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

Quarter Ended June 30, 2017

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

The following discussion highlights significant factors influencing results of operations and changes in financial position of Liberty Mutual Holding Company Inc., the parent corporation of the Liberty Mutual Insurance group of entities (the "Company" or "LMHC"), for the three and six months ended June 30, 2017 and 2016. This Management's Discussion & Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Company's December 31, 2016 Audited Consolidated Financial Statements and June 30, 2017 Unaudited Consolidated Financial Statements located on the Company's Investor Relations website at www.libertymutualgroup.com/investors. The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted. Further, the Company notes that it may make material information regarding the Company available to the public, from time to time, via the Company's Investor Relations website at www.libertymutualgroup.com/investors (or any successor site).

Index

Page

Cautionary Statement Regarding Forward Looking Statements 3

Executive Summary 4

Consolidated Results of Operations 6

Review of Financial Results by Business Unit

- Global Consumer Markets 19
- U.S. Consumer Markets 21
- Global Consumer Markets East | West 24
- Commercial Insurance 28
- Global Specialty 32
- Corporate and Other 36

Investments 40

Liquidity and Capital Resources 48

Reinsurance Recoverables 52

Critical Accounting Estimates 55

About the Company 59

Cautionary Statement Regarding Forward Looking Statements

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

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

EXECUTIVE SUMMARY

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

Consolidated Results of Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Net written premium ("NWP")	$9,910	$9,018	9.9%	$19,144	$17,790	7.6%
Pre-tax operating income ("PTOI") before partnerships, LLC and other equity method income (loss)	86	173	(50.3)	254	787	(67.7)
Net operating income before partnerships, LLC and other equity method income (loss)	54	118	(54.2)	196	533	(63.2)
Partnerships, LLC and other equity method income (loss)	108	(59)	NM	270	(36)	NM
Net realized gains (losses)	30	(95)	NM	199	(134)	NM
Ironshore Inc. ("Ironshore") acquisition & integration costs	(26)	-	NM	(36)	-	NM
Loss on extinguishment of debt	-	-	-	(1)	(8)	(87.5)
Consolidated net income	127	10	NM	478	413	15.7
Net income attributable to LMHC	126	15	NM	477	408	16.9
Cash flow provided by operations	$1,180	$346	NM	$1,114	$645	72.7%

NM = Not Meaningful

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change (Points)**	**2017**	**2016**	**Change (Points)**
Combined ratio before catastrophes[1], net incurred losses attributable to prior years[2], and current accident year re-estimation[3]	93.8%	92.3%	1.5	93.9%	92.7%	1.2
Combined ratio[4]	102.7%	101.4%	1.3	102.1%	98.9%	3.2

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

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

3 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2017 and 2016, respectively.

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

$ in Millions	As of June 30, 2017	As of December 31, 2016	Change
Short-term debt	$1,085	$-	NM
Long-term debt	8,236	7,603	8.3
Total debt	$9,321	$7,603	22.6%
Unassigned equity	$22,147	$21,670	2.2%
Accumulated other comprehensive loss	(701)	(1,304)	(46.2)
Non-controlling interest	25	21	19.0
Total equity	$21,471	$20,387	5.3%

NM = Not Meaningful

Subsequent Events

Management has assessed material subsequent events through August 3, 2017, the date the financial statements were available to be issued.

CONSOLIDATED RESULTS OF OPERATIONS

The Company has identified consolidated PTOI, PTOI before partnerships, LLC and other equity method income, and net operating income before partnerships, LLC and other equity method income as non-GAAP financial measures. PTOI is defined by the Company as pre-tax income excluding net realized gains, loss on extinguishment of debt, extraordinary items, discontinued operations, integration, other acquisition and restructuring related costs and cumulative effects of changes in accounting principles. PTOI before partnerships, LLC and other equity method income is defined as PTOI excluding LP and LLC results recognized on the equity method and revenue and expenses from the production and sale of oil and gas. Net operating income is defined as net income excluding the after-tax impact of net realized gains, Ironshore acquisition and integration costs, and loss on extinguishment of debt. PTOI before partnerships, LLC and other equity method income, PTOI, and net operating income before partnerships, LLC and other equity method income are considered by the Company to be appropriate indicators of underwriting and operating results and are consistent with the way the Company internally evaluates performance. Net realized gains and partnerships, LLC and other equity method 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 significantly impacted by permanent differences and timing differences, whose related deferred tax assets/liabilities could be impacted by tax reform. References to NWP represent the amount of premium recorded for policies issued during a fiscal period including audits, retrospectively rated premium related to loss sensitive policies, and assumed premium, less ceded premium. Assumed and ceded reinsurance premiums include premium adjustments for reinstatement of coverage when a loss has used some portion of the reinsurance provided, generally under catastrophe treaties ("reinstatement premium"), and changes in estimated premium. In addition, the majority of workers compensation premium is adjusted to the "booked as billed" method through the Corporate and Other segment. The Company believes that NWP is a performance measure useful to investors as it generally reflects current trends in the Company's sale of its insurance products.

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

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

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

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

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

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

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

On August 16, 2016, the Company entered into an agreement to sell a 51% interest of its Chinese operations to Sanpower Group. Due to recent regulatory changes, the timing and outcome of this agreement is uncertain.

The Company's three SBUs are as follows:

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

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

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

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

- Global Specialty comprises a wide array of products and services offered through four market segments: Liberty Specialty Markets ("LSM"), Liberty International Underwriters ("LIU"), Liberty Mutual Surety ("LM Surety") and Ironshore.

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Private passenger automobile	$3,386	$3,138	7.9%	$6,702	$6,198	8.1%
Homeowners	1,697	1,656	2.5	3,070	2,994	2.5
Specialty insurance[1]	960	666	44.1	1,495	1,225	22.0
Commercial multiple-peril	536	523	2.5	1,073	1,027	4.5
Workers compensation – Voluntary	518	489	5.9	1,011	1,018	(0.7)
Workers compensation – Involuntary	20	17	17.6	50	41	22.0
Commercial automobile	520	471	10.4	1,001	909	10.1
Employer disability, life and A&H	468	410	14.1	938	806	16.4
General liability	432	393	9.9	821	762	7.7
Global specialty reinsurance	303	241	25.7	783	739	6.0
Surety	230	213	8.0	433	420	3.1
Individual life and annuity	129	126	2.4	280	232	20.7
Commercial property	212	234	(9.4)	358	412	(13.1)
Corporate reinsurance[2]	57	6	NM	281	185	51.9
Global specialty inland marine	137	125	9.6	268	247	8.5
Other[3]	305	310	(1.6)	580	575	0.9
Total NWP	$9,910	$9,018	9.9%	$19,144	$17,790	7.6%

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

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

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

NM = Not Meaningful

NWP for the three months ended June 30, 2017 was $9.910 billion, an increase of $892 million over the same period in 2016.

Significant changes by major line of business for the three months ended June 30, 2017 include:

- Private passenger automobile NWP increased $248 million. The increase reflects additional rate required to keep pace with U.S. industry loss cost trends and growth in policies in-force in U.S. Consumer Markets, and organic growth in Global Consumer Markets East | West. The quarter was further impacted by favorable foreign exchange due to the U.S. dollar weakening versus the Brazilian real.
- Homeowners NWP increased $41 million. The increase reflects rate increases, as well as growth in homeowners policies-in-force in U.S. Consumer Markets.
- Specialty insurance increased $294 million. The increase reflects the 2017 Ironshore acquisition (from May 1 to June 30) and business growth, partially offset by the strengthening of the U.S. dollar versus the British pound and euro, as well as unfavorable premium adjustments.
- Global specialty reinsurance increased $62 million. The increase reflects business growth.
- Employer disability, life and A&H NWP increased $58 million. The increase reflects strong new business sales.
- Corporate reinsurance NWP increased $51 million. The increase reflects new internal programs and changes in terms and coverage to both internal and external programs.
- Commercial automobile NWP increased $49 million. The increase reflects exposure growth and rate increases.

NWP for the six months ended June 30, 2017 was $19.144 billion, an increase of $1.354 billion over the same period in 2016.

Significant changes by major line of business for the six months ended June 30, 2017 include:

- Private passenger automobile NWP increased $504 million. The increase reflects additional rate required to keep pace with U.S. industry loss cost trends and growth in policies in-force in U.S. Consumer Markets and organic growth in Global Consumer Markets East | West. The year was further impacted by favorable foreign exchange due to the U.S. dollar weakening versus the Brazilian real.
- Homeowners NWP increased $76 million. The increase reflects rate increases, as well as growth in homeowners policies-in-force in U.S. Consumer Markets.
- Specialty insurance increased $270 million. The increase reflects the 2017 Ironshore acquisition (from May 1 to June 30) and business growth, partially offset by the strengthening of the U.S. dollar versus the British pound and euro, as well as unfavorable premium adjustments.
- Employer disability, life and A&H NWP increased $132 million. The increase reflects strong new business sales.
- Corporate reinsurance NWP increased $96 million. The increase reflects new internal programs and changes in terms and coverage to both internal and external programs.
- Commercial automobile NWP increased $92 million. The increase reflects exposure growth and rate increases.

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

Consolidated NWP by SBU was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Global Consumer Markets	$5,711	$5,372	6.3%	$10,926	$10,254	6.6%
U.S. Consumer Markets	4,686	4,444	5.4	9,031	8,568	5.4
Global Consumer Markets East | West	1,025	928	10.5	1,895	1,686	12.4
Commercial Insurance	2,490	2,339	6.5	4,970	4,633	7.3
Global Specialty	1,622	1,236	31.2	2,965	2,616	13.3
Corporate and Other	87	71	22.5	283	287	(1.4)
Total NWP	$9,910	$9,018	9.9%	$19,144	$17,790	7.6%
Foreign exchange effect on growth			(0.1)			0.1
NWP growth excluding foreign exchange[1]			10.0%			7.5%

1 Determined by assuming constant foreign exchange rates between periods.

Major drivers of NWP growth were as follows:

$ in Millions	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	2016	$ Change	Points Attribution	2017	2016	$ Change	Points Attribution
Total NWP	$9,910	$9,018	$892	9.9	$19,144	$17,790	$1,354	7.6
Components of growth:								
Domestic personal automobile	2,763	2,573	190	2.1	5,545	5,177	368	2.1
Domestic homeowners	1,651	1,611	40	0.4	2,981	2,905	76	0.4
Global Consumer Markets East | West Local Business (ex foreign exchange)[1]	1,015	928	87	1.0	1,848	1,686	162	0.9
Specialty insurance (ex foreign exchange)[1]	971	666	305	3.4	1,518	1,225	293	1.6
Domestic workers compensation	495	477	18	0.2	990	1,004	(14)	(0.1)
Global specialty reinsurance (ex foreign exchange)[1]	306	241	65	0.7	795	739	56	0.3
Domestic employer disability, life and A&H	421	364	57	0.6	840	715	125	0.7
Corporate reinsurance (ex foreign exchange)[1,2]	58	6	52	0.6	279	185	94	0.5
Surety	230	213	17	0.2	433	420	13	0.1
Global specialty inland marine (ex foreign exchange)[1]	139	125	14	0.2	272	247	25	0.1
Domestic individual life and annuity	99	100	(1)	-	220	181	39	0.2
Other lines	1,769	1,714	55	0.6	3,413	3,306	107	0.7
Foreign exchange[1]	(7)	-	(7)	(0.1)	10	-	10	0.1
Total NWP	$9,910	$9,018	$892	9.9	$19,144	$17,790	$1,354	7.6

