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

Quarter Ended March 31, 2019

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

The following discussion highlights significant factors influencing results of operations and changes in financial position of Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Insurance group of entities (the "Company" or "LMHC"), for the three months ended March 31, 2019 and 2018. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's December 31, 2018 Audited Consolidated Financial Statements and March 31, 2019 Unaudited Consolidated Financial Statements located on the Company's Investor Relations website at www.libertymutualgroup.com/investors. The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted. Further, the Company notes that it may make material information regarding the Company available to the public, from time to time, via the Company's Investor Relations website at www.libertymutualgroup.com/investors (or any successor site).

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Cautionary Statement Regarding Forward Looking Statements

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

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

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

EXECUTIVE SUMMARY

The following highlights do not address all of the matters covered in the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations or contain all of the information that may be important to the investing public. This summary should be read in conjunction with the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations and the Company's 2019 Unaudited Consolidated Financial Statements.

Consolidated Results of Operations

	Three Months Ended March 31,		
$ in Millions	**2019**	**2018**	**Change**
Net written premium ("NWP")	$9,699	$9,434	2.8%
Pre-tax operating income ("PTOI") before partnerships, LLC and other equity method income	662	393	68.4
Partnerships, LLC and other equity method income	83	216	(61.6)
Net realized gains	250	155	61.3
Unit linked life insurance	(61)	-	NM
Ironshore Inc. ("Ironshore") acquisition & integration costs	(6)	(14)	(57.1)
Restructuring costs	(2)	(3)	(33.3)
Discontinued operations, net of tax	(50)	59	NM
Consolidated net income	671	649	3.4
Less: Net income attributable to non-controlling interest	-	1	(100.0)
Net income attributable to LMHC	671	648	3.5
Net income attributable to LMHC excluding unrealized impact[1]	467	648	(27.9)
Cash flow provided by continuing operations	$235	$36	NM

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

	Three Months Ended March 31,		
	2019	**2018**	**Change (Points)**
Combined ratio before catastrophes[1] and net incurred losses attributable to prior years[2]	92.9%	95.2%	(2.3)
Combined ratio[3]	96.3%	99.0%	(2.7)

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

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

$ in Millions	As of March 31, 2019	As of December 31, 2018	Change
Short-term debt	$-	$-	-
Long-term debt	8,178	8,233	(0.7)
Total debt	$8,178	$8,233	(0.7%)
Unassigned equity	$24,584	$24,114	1.9%
Accumulated other comprehensive loss	(2,169)	(3,379)	(35.8)
Non-controlling interest	27	27	-
Total equity	$22,442	$20,762	8.1%

Subsequent Events

The Company intends to issue a new hybrid security, redeem the Junior Subordinated notes due 2067, and complete a tender offer for the Junior Subordinated notes due 2087 to be financed by cash along with a potential senior note issuance, which if completed are expected to close during the second quarter.

On April 15, 2019, the Company announced it has agreed to acquire the global surety and credit reinsurance operations of AmTrust Financial Services, including AmTrust Surety, AmTrust Insurance Spain, Nationale Borg and Nationale Borg Reinsurance. The transaction is subject to regulatory approval and customary closing conditions.

Management has assessed material subsequent events through May 9, 2019, the date the financial statements were available to be issued.

CONSOLIDATED RESULTS OF OPERATIONS

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

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

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

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

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

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

In connection with the Company's May 2018 sale of LLAC to Lincoln Financial Group, the Company agreed, pursuant to the master transaction agreement, to indemnify Protective Life Corporation and Protective Life Insurance Company (together with certain of their respective affiliates, "Protective"), Lincoln and other parties against certain liabilities. In late 2018, Protective initiated informal discussions with the Company regarding potential indemnification claims (the "Initial Claims") and in 2019 the Company began an investigation and evaluation of such Initial Claims. This investigation is ongoing. On April 30, 2019, Protective delivered to the Company a formal demand for indemnification related to the Initial Claims and in addition, demands for indemnification including matters unrelated to the Initial Claims (the "New Claims"). The Company is in the very early stages of investigating the New Claims and whether they have any merit or significant monetary value. Based on the Company's investigation to date of the claims generally, the Company has accrued a reserve of $50 million, net of tax, in the first quarter of 2019 presented

in discontinued operations in the Consolidated Statements of Income, which is primarily related to the Initial Claims, and may be adjusted up or down as the Company's investigation of all claims continues. The Company intends to vigorously defend all claims.

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

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

The Company's two businesses are as follows:

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

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

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2019**	**2018**	**Change**
Private passenger automobile	$3,438	$3,491	(1.5%)
Homeowners	1,284	1,372	(6.4)
Global Risk Solutions specialty insurance[1]	1,155	959	20.4
Global Risk Solutions reinsurance	808	846	(4.5)
Workers compensation	555	577	(3.8)
Commercial multiple-peril	551	544	1.3
Commercial automobile	539	504	6.9
General liability	412	395	4.3
Surety	248	218	13.8
Global Risk Solutions inland marine	137	142	(3.5)
Commercial property	130	138	(5.8)
Corporate reinsurance[2]	75	(136)	NM
Other[3]	367	384	(4.4)
Total NWP	$9,699	$9,434	2.8%

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

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

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

NM = Not Meaningful

NWP for the three months ended March 31, 2019 was $9.699 billion, an increase of $265 million over the same period in 2018.

Significant changes by major line of business for the three months ended March 31, 2019 include:

- Private passenger automobile NWP decreased $53 million. The decrease reflects unfavorable foreign exchange due to the strengthening of the U.S. dollar versus the Brazilian real and euro as compared to the average rates in 2018.
- Homeowners' NWP decreased $88 million. The decrease reflects increased purchases of property catastrophe protection through internal reinsurance within Global Retail Markets' U.S. segment (offset in the Corporate reinsurance line of business).
- Global Risk Solutions specialty insurance NWP increased $196 million. The increase reflects lower reinsurance purchased in the current year and new business, partially offset by unfavorable foreign exchange due to the strengthening of the U.S. dollar versus the euro and British pound as compared to the average rates in 2018.
- Global Risk Solutions reinsurance NWP decreased $38 million. The decrease reflects increased purchases of property catastrophe protection through internal reinsurance (offset in the Corporate reinsurance line of business) and unfavorable foreign exchange due to the strengthening of the U.S. dollar versus the euro and British pound as compared to the average rates in 2018.
- Commercial automobile NWP increased $35 million. The increase reflects favorable rate and new business.
- Surety NWP increased $30 million. The increase reflects growth, primarily within the contract bond business.

- Corporate reinsurance NWP increased $211 million. The increase primarily reflects higher assumed premium due to increased property catastrophe protection purchased by the businesses from Corporate.

