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

Quarter Ended September 30, 2016

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 nine months ended September 30, 2016 and 2015. 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, 2015 Audited Consolidated Financial Statements, September 30, 2016 Unaudited Consolidated Financial Statements and Third Quarter 2016 Financial Supplement located on the Company's Investor Relations website at www.libertymutualgroup.com/investors. The Company's discussions related to net income are presented in conformity with U.S. generally accepted accounting principles ("GAAP") on an after-tax basis. All other discussions are presented on a pre-tax GAAP basis, unless otherwise noted. Further, the Company notes that it may make material information regarding the Company available to the public, from time to time, via the Company's Investor Relations website at www.libertymutualgroup.com/investors (or any successor site).

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Cautionary Statement Regarding Forward Looking Statements

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

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

EXECUTIVE SUMMARY

The following highlights do not address all of the matters covered in the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations or contain all of the information that may be important to the investing public. This summary should be read in conjunction with the other sections of Management's Discussion & Analysis of Financial Condition and Results of Operations and the Company's 2016 Unaudited Consolidated Financial Statements.

Consolidated Results of Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**% Change**	**2016**	**2015**	**% Change**
Net written premium ("NWP")	$9,309	$8,775	6.1%	$27,099	$26,417	2.6%
Pre-tax operating income ("PTOI") before partnerships, LLC and other equity method income	417	671	(37.9)	1,204	1,365	(11.8)
Net operating income before partnerships, LLC and other equity method income	357	436	(18.1)	886	950	(6.7)
Partnerships, LLC and other equity method income	62	52	19.2	26	50	(48.0)
Net realized gains (losses)	84	(256)	NM	(50)	22	NM
Consolidated net income from continuing operations	450	312	44.2	863	998	(13.5)
Discontinued operations, net of tax	-	(744)	(100.0)	-	(909)	(100.0)
Net income (loss) attributable to LMHC	$455	($427)	NM	$863	$103	NM
Cash flow provided by continuing operations	$1,270	$1,519	(16.4%)	$1,915	$2,653	(27.8%)

NM = Not Meaningful

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	**2015**	**Point Change**	**2016**	**2015**	**Point Change**
Combined ratio before catastrophes[1], net incurred losses attributable to prior years[2], and current accident year re-estimation[3]	94.2%	95.4%	(1.2)	93.0%	94.7%	(1.7)
Combined ratio	97.8%	95.6%	2.2	98.5%	98.4%	0.1

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

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 six months ended June 30, 2016.

$ in Millions	As of September 30, 2016	As of December 31, 2015	% Change
Short-term debt	$3	$249	(98.8%)
Long-term debt	7,760	6,940	11.8
Total debt	$7,763	$7,189	8.0%
Unassigned equity	$21,527	$20,664	4.2%
Accumulated other comprehensive income (loss)	116	(1,521)	NM
Non-controlling interest	51	98	(48.0)
Total equity	$21,694	$19,241	12.7%

NM = Not Meaningful

Subsequent Events

Management has assessed material subsequent events through November 4, 2016, the date the financial statements were available to be issued.

CONSOLIDATED RESULTS OF OPERATIONS

The Company has identified consolidated PTOI, PTOI before partnerships, LLC and other equity method income, and net operating income before partnerships, LLC and other equity method income as non-GAAP financial measures. PTOI is defined by the Company as pre-tax income excluding net realized gains, loss on extinguishment of debt, extraordinary items, discontinued operations, integration and other acquisition and realignment 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 and discontinued operations. PTOI before partnerships, LLC and other equity method income, PTOI, and net operating income before partnerships, LLC and other equity method income are considered by the Company to be appropriate indicators of underwriting and operating results and are consistent with the way the Company internally evaluates performance. Net realized gains and partnerships, LLC and other equity method results are significantly impacted by both discretionary and economic factors and are not necessarily indicative of operating results, and the timing and amount of integration and other acquisition and realignment 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. 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.

Effective September 30, 2016, the definition of a catastrophe changed to be a natural catastrophe or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. All prior periods have been adjusted to reflect this change.

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 results of the Polish operation are presented in the Corporate and Other section and are no longer reported in International Consumer Markets. All prior periods have been adjusted to reflect this change.

On September 6, 2016, the Company determined to hold for sale and actively market its 10 St. James and 75 Arlington properties. A gain is expected on the transaction.