1 Determined by assuming constant foreign exchange rates between periods.

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

Consolidated NWP by geographic distribution channels was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
U.S.	$7,959	$7,468	6.6%	$15,597	$14,661	6.4%
International[1]	1,951	1,550	25.9	3,547	3,129	13.4
Global Consumer Markets East | West	1,025	928	10.5	1,895	1,686	12.4
Global Specialty[1]	926	622	48.9	1,652	1,443	14.5
Total NWP	$9,910	$9,018	9.9%	$19,144	$17,790	7.6%

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

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

Results of Operations – Consolidated

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Net operating income before partnerships, LLC and other equity method income (loss)	$54	$118	(54.2%)	$196	$533	(63.2%)
Partnerships, LLC and other equity method income (loss), net of tax	70	(38)	NM	176	(20)	NM
Net realized gains (losses), net of tax	20	(70)	NM	130	(95)	NM
Ironshore acquisition & integration costs, net of tax	(17)	-	NM	(23)	-	NM
Loss on extinguishment of debt, net of tax	-	-	-	(1)	(5)	(80.0)
Less: Net income (loss) attributable to non-controlling interest	1	(5)	NM	1	5	(80.0)
Net income attributable to LMHC	$126	$15	NM	$477	$408	16.9%

NM = Not Meaningful

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues	$10,369	$9,389	10.4%	$20,466	$18,751	9.1%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method income (loss)	$871	$918	(5.1%)	$1,624	$1,823	(10.9%)
Catastrophes[1]	(692)	(765)	(9.5)	(1,331)	(1,146)	16.1
Net incurred losses attributable to prior years:						
- Asbestos and environmental[2]	(5)	9	NM	(9)	9	NM
- All other[2,3]	(40)	47	NM	(30)	101	NM
Current accident year re-estimation[4]	(48)	(36)	33.3	-	-	-
PTOI before partnerships, LLC and other equity method income (loss)	86	173	(50.3)	254	787	(67.7)
Partnerships, LLC and other equity method income (loss)[5]	108	(59)	NM	270	(36)	NM
PTOI	194	114	70.2	524	751	(30.2)
Net realized gains (losses)	30	(95)	NM	199	(134)	NM
Ironshore acquisition & integration costs	(26)	-	NM	(36)	-	NM
Loss on extinguishment of debt	-	-	-	(1)	(8)	(87.5)
Pre-tax income	198	19	NM	686	609	12.6
Income tax expense	71	9	NM	208	196	6.1
Consolidated net income	127	10	NM	478	413	15.7
Less: Net income (loss) attributable to non-controlling interest	1	(5)	NM	1	5	(80.0)
Net income attributable to LMHC	$126	$15	NM	$477	$408	16.9%
Cash flow provided by operations before pension contributions	$1,181	$1,047	12.8%	$1,516	$1,447	4.8%
Pension contributions	(1)	(701)	(99.9)	(402)	(802)	(49.9)
Cash flow provided by operations	$1,180	$346	NM	$1,114	$645	72.7%

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 Asbestos and environmental is gross of the related adverse development cover (the "NICO Reinsurance Transaction"), and All other includes all cessions related to the NICO Reinsurance Transaction, which is described further in "Reinsurance Recoverables".
3 Net of earned premium and reinstatement premium attributable to prior years of ($12) million and ($9) million for the three and six months ended June 30, 2017, and ($8) million and ($7) million for the same periods in 2016.
4 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2017 and 2016, respectively.
5 Partnerships, LLC and other equity method income (loss) includes LP, LLC and other equity method income (loss) within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from the production and sale of oil and gas.
NM = Not Meaningful

Partnerships, LLC and Other Equity Method Income (Loss)	**Three Months Ended June 30,**			**Six Months Ended June 30,**		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
LP, LLC and other equity method income (loss)[1]	$120	($20)	NM	$289	$53	NM
Direct investment in natural resources revenues[2]	61	54	13.0%	110	92	19.6%
Direct investment in natural resources expenses[3]	(73)	(93)	(21.5)	(129)	(181)	(28.7)
Partnerships, LLC and other equity method income (loss)	$108	($59)	NM	$270	($36)	NM

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

Net Investment Income	**Three Months Ended June 30,**		**Six Months Ended June 30,**	
$ in Millions	**2017**	**2016**	**2017**	**2016**
Taxable interest income	$551	$522	$1,085	$1,049
Tax-exempt interest income	61	80	128	163
Dividends	20	18	33	29
LP, LLC and other equity method income (loss)	120	(20)	289	53
Commercial mortgage loans	31	31	61	59
Other investment income	3	6	6	12
Gross investment income	786	637	1,602	1,365
Investment expenses[1]	(53)	(40)	(103)	(81)
Total net investment income	$733	$597	$1,499	$1,284

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

Net Realized Gains (Losses) $ in Millions	Sales & Dispositions	Impairments	Change in Derivatives Value	Total
Three Months Ended June 30, 2017:				
Fixed maturities	$36	($2)	$-	$34
Equities	81	(33)	-	48
Other	(1)	(42)	(9)	(52)
Total	$116	($77)	($9)	$30
Three Months Ended June 30, 2016:				
Fixed maturities	$57	($13)	$-	$44
Equities	11	(27)	-	(16)
Other	8	(135)	4	(123)
Total	$76	($175)	$4	($95)

Net Realized Gains (Losses) $ in Millions	Sales & Dispositions	Impairments	Change in Derivatives Value	Total
Six Months Ended June 30, 2017:				
Fixed maturities	$82	($15)	$-	$67
Equities	137	(34)	-	103
Other	111	(73)	(9)	29
Total	$330	($122)	($9)	$199
Six Months Ended June 30, 2016:				
Fixed maturities	$45	($20)	$-	$25
Equities	25	(37)	-	(12)
Other	8	(135)	(20)	(147)
Total	$78	($192)	($20)	($134)

Second Quarter Results:

PTOI before partnerships, LLC, and other equity method income (loss) for the three months ended June 30, 2017 was $86 million, a decrease of $87 million from the same period in 2016. The decrease reflects higher current accident year losses, including the impact of unfavorable domestic auto liability loss trends reflected in U.S. Consumer Markets and Commercial Insurance, higher non-catastrophe property losses in Commercial Insurance, and higher losses within the reinsurance segment in Corporate, partially offset by lower large loss activity in Global Specialty. The decrease also reflects favorable net incurred losses attributable to prior years in Global Specialty and Global Consumer Markets East | West in 2016 and adverse prior year development in Commercial Insurance in 2017. These decreases were partially offset by the profit margin on growth in earned premium, lower catastrophe losses and unfavorable net incurred losses attributable to prior years in Corporate in 2016 that did not recur.

Partnerships, LLC, and other equity method income (loss) including operating income from direct working interests for the three months ended June 30, 2017 was $108 million versus ($59) million for the same period in 2016. The increase reflects improved energy operations' PTOI (reflects partnerships and direct investment in oil and gas wells) and more favorable traditional private equity valuations in 2017.

Revenues for the three months ended June 30, 2017 were $10.369 billion, an increase of $980 million over the same period in 2016. The major components of revenues are net premium earned, net investment income, net realized gains (losses), and fee and other revenues.

Net premium earned for the three months ended June 30, 2017 was $9.313 billion, an increase of $695 million over the same period in 2016. The increase primarily reflects the premium earned associated with the changes in NWP previously discussed, the 2017 Ironshore acquisition, and NWP growth during the last six months of 2016.

Net investment income for the three months ended June 30, 2017 was $733 million, an increase of $136 million over the same period in 2016. The increase was primarily a result of more favorable valuations in both the energy sector and traditional private equity investments in 2017 as compared to the same period in 2016. The increase also reflects a higher invested asset base primarily driven by Ironshore.

Net realized gains (losses) for the three months ended June 30, 2017 were $30 million versus ($95) million for the same period in 2016. The increase in net realized gains primarily relates to equity gains realized from sales due to portfolio repositioning in 2017. The prior period was impacted by higher impairments on direct investments in oil and gas wells compared to 2017.

Fee and other revenues for the three months ended June 30, 2017 were $293 million, an increase of $24 million over the same period in 2016. The change was primarily driven by higher billing fees in U.S. Consumer Markets.

Claims, benefits and expenses for the three months ended June 30, 2017 were $10.145 billion, an increase of $775 million over the same period in 2016. The increase reflects higher current accident year losses, including business growth, the impact of unfavorable domestic auto liability loss trends reflected in U.S. Consumer Markets and Commercial Insurance, higher non-catastrophe property losses in Commercial Insurance, and higher losses within the reinsurance segment in Corporate, partially offset by lower large loss activity in Global Specialty. The increase also reflects favorable incurred losses attributable to prior years in Global Specialty and Global Consumer Markets East | West in 2016 and adverse prior year development in Commercial Insurance in 2017. These increases were partially offset by lower catastrophe losses and unfavorable incurred losses attributable to prior years in Corporate in 2016 that did not recur.

Income tax expense for the three months ended June 30, 2017 was $71 million, an increase of $62 million over the same period in 2016. The Company's effective tax rate on continuing operations for the three months ended June 30, 2017 was 36%, compared to 47% for the same period in 2016. The decrease in the effective tax rate on continuing operations from 2016 to 2017 was primarily due to higher pre-tax income in 2017. The Company's effective tax rate on continuing operations differs from the U.S. Federal statutory rate of 35% principally due to tax-exempt investment income and revisions to prior year estimates.

Net income attributable to LMHC for the three months ended June 30, 2017 was $126 million, an increase of $111 million over the same period in 2016.

Cash flow provided by operations for the three months ended June 30, 2017 was $1.180 billion, an increase of $834 million over the same period in 2016. The increase reflects higher pension funding in Corporate in 2016, higher premium collections across Global Consumer Markets and Commercial Insurance driven by business growth and settlement timing, and the 2017 Ironshore acquisition, partially offset by higher non-catastrophe loss payments across most business units.

Year-to-date Results:

PTOI before partnerships, LLC, and other equity method income (loss) for the six months ended June 30, 2017 was $254 million, a decrease of $533 million from the same period in 2016. The decrease reflects higher current accident year losses, including the impact of unfavorable domestic auto liability loss trends reflected in U.S. Consumer Markets and Commercial Insurance, higher non-catastrophe property losses in Commercial Insurance, and higher losses within the reinsurance segment in Corporate, partially offset by lower large loss activity in Global Specialty. The decrease also reflects higher catastrophe losses, lower net investment income excluding partnerships, LLC, and other equity method investments, favorable net incurred losses attributable to prior years in Global Specialty and Global Consumer Markets East | West in 2016 and adverse prior year development in Commercial Insurance in 2017. These decreases were partially offset by the profit margin on growth in earned premium.

Partnerships, LLC, and other equity method income (loss) including operating income from direct working interests for the six months ended June 30, 2017 was $270 million versus ($36) million for the same period in 2016. The increase reflects improved energy operations' PTOI (reflects partnerships and direct investment in oil and gas wells) and more favorable traditional private equity valuations in 2017.

Revenues for the six months ended June 30, 2017 were $20.466 billion, an increase of $1.715 billion over the same period in 2016. The major components of revenues are net premium earned, net investment income, net realized gains (losses), and fee and other revenues.

Net premium earned for the six months ended June 30, 2017 was $18.208 billion, an increase of $1.126 billion over the same period in 2016. The increase primarily reflects the premium earned associated with the changes in NWP previously discussed, the 2017 Ironshore acquisition, and NWP growth during the last six months of 2016.

Net investment income for the six months ended June 30, 2017 was $1.499 billion, an increase of $215 million over the same period in 2016. The increase was primarily a result of more favorable valuations in both the energy sector and traditional private equity investments in 2017 as compared to the same period in 2016. The increase also reflects a higher invested asset base primarily driven by Ironshore.