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

Consolidated NWP by business was as follows:

	Three Months Ended March 31,		
$ in Millions	**2019**	**2018**	**Change**
Global Retail Markets	$6,503	$6,622	(1.8%)
Global Risk Solutions	3,174	2,955	7.4
Corporate and Other	22	(143)	NM
Total NWP	$9,699	$9,434	2.8%
Foreign exchange effect on growth			(1.4)
NWP growth excluding foreign exchange[1]			4.2%

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

Major drivers of NWP growth were as follows:

	Three Months Ended March 31,			
$ in Millions	**2019**	**2018**	**$ Change**	**Points Attribution**
Components of growth:				
Domestic personal automobile	$2,874	$2,880	($6)	(0.1)
Domestic homeowners	1,234	1,317	(83)	(0.9)
Global Retail Markets East | West (ex foreign exchange)[1]	1,028	1,036	(8)	(0.1)
Global Risk Solutions specialty insurance (ex foreign exchange)[1]	1,180	959	221	2.3
Global Risk Solutions reinsurance (ex foreign exchange)[1]	825	846	(21)	(0.2)
Domestic workers compensation	504	527	(23)	(0.2)
Surety	243	214	29	0.3
Global Risk Solutions inland marine (ex foreign exchange)[1]	140	142	(2)	-
Corporate reinsurance (ex foreign exchange)[1,2]	75	(136)	211	2.2
Global Retail Markets reinsurance (ex foreign exchange)[1]	6	-	6	0.1
Other lines	1,725	1,649	76	0.8
Foreign exchange[1]	(135)	-	(135)	(1.4)
Total NWP	$9,699	$9,434	$265	2.8

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

Consolidated NWP by geographic distribution channels was as follows:

	Three Months Ended March 31,		
$ in Millions	**2019**	**2018**	**Change**
U.S.	$7,780	$7,507	3.6%
International excluding foreign exchange[1]	2,054	1,927	6.6
Foreign exchange[1]	(135)	-	NM
Total NWP	$9,699	$9,434	2.8%

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

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

Results of Operations – Consolidated

$ in Millions	Three Months Ended March 31, 2019	2018	Change
Revenues	$10,667	$10,290	3.7%
PTOI before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income	$980	$739	32.6%
Catastrophes[1]	(279)	(352)	(20.7)
Net incurred losses attributable to prior years:			
- Asbestos and environmental[2]	(3)	(10)	(70.0)
- All other[2,3]	(36)	16	NM
PTOI before partnerships, LLC and other equity method income	662	393	68.4
Partnerships, LLC and other equity method income[4]	83	216	(61.6)
PTOI	745	609	22.3
Net realized gains	250	155	61.3
Unit linked life insurance	(61)	-	NM
Ironshore acquisition & integration costs	(6)	(14)	(57.1)
Restructuring costs	(2)	(3)	(33.3)
Pre-tax income	926	747	24.0
Income tax expense	205	157	30.6
Consolidated net income from continuing operations	721	590	22.2
Discontinued operations, net of tax	(50)	59	NM
Consolidated net income	671	649	3.4
Less: Net income attributable to non-controlling interest	-	1	(100.0)
Net income attributable to LMHC	$671	$648	3.5%
Net income attributable to LMHC excluding unrealized impact[5]	$467	$648	(27.9%)
Cash flow provided by continuing operations	$235	$36	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 reinsurance (the "NICO Reinsurance Transaction"), and All other includes all cessions related to the NICO Reinsurance Transaction, which is described further in "Reinsurance".

3 Net of earned premium and reinstatement premium attributable to prior years of zero and $2 million for the three months ended March 31, 2019 and 2018, 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 direct investments in natural resources.

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

NM = Not Meaningful

Partnerships, LLC and Other Equity Method Income $ in Millions	Three Months Ended March 31, 2019	2018	Change
LP, LLC and other equity method income[1]	$93	$203	(54.2%)
Direct investment in natural resources revenues[2]	126	96	31.3
Direct investment in natural resources expenses[3]	(136)	(83)	63.9
Partnerships, LLC and other equity method income	$83	$216	(61.6%)

1 Included within net investment income in the accompanying Consolidated Statements of Income.

2 Included within fee & other revenues in the accompanying Consolidated Statements of Income.

3 Included within operating costs and expenses in the accompanying Consolidated Statements of Income.

Net Investment Income	Three Months Ended March 31,	
$ in Millions	2019	2018
Taxable interest income	$453	$399
Tax-exempt interest income	46	49
Dividends	11	7
LP, LLC and other equity method income	93	203
Commercial mortgage loans	19	18
Other investment income	2	1
Gross investment income	624	677
Investment expenses[1]	(57)	(58)
Net investment income	$567	$619

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

Net Realized Gains $ in Millions	Sales & Settlements	Impairments	Unrealized Gains (Losses)	Total
Three Months Ended March 31, 2019:				
Fixed maturities	$1	($3)	$-	($2)
Equities	(9)	-	325	316
Derivatives	(8)	-	(4)	(12)
Other	(33)	(17)	(2)	(52)
Total	($49)	($20)	$319	$250
Three Months Ended March 31, 2018:				
Fixed maturities	($13)	($5)	$-	($18)
Equities	3	-	-	3
Derivatives	(17)	-	-	(17)
Other	191	(4)	-	187
Total	$164	($9)	$-	$155

Unrealized Gains Related to Equity Securities	Three Months Ended March 31,
$ in Millions	2019
Net gains recognized during the period on equity securities	$323
Less: Net gains recognized during the period on equity securities sold during the period	74
Unrealized gains recognized during the reporting period on equity securities still held at the reporting date	$249

PTOI before partnerships, LLC and other equity method income for the three months ended March 31, 2019 was $662 million, an increase of $269 million over the same period in 2018. The increase reflects the profit margin on higher earned premium, lower catastrophe losses, higher net investment income excluding partnerships, LLC and other equity method investments, and lower employee benefit and technology expenses in Corporate. These increases were partially offset by unfavorable net incurred losses attributable to prior years in Global Risk Solutions, unfavorable foreign exchange and higher current year non-catastrophe loss activity in Global Retail Markets.

Partnerships, LLC and other equity method income, including operating income from direct investments in natural resources, for the three months ended March 31, 2019 was $83 million, a decrease of $133 million from the same period in 2018. The decrease reflects less favorable valuations and distributions across the LP, LLC, and other equity method investments, primarily driven by energy investments in 2019 as compared to the same period in 2018.

Revenues for the three months ended March 31, 2019 were $10.667 billion, an increase of $377 million over the same period in 2018. The major components of revenues are net premium earned, net investment income, net realized gains, and fee and other revenues.

Net premium earned for the three months ended March 31, 2019 was $9.534 billion, an increase of $284 million over the same period in 2018. The increase primarily reflects the premium earned associated with the changes in NWP previously discussed and growth during the last nine months of 2018.

Net investment income for the three months ended March 31, 2019 was $567 million, a decrease of $52 million from the same period in 2018. The decrease reflects less favorable valuations and distributions across the LP, LLC, and other equity method investments, primarily driven by energy investments in 2019 as compared to the same period in 2018. The decrease was partially offset by investment income from a higher net invested asset base in 2019 as compared to the same period in 2018.

Net realized gains for the three months ended March 31, 2019 were $250 million, an increase of $95 million over the same period in 2018. The net realized gains in the current quarter were primarily driven by a $319 million net change in unrealized gains primarily due to the adoption of ASU 2016-01 in 2019. This was partially offset by a ($39) million loss upon classifying certain international Ironshore entities as held for sale. The prior period was impacted by a $162 million gain as a result of the acquisition of a previously held equity method investment.

Fee and other revenues for the three months ended March 31, 2019 were $316 million, an increase of $50 million over the same period in 2018. The increase primarily reflects higher natural resource revenues.