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

On 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.

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.

On February 17, 2016, the Company announced the combination of its Personal Insurance and Liberty International strategic business units ("SBUs") to form a new SBU, Global Consumer Markets. This new SBU represents an opportunity to blend the complementary strengths of the two operations. The Company's local expertise in growth markets outside the U.S. coupled with strong and scalable U.S.

personal lines capabilities puts it in a unique position to take advantage of opportunities to grow its business globally. The former Personal Insurance and Liberty International SBUs, now known as U.S. Consumer Markets and International Consumer Markets, respectively, 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, International Consumer Markets East and International Consumer Markets West.

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

On July 1, 2015, the Company completed the acquisition of Hughes Insurance, an independent insurance broker in Northern Ireland. Hughes Insurance controlled £60 million in gross written premium for the year ended March 31, 2014, making it the independent insurance broker in Northern Ireland. Hughes Insurance has been reflected in the Consolidated Financial Statements since the second quarter of 2014.

Venezuela

Effective as of September 30, 2015, the Company deconsolidated the Venezuelan subsidiaries and made the Venezuelan operations available for sale.

Since 2010 the Company's operations in Venezuela have been operating in a hyperinflationary economy with restrictive foreign exchange controls.

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

The Company's three SBUs are as follows:

- Global Consumer Markets comprises two market segments: U.S. Consumer Markets and International Consumer Markets. These market segments comprise three operating regions: U.S. Consumer Markets, International Consumer Markets East and International 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.
    - International Consumer Markets sells property-casualty, health and life insurance products and services to individuals and businesses in two operating regions: West, including Brazil, Colombia, Chile, Ecuador, Spain, Portugal, and Ireland; and East, including Thailand, Singapore, Hong Kong, Vietnam, Malaysia, India, China, Russia, and Turkey.
- Commercial Insurance offers a wide array of property-casualty, group benefits, and life insurance coverages through independent agents, brokers, benefit consultants, captive agents, and bank

partners throughout the United States. Commercial Insurance is organized into the following four market segments: Business Insurance, National Insurance, Liberty Mutual Benefits, and Other Commercial Insurance.

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

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Private passenger automobile	$3,398	$3,213	5.8%	$9,596	$9,214	4.1%
Homeowners	1,683	1,630	3.3	4,677	4,533	3.2
Specialty insurance	654	593	10.3	1,879	1,969	(4.6)
Workers compensation – Voluntary	474	478	(0.8)	1,492	1,522	(2.0)
Workers compensation - Involuntary	22	26	(15.4)	63	73	(13.7)
Commercial multiple-peril	570	556	2.5	1,597	1,569	1.8
Commercial automobile	477	426	12.0	1,386	1,283	8.0
Group disability and group life	424	362	17.1	1,230	1,073	14.6
General liability	397	384	3.4	1,159	1,140	1.7
Global specialty reinsurance	257	203	26.6	996	972	2.5
Commercial property	189	189	-	601	582	3.3
Surety	212	210	1.0	632	651	(2.9)
Global specialty inland marine	129	116	11.2	376	333	12.9
Individual life and A&H	135	132	2.3	367	432	(15.0)
Corporate reinsurance[1]	(15)	(19)	(21.1)	170	246	(30.9)
Other[2]	303	276	9.8	878	825	6.4
Total NWP	$9,309	$8,775	6.1%	$27,099	$26,417	2.6%

1 NWP associated with internal reinsurance, net of corporate external placements.
2 Primarily includes NWP from allied lines and domestic inland marine.

NWP for the three and nine months ended September 30, 2016 was $9.309 billion and $27.099 billion, respectively, increases of $534 million and $682 million over the same periods in 2015.