Net realized gains (losses) for the six months ended June 30, 2017 were $199 million versus ($134) million for the same period in 2016. The increase in net realized gains primarily relates to a $109 million gain on the sale of company-owned real estate. In addition, 2017 reflects higher fixed maturity and equity gains realized from sales due to portfolio repositioning. The prior period was impacted by higher impairments on direct investments in oil and gas wells compared to 2017.

Fee and other revenues for the six months ended June 30, 2017 were $560 million, an increase of $41 million over the same period in 2016. The change reflects higher billing fees in U.S. Consumer Markets.

Claims, benefits and expenses for the six months ended June 30, 2017 were $19.743 billion, an increase of $1.609 billion over the same period in 2016. The increase reflects higher current accident year losses, including business growth, the impact of unfavorable domestic auto liability loss trends reflected in U.S. Consumer Markets and Commercial Insurance, higher non-catastrophe property losses in Commercial Insurance, and higher losses within the reinsurance segment in Corporate, partially offset by lower large loss activity in Global Specialty. The increase also reflects higher catastrophe losses, favorable incurred losses attributable to prior years in Global Specialty and Global Consumer Markets East | West in 2016 and adverse prior year development in Commercial Insurance in 2017.

Loss on extinguishment of debt for the six months ended June 30, 2017 was $1 million, a decrease of $7 million from the same period in 2016. The Company repurchased $2 million and $16 million of the 10.75% Junior Subordinated notes due 2088 during the six months ended June 30, 2017 and June 30, 2016, respectively.

Income tax expense for the six months ended June 30, 2017 was $208 million, an increase of $12 million over the same period in 2016. The Company's effective tax rate on continuing operations for the six months ended June 30, 2017 was 30%, compared to 32% for the same period in 2016. The decrease in the effective tax rate on continuing operations from 2016 to 2017 was primarily due to an increased benefit from foreign taxes, partially offset by revisions to prior year estimates. The Company's effective tax rate on continuing operations differs from the U.S. Federal statutory rate of 35% principally due to tax-exempt investment income.

Net income attributable to LMHC for the six months ended June 30, 2017 was $477 million, an increase of $69 million over the same period in 2016.

Cash flow provided by operations for the six months ended June 30, 2017 was $1.114 billion, an increase of $469 million over the same period in 2016. The increase reflects higher pension funding in 2016 and timing of normal business activities within Corporate, higher premium collections across Global Consumer Markets and Commercial Insurance driven by business growth, and the 2017 Ironshore acquisition, partially offset by higher non-catastrophe loss payments across most business units.

CONSOLIDATED	Three Months Ended June 30, 2017	2016	Change (Points)	Six Months Ended June 30, 2017	2016	Change (Points)
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	64.0%	61.0%	3.0	64.1%	61.7%	2.4
Underwriting expense ratio	29.8	31.3	(1.5)	29.8	31.0	(1.2)
Subtotal	93.8	92.3	1.5	93.9	92.7	1.2
Catastrophes[1]	7.9	9.4	(1.5)	7.8	7.1	0.7
Net incurred losses attributable to prior years:						
- Asbestos and environmental	-	(0.1)	0.1	0.1	(0.3)	0.4
- All other[2]	0.5	(0.6)	1.1	0.3	(0.6)	0.9
Current accident year re-estimation[3]	0.5	0.4	0.1	-	-	-
Total combined ratio[4]	102.7%	101.4%	1.3	102.1%	98.9%	3.2

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

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

3 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2017 and 2016, respectively.

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

Second Quarter Results:

The consolidated combined ratio before catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation for the three months ended June 30, 2017 was 93.8%, an increase of 1.5 points over the same period in 2016. The claims and claim adjustment expense ratio reflects higher severity in the auto lines of business in U.S. Consumer Markets and Commercial Insurance, higher non-catastrophe property losses in Commercial Insurance and higher losses within the reinsurance segment in Corporate, partially offset by lower large loss activity in Global Specialty. The decrease in the underwriting expense ratio reflects lower employee related costs in U.S. Consumer Markets and Commercial Insurance and higher earned premium.

Including the impact of catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation, the total combined ratio for the three months ended June 30, 2017 was 102.7%, an increase of 1.3 points over the same period in 2016. The increase reflects the increases in the combined ratio previously discussed, favorable net incurred losses attributable to prior years in Global Specialty and Global Consumer Markets East | West in 2016 and adverse prior year development in Commercial Insurance in 2017, partially offset by lower catastrophe losses and unfavorable net incurred losses attributable to prior years in Corporate in 2016 that did not recur.

Year-to-date Results:

The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2017 was 93.9%, an increase of 1.2 points over the same period in 2016. The claims and claim adjustment expense ratio reflects higher severity in the auto lines of business in U.S. Consumer Markets and Commercial Insurance, higher non-catastrophe property losses in Commercial Insurance and higher losses within the reinsurance segment in Corporate, partially offset by lower large loss activity in Global Specialty. The decrease in

the underwriting expense ratio reflects lower employee related costs in U.S. Consumer Markets and Commercial Insurance and higher earned premium.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the six months ended June 30, 2017 was 102.1%, an increase of 3.2 points over the same period in 2016. The increase reflects the increases in the combined ratio previously discussed, higher catastrophe losses, favorable net incurred losses attributable to prior years in Global Specialty and Global Consumer Markets East | West in 2016 and adverse prior year development in Commercial Insurance in 2017.

GLOBAL CONSUMER MARKETS

Overview – Global Consumer Markets

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

Global Consumer Markets NWP by market segment was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
U.S. Consumer Markets	$4,686	$4,444	5.4%	$9,031	$8,568	5.4%
Global Consumer Markets East | West	1,025	928	10.5	1,895	1,686	12.4
Total NWP	$5,711	$5,372	6.3%	$10,926	$10,254	6.6%

Results of Operations – Global Consumer Markets

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues	$5,603	$5,313	5.5%	$11,069	$10,521	5.2%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$618	$612	1.0%	$1,138	$1,123	1.3%
Catastrophes[1]	(576)	(547)	5.3	(1,118)	(877)	27.5
Net incurred losses attributable to prior years	8	31	(74.2)	25	40	(37.5)
Current accident year re-estimation[2]	(18)	(36)	(50.0)	-	-	-
PTOI	$32	$60	(46.7%)	$45	$286	(84.3%)

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

2 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2017 and 2016, respectively.

GLOBAL CONSUMER MARKETS	Three Months Ended June 30, 2017	2016	Change (Points)	Six Months Ended June 30, 2017	2016	Change (Points)
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	63.8%	62.0%	1.8	64.6%	63.1%	1.5
Underwriting expense ratio	27.2	28.6	(1.4)	27.1	28.3	(1.2)
Subtotal	91.0	90.6	0.4	91.7	91.4	0.3
Catastrophes[1]	10.8	10.8	-	10.6	8.7	1.9
Net incurred losses attributable to prior years	(0.1)	(0.6)	0.5	(0.2)	(0.4)	0.2
Current accident year re-estimation[2]	0.3	0.7	(0.4)	-	-	-
Total combined ratio	102.0%	101.5%	0.5	102.1%	99.7%	2.4

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

2 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2017 and 2016, respectively.

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

U.S. CONSUMER MARKETS

Overview – U.S. Consumer Markets

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

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Private passenger automobile	$2,763	$2,573	7.4%	$5,545	$5,177	7.1%
Homeowners and other	1,923	1,871	2.8	3,486	3,391	2.8
Total NWP	$4,686	$4,444	5.4%	$9,031	$8,568	5.4%

Second Quarter Results:

NWP for the three months ended June 30, 2017 was $4.686 billion, an increase of $242 million over the same period in 2016.

Private passenger automobile NWP for the three months ended June 30, 2017 was $2.763 billion, an increase of $190 million over the same period in 2016. The growth reflects a 5.6% increase in weighted average written premiums (adjusted for changes in six and twelve month policy term mix) resulting from rate and growth in policies in-force of 0.7% for the twelve months ended June 30, 2017. The increase in weighted average written premium reflects additional rate required to keep pace with U.S. industry loss cost trends.

Homeowners and other NWP for the three months ended June 30, 2017 was $1.923 billion, an increase of $52 million over the same period in 2016. The growth reflects a 0.7% increase in homeowners average written premiums (resulting from rate) and growth in homeowners policies in-force of 1.7% for the twelve months ended June 30, 2017.

Year-to-date Results:

NWP for the six months ended June 30, 2017 was $9.031 billion, an increase of $463 million over the same period in 2016.

Private passenger automobile NWP for the six months ended June 30, 2017 was $5.545 billion, an increase of $368 million over the same period in 2016. The growth reflects a 5.6% increase in weighted average written premiums (adjusted for changes in six and twelve month policy term mix) resulting from rate and growth in policies in-force of 0.7% for the twelve months ended June 30, 2017. The increase in weighted average written premium reflects additional rate required to keep pace with U.S. industry loss cost trends.

Homeowners and other NWP for the six months ended June 30, 2017 was $3.486 billion, an increase of $95 million over the same period in 2016. The growth reflects a 0.7% increase in homeowners average written premiums (resulting from rate) and growth in homeowners policies in-force of 1.7% for the twelve months ended June 30, 2017.

Results of Operations – U.S. Consumer Markets

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues	$4,579	$4,361	5.0%	$9,060	$8,665	4.6%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$609	$642	(5.1%)	$1,142	$1,154	(1.0%)
Catastrophes[1]	(576)	(547)	5.3	(1,118)	(877)	27.5
Net incurred losses attributable to prior years	(4)	1	NM	1	(4)	NM
Current accident year re-estimation[2]	(18)	(36)	(50.0)	-	-	-
PTOI	$11	$60	(81.7%)	$25	$273	(90.8%)

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 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2017 and 2016, respectively.

NM = Not Meaningful

Second Quarter Results:

PTOI for the three months ended June 30, 2017 was $11 million, a decrease of $49 million from the same period in 2016. The decrease was driven by higher loss trends in the auto liability line of business and higher current accident year catastrophe losses due primarily to property losses related to Denver area hail storms. These items were partially offset by the profit margin on growth in earned premium, reserve releases on prior year catastrophe losses and lower current accident year re-estimation in the auto liability line of business.

Revenues for the three months ended June 30, 2017 were $4.579 billion, an increase of $218 million over the same period in 2016. The increase reflects the premium earned associated with the changes in NWP previously discussed and growth during the last six months of 2016.

Claims, benefits and expenses for the three months ended June 30, 2017 were $4.568 billion, an increase of $267 million over the same period in 2016. The increase was driven by higher current accident year catastrophe losses due primarily to Denver area hail storms and higher auto losses driven by business growth and higher auto liability loss trends, partially offset by reserve releases on prior year catastrophe losses.

Year-to-date Results:

PTOI for the six months ended June 30, 2017 was $25 million, a decrease of $248 million from the same period in 2016. The decrease was driven by higher current accident year catastrophe losses due primarily to property losses related to hail storms in Texas and Colorado and higher loss trends in the auto line of business, partially offset by the profit margin on growth in earned premium and reserve releases on prior year catastrophe losses.

Revenues for the six months ended June 30, 2017 were $9.060 billion, an increase of $395 million over the same period in 2016. The increase reflects the premium earned associated with the changes in NWP previously discussed and growth during the last six months of 2016.

Claims, benefits and expenses for the six months ended June 30, 2017 were $9.035 billion, an increase of $643 million over the same period in 2016. The increase was driven by higher current accident year catastrophe losses due primarily to property losses related to hail storms in Texas and Colorado and higher auto losses driven by business growth and higher auto liability loss trends, partially offset by reserve releases on prior year catastrophe losses.