Claims, benefits and expenses for the three months ended March 31, 2019 were $9.672 billion, an increase of $146 million over the same period in 2018. The increase reflects unfavorable incurred losses attributable to prior years in Global Risk Solutions, attritional losses associated with business growth, unfavorable foreign exchange, and higher current year non-catastrophe loss activity in Global Retail Markets. These increases were partially offset by lower catastrophe losses, and lower employee benefit and technology expenses in Corporate.

Income tax expense on continuing operations for the three months ended March 31, 2019 was $205 million, an increase of $48 million over the same period in 2018. The Company's effective tax rate on continuing operations for the three months ended March 31, 2019 was 22%, compared to 21% for the same period in 2018. The increase in the effective tax rate on continuing operations from 2018 to 2019 was primarily driven by the impact of non-U.S. operations.

Discontinued operations, net of tax, for the three months ended March 31, 2019 were ($50) million versus $59 million for the same period in 2018. The change was driven by additional expense in 2019 related to the sale of LLAC versus operational income in 2018 related to LLAC, which was sold on May 1, 2018.

Net income attributable to LMHC for the three months ended March 31, 2019 was $671 million, an increase of $23 million over the same period in 2018.

Cash flow provided by continuing operations for the three months ended March 31, 2019 was $235 million, an increase of $199 million over the same period in 2018. The increase reflects favorable expense payment timing and higher cash collections within reinsurance due to larger internal placements in Corporate, higher premium collections and favorable catastrophe payments in Global Risk Solutions, and higher net investment income collected. These increases were partially offset by unfavorable catastrophe payments, underwriting expense payments, paid loss activity and lower premium collections in Global Retail Markets.

CONSOLIDATED	Three Months Ended March 31, 2019	2018	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	64.3%	65.0%	(0.7)
Underwriting expense ratio	28.6	30.2	(1.6)
Subtotal	92.9	95.2	(2.3)
Catastrophes[1]	2.9	3.8	(0.9)
Net incurred losses attributable to prior years:			
- Asbestos and environmental	-	0.1	(0.1)
- All other[2]	0.5	(0.1)	0.6
Total combined ratio[3]	96.3%	99.0%	(2.7)

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.

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

The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2019 was 92.9%, a decrease of 2.3 points from the same period in 2018. The decrease in the claims and claim adjustment expense ratio reflects earned premium growth driven by rate increases to offset loss costs in Global Retail Markets. The decrease in the underwriting expense ratio reflects earned premium growth and lower employee benefit and technology expenses in Corporate.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2019 was 96.3%, a decrease of 2.7 points from the same period in 2018. The decrease primarily reflects lower catastrophe losses and the changes in the combined ratio previously discussed, partially offset by unfavorable net incurred losses attributable to prior years.

GLOBAL RETAIL MARKETS

Overview – Global Retail Markets

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

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

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

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

Global Retail Markets Reinsurance consists of certain internal reinsurance programs.

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

Global Retail Markets NWP by segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2019**	**2018**	**Change**
U.S.	$5,559	$5,586	(0.5%)
West	662	755	(12.3)
East	282	281	0.4
Global Retail Markets Reinsurance	-	-	-
Total NWP	$6,503	$6,622	(1.8%)
Foreign exchange effect on growth			(1.4)
NWP growth excluding foreign exchange[1]			(0.4%)

1 Determined by assuming constant foreign exchange rates between periods.

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

	Three Months Ended March 31,		
$ in Millions	**2019**	**2018**	**Change**
Private passenger automobile	$3,438	$3,491	(1.5%)
Homeowners	1,284	1,372	(6.4)
Commercial multiple-peril	507	496	2.2
Commercial automobile	390	378	3.2
Workers compensation	230	213	8.0
General liability	207	191	8.4
Life and health	99	104	(4.8)
Commercial property	70	86	(18.6)
Other[1]	278	291	(4.5)
Total NWP	$6,503	$6,622	(1.8%)

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

NWP for the three months ended March 31, 2019 was $6.503 billion, a decrease of $119 million from the same period in 2018. The decrease was primarily driven by personal property results in the U.S. due to increased purchases of property catastrophe protection through internal reinsurance. Additionally, the decrease was driven by commercial property results in Chile and foreign exchange primarily due to the strengthening of the U.S. dollar versus the Brazilian real and euro as compared to average rates in 2018. The decrease was partially offset by increases in several commercial lines of business.

Results of Operations – Global Retail Markets

	Three Months Ended March 31,		
$ in Millions	**2019**	**2018**	**Change**
Revenues	$7,094	$6,948	2.1%
PTOI before catastrophes and net incurred losses attributable to prior years	$774	$712	8.7%
Catastrophes[1]	(262)	(330)	(20.6)
Net incurred losses attributable to prior years	36	13	176.9
PTOI	$548	$395	38.7%

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.

Pre-tax operating income for the three months ended March 31, 2019 was $548 million, an increase of $153 million over the same period in 2018. The increase was driven by profit margin on higher earned premium due to strong topline results in the U.S. over the last nine months of 2018, increases in net investment income and other revenues and lower catastrophe losses due to fewer events. Additionally, the increase reflects more favorable net incurred losses attributable to prior years due to catastrophe reserve releases primarily on 2018 and 2017 events, partially offset by higher non-catastrophe losses.

Revenues for the three months ended March 31, 2019 were $7.094 billion, an increase of $146 million over the same period in 2018. The increase was primarily driven by growth in unrealized and realized gains due to market valuation changes on unit linked life insurance where the policyholder bears the investment risk. Additionally, the increase reflects the premium earned associated with growth over the last nine months of 2018 and increases in net investment income and other revenues.

Claims, benefits and expenses for the three months ended March 31, 2019 were $6.485 billion, a decrease of $72 million from the same period in 2018. The decrease was driven by lower catastrophe losses due to fewer events and

more favorable incurred losses attributable to prior years due to catastrophe reserve releases primarily on 2018 and 2017 events, partially offset by higher non-catastrophe losses in line with topline growth.

	Three Months Ended March 31,		
GLOBAL RETAIL MARKETS	**2019**	**2018**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	63.1%	63.5%	(0.4)
Underwriting expense ratio	28.2	28.5	(0.3)
Subtotal	91.3	92.0	(0.7)
Catastrophes[1]	3.9	5.0	(1.1)
Net incurred losses attributable to prior years	(0.5)	(0.2)	(0.3)
Total combined ratio	94.7%	96.8%	(2.1)

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 Retail Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2019 was 91.3%, a decrease of 0.7 points from the same period in 2018. The decrease in the claims and claim adjustment expense ratio was due to earned premium growth over the last nine months of 2018 driven by rate increases in the U.S. to offset loss costs. The decrease in the underwriting expense ratio was driven by earned premium growth in the U.S. segment while underwriting expenses remained flat.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2019 was 94.7%, a decrease of 2.1 points from the same period in 2018. The decrease was driven by lower catastrophe losses due to fewer events, more favorable net incurred losses attributable to prior years in 2019 due to catastrophe reserve releases primarily on 2018 and 2017 events, and the changes to the combined ratio mentioned above.