Significant changes by major line of business include:

- Private passenger automobile NWP increased $185 million and $382 million in the quarter and year, respectively. The increases reflect rate, model year increases, and growth in policies in-force in U.S. Consumer Markets, along with growth in International Consumer Markets primarily driven by the aforementioned acquisition in Chile (January 2016). This was partially offset by the strengthening of the U.S. dollar and the exit from the personal insurance market in Great Britain.
- Homeowners NWP increased $53 million and $144 million in the quarter and year, respectively. The increases reflect rate and coverage increases as well as growth in homeowners policies in-force in U.S. Consumer Markets.
- Specialty insurance NWP increased $61 million and decreased $90 million in the quarter and year, respectively. Both periods reflect favorable ultimate premium adjustments, which was more than offset in the year by re-underwriting and pricing actions, competitive market conditions, and the strengthening of the U.S. dollar.
- Commercial automobile NWP increased $51 million and $103 million in the quarter and year, respectively. The increases reflect higher new business sales, rate increases and higher retention.
- Group disability and group life NWP increased $62 million and $157 million in the quarter and year, respectively. The increases reflect strong new business sales.
- Global specialty reinsurance NWP increased $54 million and $24 million in the quarter and year, respectively. The increases reflect growth and favorable ultimate premium adjustments, partially offset by competitive market conditions.
- Individual life and A&H NWP increased $3 million and decreased $65 million in the quarter and year, respectively. The decrease in the year was primarily driven by lower life-contingent structured settlement sales.

- Corporate reinsurance NWP increased $4 million and decreased $76 million in the quarter and year, respectively. The decrease in the year was primarily driven by lower assumed premium due to reinsurance program changes, lower subject premiums, and continued soft market conditions partially offset by lower external reinsurance costs.

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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Global Consumer Markets	$5,643	$5,352	5.4%	$15,897	$15,268	4.1%
U.S. Consumer Markets	4,714	4,547	3.7	13,282	12,728	4.4
International Consumer Markets	929	805	15.4	2,615	2,540	3.0
Commercial Insurance	2,438	2,334	4.5	7,071	6,897	2.5
Global Specialty	1,242	1,112	11.7	3,858	3,896	(1.0)
Corporate and Other	(14)	(23)	(39.1)	273	356	(23.3)
Total NWP	$9,309	$8,775	6.1%	$27,099	$26,417	2.6%
Foreign exchange effect on NWP change			(0.1)			(0.8)
NWP change excluding foreign exchange[1]			6.2%			3.4%

1 Determined by assuming constant foreign exchange rates between periods.

Major drivers of NWP growth were as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
$ in Millions	2016	2015	$ Change	Points Attribution	2016	2015	$ Change	Points Attribution
Total NWP	$9,309	$8,775	$534	6.1	$27,099	$26,417	$682	2.6
Components of growth:								
Domestic personal automobile	2,817	2,703	114	1.3	7,994	7,610	384	1.5
Domestic homeowners	1,637	1,594	43	0.5	4,542	4,398	144	0.5
International consumer markets (ex foreign exchange)[1]	913	805	108	1.2	2,754	2,540	214	0.8
Specialty insurance (ex foreign exchange)[1]	670	593	77	0.9	1,917	1,969	(52)	(0.2)
Global specialty reinsurance (ex foreign exchange)[1]	263	203	60	0.7	1,016	972	44	0.2
Domestic workers compensation	466	475	(9)	(0.1)	1,470	1,510	(40)	(0.2)
Global specialty inland marine (ex foreign exchange)[1]	132	116	16	0.2	384	333	51	0.2
Domestic individual life and A&H	108	104	4	-	289	345	(56)	(0.2)
Domestic group disability and group life	372	314	58	0.7	1,087	925	162	0.6
Surety	212	210	2	-	632	651	(19)	(0.1)
Corporate reinsurance (ex foreign exchange)[1,2]	(18)	(19)	1	-	171	246	(75)	(0.3)
Foreign exchange[1]	(6)	-	(6)	(0.1)	(207)	-	(207)	(0.8)
Other lines	1,743	1,677	66	0.8	5,050	4,918	132	0.6
Total NWP	$9,309	$8,775	$534	6.1	$27,099	$26,417	$682	2.6

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 September 30,			Nine Months Ended September 30,		
$ in Millions	2016	2015	Change	2016	2015	Change
U.S.	$7,722	$7,408	4.2%	$22,383	$21,706	3.1%
International[1]	1,587	1,367	16.1	4,716	4,711	0.1
Total NWP	$9,309	$8,775	6.1%	$27,099	$26,417	2.6%

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

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

Results of Operations – Consolidated

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Net operating income before partnerships, LLC and other equity method income	$357	$436	(18.1%)	$886	$950	(6.7%)
Partnerships, LLC and other equity method income, net of tax	42	49	(14.3)	22	47	(53.2)
Net realized gains (losses), net of tax	57	(167)	NM	(39)	16	NM
Loss on extinguishment of debt, net of tax	(1)	(1)	-	(6)	(1)	NM
Discontinued operations, net of tax	-	(744)	(100.0)	-	(909)	(100.0)
Net income (loss) attributable to LMHC	$455	($427)	NM	$863	$103	NM