U.S. CONSUMER MARKETS	Three Months Ended June 30, 2017	2016	Change (Points)	Six Months Ended June 30, 2017	2016	Change (Points)
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	63.4%	61.0%	2.4	64.2%	62.5%	1.7
Underwriting expense ratio	24.5	25.5	(1.0)	24.4	25.5	(1.1)
Subtotal	87.9	86.5	1.4	88.6	88.0	0.6
Catastrophes[1]	13.0	12.9	0.1	12.7	10.4	2.3
Net incurred losses attributable to prior years	0.1	(0.1)	0.2	-	-	-
Current accident year re-estimation[2]	0.4	0.9	(0.5)	-	-	-
Total combined ratio	101.4%	100.2%	1.2	101.3%	98.4%	2.9

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 Re-estimation of the current accident year loss reserves for the three months ended March 31, 2017 and 2016, respectively.

Second Quarter Results:

The U.S. Consumer Markets combined ratio before catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation for the three months ended June 30, 2017 was 87.9%, an increase of 1.4 points over the same period in 2016. The increase in the claims and claim adjustment expense ratio reflects higher current accident year non-catastrophe losses due to higher loss trends in the auto liability line of business. The decrease in the underwriting expense ratio was due to earned premium growth and lower employee related costs.

Including the impact of catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation, the total combined ratio for the three months ended June 30, 2017 was 101.4%, an increase of 1.2 points over the same period in 2016. The increase was driven by the changes in the claims and claim adjustment expense ratio previously discussed, partially offset by favorable changes in the underwriting expense ratio previously discussed, and lower current accident year re-estimation from the same period in 2016.

Year-to-date Results:

The U.S. Consumer Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2017 was 88.6%, an increase of 0.6 points over the same period in 2016. The increase was driven by an increase in the claims and claim adjustment expense ratio driven by current accident year non-catastrophe losses due to higher loss trends in the auto liability line of business. The decrease in the underwriting expense ratio was due to earned premium growth and lower employee related costs.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the six months ended June 30, 2017 was 101.3%, an increase of 2.9 points over the same period in 2016. The increase was driven by higher catastrophe losses and changes in the claims and claim adjustment expense ratio previously discussed, partially offset by favorable changes in the underwriting expense ratio previously discussed.

GLOBAL CONSUMER MARKETS EAST | WEST

Overview – Global Consumer Markets East | West

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

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

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

On August 16, 2016, the Company entered into an agreement to sell a 51% interest of its Chinese operations to Sanpower Group. Due to recent regulatory changes, the timing and outcome of this agreement is uncertain.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
$ in Millions	**2017**	**2016**	**Change**	**Change ex. foreign exchange[1]**	**2017**	**2016**	**Change**	**Change ex. foreign exchange[1]**
West	$781	$719	8.6%	7.0%	$1,422	$1,276	11.4%	7.2%
East	244	209	16.7	18.7	473	410	15.4	17.2
Total NWP	$1,025	$928	10.5%	9.6%	$1,895	$1,686	12.4%	9.6%

1 Determined by assuming constant foreign exchange rates between periods.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Private passenger automobile	$623	$565	10.3%	$1,157	$1,021	13.3%
Life and health	77	72	6.9	158	142	11.3
Commercial automobile	82	70	17.1	152	131	16.0
Homeowners	46	45	2.2	89	89	-
Other[1]	197	176	11.9	339	303	11.9
Total NWP	$1,025	$928	10.5%	$1,895	$1,686	12.4%

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

Second Quarter Results:

NWP for the three months ended June 30, 2017 was $1.025 billion, an increase of $97 million over the same period in 2016. The increase reflects foreign exchange driven by the weakening of the U.S. dollar versus the Brazilian real, changes in terms and coverage to internal reinsurance programs, auto rate increases in Brazil and Portugal, and increased auto business in China.

Year-to-date Results:

NWP for the six months ended June 30, 2017 was $1.895 billion, an increase of $209 million over the same period in 2016. The increase reflects foreign exchange driven by the weakening of the U.S. dollar versus the Brazilian real, changes in terms and coverage to internal reinsurance programs, auto rate increases in Brazil, Portugal and Ireland, and increased auto business and favorable renewal of a large liability policy agreement in China. The increase in NWP was partially offset by lower property business in Chile.

Results of Operations – Global Consumer Markets East / West

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues	$1,024	$952	7.6%	$2,009	$1,856	8.2%
West pre-tax operating income (loss) before catastrophes and net incurred losses attributable to prior years	$25	($15)	NM	$23	($13)	NM
East pre-tax operating loss before catastrophes and net incurred losses attributable to prior years	(16)	(15)	6.7	(27)	(18)	50.0
Catastrophes[1]	-	-	-	-	-	-
Net incurred losses attributable to prior years	12	30	(60.0)	24	44	(45.5)
PTOI	$21	$-	NM	$20	$13	53.8%

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.
NM = Not Meaningful

Second Quarter Results:

PTOI for the three months ended June 30, 2017 was $21 million versus no PTOI for the same period in 2016. The increase was primarily due to lower underwriting losses as a result of re-underwriting in Ireland, changes in terms and coverage to internal reinsurance programs, and home office expense reductions. The increase in PTOI was partially offset by property losses in Chile and less favorable net incurred losses attributable to prior years.

Revenues for the three months ended June 30, 2017 were $1.024 billion, an increase of $72 million over the same period in 2016. The increase was primarily driven by foreign exchange driven by the weakening of the U.S. dollar versus the Brazilian real, premiums earned associated with the organic growth changes in NWP previously discussed, and growth over the last six months of 2016. The increase in revenues was partially offset by the exit from the personal insurance market in Great Britain.

Claims, benefits and expenses for the three months ended June 30, 2017 were $1.004 billion, an increase of $53 million over the same period in 2016. The increase reflects foreign exchange driven by the weakening of the U.S. dollar versus the Brazilian real, less favorable incurred losses attributable to prior years, and losses and expenses associated with business growth in China and Portugal. The increase in claims, benefits and expenses was partially offset by Ireland as a result of re-underwriting and the exit from the personal insurance market in Great Britain.

Year-to-date Results:

PTOI for the six months ended June 30, 2017 was $20 million, an increase of $7 million over the same period in 2016. The increase was primarily due to re-underwriting in Ireland and home office expense reductions. The increase in PTOI was partially offset by property losses in Chile, increased frequency of large claims in Singapore and less favorable net incurred losses attributable to prior years.

Revenues for the six months ended June 30, 2017 were $2.009 billion, an increase of $153 million over the same period in 2016. The increase was primarily driven by foreign exchange driven by the weakening of the U.S. dollar

versus the Brazilian real, premiums earned associated with the organic growth changes in NWP previously discussed and growth over the last six months of 2016. The increase in revenues was partially offset by the exit from the personal insurance market in Great Britain.

Claims, benefits and expenses for the six months ended June 30, 2017 were $1.990 billion, an increase of $148 million over the same period in 2016. The increase reflects foreign exchange driven by the weakening of the U.S. dollar versus the Brazilian real, losses and expenses associated with business growth in China and Portugal, property losses in Chile, higher underwriting expenses in Chile, increased frequency of large claims in Singapore, and less favorable incurred losses attributable to prior years. The increase in claims, benefits and expenses was partially offset by Ireland due to re-underwriting and the exit from the personal insurance market in Great Britain.

	Three Months Ended June 30,			Six Months Ended June 30,		
GLOBAL CONSUMER MARKETS EAST | WEST	**2017**	**2016**	**Change (Points)**	**2017**	**2016**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	65.7%	67.8%	(2.1)	66.6%	67.1%	(0.5)
Underwriting expense ratio	40.5	43.7	(3.2)	40.6	42.3	(1.7)
Subtotal	106.2	111.5	(5.3)	107.2	109.4	(2.2)
Catastrophes[1]	-	-	-	-	-	-
Net incurred losses attributable to prior years	(1.3)	(3.5)	2.2	(1.3)	(2.7)	1.4
Total combined ratio	104.9%	108.0%	(3.1)	105.9%	106.7%	(0.8)
GCM West combined ratio	103.0%	107.5%	(4.5)	104.4%	106.7%	(2.3)
GCM East combined ratio	109.8%	108.9%	0.9	109.0%	105.0%	4.0

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

Second Quarter Results:

The Global Consumer Markets East | West combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended June 30, 2017 was 106.2%, a decrease of 5.3 points from the same period in 2016. The decrease in the claims and claim adjustment expense ratio was driven primarily by lower losses in Ireland as a result of re-underwriting and lower auto losses in Spain. The decrease in the underwriting expense ratio was primarily driven by lower home office expenses and the impact of premium growth previously discussed in the PTOI and NWP commentary, and Ireland as a result of re-underwriting.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended June 30, 2017 was 104.9%, a decrease of 3.1 points from the same period in 2016. The total combined ratio reflects the changes in the combined ratio previously discussed, as well as less favorable net incurred losses attributable to prior years.

Year-to-date Results:

The Global Consumer Markets East | West combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2017 was 107.2%, a decrease of 2.2 points from the same period in 2016. The decrease in the claims and claim adjustment expense ratio was primarily driven by lower losses in Ireland as a result of re-underwriting and lower auto losses in Spain, partially offset by weather related losses in Spain and higher frequency and severity in most lines in Singapore. The decrease in the underwriting expense ratio was primarily driven by lower home office expenses and the impact of premium growth previously discussed in the PTOI and NWP commentary, and Ireland as a result of re-underwriting, partially offset by higher commissions in non-auto lines in Brazil.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the six months ended June 30, 2017 was 105.9%, a decrease of 0.8 points from the same period in 2016. The total combined ratio reflects the changes in the combined ratio previously discussed, partially offset by less favorable net incurred losses attributable to prior years.

COMMERCIAL INSURANCE

Overview – Commercial Insurance

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

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

Commercial Insurance NWP by market segment was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Business Insurance	$1,136	$1,075	5.7%	$2,220	$2,090	6.2%
National Insurance	803	765	5.0	1,612	1,573	2.5
Liberty Mutual Benefits	520	464	12.1	1,060	896	18.3
Other Commercial Insurance	31	35	(11.4)	78	74	5.4
Total NWP	$2,490	$2,339	6.5%	$4,970	$4,633	7.3%

Commercial Insurance NWP by line of business was as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Commercial multiple-peril	$536	$523	2.5%	$1,073	$1,027	4.5%
Workers compensation – Voluntary	447	426	4.9	942	915	3.0
Workers compensation – Involuntary	20	17	17.6	50	41	22.0
Commercial automobile	438	401	9.2	849	778	9.1
Employer disability, life and A&H	421	364	15.7	840	715	17.5
General liability	342	309	10.7	652	604	7.9
Commercial property	187	199	(6.0)	344	372	(7.5)
Individual life and annuity	99	100	(1.0)	220	181	21.5
Total NWP	$2,490	$2,339	6.5%	$4,970	$4,633	7.3%

Second Quarter Results:

NWP for the three months ended June 30, 2017 was $2.490 billion, an increase of $151 million over the same period in 2016. The increase reflects higher employer disability, life and A&H premium due to strong new business sales. The increase further reflects exposure growth and rate increases across most of the casualty lines, with the most significant rate increase in commercial auto in order to mitigate higher industry-wide loss trends. These increases were

partially offset by lower property premium due to continued competitive market pressures adversely impacting both retention and new business.

Year-to-date Results:

NWP for the six months ended June 30, 2017 was $4.970 billion, an increase of $337 million over the same period in 2016. The increase reflects higher employer disability, life and A&H premium due to strong new business sales and individual life and annuity premium growth due to higher life-contingent structured settlement sales during the first quarter of 2017. The increase further reflects exposure growth and rate increases across most of the casualty lines, led by commercial auto. These increases were partially offset by a decrease in construction wrap-up premium (primarily workers compensation and general liability), lower workers compensation audit and retrospective premium and lower property premium due to continued competitive market pressures adversely impacting both retention and new business.