GLOBAL RISK SOLUTIONS

Overview – Global Risk Solutions

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

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

Global Risk Solutions NWP by market segment was as follows:

	Three Months Ended March 31,		
$ in Millions	**2019**	**2018**	**Change**
Liberty Specialty Markets	$1,110	$945	17.5%
National Insurance	979	898	9.0
North America Specialty	523	429	21.9
Global Surety	238	209	13.9
Other Global Risk Solutions	324	474	(31.6)
Total NWP	$3,174	$2,955	7.4%
Foreign exchange effect on growth			(1.5)
NWP growth excluding foreign exchange[1]			8.9%

1 Determined by assuming constant foreign exchange rates between periods.

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

	Three Months Ended March 31,		
$ in Millions	**2019**	**2018**	**Change**
Specialty insurance	$1,155	$959	20.4%
Reinsurance	808	846	(4.5)
Workers compensation	373	364	2.5
Surety	243	214	13.6
General liability	205	204	0.5
Commercial automobile	149	126	18.3
Inland marine	137	142	(3.5)
Commercial property	60	52	15.4
Commercial multiple-peril	44	48	(8.3)
Total NWP	$3,174	$2,955	7.4%

(1) Specialty insurance: includes marine, energy, construction, aviation, property, casualty, warranty and indemnity, excess casualty, directors and officers, errors and omissions, environmental impairment liability, trade credit, crisis management, contingent lines and other;
(2) Inland marine: handset protection coverage for lost or damaged wireless devices

NWP for the three months ended March 31, 2019 was $3.174 billion, an increase of $219 million over the same period in 2018. The increase was driven by:

- Specialty insurance due to lower reinsurance purchased in the current year and new business
- Surety due to growth, primarily within the contract bond business
- Commercial automobile, general liability and commercial property were favorably impacted by positive rate
- Workers compensation primarily due to favorable audit premiums
- These increases were partially offset by reinsurance due to increased purchases of property catastrophe protection through internal reinsurance.

Foreign exchange was unfavorable due to the strengthening of the U.S. dollar versus the euro and British pound as compared to the average rates in 2018. Additionally, certain internal reinsurance agreements were extended in 2019 and certain businesses have been internally transferred amongst segments creating offsetting differences.

Results of Operations – Global Risk Solutions

	Three Months Ended March 31,		
$ in Millions	**2019**	**2018**	**Change**
Revenues	$3,122	$2,973	5.0%
PTOI before catastrophes and net incurred losses attributable to prior years	$296	$248	19.4%
Catastrophes[1]	(17)	(28)	(39.3)
Net incurred losses attributable to prior years[2]	(73)	3	NM
PTOI	$206	$223	(7.6%)

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 zero and $2 million for the three months ended March 31, 2019 and 2018, respectively.
NM = Not Meaningful

Pre-tax operating income for the three months ended March 31, 2019 was $206 million, a decrease of $17 million from the same period in 2018. The decrease reflects unfavorable net incurred losses attributable to prior years as well as an increase in allocated expenses within Liberty Mutual Group. This was partially offset by profit margin on higher earned premium, favorable catastrophe losses, higher net investment income and lower expenses from Ironshore

integration savings as well as a one-time benefit from a discontinuance of the Georgia Workers Comp Injury Trust Fund. Current year non-catastrophe losses were relatively unchanged year over year.

Revenues for the three months ended March 31, 2019 were $3.122 billion, an increase of $149 million over the same period in 2018. The increase primarily reflects premium earned associated with the changes in NWP previously discussed and prior year net written premium growth, as well as favorable net investment income.

Claims, benefits and expenses for the three months ended March 31, 2019 were $2.950 billion, an increase of $200 million over the same period in 2018. The increase reflects unfavorable incurred losses attributable to prior years, an increase in allocated expenses within Liberty Mutual Group, and attritional losses associated with growth. This was partially offset by favorable catastrophe losses and lower expenses from Ironshore integration savings as well as a one-time benefit from a discontinuance of the Georgia Workers Comp Injury Trust Fund. Current year non-catastrophe losses were relatively unchanged year over year.

	Three Months Ended March 31,		
GLOBAL RISK SOLUTIONS	**2019**	**2018**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years			
Claims and claim adjustment expense ratio	67.1%	67.3%	(0.2)
Underwriting expense ratio	30.2	31.4	(1.2)
Dividend ratio	0.1	0.1	-
Subtotal	97.4	98.8	(1.4)
Catastrophes[1]	0.6	1.1	(0.5)
Net incurred losses attributable to prior years[2]	2.5	(0.2)	2.7
Total combined ratio	100.5%	99.7%	0.8

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

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

The Global Risk Solutions combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended March 31, 2019 was 97.4%, a decrease of 1.4 points from the same period in 2018. The claims and claim adjustment expense ratio was relatively unchanged year over year. The decrease in the underwriting expense ratio was primarily driven by higher earned premium, lower expenses from Ironshore integration savings as well as a one-time benefit from a discontinuance of the Georgia Workers Comp Injury Trust Fund, partially offset by an increase in allocated expenses within Liberty Mutual Group.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended March 31, 2019 was 100.5%, an increase of 0.8 points over the same period in 2018. The increase reflects unfavorable net incurred losses attributable to prior years, partially offset by the changes to the combined ratio mentioned above and lower catastrophe losses.

CORPORATE AND OTHER

Overview – Corporate and Other

Corporate and Other includes the following significant items:

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

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

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

- Interest expense on the Company's outstanding debt.

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

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

- The Company discounts the long-term indemnity portion of its settled unpaid workers compensation claims at risk-free discount rates. For 2018 and prior years, the businesses reported their discount based on statutory discount rates and Corporate and Other results reflected the difference between the statutory and risk-free rate.

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

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

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

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

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

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

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

	Three Months Ended March 31,		
$ in Millions	**2019**	**2018**	**Change**
Reinsurance, net	$75	($136)	NM
Workers compensation[1]	(48)	-	NM
Other	(5)	(7)	(28.6)
Total NWP	$22	($143)	NM

1 Booked as billed adjustment.
NM = Not Meaningful

NWP for the three months ended March 31, 2019 was $22 million versus ($143) million for the same period in 2018. The change reflects the reinsurance line of business primarily due to higher assumed premium due to increased property catastrophe protection purchased by the businesses from Corporate, partially offset by the booked as billed adjustment.

Results of Operations – Corporate and Other

	Three Months Ended March 31,		
$ in Millions	**2019**	**2018**	**Change**
Revenues	$451	$369	22.2%
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income	($90)	($221)	(59.3%)
Catastrophes[1]	-	6	(100.0)
Net incurred losses attributable to prior years:			
- Asbestos and environmental[2]	(3)	(10)	(70.0)
- All other[2,3]	1	-	NM
Pre-tax operating loss before partnerships, LLC and other equity method income	(92)	(225)	(59.1)
Partnerships, LLC and other equity method income[4]	83	216	(61.6)
Pre-tax operating loss	($9)	($9)	-

1 Catastrophes are defined as a natural catastrophe or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Asbestos and environmental is gross of the NICO Reinsurance Transaction, and All other includes all cessions related to the NICO Reinsurance Transaction, which is described further in "Reinsurance".
3 Net of earned premium attributable to prior years of zero for the three months ended March 31, 2019 and 2018.
4 Partnerships, LLC and other equity method income includes LP, LLC and other equity method income within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from direct investments in natural resources.
NM = Not Meaningful

Pre-tax operating loss for the three months ended March 31, 2019 was $9 million, no change versus the same period in 2018. Favorability from lower employee benefit and technology expenses, allocated expenses within Liberty Mutual Group, higher profit margin within the reinsurance segment due to higher earned premium, and higher net investment income excluding partnerships, LLC and other equity method investments was completely offset by lower partnerships, LLC and other equity method income.