NM = Not Meaningful

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	$9,890	$9,312	6.2%	$28,641	$28,282	1.3%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method income	$720	$685	5.1%	$2,541	$2,273	11.8%
Catastrophes[1]	(258)	(84)	NM	(1,408)	(1,079)	30.5
Net incurred losses attributable to prior years:						
- Asbestos & environmental[2]	(50)	(2)	NM	(41)	(4)	NM
- All other[2,3,4]	11	72	(84.7)	112	175	(36.0)
Current accident year re-estimation[5]	(6)	-	NM	-	-	-
PTOI before partnerships, LLC and other equity method income	417	671	(37.9)	1,204	1,365	(11.8)
Partnerships, LLC and other equity method income [6]	62	52	19.2	26	50	(48.0)
PTOI	479	723	(33.7)	1,230	1,415	(13.1)
Net realized gains (losses)	84	(256)	NM	(50)	22	NM
Loss on extinguishment of debt	(1)	(1)	-	(9)	(1)	NM
Pre-tax income	562	466	20.6	1,171	1,436	(18.5)
Income tax expense	112	154	(27.3)	308	438	(29.7)
Consolidated net income from continuing operations	450	312	44.2	863	998	(13.5)
Discontinued operations, net of tax	-	(744)	(100.0)	-	(909)	(100.0)
Consolidated net income (loss)	450	(432)	NM	863	89	NM
Less: Net loss attributable to non-controlling interest	(5)	(5)	-	-	(14)	(100.0)
Net income (loss) attributable to LMHC	$455	($427)	NM	$863	$103	NM
Cash flow provided by continuing operations	$1,270	$1,519	(16.4%)	$1,915	$2,653	(27.8%)

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 Asbestos & 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 The nine months ended September 30, 2015 include a one-time benefit of $91 million due to a reduction in the estimated prior years' liability for state assessments related to workers compensation.

4 Net of earned premium and reinstatement premium attributable to prior years of zero and ($7) million for the three and nine months ended September 30, 2016 and zero and $5 million for the same periods in 2015.

5 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2016.

6 Partnerships, LLC and other equity method income includes LP, LLC and other equity method income within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from the production and sale of oil and gas.

NM = Not Meaningful

PTOI before partnerships, LLC, and other equity method income for the three and nine months ended September 30, 2016 was $417 million and $1.204 billion, respectively, decreases of $254 million and $161 million from the same periods in 2015. Both periods reflect higher catastrophe losses, unfavorable current accident year losses in the auto line of business in U.S. Consumer Markets, and unfavorable net incurred losses attributable to prior years in U.S. Consumer Markets and Commercial Insurance. The year was further impacted by a $91 million non-recurring reduction in an assessment liability in 2015. The decreases in both periods were partially offset by favorable net incurred losses attributable to prior years in International Consumer Markets, improved current accident year losses across the casualty lines of business in Commercial Insurance, profit margin on earned premium growth in U.S. Consumer Markets and lower employee pension costs in Corporate.

Partnerships, LLC, and other equity method income including operating losses from direct working interests for the three and nine months ended September 30, 2016 was $62 million and $26 million, respectively, an increase of $10 million and a decrease of $24 million versus the same periods in 2015. Both periods reflect lower traditional private equity valuation gains in 2016 as compared to 2015, partially offset in the year and more than offset in the quarter by improved energy operations PTOI (reflects partnerships and direct investment in oil and gas wells).

PTOI for the three and nine months ended September 30, 2016 was $479 million and $1.230 billion, respectively, decreases of $244 million and $185 million from the same periods in 2015.

Revenues for the three and nine months ended September 30, 2016 were $9.890 billion and $28.641 billion, respectively, increases of $578 million and $359 million over the same periods in 2015. 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 and nine months ended September 30, 2016 was $8.888 billion and $25.970 billion, respectively, increases of $367 million and $630 million over the same periods in 2015. The increases primarily reflect the premium earned associated with the changes in NWP previously discussed and NWP growth during the last three months of 2015, partially offset by the foreign exchange impact of the strengthening of the U.S. dollar.