Results of Operations – Commercial Insurance

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues	$2,918	$2,759	5.8%	$5,832	$5,475	6.5%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$206	$278	(25.9%)	$425	$583	(27.1%)
Catastrophes[1]	(113)	(147)	(23.1)	(219)	(205)	6.8
Net incurred losses attributable to prior years[2]	(32)	-	NM	(35)	6	NM
Current accident year re-estimation[3]	(30)	-	NM	-	-	-
PTOI	$31	$131	(76.3%)	$171	$384	(55.5%)

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 priors years of $3 million and $11 million for the three and six months ended June 30, 2017, and ($2) million and ($6) million for the same periods in 2016.

3 Re-estimation of the current accident year commercial auto liability loss and loss adjustment expense reserves for the three months ended March 31, 2017.

NM = Not Meaningful

Second Quarter Results:

PTOI for the three months ended June 30, 2017 was $31 million, a decrease of $100 million from the same period in 2016. The decrease reflects increased current accident year casualty losses driven by higher loss trends in the commercial auto line of business, higher non-catastrophe property losses, a higher commission ratio and adverse prior year development (primarily attributed to general liability loss adjustment expense reserves). The decrease further reflects unfavorable commercial auto liability current accident year re-estimation and unfavorable employer disability experience, partially offset by favorable employer life experience, lower catastrophe losses, lower employee related expenses and profit margin on growth in earned premium.

Revenues for the three months ended June 30, 2017 were $2.918 billion, an increase of $159 million over the same period in 2016. The increase reflects the earned impact of the 2017 written premium growth previously mentioned and the impact of higher earnings associated with the casualty lines written premium growth during the latter half of 2016. The increase further reflects net investment income growth due to higher invested assets in Liberty Mutual Benefits and higher fees associated with the individual life and employer disability business, partially offset by lower commission revenue from servicing carrier operations.

Claims, benefits and expenses for the three months ended June 30, 2017 were $2.887 billion, an increase of $258 million over the same period in 2016. The increase reflects higher claims, benefits and expenses driven by business growth, increased current accident year commercial auto losses, higher non-catastrophe property losses, higher

commission expense and adverse prior year development (primarily attributed to general liability loss adjustment expense reserves). The increase further reflects unfavorable commercial auto liability current accident year re-estimation and unfavorable employer disability experience, partially offset by favorable employer life experience, lower catastrophe losses and lower employee related expenses.

Year-to-date Results:

PTOI for the six months ended June 30, 2017 was $171 million, a decrease of $213 million from the same period in 2016. The decrease reflects increased current accident year casualty losses driven by higher loss trends in the commercial auto line of business, higher catastrophe and non-catastrophe property losses and adverse prior year development (primarily attributed to general liability loss adjustment expense reserves). The decrease further reflects a higher commission expense ratio and unfavorable employer disability experience. These decreases were partially offset by lower employee related expenses and profit margin on growth in earned premium.

Revenues for the six months ended June 30, 2017 were $5.832 billion, an increase of $357 million over the same period in 2016. The increase reflects the earned impact of the 2017 written premium growth previously mentioned and the impact of higher earnings associated with the casualty lines written premium growth during 2016. The increase further reflects net investment income growth due to higher invested assets in Liberty Mutual Benefits and higher fees associated with the individual life and employer disability business, partially offset by lower commission revenue from servicing carrier operations.

Claims, benefits and expenses for the six months ended June 30, 2017 were $5.661 billion, an increase of $569 million over the same period in 2016. The increase reflects higher claims, benefits and expenses driven by business growth, increased current accident year commercial auto losses, higher catastrophe and non-catastrophe property losses, higher commission expense and unfavorable employer disability experience. The increase further reflects adverse prior year development (primarily attributed to general liability loss adjustment expense reserves), partially offset by lower employee related expenses.

	Three Months Ended June 30,			**Six Months Ended June 30,**		
COMMERCIAL INSURANCE	**2017**	**2016**	**Change (Points)**	**2017**	**2016**	**Change (Points)**
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	65.1%	59.7%	5.4	64.2%	59.0%	5.2
Underwriting expense ratio	34.0	35.8	(1.8)	34.4	35.6	(1.2)
Dividend ratio	0.1	(0.1)	0.2	0.1	-	0.1
Subtotal	99.2	95.4	3.8	98.7	94.6	4.1
Catastrophes[1]	6.0	8.1	(2.1)	5.8	5.7	0.1
Net incurred losses attributable to prior years[2]	1.7	-	1.7	1.0	(0.1)	1.1
Current accident year re-estimation[3]	1.6	-	1.6	-	-	-
Total combined ratio	108.5%	103.5%	5.0	105.5%	100.2%	5.3

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

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

3 Re-estimation of the current accident year commercial auto liability loss and loss adjustment expense reserves for the three months ended March 31, 2017.

Second Quarter Results:

The Commercial Insurance combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three months ended June 30, 2017 was 99.2%, an increase of 3.8 points over the same period in 2016. The increase reflects a higher current accident year commercial auto claims and claim adjustment expense ratio and higher non-catastrophe property losses. The increase was partially offset by a lower underwriting expense ratio due to lower employee related expenses and casualty lines earned premium growth, partially offset by an increase in the commission expense ratio driven by business mix and lower servicing carrier commission revenue.

Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the total combined ratio for the three months ended June 30, 2017 was 108.5%, an increase of 5.0 points over the same period in 2016. The increase reflects the combined ratio increase previously mentioned, adverse prior year development (primarily attributed to general liability loss adjustment expense reserves) and unfavorable commercial auto liability current accident year re-estimation, partially offset by lower catastrophe losses.

Year-to-date Results:

The Commercial Insurance combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2017 was 98.7%, an increase of 4.1 points over the same period in 2016. The increase reflects a higher current accident year commercial auto claims and claim adjustment expense ratio and higher non-catastrophe property losses. The increase was partially offset by a lower underwriting expense ratio due to lower employee related expenses and casualty lines earned premium growth, partially offset by an increase in the commission expense ratio driven by business mix and lower servicing carrier commission revenue.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the six months ended June 30, 2017 was 105.5%, an increase of 5.3 points over the same period in 2016. The increase reflects the combined ratio increase previously mentioned, higher catastrophe losses and adverse prior year development (primarily attributed to general liability loss adjustment expense reserves).

GLOBAL SPECIALTY

Overview – Global Specialty

On May 1, 2017, the Company completed its acquisition of Ironshore and combined the Ironshore U.S. operating segment with the LIU U.S. segment, creating one U.S. specialty operation. All prior periods have been restated to reflect this change.

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

Global Specialty NWP by market segment was as follows:

	Three Months Ended June 30,			**Six Months Ended June 30,**		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
LSM	$698	$597	16.9%	$1,502	$1,468	2.3%
LIU[1]	248	221	12.2	418	388	7.7
LM Surety	216	201	7.5	409	397	3.0
Ironshore[2]	414	176	135.2	544	281	93.6
Other	46	41	12.2	92	82	12.2
Total NWP	$1,622	$1,236	31.2%	$2,965	$2,616	13.3%
Foreign exchange effect on growth			(1.3)			(1.5)
NWP growth excluding foreign exchange[3]			32.5%			14.8%

1 LIU excludes LIU U.S. figures.
2 Ironshore includes LIU U.S. figures.
3 Determined by assuming constant foreign exchange rates between periods.

Global Specialty's major product lines are as follows:

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

Global Specialty NWP by line of business was as follows:

	Three Months Ended June 30,			**Six Months Ended June 30,**		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Specialty insurance	$960	$666	44.1%	$1,495	$1,225	22.0%
Reinsurance	303	241	25.7	783	739	6.0
Surety	222	204	8.8	419	405	3.5
Inland marine	137	125	9.6	268	247	8.5
Total NWP	$1,622	$1,236	31.2%	$2,965	$2,616	13.3%

Second Quarter Results:

NWP for the three months ended June 30, 2017 was $1.622 billion, an increase of $386 million over the same period in 2016. The increase reflects the Ironshore acquisition and growth within the LSM, LIU U.S., Inland Marine and Surety market segments, partially offset by unfavorable LSM ultimate premium adjustments. Additionally, foreign exchange negatively impacted the quarter due to the strengthening of the U.S. dollar versus the British pound and euro.

Year-to-date Results:

NWP for the six months ended June 30, 2017 was $2.965 billion, an increase of $349 million over the same period in 2016. The increase reflects the Ironshore acquisition and growth within the LSM, LIU U.S., Inland Marine and Surety market segments, partially offset by unfavorable LSM ultimate premium adjustments and a reduction from the sale of the LSM regional UK commercial business in 2016. Additionally, foreign exchange negatively impacted the year due to the strengthening of the U.S. dollar versus the British pound and euro.

Results of Operations – Global Specialty

	Three Months Ended June 30,			**Six Months Ended June 30,**		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues	$1,531	$1,250	22.5%	$2,781	$2,485	11.9%
PTOI before catastrophes and net incurred losses attributable to prior years	$158	$108	46.3%	$295	$252	17.1%
Catastrophes[1]	(13)	(64)	(79.7)	(14)	(64)	(78.1)
Net incurred losses attributable to prior years[2]	(19)	65	NM	(17)	82	NM
PTOI	$126	$109	15.6%	$264	$270	(2.2%)

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

2 Net of earned premium and reinstatement premium attributable to priors years of ($15) million and ($20) million for the three and six months ended June 30, 2017, and ($6) million and ($1) million for the same periods in 2016.

NM = Not Meaningful

Second Quarter Results:

PTOI for the three months ended June 30, 2017 was $126 million, an increase of $17 million over the same period in 2016. The increase reflects lower current year large loss activity within LM Surety and LSM, lower catastrophe losses and the Ironshore acquisition, partially offset by unfavorable net incurred losses attributable to prior years primarily within LSM in 2017 versus favorable net incurred losses attributable to prior years primarily within LSM in 2016.

Revenues for the three months ended June 30, 2017 were $1.531 billion, an increase of $281 million over the same period in 2016. The increase was driven by an increase in earned premium, which reflects the Ironshore acquisition as well as higher current year writings primarily within LIU U.S. and Inland Marine.

Claims, benefits and expenses for the three months ended June 30, 2017 were $1.405 billion, an increase of $264 million over the same period in 2016. The increase reflects the Ironshore acquisition, attritional losses on growth within targeted lines of business across market segments and unfavorable incurred losses attributable to prior years primarily within LSM in 2017 versus favorable incurred losses attributable to prior years primarily within LSM in 2016, partially offset by lower current year large loss activity within LM Surety and LSM and lower catastrophe losses.

Year-to-date Results:

PTOI for the six months ended June 30, 2017 was $264 million, a decrease of $6 million from the same period in 2016. The decrease reflects unfavorable net incurred losses attributable to prior years primarily within LSM in 2017 versus favorable net incurred losses attributable to prior years primarily within LSM in 2016, partially offset by lower large loss activity within LM Surety and LSM, lower catastrophe losses and the Ironshore acquisition.

Revenues for the six months ended June 30, 2017 were $2.781 billion, an increase of $296 million over the same period in 2016. The increase was driven by an increase in earned premium, which reflects the Ironshore acquisition as well as higher current year writings within LIU U.S., Inland Marine and the LSM reinsurance business segment, partially offset by the LSM commercial business segment due to a reduction from the sale of the regional UK business in 2016.