Revenues for the three months ended March 31, 2019 were $451 million, an increase of $82 million over the same period in 2018. The major components of revenues are net premium earned, net investment income (including LP, LLC and other equity method investments), net realized gains, and fee and other revenues.

Net premium earned for the three months ended March 31, 2019 was ($9) million, an increase of $77 million over the same period in 2018. The increase primarily reflects higher assumed premium due to increased property catastrophe protection purchased by the businesses from Corporate.

Net investment income for the three months ended March 31, 2019 was $101 million, a decrease of $90 million from the same period in 2018. The decrease reflects less favorable valuations and distributions across the LP, LLC, and other equity method investments, primarily driven by energy investments in 2019 as compared to the same period in 2018. The decrease was partially offset by investment income from a higher net invested asset base in 2019 as compared to the same period in 2018.

Net realized gains for the three months ended March 31, 2019 were $223 million, an increase of $64 million over the same period in 2018. The net realized gains in the current quarter were primarily driven by a $319 million net change in unrealized gains primarily due to the adoption of ASU 2016-01 in 2019. This was partially offset by a ($39) million loss upon classifying certain international Ironshore entities as held for sale. The prior period was impacted by a $162 million gain as a result of the acquisition of a previously held equity method investment.

Fee and other revenues for the three months ended March 31, 2019 were $136 million, an increase of $31 million over the same period in 2018. The increase was primarily driven by higher natural resource revenues.

Claims, benefits and expenses for the three months ended March 31, 2019 were $237 million, an increase of $18 million over the same period in 2018. The increase reflects higher expenses related to Liberty Metals and Mining, partially offset by lower employee benefits and technology expenses and allocated expenses within Liberty Mutual Group.

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, 2019 and December 31, 2018:

Invested Assets by Type	**As of March 31, 2019**		**As of December 31, 2018**	
$ in Millions	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$60,086	76.9%	$57,706	76.6%
Equity securities, at fair value[1]	3,238	4.1	-	-
Equity securities, available for sale, at fair value[1]	-	-	3,511	4.6
LP, LLC and other equity method investments	6,180	7.9	6,148	8.2
Commercial mortgage loans	1,933	2.5	1,731	2.3
Short-term investments	388	0.5	416	0.6
Other investments	283	0.4	289	0.4
Cash and cash equivalents	6,046	7.7	5,466	7.3
Total invested assets	$78,154	100.0%	$75,267	100.0%

1 Included in Equity securities, at fair value as of March 31, 2019 and Equity securities, available for sale, at fair value as of December 31, 2018, were $421 million and $936 million, respectively of investments in bond ETFs

Total invested assets as of March 31, 2019 were $78.154 billion, an increase of $2.887 billion or 3.8% over December 31, 2018. The increase was primarily related to an increase in fixed maturities and cash and cash equivalents.

Fixed maturities as of March 31, 2019 were $60.086 billion, an increase of $2.380 billion or 4.1% over December 31, 2018. The increase was primarily related to the favorable impact of the decrease in treasury rates and tightening credit spreads and an increase in commitments to purchase various residential mortgage-backed securities. As of March 31, 2019, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost and fair value of $1.717 billion and $1.731 billion, respectively.

Equity securities as of March 31, 2019 were $3.238 billion ($3.229 billion common stock and $9 million preferred stock) versus $3.511 billion as of December 31, 2018 ($3.480 billion common stock and $31 million preferred stock), a decrease of $273 million or 7.8% from December 31, 2018. Of the $3.229 billion of common stock at March 31, 2019, $634 million relates to securities associated with non-guaranteed unit linked life insurance where the policyholder bears the investment risk. The decrease in total equity securities is primarily due to the sale of bond ETFs.

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

LP, LLC and other equity method investments	**As of March 31, 2019**		**As of December 31, 2018**	
$ in Millions	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Traditional private equity	$2,769	44.8%	$2,727	44.4%
Natural resources – Energy	527	8.5	573	9.3
Natural resources – Other[1]	668	10.8	661	10.7
Real estate	1,006	16.3	978	15.9
Private credit	612	9.9	597	9.7
Other	598	9.7	612	10.0
Total LP, LLC and other equity method investments	$6,180	100.0%	$6,148	100.0%

1 Included in Natural Resources – Other is $177 million and $184 million of investments in metals & mining as of March 31, 2019 and December 31, 2018 respectively, $119 million and $116 million of investments in agriculture and timber as of March 31, 2019 and December 31, 2018 respectively, and $372 million and $361 million of investments in power and renewables as of March 31, 2019 and December 31, 2018 respectively.

Commercial mortgage loans as of March 31, 2019 were $1.933 billion (net of $2 million of loan loss reserves or 0.10% of the outstanding loan portfolio), an increase of $202 million or 11.7% over December 31, 2018. The increase is primarily driven by $228 million in funding, partially offset by $26 million in principal reductions. The entire commercial loan portfolio is U.S.-based. The number of loans in the portfolio decreased from 4,419 at December 31, 2018 to 4,346 at March 31, 2019.

Cash and cash equivalents as of March 31, 2019 were $6.046 billion, an increase of $580 million or 10.6% over December 31, 2018. The increase primarily reflects an increase in cash from operating and investing activities, offset by a decrease from financing activities.

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

	As of March 31, 2019			
$ in Millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$6,373	$69	($14)	$6,428
Residential MBS [1]	7,434	64	(50)	7,448
Commercial MBS	3,294	56	(11)	3,339
Other MBS and ABS [2]	4,780	23	(51)	4,752
U.S. state and municipal	8,650	343	(14)	8,979
Corporate and other	23,705	427	(133)	23,999
Foreign government securities	4,970	185	(14)	5,141
Total securities available for sale	$59,206	$1,167	($287)	$60,086

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

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

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of March 31, 2019:

Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	**As of March 31, 2019**							
$ in Millions	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
Residential MBS	$7,399	$-	$13	$-	$4	$32	$7,448	47.9%
Commercial MBS	3,151	133	39	2	14	-	3,339	21.5%
Other MBS and ABS	3,344	447	258	502	186	15	4,752	30.6%
Total	$13,894	$580	$310	$504	$204	$47	$15,539	100.0%
% of Total	89.4%	3.7%	2.0%	3.2%	1.4%	0.3%	100.0%	

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

Approximately 68% of the Company's mortgage and asset-backed fixed maturity portfolio is explicitly backed by the U.S. government (SBA and GNMA) or by government-sponsored entities (FNMA and FHLMC). Approximately 89% of the holdings are rated AAA. Included in the commercial mortgage-backed securities at March 31, 2019, were $2.085 billion in Agency CMBS and $1.254 billion Non-agency CMBS. Included in the Other MBS and ABS at March 31, 2019 were $1.198 billion AAA rated SBA Loans. The commercial mortgage-backed securities portfolio is well diversified and of high quality with approximately 94% 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, 2019 and December 31, 2018:

U.S. State and Municipal by Credit Quality[1]	**As of March 31, 2019**			**As of December 31, 2018**		
$ in Millions	**Fair Value**	**% of Total**	**Average Credit Rating**	**Fair Value**	**% of Total**	**Average Credit Rating**
State general obligation	$1,420	15.8%	AA	$1,238	14.4%	AA
Local general obligation	1,311	14.6	AA	1,135	13.2	AA
Revenue	6,197	69.0	AA	6,143	71.8	AA
Pre-refunded	51	0.6	AAA	53	0.6	AAA
Total U.S. state and municipal	$8,979	100.0%	AA	$8,569	100.0%	AA

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

The municipal bond portfolio (taxable and tax-exempt) includes general obligation and revenue bonds issued by states, cities, counties, school districts, hospitals, educational institutions, and similar issuers. Included in the municipal bond portfolio at March 31, 2019 and December 31, 2018 were $51 million and $53 million, respectively, of pre-refunded bonds, which are bonds for which states or municipalities have established irrevocable trusts, which were created to satisfy their responsibility for payments of principal and interest.

