Europe DAC, had $535 million of debt outstanding, excluding discount and issuance costs.

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

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

$ in Millions	**RBC Ratio[1]**		**Dividend Capacity[2]**	**Dividends Paid[3]**
RBC Ratios and Dividend Capacity	**2016**	**2015**	**2017**	**2017**
LMIC	487%	497%	$ 1,612	$ 16
LMFIC	502%	518%	$ 147	$ 4
EICOW	507%	512%	$ 158	$ -

[1] Authorized control level risk-based capital as defined by the NAIC.
[2] Represents the estimated maximum allowable dividend without prior regulatory approval in the state of domicile.
[3] Dividends paid represent amounts paid during the three months ended March 31, 2017. Available dividend capacity as of March 31, 2017 is calculated as 2017 dividend capacity less dividends paid for the preceding 12 months. Dividends paid April 1, 2016 through March 31, 2017 for LMIC, LMFIC and EICOW were $68 million, $15 million and zero, respectively.

LMGI also has access to the following sources of funding:

- A management services agreement with LMIC pursuant to which LMGI is entitled to collect certain costs plus a management fee for services rendered by LMGI employees.
- Investment management agreements with affiliated entities pursuant to which an LMGI subsidiary investment advisor is entitled to recover annual expenses for investment management services performed by its employees.
- Liberty Corporate Services LLC ("LCS"), which through its subsidiaries collects fees and other revenues, primarily for claims administration and agency services rendered for affiliated and non-affiliated entities. For the three months ended March 31, 2017, LCS recorded $89 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, 2017	As of December 31, 2016
Long-term debt	$8,146	$7,603
Adjusted debt[1]	$7,146	$6,603
Total equity	$21,014	$20,387
Less: Accumulated other comprehensive loss	(1,030)	(1,304)
Total equity excluding accumulated other comprehensive loss	$22,044	$21,691
Total capital excluding accumulated other comprehensive loss	$30,190	$29,294
Adjusted debt-to-capital capitalization excluding accumulated other comprehensive loss	23.7%	22.5%
Statutory surplus	$19,623	$19,582

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

The adjusted debt-to-capital capitalization ratio excluding accumulated other comprehensive loss is calculated by dividing (a) adjusted debt by (b) total capital excluding accumulated other comprehensive loss. Net unrealized gains and losses on investments can be significantly impacted by both interest rate movements and other economic factors. Accordingly, in the opinion of the Company's management, the debt-to-total capital ratio calculated on this basis provides another useful metric for investors to understand the Company's financial leverage position. The Company's ratio of debt-to-capital (excluding accumulated other comprehensive loss) of 23.7% at March 31, 2017 was within the Company's target range.

REINSURANCE RECOVERABLES

The Company reported reinsurance recoverables of $13.913 billion and $13.820 billion at March 31, 2017 and December 31, 2016, respectively, net of allowance for doubtful accounts of $234 million and $235 million, respectively. Included in these balances are $557 million and $564 million of paid recoverables and $13.590 billion and $13.491 billion of unpaid recoverables (including retroactive reinsurance), respectively.

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

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

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

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

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

5 Reinsurers not rated by Standard & Poor's.

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

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

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

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

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

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

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

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

As the aggregate of workers compensation and asbestos and environmental development has exceeded the original pre-tax loss of $128 million, deferred gains are now being recorded. Deferred gains are amortized into earnings over the period when underlying claims are settled. The Company reported deferred gain amortization of ($4) million and $13 million at March 31, 2017 and December 31, 2016, respectively. As of March 31, 2017 and December 31, 2016, deferred gains were $73 million and $62 million, respectively, and are included in other liabilities within the accompanying Consolidated Balance Sheets.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

Unpaid Claims and Claim Adjustment Expenses

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

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

For additional discussion, please refer to footnote 6 in the Company's March 31, 2017 Unaudited Consolidated Financial Statements.

Asbestos and Environmental

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

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

Reinsurance Recoverables

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies. The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing and other relevant factors. Accordingly, the establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. Changes in these estimates could result in additional charges to the accompanying Consolidated Statements of 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 4 in the Company's March 31, 2017 Unaudited Consolidated Financial Statements.

Fair Value Determination

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

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

Regarding fair value measurements, as of March 31, 2017, excluding other assets, the Company reflected $4.786 billion (7.0%) 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, 2017, the Company reported $63.131 billion (91.7%) as level 2, consisting primarily of fixed maturity securities. Finally, the Company reported $929 million (1.3%) 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 9 in the Company's March 31, 2017 Unaudited Consolidated Financial Statements.

Impairment Losses on Investments

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

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

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

For additional discussion, please refer to footnote 3 in the Company's March 31, 2017 Unaudited Consolidated Financial Statements.

Goodwill and Intangible Assets

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

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

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

Deferred Income Taxes

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

For additional discussion, please refer to footnote 7 in the Company's March 31, 2017 Unaudited Consolidated Financial Statements.

Pension and Postretirement Benefit Obligations

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

The discount rate assumption used to determine the benefit obligations was based on a yield curve approach where the cash flows related to the benefit plans' liability stream were discounted at an interest rate specifically applicable to the timing of the cash flows. The discount rate assumption used to determine the benefit obligations is based on the yield curve where the cash flows related to each of the benefit plans' liability stream is discounted using spot rates specifically applicable to the timing of the cash flows of each plan. Effective January 1, 2016, service cost is calculated by discounting the future cash flows attributable to the current year of service using spot rates specifically applicable to the timing of the cash flows. Interest cost is determined by multiplying each benefit obligation cash flow by the spot rate applicable to that timing of the cash flow. The spot rate change, which is accounted for as a change in estimate, had a $57 million impact on the net periodic benefit cost reported for 2016. There was no impact on the benefit obligation.

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

For additional discussion, please refer to footnote 8 in the Company's March 31, 2017 Unaudited Consolidated Financial Statements.

ABOUT THE COMPANY

Boston-based LMHC, the parent corporation of the Liberty Mutual Insurance group of entities, is a diversified global insurer and fourth largest property and casualty insurer in the U.S. based on 2016 direct written premium. The Company also ranks 73rd on the Fortune 100 list of largest corporations in the U.S. based on 2015 revenue. As of December 31, 2016, LMHC had $125.592 billion in consolidated assets, $105.205 billion in consolidated liabilities, and $38.308 billion in annual consolidated revenue.

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

Functionally, the Company conducts substantially all of its business through the SBUs, with each operating independently of the others with dedicated sales, underwriting, claims, actuarial, financial and certain information technology resources. Management believes this structure allows each business unit to execute its business strategy and/or to make acquisitions without impacting or disrupting the operations of the Company's other business units.

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