Claims, benefits and expenses for the six months ended June 30, 2017 were $2.517 billion, an increase of $302 million over the same period in 2016. The increase reflects the Ironshore acquisition, attritional losses on growth within targeted lines of business across market segments and unfavorable incurred losses attributable to prior years primarily within LSM in 2017 versus favorable incurred losses attributable to prior years primarily within LSM in 2016, partially offset by lower current year large loss activity within LM Surety and LSM and lower catastrophe losses.

	Three Months Ended June 30,			**Six Months Ended June 30,**		
GLOBAL SPECIALTY	**2017**	**2016**	**Change (Points)**	**2017**	**2016**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	60.3%	61.7%	(1.4)	60.0%	59.7%	0.3
Underwriting expense ratio	34.8	34.4	0.4	34.5	34.5	-
Dividend ratio	0.1	0.2	(0.1)	0.1	0.2	(0.1)
Subtotal	95.2	96.3	(1.1)	94.6	94.4	0.2
Catastrophes[1]	0.9	5.4	(4.5)	0.5	2.7	(2.2)
Net incurred losses attributable to prior years[2]	1.3	(5.5)	6.8	0.6	(3.4)	4.0
Total combined ratio	97.4%	96.2%	1.2	95.7%	93.7%	2.0

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

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

Second Quarter Results:

The Global Specialty combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended June 30, 2017 was 95.2%, a decrease of 1.1 points from the same period in 2016. The decrease in the claims and claim adjustment expense ratio reflects lower current year large loss activity within LM Surety and LSM, partially offset by higher current year loss activity within LIU U.S. and the impact of the Ironshore business. The increase in the underwriting expense ratio reflects the impact of the Ironshore business.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended June 30, 2017 was 97.4%, an increase of 1.2 points over the same period in 2016. The increase reflects the changes to the combined ratio mentioned above as well as unfavorable net incurred losses attributable to prior years primarily within LSM in 2017 versus favorable net incurred losses attributable to prior years primarily within LSM in 2016, partially offset by lower catastrophe losses.

Year-to-date Results:

The Global Specialty combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2017 was 94.6%, an increase of 0.2 points over the same period in 2016. The increase in the

claims and claim adjustment expense ratio reflects higher current year loss activity within LIU U.S. as well as the impact of the Ironshore business, partially offset by lower current year large loss activity within LSM and LM Surety. The underwriting expense ratio is materially in line with prior year.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the six months ended June 30, 2017 was 95.7%, an increase of 2.0 points over the same period in 2016. The increase reflects the changes to the combined ratio mentioned above as well as unfavorable net incurred losses attributable to prior years primarily within LSM in 2017 versus favorable net incurred losses attributable to prior years primarily within LSM in 2016, partially offset by 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 Insurance business, the run-off of the California workers compensation business of Golden Eagle Insurance Corporation and certain distribution channels related to Prudential Property and Casualty Insurance Company, Prudential General Insurance Company and Prudential Commercial Insurance Company (together, "PruPac") and Liberty Re annuity business.

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

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

- Interest expense on the Company's outstanding debt.

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

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

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

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

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

- Investment-related realized gains (losses).

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

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

- The prior period results of the Polish operation, which was sold on September 30, 2016.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Reinsurance, net	$57	$6	NM	$281	$185	51.9%
Workers compensation – Voluntary[1]	27	33	(18.2)	(4)	46	NM
Other[2]	3	32	(90.6)	6	56	(89.3)
Total NWP	$87	$71	22.5%	$283	$287	(1.4%)

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

Second Quarter Results:

NWP for the three months ended June 30, 2017 was $87 million, an increase of $16 million over the same period in 2016. The increase reflects the reinsurance line of business due to new internal programs and changes in terms and coverage to both internal and external programs, partially offset by premium written by the Polish operation prior to it being sold in the third quarter of 2016 and the booked as billed adjustment.

Year-to-date Results:

NWP for the six months ended June 30, 2017 was $283 million, a decrease of $4 million from the same period in 2016. The decrease reflects the book as billed adjustment and premium written by the Polish operation prior to it being sold in the third quarter of 2016, partially offset by the reinsurance line of business due to new internal programs and changes in terms and coverage to both internal and external programs.

Results of Operations – Corporate and Other

	Three Months Ended June 30,			Six Months Ended June 30,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues	$317	$67	NM	$784	$270	190.4%
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income (loss)	($111)	($80)	38.8%	($234)	($135)	73.3%
Catastrophes[1]	10	(7)	NM	20	-	NM
Net incurred losses attributable to prior years:						
-Asbestos and environmental[2]	(5)	9	NM	(9)	9	NM
-All other[2,3]	3	(49)	NM	(3)	(27)	(88.9)
Pre-tax operating loss before partnerships, LLC and other equity method income (loss)	(103)	(127)	(18.9)	(226)	(153)	47.7
Partnerships, LLC and other equity method income (loss)[4]	108	(59)	NM	270	(36)	NM
Pre-tax operating income (loss)	$5	($186)	NM	$44	($189)	NM

1 Catastrophes are defined as a natural catastrophe or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Asbestos and environmental is gross of the NICO Reinsurance Transaction, and All other includes all cessions related to the NICO Reinsurance Transaction, which is described further in "Reinsurance Recoverables".
3 Net of earned premium attributable to prior years of zero for the three and six months ended June 30, 2017 and 2016.

4 Partnerships, LLC and other equity method income (loss) includes LP, LLC and other equity method income (loss) within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from the production and sale of oil and gas.
NM = Not Meaningful

Second Quarter Results:

Pre-tax operating income (loss) for the three months ended June 30, 2017 was $5 million versus ($186) million for the same period in 2016. The change reflects higher partnerships, LLC, and other equity method income, lower expenses retained in Corporate, favorable employee benefits expenses, and unfavorable net incurred losses attributable to prior years within the reinsurance segment in 2016 that did not recur, partially offset by lower net investment income excluding partnerships, LLC, and other equity method investments, and higher current accident year losses within the reinsurance segment.

Revenues for the three months ended June 30, 2017 were $317 million, an increase of $250 million over the same period in 2016. The major components of revenues are net premium earned, net investment income (including LP, LLC and other equity method investments), net realized gains (losses), and fee and other revenues.

Net premium earned for the three months ended June 30, 2017 was $95 million, an increase of $20 million over the same period in 2016. The increase was driven by new internal programs and changes in terms and coverage to both internal and external programs, partially offset by premium earned by the Polish operation in 2016.

Net investment income for the three months ended June 30, 2017 was $132 million, an increase of $106 million over the same period in 2016. The increase was primarily a result of more favorable valuations in both the energy sector and traditional private equity investments in 2017 as compared to the same period in 2016.

Net realized gains (losses) for the three months ended June 30, 2017 were $31 million versus ($95) million for the same period in 2016. The increase in net realized gains primarily relates to equity gains realized from sales due to portfolio repositioning in 2017. The prior period was impacted by higher impairments on direct investments in oil and gas wells compared to 2017.

Fee and other revenues for the three months ended June 30, 2017 were $59 million, a decrease of $2 million from the same period in 2016.

Claims, benefits and expenses for the three months ended June 30, 2017 were $281 million, a decrease of $67 million from the same period in 2016. The decrease reflects lower expenses retained in Corporate, favorable employee benefits expenses, lower expenses due to the sale of the Polish operation, lower depreciation, depletion and amortization expenses related to Liberty Energy, and unfavorable incurred losses attributable to prior years within the reinsurance segment in 2016 that did not recur, partially offset by higher current accident year losses in the reinsurance segment.

Year-to-date Results:

Pre-tax operating income (loss) for the six months ended June 30, 2017 was $44 million versus ($189) million for the same period in 2016. The change reflects higher partnerships, LLC, and other equity method income, lower expenses retained in Corporate, lower net incurred losses attributable to prior years and favorable employee benefits expenses, partially offset by lower net investment income excluding partnerships, LLC, and other equity method investments, and higher current accident year losses within the reinsurance segment.

Revenues for the six months ended June 30, 2017 were $784 million, an increase of $514 million over the same period in 2016. The major components of revenues are net premium earned, net investment income (including LP, LLC and other equity method investments), net realized gains (losses), and fee and other revenues.

Net premium earned for the six months ended June 30, 2017 was $151 million, an increase of $6 million over the same period in 2016. The increase was driven by new internal programs and changes in terms and coverage to both internal and external programs, partially offset by premium earned by the Polish operation in 2016.

Net investment income for the six months ended June 30, 2017 was $325 million, an increase of $173 million over the same period in 2016. The increase was primarily a result of more favorable valuations in both the energy sector and traditional private equity investments in 2017 as compared to the same period in 2016.

Net realized gains (losses) for the six months ended June 30, 2017 were $200 million versus ($134) million for the same period in 2016. The increase in net realized gains primarily relates to a $109 million gain on the sale of company-owned real estate. In addition, 2017 reflects higher fixed maturity and equity gains realized from sales due to portfolio repositioning. The prior period was impacted by higher impairments on direct investments in oil and gas wells compared to 2017.

Fee and other revenues for the six months ended June 30, 2017 were $108 million, an increase of $1 million over the same period in 2016.

Claims, benefits and expenses for the six months ended June 30, 2017 were $540 million, a decrease of $53 million from the same period in 2016. The decrease reflects lower expenses retained in Corporate, favorable employee benefits expenses, lower expenses due to the sale of the Polish operation, lower depreciation, depletion and amortization expenses, as well as operating expenses, related to Liberty Energy, and lower incurred losses attributable to prior years. These decreases were partially offset by higher current accident year losses in the reinsurance segment.

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 June 30, 2017 and December 31, 2016:

Invested Assets by Type	**As of June 30, 2017**		**As of December 31, 2016**	
$ in Millions	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$69,929	78.5%	$64,700	79.2%
Equity securities, available for sale, at fair value	2,897	3.3	2,576	3.2
LP, LLC and other equity method investments	5,832	6.5	5,316	6.5
Commercial mortgage loans	2,664	3.0	2,582	3.2
Short-term investments	814	0.9	1,147	1.4
Other investments	837	0.9	709	0.9
Cash and cash equivalents	6,106	6.9	4,608	5.6
Total invested assets	$89,079	100.0%	$81,638	100.0%

Total invested assets as of June 30, 2017 were $89.079 billion, an increase of $7.441 billion or 9.1% over December 31, 2016. The increase primarily reflects $5.535 billion in invested assets acquired as part of the Ironshore acquisition, increases in cash from operations and financing, as well as the favorable impact of decreasing treasury rates and tightening credit spreads.

Fixed maturities as of June 30, 2017 were $69.929 billion, an increase of $5.229 billion or 8.1% over December 31, 2016. The increase is primarily due to the Ironshore acquisition, as well as the favorable impact of decreasing treasury yields and tightening credit spreads. As of June 30, 2017, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost and fair value of $435 million and $434 million, respectively.

Equity securities as of June 30, 2017 were $2.897 billion ($2.541 billion common stock and $356 million preferred stock) versus $2.576 billion as of December 31, 2016 ($2.239 billion common stock and $337 million preferred stock), an increase of $321 million or 12.5% over December 31, 2016. Of the $2.541 billion of common stock at June 30, 2017, $619 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The increase in total equity securities was primarily due to market appreciation and the Ironshore acquisition.