The following table summarizes the Company's allocation of fixed maturities by credit quality as of March 31, 2019 and December 31, 2018:

Fixed Maturities by Credit Quality[1]	**As of March 31, 2019**		**As of December 31, 2018**	
$ in Millions	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$22,711	37.8%	$20,539	35.6%
AA+, AA, AA-	9,086	15.1	8,541	14.8
A+, A, A-	11,808	19.7	11,617	20.1
BBB+, BBB, BBB-	13,189	22.0	13,708	23.8
Total investment grade	56,794	94.6	54,405	94.3
BB+, BB, BB-	1,976	3.3	2,007	3.4
B+, B, B-	1,094	1.8	1,048	1.8
CCC or lower	136	0.2	156	0.3
Unrated[2]	86	0.1	90	0.2
Total below-investment grade	3,292	5.4	3,301	5.7
Total fixed maturities	$60,086	100.0%	$57,706	100.0%

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

The Company's holdings of below investment grade securities primarily consist of an actively managed diversified portfolio of high yield securities and leveraged loans within the domestic insurance portfolios and investments in emerging market sovereign and corporate debt primarily in support of the Company's international insurance operations. Overall, the average credit quality rating stands at A+ as of March 31, 2019.

The following table summarizes available for sale fixed maturity securities by contractual maturity at March 31, 2019 and December 31, 2018. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Due to the potential for prepayment on MBS and ABS, they are not categorized by contractual maturity.

Fixed Maturity by Maturity Date	**As of March 31, 2019**		**As of December 31, 2018**	
$ in Millions	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
One year or less	$2,376	4.0%	$2,970	5.1%
Over one year through five years	20,742	34.4	22,692	39.3
Over five years through ten years	13,814	23.0	12,346	21.4
Over ten years	7,615	12.7	6,562	11.4
MBS and ABS	15,539	25.9	13,136	22.8
Total fixed maturities	$60,086	100.0%	$57,706	100.0%

During 2019, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company has made only minor adjustments to the average duration of its investment portfolio. The average duration of the investment portfolio as of March 31, 2019 was 4.0 years.

The following tables summarize the Company's gross unrealized losses and fair value of fixed income and equity securities by the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2019 and December 31, 2018 that are not deemed to be other-than-temporarily impaired:

	As of March 31, 2019			
$ in Millions	Less Than 12 Months		12 Months or Longer	
Unrealized Losses & Fair Value by Security Type	Unrealized Losses	Fair Value of Investments with Unrealized Losses	Unrealized Losses	Fair Value of Investments with Unrealized Losses
U.S. Government and agency securities	($1)	$479	($13)	$1,127
Residential MBS	(5)	454	(45)	2,980
Commercial MBS	(1)	189	(10)	1,060
Other MBS and ABS	(21)	1,005	(30)	1,779
U.S. state and municipal	(1)	94	(13)	943
Corporate and other	(46)	2,286	(87)	5,718
Foreign government securities	(2)	224	(12)	838
Total securities available for sale	($77)	$4,731	($210)	$14,445

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

Unrealized losses for fixed maturity securities decreased from $878 million as of December 31, 2018 to $287 million as of March 31, 2019. The Company monitors the difference between the amortized cost and estimated fair value of fixed maturity securities to ascertain whether declines in value are temporary in nature. The Company currently does not have the intent to sell these securities and has determined it is not more likely than not that it would be required to sell these fixed maturity securities before they recover their fair value. The Company has concluded that the gross unrealized losses of fixed maturity securities as of March 31, 2019 are temporary.

The following tables summarize the Company's issuer and sector exposure[1] as of March 31, 2019:

Top 10 Issuers	As of March 31, 2019				
$ in Millions	Fixed Maturity	Equity	Short-Term	Total Exposure	% of Invested Assets
Government of Brazil	$650	$-	$-	$650	0.84%
Government of United Kingdom	532	-	3	535	0.68
Government of Italy	365	-	-	365	0.47
Government of Canada	359	-	-	359	0.46
Government of Spain	352	-	-	352	0.45
Bank of America Corp	319	-	-	319	0.41
State of Illinois	285	-	-	285	0.36
Morgan Stanley	283	-	-	283	0.36
Banco Santander	279	-	-	279	0.36
Government of Colombia	269	-	-	269	0.34
Total	$3,693	$-	$3	$3,696	4.73%

Top 10 Sectors	As of March 31, 2019				
$ in Millions	Fixed Maturity	Equity	Short-Term	Total Exposure	% of Invested Assets
Banking	$4,402	$2	$319	$4,723	6.04%
Foreign Government	4,114	-	21	4,135	5.29
Technology	1,735	241	-	1,976	2.52
Electric Utility	1,677	234	1	1,912	2.45
US Municipal – State	1,420	-	-	1,420	1.82
REITS	407	1,006	-	1,413	1.81
US Municipal – Local	1,311	-	-	1,311	1.68
Pharmaceuticals	1,223	40	-	1,263	1.62
Insurance	1,060	105	-	1,165	1.49
Food and Beverage	1,094	32	-	1,126	1.44
Total	$18,443	$1,660	$341	$20,444	26.16%

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

As of March 31, 2019, investments in the energy sector accounted for $2.837 billion or 3.6% of total invested assets. The energy sector is comprised of investments in the following sub-sectors: independent energy, integrated energy, midstream, oil field services, and refining (*classification per Bloomberg Barclays Industry Groups*). These individual energy sub-sectors are not material enough at an individual level to appear within the top 10 rankings in the sector table above. Energy investments consist of investment grade bonds of $2.080 billion, bonds that were rated below investment grade of $227 million, publicly traded equity securities of $1 million, and natural resources partnerships and other equity method investments of $529 million. In addition, the Company has direct investments in oil and gas wells of $1.078 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, 2019 and December 31, 2018:

Unfunded Commitments	As of March 31, 2019		As of December 31, 2018	
$ in Millions	**Total**	**% of Total**	**Total**	**% of Total**
Traditional private equity	$990	30.7%	$980	32.5%
Natural resources – Energy	429	13.3	521	17.3
Natural resources – Other[1]	138	4.3	99	3.3
Real estate	718	22.3	687	22.8
Private credit	782	24.2	545	18.1
Other	168	5.2	181	6.0
Total unfunded commitments	$3,225	100.0%	$3,013	100.0%

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

Unfunded commitments as of March 31, 2019 were $3.225 billion, an increase of $212 million over December 31, 2018. The increase is primarily driven by new commitments net of contributions related to traditional private equity partnerships, real estate investments, and private credit. The $429 million unfunded energy investment commitments as of March 31, 2019 included $146 million related to energy partnerships and $283 million related to direct investments in oil and gas wells. The $521 million unfunded energy investment commitments as of December 31, 2018 included $160 million related to energy partnerships and $361 million related to direct investments in oil and gas wells.