The following table summarizes the Company's LP, LLC and other equity method investments as of June 30, 2017 and December 31, 2016:

LP, LLC and other equity method investments	**As of June 30, 2017**		**As of December 31, 2016**	
$ in Millions	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Traditional private equity	$3,299	56.6%	$3,034	57.1%
Natural resources – Energy	481	8.2	384	7.2
Natural resources – Other	252	4.3	292	5.5
Real estate	863	14.8	713	13.4
Other	937	16.1	893	16.8
Total LP, LLC and other equity method investments	$5,832	100.0%	$5,316	100.0%

Commercial mortgage loans as of June 30, 2017 were $2.664 billion (net of $5 million of loan loss reserves or 0.19% of the outstanding loan portfolio), an increase of $82 million or 3.18% over December 31, 2016. The increase primarily reflects $198 million in funding and a decrease of $3 million to the loan loss reserve, partially offset by $119 million in principal reductions. The entire commercial loan portfolio is U.S.-based. The number of loans in the portfolio increased from 4,856 at December 31, 2016 to 4,906 at June 30, 2017.

Short-term investments as of June 30, 2017 were $814 million, a decrease of $333 million or 29.0% from December 31, 2016. The decrease was primarily due to maturing commercial paper that was purchased in 2016 to take advantage of favorable yields. Partially offsetting this was an increase of $359 million due to the Ironshore acquisition.

Cash and cash equivalents as of June 30, 2017 were $6.106 billion, an increase of $1.498 billion or 32.5% over December 31, 2016. The increase was primarily related to operating and financing activities.

The following tables summarize the Company's available for sale portfolio by security type as of June 30, 2017 and December 31, 2016:

	As of June 30, 2017			
$ in Millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$3,693	$126	($18)	$3,801
Residential MBS [1]	6,813	132	(34)	6,911
Commercial MBS	1,977	30	(5)	2,002
Other MBS and ABS [2]	3,458	39	(13)	3,484
U.S. state and municipal	13,552	595	(79)	14,068
Corporate and other	33,157	1,389	(98)	34,448
Foreign government securities	5,027	204	(16)	5,215
Total fixed maturities	67,677	2,515	(263)	69,929
Common stock	2,078	497	(34)	2,541
Preferred stock	338	19	(1)	356
Total equity securities	2,416	516	(35)	2,897
Total securities available for sale	$70,093	$3,031	($298)	$72,826

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

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

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of June 30, 2017:

Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	As of June 30, 2017							
$ in Millions	AAA	AA	A	BBB	BB	B or Lower	Total	% of Total
SBA loans	$1,796	$-	$-	$-	$-	$-	$1,796	14.5%
GNMA residential mortgage	2,273	-	-	-	-	-	2,273	18.3
FNMA residential mortgage	2,543	9	-	-	-	-	2,552	20.6
FHLMC residential mortgage	1,886	-	-	-	-	-	1,886	15.2
Non-agency residential mortgage	34	2	-	4	6	154	200	1.6
Commercial MBS	1,749	178	28	32	8	7	2,002	16.2
Non-mortgage ABS	1,138	47	81	407	15	-	1,688	13.6
Total	$11,419	$236	$109	$443	$29	$161	$12,397	100%
% of Total	92.1%	1.9%	0.9%	3.6%	0.2%	1.3%	100%	

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

Approximately 69% 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 92% of the holdings are rated AAA. The commercial mortgage-backed securities portfolio is well diversified and of high quality with approximately 87% 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 June 30, 2017 and December 31, 2016:

U.S. State and Municipal by Credit Quality[1]	**As of June 30, 2017**			**As of December 31, 2016**		
$ in Millions	**Fair Value**	**% of Total**	**Average Credit Rating**	**Fair Value**	**% of Total**	**Average Credit Rating**
State general obligation	$1,821	12.9%	AA	$1,954	13.7%	AA
Local general obligation	1,475	10.5	AA	1,430	10.0	AA
Revenue	10,198	72.5	AA	9,818	68.7	AA
Pre-refunded	574	4.1	AAA	1,080	7.6	AAA
Total U.S. state and municipal	$14,068	100.0%	AA	$14,282	100.0%	AA

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

The municipal bond portfolio (taxable and tax-exempt) includes general obligation and revenue bonds issued by states, cities, counties, school districts, hospitals, educational institutions, and similar issuers. Included in the municipal bond portfolio at June 30, 2017 and December 31, 2016 were $574 million and $1.080 billion, respectively, of pre-refunded bonds, which are bonds for which states or municipalities have established irrevocable trusts, which were created to satisfy their responsibility for payments of principal and interest.

The following table summarizes the Company's allocation of fixed maturities by credit quality as of June 30, 2017 and December 31, 2016:

Fixed Maturities by Credit Quality[1]	**As of June 30, 2017**		**As of December 31, 2016**	
$ in Millions	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$18,845	27.0%	$18,057	27.9%
AA+, AA, AA-	13,359	19.1	12,563	19.4
A+, A, A-	16,720	23.9	15,336	23.7
BBB+, BBB, BBB-	16,320	23.3	14,530	22.5
Total investment grade	65,244	93.3	60,486	93.5
BB+, BB, BB-	2,420	3.5	2,358	3.6
B+, B, B-	1,744	2.5	1,483	2.3
CCC or lower	360	0.5	373	0.6
Unrated[2]	161	0.2	-	-
Total below-investment grade	4,685	6.7	4,214	6.5
Total fixed maturities	$69,929	100.0%	$64,700	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 June 30, 2017.

The following table summarizes available for sale fixed maturity securities by contractual maturity at June 30, 2017 and December 31, 2016. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid with or without call or prepayment penalties. Due to the potential for prepayment on MBS and ABS, they are not categorized by contractual maturity.

Fixed Maturity by Maturity Date	**As of June 30, 2017**		**As of December 31, 2016**	
$ in Millions	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
One year or less	$3,382	4.8%	$3,323	5.1%
Over one year through five years	21,180	30.3	17,696	27.4
Over five years through ten years	17,467	25.0	17,341	26.8
Over ten years	15,503	22.2	15,031	23.2
MBS and ABS	12,397	17.7	11,309	17.5
Total fixed maturities	$69,929	100.0%	$64,700	100.0%

The fixed maturities over one year through five years as of June 30, 2017 were $21.180 billion, an increase of $3.484 billion or 19.7% over December 31, 2016. The increase is primarily due to the Ironshore acquisition. During 2017, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company has made only minor adjustments to the average duration of its investment portfolio. The average duration of the investment portfolio as of June 30, 2017 was 5.1 (domestic P&C was 4.2).

The following tables summarize the Company's gross unrealized losses and fair value of fixed income and equity securities by the length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2017 and December 31, 2016 that are not deemed to be other-than-temporarily impaired:

Unrealized Losses & Fair Value by Security Type	**As of June 30, 2017**			
$ in Millions	**Less Than 12 Months**		**12 Months or Longer**	
	Unrealized Losses	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Government and agency securities	($17)	$1,716	($1)	$46
Residential MBS	(32)	2,850	(2)	80
Commercial MBS	(5)	440	-	10
Other MBS and ABS	(10)	1,175	(3)	106
U.S. state and municipal	(64)	2,895	(15)	247
Corporate and other	(71)	4,908	(27)	457
Foreign government securities	(14)	1,243	(2)	111
Total fixed maturities	(213)	15,227	(50)	1,057
Common stock	(26)	367	(8)	57
Preferred stock	-	8	(1)	2
Total equity securities	(26)	375	(9)	59
Total securities available for sale	($239)	$15,602	($59)	$1,116

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

Unrealized losses decreased from $641 million as of December 31, 2016 to $298 million as of June 30, 2017. Of the $8 million of unrealized losses 12 months or longer on common stock, $3 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The Company monitors the difference between the amortized cost and estimated fair value of fixed maturity securities to ascertain whether declines in value are temporary in nature. The Company currently does not have the intent to sell these securities and has determined it is not more likely than not that it would be required to sell these fixed maturity securities before they

recover their fair value. The Company has concluded that the gross unrealized losses of fixed maturity securities as of June 30, 2017 are temporary.

For equity securities, if the decline is believed to be other-than-temporary, the carrying value of the investment is written down to fair value and a realized loss is recorded. The Company has concluded that the gross unrealized losses of equity securities as of June 30, 2017 are temporary, and the Company has the intent and ability to hold these securities until recovery.

The following tables summarize the Company's issuer and sector exposure[1] as of June 30, 2017:

Top 10 Issuers	**As of June 30, 2017**				
$ in Millions	**Fixed Maturity**	**Equity**	**Short Term**	**Total Exposure**	**% of Invested Assets**
Government of United Kingdom	$725	$-	$3	$728	0.82%
Government of Brazil	603	-	-	603	0.68
Invenergy	-	429	-	429	0.47
Anheuser-Busch InBev NV	345	5	2	352	0.40
Bank of America Corp	261	81	2	344	0.39
Wells Fargo & Co	326	6	10	342	0.37
JP Morgan Chase & Co	287	34	8	329	0.37
Government of Canada	327	-	1	328	0.37
Government of Spain	309	-	-	309	0.35
State of Washington	300	-	-	300	0.34
Total	$3,483	$555	$26	$4,064	4.56%

Top 10 Sectors	**As of June 30, 2017**				
$ in Millions	**Fixed Maturity**	**Equity**	**Short Term**	**Total Exposure**	**% of Invested Assets**
Banking	$5,628	$572	$348	$6,548	7.35%
Foreign Government	4,076	-	12	4,088	4.59
Electric Utility	3,090	200	11	3,301	3.71
Technology	2,007	509	13	2,529	2.84
US Municipal – Education	2,147	-	2	2,149	2.41
US Municipal – State	1,825	-	1	1,826	2.05
Food and Beverage	1,678	85	22	1,785	2.00
Pharmaceuticals	1,405	145	15	1,565	1.76
US Municipal – Water & Sewer	1,555	-	-	1,555	1.75
Insurance	1,365	178	1	1,544	1.73
Total	$24,776	$1,689	$425	$26,890	30.19%

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

As of June 30, 2017, investments in the energy sector accounted for $3.179 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 $2.371 billion, bonds that were rated below investment grade of $272 million, publicly traded equity securities of $53 million, and natural resources partnerships and other equity method investments of $483 million. In addition, the Company has direct investments in oil and gas wells of $1.107 billion which are included in other assets on the Consolidated Balance Sheets.

The following table summarizes the Company's unfunded commitments as of June 30, 2017 and December 31, 2016:

Unfunded Commitments	**As of June 30, 2017**		**As of December 31, 2016**	
$ in Millions	**Total**	**% of Total**	**Total**	**% of Total**
Traditional private equity	$1,690	50.1%	$1,698	46.7%
Natural resources – Energy	523	15.5	652	17.9
Natural resources – Other	-	-	1	-
Real estate	588	17.5	746	20.5
Other	571	16.9	541	14.9
Total unfunded commitments	$3,372	100.0%	$3,638	100.0%

Unfunded commitments as of June 30, 2017 were $3.372 billion, a $266 million decrease from December 31, 2016. The decrease is primarily driven by contributions net of new commitments related to real estate commercial mortgage loans and energy partnerships. The $523 million unfunded energy investment commitments as of June 30, 2017 included $454 million related to energy partnerships and $69 million related to direct investments in oil and gas wells. The $652 million unfunded energy investment commitments as of December 31, 2016 included $563 million related to natural resource partnerships and $89 million related to direct investments in oil and gas wells.

LIQUIDITY AND CAPITAL RESOURCES

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

Net cash flows are generally invested in marketable securities while keeping a certain amount in cash and short-term investments to meet unpredictable cash obligations. The Company monitors the duration of these investments, and purchases and sales are executed with the objective of having adequate cash available to satisfy its maturing liabilities. As the Company's investment strategy focuses on overall asset and liability durations, and not specific cash flows, asset sales may be required to satisfy obligations or rebalance asset portfolios. The Company's invested assets as of June 30, 2017 (including cash and cash equivalents) totaled $89.079 billion.