LIQUIDITY AND CAPITAL RESOURCES

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

- A $250 million repurchase agreement for a three-year period, which terminates December 1, 2020. As of March 31, 2019, no funds were borrowed under the facility.
- A $250 million repurchase agreement with an expiration date of November 24, 2020. As of March 31, 2019, no funds were borrowed under the facility.
- LMIC, Peerless Insurance Company ("PIC"), Liberty Mutual Fire Insurance Company ("LMFIC"), Employers Insurance Company of Wausau ("EICOW"), Ironshore Specialty Insurance Company ("ISIC") and Ironshore Indemnity Insurance ("III") are members of the Federal Home Loan Bank. The Company has $300 million of Federal Home Loan Bank borrowings with maturity dates in 2032. As of March 31, 2019, all of the outstanding Federal Home Loan Bank borrowings are fully collateralized.

Net cash flows are generally invested in marketable securities while keeping a certain amount in cash and short-term investments to meet unpredictable cash obligations. The Company monitors the duration of these investments, and purchases and sales are executed with the objective of having adequate cash available to satisfy its maturing liabilities. As the Company's investment strategy focuses on overall asset and liability durations, and not specific cash flows, asset sales may be required to satisfy obligations or rebalance asset portfolios. The Company's invested assets as of March 31, 2019 (including cash and cash equivalents) totaled $78.154 billion.

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

Short-term debt:

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

Long-term debt:

$ in Millions	As of March 31, 2019	As of December 31, 2018
Junior Subordinated notes, due 2067[1, 2]	$300	$300
5.00% Notes, due 2021	330	600
4.95% Notes, due 2022	473	750
4.25% Notes, due 2023	547	1,000
1.75% €500 Million Notes, due 2024	561	572
8.50% Surplus notes, due 2025	140	140
2.75% €750 Million Notes, due 2026	842	857
7.875% Surplus notes, due 2026	227	227
7.625% Notes, due 2028	3	3
4.569% Notes, due 2029	1,000	-
3.91% - 4.25% Federal Home Loan Bank Borrowings, due 2032	300	300
7.00% Notes, due 2034	231	231
6.50% Notes, due 2035	471	471
7.50% Notes, due 2036	19	19
7.80% Junior Subordinated notes, due 2087[2]	700	700
10.75% Junior Subordinated notes, due 2088[3]	52	52
6.50% Notes, due 2042	750	750
4.85% Notes, due 2044	1,050	1,050
7.697% Surplus notes, due 2097	260	260
Subtotal	8,256	8,282
Unamortized discount	(40)	(11)
Long-term debt excluding unamortized debt issuance costs	8,216	8,271
Unamortized debt issuance costs	(38)	(38)
Total long-term debt	$8,178	$8,233

1 7.00% fixed rate became 6.324% starting March 15, 2017 through a swap. Bondholders are 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 affect transactions in its debt, subject to applicable limitations.

Debt Transactions

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

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 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, 2019 was $110 million, a decrease of $1 million from the same period in 2018.

Holding Company Liquidity and Capital Resources

The Company conducts substantially all of its operations through its wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of March 31, 2019, the Company, through its downstream subsidiaries LMGI and LMFE, had $6.765 billion and $561 million, respectively, of debt outstanding, excluding discount and issuance costs.

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

The authorized control level risk-based capital (as of December 31, 2018) and 2019 available dividend capacity prior to needing regulatory approval for LMIC, LMFIC and EICOW were as follows:

$ in Millions	**RBC Ratio[1]**		**Dividend Capacity[2]**	**Dividends Paid[3]**
RBC Ratios and Dividend Capacity	**2018**	**2017**	**2019**	**2019**
LMIC	399%	354%	$2,843	$16
LMFIC	494%	452%	$168	$4
EICOW	454%	422%	$165	$-

1 Authorized control level risk-based capital as defined by the NAIC.
2 Represents the estimated maximum allowable dividend without prior regulatory approval in the state of domicile.
3 Dividends paid represent amounts paid during the three months ended March 31, 2019. Available dividend capacity as of March 31, 2019 is calculated as 2019 dividend capacity less dividends paid for the preceding 12 months. Dividends paid April 1, 2018 through March 31, 2019 for LMIC, LMFIC and EICOW were $65 million, $15 million and zero, respectively.

LMGI also has access to the following sources of funding:

- An unsecured revolving credit facility of $1 billion with an expiration date of March 5, 2020. To date, no funds have been borrowed under the facility.
- A management services agreement with LMIC pursuant to which LMGI is entitled to collect certain costs plus a management fee for services rendered by LMGI employees.

- Investment management agreements with affiliated entities pursuant to which an LMGI subsidiary investment advisor is entitled to recover annual expenses for investment management services performed by its employees.
- Liberty Corporate Services LLC ("LCS"), which through its subsidiaries collects fees and other revenues, primarily for claims administration, agency and IT services rendered for affiliated and non-affiliated entities. For the three months ended March 31, 2019, LCS recorded $99 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, 2019**	**As of December 31, 2018**
Total debt	$8,178	$8,233
Total equity	$22,442	$20,762
Less: Accumulated other comprehensive loss	(2,169)	(3,379)
Total equity excluding accumulated other comprehensive loss	$24,611	$24,141
Total capital excluding accumulated other comprehensive loss	$32,789	$32,374
Total debt-to-capital capitalization excluding accumulated other comprehensive loss	24.9%	25.4%
Statutory surplus	$20,587	$19,766

The total debt-to-capital capitalization ratio excluding accumulated other comprehensive loss is calculated by dividing (a) total debt by (b) total capital excluding accumulated other comprehensive loss. Net unrealized gains and losses on investments can be significantly impacted by both interest rate movements and other economic factors. Accordingly, in the opinion of the Company's management, the debt-to-total capital ratio calculated on this basis provides another useful metric for investors to understand the Company's financial leverage position. The Company's ratio of debt-to-capital (excluding accumulated other comprehensive loss) of 24.9% at March 31, 2019 was within the Company's target range.

REINSURANCE

Reinsurance Recoverables

The Company reported reinsurance recoverables of $15.213 billion and $15.145 billion at March 31, 2019 and December 31, 2018, respectively, net of allowance for doubtful accounts of $203 million and $204 million, respectively. Included in these balances are $955 million and $937 million of paid recoverables and $14.461 billion and $14.412 billion of unpaid recoverables (including retroactive reinsurance), respectively.

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

1 Standard & Poor's ratings are as of December 31, 2018.
2 Gross recoverables are defined as paid and unpaid claims and claim adjustment expense including IBNR and before both bad debt reserve set aside for potential uncollectible reinsurance and consideration of collateral.
3 Collateral refers to letters of credit, trust accounts, and funds held against outstanding and potential future claims and claim adjustment expenses related to reinsurance recoverable balances.
4 Net recoverables are defined as the difference between the amount of gross recoverables and collateral held for each reinsurer. If the collateral held for a reinsurer is greater than the gross recoverable, net recoverables are reported as $0.
5 Reinsurers not rated by Standard & Poor's.