Debt outstanding as of June 30, 2017 and December 31, 2016 was as follows:

Short-term debt:

$ in Millions	**As of June 30, 2017**	**As of December 31, 2016**
Short-term debt	$ 1,085	$ -

Long-term debt:

$ in Millions	**As of June 30, 2017**	**As of December 31, 2016**
Junior Subordinated notes, due 2067[1, 2]	$ 300	$ 300
5.00% Notes, due 2021	600	600
4.95% Notes, due 2022	750	750
4.25% Notes, due 2023	1,000	1,000
1.75% €500 Million Notes, due 2024	570	-
8.50% Surplus notes, due 2025	140	140
2.75% €750 Million Notes, due 2026	856	791
7.875% Surplus notes, due 2026	227	227
7.625% Notes, due 2028	3	3
3.91% - 4.25% Federal Home Loan Bank Borrowings, due 2032	300	300
7.00% Notes, due 2034	231	231
6.50% Notes, due 2035	471	471
7.50% Notes, due 2036	19	19
7.80% Junior Subordinated notes, due 2087[2]	700	700
10.75% Junior Subordinated notes, due 2088[3]	66	68
6.50% Notes, due 2042	750	750
4.85% Notes, due 2044	1,050	1,050
7.697% Surplus notes, due 2097	260	260
Subtotal	8,293	7,660
Unamortized discount	(14)	(15)
Long-term debt excluding unamortized debt issuance costs	8,279	7,645
Unamortized debt issuance costs	(43)	(42)
Total long-term debt	$8,236	$7,603

[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 effect transactions in its debt, subject to applicable limitations.

Debt Transactions and In-force Credit Facilities

During the three and six months ended June 30, 2017, the Company repurchased zero and $2 million respectively, of the 10.75% Junior Subordinated notes due 2088 compared to zero and $16 million for the same periods in 2016. Pre-tax losses of zero and $1 million, respectively, were recorded on these transactions for the three and six months ended June 30, 2017 compared to zero and $8 million for the same periods in 2016 and are included in loss on extinguishment of debt in the accompanying Consolidated Statements of Income.

In connection with the Ironshore acquisition, on June 1, 2017, the Company repurchased $250 million of Ironshore's 8.5% senior note maturing in 2020 for $298 million, which reflects the fair value of the long term debt on the opening balance sheet.

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

On May 5, 2016, Liberty Mutual Insurance Company ("LMIC") extended the termination date of a $1 billion repurchase agreement from July 3, 2017 to July 3, 2018, unless extended. At June 30, 2017, no funds were borrowed under the facility.

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

Effective December 21, 2015, LMIC renewed a $1 billion repurchase agreement for a two-year period, which terminates December 21, 2017. At June 30, 2017, $250 million was borrowed at 1.37% under the facility with a maturity date of July 26, 2017.

On April 8, 2015, LMGI increased its commercial paper program from $750 million to $1 billion. There was no commercial paper outstanding at June 30, 2017.

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

LMIC, Peerless Insurance Company ("PIC"), Liberty Life Assurance Company of Boston ("LLAC"), Liberty Mutual Fire Insurance Company ("LMFIC"), 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 $1.135 billion of Federal Home Loan Bank borrowings, of which $735 million has maturity dates in July 2017, $100 million has a maturity date in September 2017, and $300 million has maturity dates in 2032. As of June 30, 2017, all of the outstanding Federal Home Loan Bank borrowings are fully collateralized.

On January 20, 2012, LMGI entered into two interest rate swap transactions having a notional amount of $300 million with respect to LMGI's $300 million 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 and six months ended June 30, 2017 was $112 million and $220 million, respectively, decreases of $1 million and $2 million from the same periods in 2016.

Holding Company Liquidity and Capital Resources

The Company conducts substantially all of its operations through its wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of June 30, 2017, the Company, through its downstream subsidiaries LMGI and Liberty Mutual Finance Europe DAC, had $6.793 billion and $570 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, 2016) and 2017 available dividend capacity prior to needing regulatory approval for LMIC, LMFIC and EICOW were as follows:

$ in Millions	**RBC Ratio[1]**		**Dividend Capacity[2]**	**Dividends Paid[3]**
RBC Ratios and Dividend Capacity	**2016**	**2015**	**2017**	**2017**
LMIC	487%	497%	$1,612	$32
LMFIC	502%	518%	$147	$ 8
EICOW	507%	512%	$158	$ -

[1] Authorized control level risk-based capital as defined by the NAIC.
[2] Represents the estimated maximum allowable dividend without prior regulatory approval in the state of domicile.
[3] Dividends paid represent amounts paid during the six months ended June 30, 2017. Available dividend capacity as of June 30, 2017 is calculated as 2017 dividend capacity less dividends paid for the preceding 12 months. Dividends paid July 1, 2016 through June 30, 2017 for LMIC, LMFIC and EICOW were $68 million, $15 million and zero, respectively.

LMGI also has access to the following sources of funding:

- A management services agreement with LMIC pursuant to which LMGI is entitled to collect certain costs plus a management fee for services rendered by LMGI employees.
- Investment management agreements with affiliated entities pursuant to which an LMGI subsidiary investment advisor is entitled to recover annual expenses for investment management services performed by its employees.

- Liberty Corporate Services LLC ("LCS"), which through its subsidiaries collects fees and other revenues, primarily for claims administration and agency services rendered for affiliated and non-affiliated entities. For the three and six months ended June 30, 2017, LCS recorded $100 million and $189 million, respectively, in pre-tax income.
- Approximately $80 million of annual dividends related to non-redeemable perpetual preferred stock issuances by LMIC and LMFIC.

$ in Millions	**As of June 30, 2017**	**As of December 31, 2016**
Long-term debt	$8,236	$7,603
Adjusted debt[1]	$7,236	$6,603
Total equity	$21,471	$20,387
Less: Accumulated other comprehensive loss	(701)	(1,304)
Total equity excluding accumulated other comprehensive loss	$22,172	$21,691
Total capital excluding accumulated other comprehensive loss	$30,408	$29,294
Adjusted debt-to-capital capitalization excluding accumulated other comprehensive loss	23.8%	22.5%
Statutory surplus	$19,510	$19,582

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

The adjusted debt-to-capital capitalization ratio excluding accumulated other comprehensive loss is calculated by dividing (a) adjusted debt by (b) total capital excluding accumulated other comprehensive loss. Net unrealized gains and losses on investments can be significantly impacted by both interest rate movements and other economic factors. Accordingly, in the opinion of the Company's management, the debt-to-total capital ratio calculated on this basis provides another useful metric for investors to understand the Company's financial leverage position. The Company's ratio of debt-to-capital (excluding accumulated other comprehensive loss) of 23.8% at June 30, 2017 was within the Company's target range.

REINSURANCE RECOVERABLES

The Company reported reinsurance recoverables of $15.029 billion and $13.820 billion at June 30, 2017 and December 31, 2016, respectively, net of allowance for doubtful accounts of $212 million and $235 million, respectively. Included in these balances are $701 million and $564 million of paid recoverables and $14.540 billion and $13.491 billion of unpaid recoverables (including retroactive reinsurance), respectively.

Ironshore reported reinsurance recoverables of $1.155 billion at June 30, 2017, net of allowance for doubtful accounts of $0.2 million. Included in these balances are $116 million of paid recoverables and $1.039 billion of unpaid recoverables. The information reported as of December 31, 2016 has not been restated to include Ironshore, as it is not expected to materially impact the percentage of reinsurers rated A- or better from A.M. Best and Standard & Poor's or the Reinsurance Groups included in the top 15.

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

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

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

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

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

5 Reinsurers not rated by Standard & Poor's.

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

1 Reinsurance Groups are defined as all reinsurance subsidiaries owned by a common parent.

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

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

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

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

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

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

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

On July 17, 2014, LMIC entered into a reinsurance transaction with NICO, a subsidiary of Berkshire Hathaway Inc., on a combined aggregate excess of loss agreement for substantially all of the Company’s U.S. workers compensation, asbestos and environmental liabilities, attaching at $12.522 billion of combined aggregate reserves, with an aggregate limit of $6.500 billion and sublimits of $3.100 billion for asbestos and environmental liabilities and $4.507 billion for

certain workers compensation liabilities. At the closing of the NICO Reinsurance Transaction, but effective as of January 1, 2014, the Company ceded $3.320 billion of existing undiscounted liabilities under this retroactive reinsurance agreement. NICO will provide $3.180 billion of additional aggregate adverse development cover. The Company paid NICO total consideration of $3.046 billion, and recorded a pre-tax loss of $128 million. With respect to the ceded asbestos and environmental business, NICO has been given authority to handle claims, subject to the Company's oversight and control. With respect to the ceded workers compensation business, the Company will continue to handle claims.

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

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

As the aggregate of workers compensation and asbestos and environmental development has exceeded the original pre-tax loss of $128 million, deferred gains are now being recorded. Deferred gains are amortized into earnings over the period when underlying claims are settled. The Company reported deferred gain amortization of ($3) million and $13 million at June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017 and December 31, 2016, deferred gains were $74 million and $62 million, respectively, and are included in other liabilities within the accompanying Consolidated Balance Sheets.

CRITICAL ACCOUNTING ESTIMATES

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

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

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

Unpaid Claims and Claim Adjustment Expenses

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

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

For additional discussion, please refer to footnote 6 in the Company's December 31, 2016 Audited Consolidated Financial Statements and footnote 6 in the Company's June 30, 2017 Unaudited Consolidated Financial Statements.

Asbestos and Environmental

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

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

Reinsurance Recoverables

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies. The Company reports its reinsurance recoverables net of an allowance for estimated uncollectible reinsurance recoverables. The

allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing and other relevant factors. Accordingly, the establishment of reinsurance recoverables and the related allowance for uncollectible reinsurance recoverables is also an inherently uncertain process involving estimates. Changes in these estimates could result in additional charges to the accompanying Consolidated Statements of Income.

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

For additional discussion, please refer to footnote 5 in the Company's December 31, 2016 Audited Consolidated Financial Statements and footnote 4 in the Company's June 30, 2017 Unaudited Consolidated Financial Statements.

Fair Value Determination

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

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

Regarding fair value measurements, as of June 30, 2017, excluding other assets, the Company reflected $5.735 billion (7.7%) 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 June 30, 2017, the Company reported $67.3 billion (90.6%) as level 2, consisting primarily of fixed maturity securities. Finally, the Company reported $1.254 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, 2016 Audited Consolidated Financial Statements and footnote 9 in the Company's June 30, 2017 Unaudited Consolidated Financial Statements.

Impairment Losses on Investments

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

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

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

For additional discussion, please refer to footnote 1 in the Company's December 31, 2016 Audited Consolidated Financial Statements and footnote 3 in the Company's June 30, 2017 Unaudited Consolidated Financial Statements.

Goodwill and Intangible Assets

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

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

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

Deferred Income Taxes

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

For additional discussion, please refer to footnote 8 in the Company's December 31, 2016 Audited Consolidated Financial Statements and footnote 7 in the Company's June 30, 2017 Unaudited Consolidated Financial Statements.

Pension and Postretirement Benefit Obligations

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

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

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

For additional discussion, please refer to footnote 9 in the Company's December 31, 2016 Audited Consolidated Financial Statements and footnote 8 in the Company's June 30, 2017 Unaudited Consolidated Financial Statements.

ABOUT THE COMPANY

Boston-based LMHC, the parent corporation of the Liberty Mutual Insurance group of entities, is a diversified global insurer and fourth largest property and casualty insurer in the U.S. based on 2016 direct written premium. The Company also ranks 75th on the Fortune 100 list of largest corporations in the U.S. based on 2016 revenue. As of December 31, 2016, LMHC had $125.592 billion in consolidated assets, $105.205 billion in consolidated liabilities, and $38.308 billion in annual consolidated revenue.

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

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

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