Reinsurance Groups[1]	As of December 31, 2018		
$ in Millions	Gross Recoverables[2]	Collateral Held[3]	Net Recoverables[4]
1. Berkshire Hathaway Insurance Group	$3,482	$3,784	$191
2. Nationwide Group	1,405	-	1,405
3. Swiss Re Group	1,346	749	911
4. Everest Re Group	460	130	339
5. Munich Re Group	435	13	427
6. Lloyd's of London	425	-	425
7. Alleghany Corp	402	40	362
8. UPINSCO	360	557	-
9. Builders Reinsurance S.A.	285	344	-
10. CUMIS Insurance Society Group	257	-	257
11. Exchange Indemnity Company	225	110	117
12. Partner Re Group	218	26	196
13. Markel Corp	206	3	204
14. Hannover Re Group	174	16	162
15. AEGIS Group	164	173	-
State Mandated Involuntary pools and associations	2,744	-	2,744
Voluntary pools and associations	198	107	191
All Other	2,563	2,235	1,628
Total Reinsurance Recoverables	$15,349	$8,287	$9,559

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

Approximately 95% and 94% of the Company’s reinsurance recoverable balance, net of collateral held and including voluntary and involuntary pools and associations, was from reinsurers rated A- or better from A.M. Best and Standard & Poor’s, respectively, at December 31, 2018. Collateral held against outstanding gross reinsurance recoverable balances was $8.287 billion at December 31, 2018.

The remaining 5% and 6% of the Company’s net reinsurance recoverable balance is well diversified. No single reinsurer rated B++ or below by A.M. Best or below A- by Standard & Poor’s accounts for more than 1% of GAAP equity. In addition, the average net reinsurance recoverable balance from individual reinsurers rated below A- or not rated by A.M. Best and Standard & Poor’s was approximately $1 million as of December 31, 2018.

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

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

Property Catastrophe Reinsurance

The Company has reinsurance coverage for its domestic business and certain specialty operations including: 1) hurricanes and earthquake reinsurance covering a substantial portion of $3.1 billion of loss in excess of $500 million of retained loss in the United States, Canada and the Caribbean, excluding certain reinsurance exposures; 2) aggregate

excess of loss programs; 3) quota share reinsurance programs; and 4) regional or country specific catastrophe reinsurance programs. These programs are structured to meet the Company's established tolerances under its Enterprise Risk Management Program.

Adverse Development Reinsurance

In conjunction with the Ironshore acquisition and effective May 1, 2017, the Company entered into a reinsurance transaction with National Indemnity Company ("NICO"), a subsidiary of Berkshire Hathaway Inc., on a combined aggregate excess of loss agreement providing coverage for substantially all of Ironshore's reserves related to losses occurring prior to January 1, 2017. The first layer of the contract transfers $400 million of held reserves at inception, for which the Company established reinsurance recoverables on the Consolidated Balance Sheet. The second layer of the contract provides adverse development coverage for 95% of $500 million above a retention equal to $2.991 billion, minus paid losses between January 1, 2017 and May 1, 2017, which retention approximates the total held reserves on the covered business on Ironshore's opening balance sheet. The Company paid NICO consideration of $550 million, including interest accrued at the time of the settlement. The contract is accounted for on a prospective basis.

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

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

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

During 2018, the Company had net reserve releases driven by favorable development in workers compensation, partially offset by unfavorable development in asbestos and environmental. The Company reported the net position of the contract as a loss of $206 million and $210 million as of March 31, 2019 and December 31, 2018, respectively.

The Company reported deferred gain amortization of zero and $3 million at March 31, 2019 and 2018, respectively. As of March 31, 2019 and December 31, 2018, deferred gains were zero.

CRITICAL ACCOUNTING ESTIMATES

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

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

For additional discussion, please refer to footnote 1 in the Company's December 31, 2018 Audited Consolidated Financial Statements and footnote 1 in the Company's March 31, 2019 Unaudited Consolidated Financial Statements.

Unpaid Claims and Claim Adjustment Expenses

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

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

For additional discussion, please refer to footnote 6 in the Company's December 31, 2018 Audited Consolidated Financial Statements and footnote 6 in the Company's March 31, 2019 Unaudited Consolidated Financial Statements.

Asbestos and Environmental

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

For additional discussion, please refer to footnote 6 in the Company's December 31, 2018 Audited Consolidated Financial Statements and footnote 6 in the Company's March 31, 2019 Unaudited Consolidated Financial Statements.

Reinsurance Recoverables

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies. The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes

in reinsurer credit standing and other relevant factors. Accordingly, the establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. Changes in these estimates could result in additional charges to the accompanying Consolidated Statements of Income.

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

For additional discussion, please refer to footnote 5 in the Company's December 31, 2018 Audited Consolidated Financial Statements and footnote 4 in the Company's March 31, 2019 Unaudited Consolidated Financial Statements.

Fair Value Determination

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

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

Regarding fair value measurements, as of March 31, 2019, excluding other assets, the Company reflected $9.449 billion (14.8%) 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, 2019, the Company reported $53.443 billion (83.5%) as level 2, consisting primarily of fixed maturity securities. Finally, the Company reported $1.078 billion (1.7%) as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

For additional discussion, please refer to footnote 10 in the Company's December 31, 2018 Audited Consolidated Financial Statements and footnote 9 in the Company's March 31, 2019 Unaudited Consolidated Financial Statements.

Impairment Losses on Investments

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

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

The Company is required to review its oil and gas properties when facts and circumstances indicate the possible existence of impairment. When a property's carrying value is greater than the expected future cash flows, impairment

expense is recognized to the extent that the carrying value of the property exceeds its estimated fair market value. In employing the discounted cash flow method described, key inputs include commodity prices, locational basis difference, production, project development costs and the discount rate which are based on management's expectations about outcomes with respect to these variables. Unproved properties are assessed at least annually to determine whether impairment has occurred.

For additional discussion, please refer to footnote 1 in the Company's December 31, 2018 Audited Consolidated Financial Statements and footnote 3 in the Company's March 31, 2019 Unaudited Consolidated Financial Statements.

Goodwill and Intangible Assets

Goodwill is tested for impairment at least annually using either a qualitative or a quantitative process. Election of the approach can be made at the reporting unit level. The reporting unit has the option to skip the qualitative test and move directly to completion of the quantitative process. As of March 31, 2019, the Company has two reporting units – Global Retail Markets and Global Risk Solutions.

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

The Company had no material goodwill impairments or intangible asset impairments recognized in 2018 or 2017.

For additional discussion, please refer to footnote 1 in the Company's December 31, 2018 Audited Consolidated Financial Statements.

Deferred Income Taxes

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

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

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

Pension and Postretirement Benefit Obligations

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

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

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

For additional discussion, please refer to footnote 9 in the Company's December 31, 2018 Audited Consolidated Financial Statements and footnote 8 in the Company's March 31, 2019 Unaudited Consolidated Financial Statements.

ABOUT THE COMPANY

Boston-based LMHC, the parent corporation of the Liberty Mutual Insurance group of entities, is a diversified global insurer and third largest property and casualty insurer in the U.S. based on 2018 direct written premium. The Company also ranks 68th on the Fortune 100 list of largest corporations in the U.S. based on 2017 revenue. As of December 31, 2018, LMHC had $125.989 billion in consolidated assets, $105.227 billion in consolidated liabilities, and $41.568 billion in annual consolidated revenue.

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

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

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