Net investment income for the three and nine months ended September 30, 2016 was $659 million and $1.943 billion, respectively, decreases of $100 million and $124 million from the same periods in 2015. The decreases in both periods were primarily driven by lower traditional private equity valuation gains in 2016 as compared to 2015 and by lower bond yields, partially offset by more favorable valuations for energy LP, LLC and other equity method investments, and a higher invested asset base.

Net realized gains (losses) for the three and nine months ended September 30, 2016 were $84 million and ($50) million, respectively, versus ($256) million and $22 million for the same periods in 2015. The increase in the quarter was due to impairments of direct investments in oil and gas wells recognized in 2015 that did not recur in the same period of 2016, as well as gains from the sale of our Polish operation. On a year-to-date basis, both periods were negatively impacted by impairments of direct investments in oil and gas wells of $110 million in 2016 compared to $262 million in 2015. In addition, the net gains generated from bond and equity sales were lower in 2016 compared to the prior year due to a portfolio realignment in 2015.

Fee and other revenues for the three and nine months ended September 30, 2016 were $259 million and $778 million, respectively, decreases of $29 million and $75 million from the same periods in 2015. The decreases primarily reflect lower oil and gas revenues and lower commission revenue from servicing carrier operations, partially offset by higher fees associated with life and group disability business and higher third-party administrator fee income.

Claims, benefits and expenses for the three and nine months ended September 30, 2016 were $9.327 billion and $27.461 billion, respectively, increases of $482 million and $616 million over the same periods in

2015. The increases in both periods reflect business growth, higher catastrophe losses and unfavorable loss trends in the personal auto line of business. These increases were partially offset by favorable current accident year loss activity in Global Specialty, improved current accident year losses across the casualty lines of business in Commercial Insurance, lower employee pension expenses, lower expenses related to Liberty Energy in Corporate and the strengthening of the U.S. dollar. The year was further impacted by a reduction in the estimated prior years' liability for state assessments related to workers compensation in 2015 that did not recur.

Income tax expense on continuing operations for the three and nine months ended September 30, 2016 was $112 million and $308 million, respectively, decreases of $42 million and $130 million from the same periods in 2015. The Company's effective tax rate on continuing operations for the three and nine months ended September 30, 2016 was 20% and 26%, respectively, compared to 33% and 31% for the same periods in 2015. The decrease in the effective tax rate on continuing operations from 2015 to 2016 is primarily due to a tax benefit related to the settlement of the 2008-2009 IRS exam recorded in the third quarter of 2016. 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.

Consolidated net income from continuing operations for the three and nine months ended September 30, 2016 was $450 million and $863 million, respectively, an increase of $138 million and a decrease of $135 million versus the same periods in 2015.

Net operating income before partnerships, LLC and other equity method income for the three and nine months ended September 30, 2016 was $357 million and $886 million, respectively, decreases of $79 million and $64 million from the same periods in 2015.

Discontinued operations, net of tax for the three and nine months ended September 30, 2016 were zero, compared to ($744) million and ($909) million for the same periods in 2015. The prior year reflects the Venezuelan operations deconsolidation.

Net income (loss) attributable to LMHC for the three and nine months ended September 30, 2016 was $455 million and $863 million, respectively, versus ($427) million and $103 million for the same periods in 2015.

Cash flow provided by continuing operations for the three and nine months ended September 30, 2016 was $1.270 billion and $1.915 billion, respectively, decreases of $249 million and $738 million from the same periods in 2015. The decreases reflect higher loss payments in U.S. Consumer Markets. The year was further impacted by higher pension contributions partially offset by lower LM Surety loss payments in Global Specialty.

	Three Months Ended September 30,			Nine Months Ended September 30,		
CONSOLIDATED	**2016**	**2015**	**Change (Points)**	**2016**	**2015**	**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%	64.1%	(0.3)	62.3%	63.1%	(0.8)
Underwriting expense ratio	30.3	31.2	(0.9)	30.7	31.5	(0.8)
Dividend ratio	0.1	0.1	-	-	0.1	(0.1)
Subtotal	94.2	95.4	(1.2)	93.0	94.7	(1.7)
Catastrophes[1]	3.1	1.0	2.1	5.7	4.5	1.2
Net incurred losses attributable to prior years:						
- Asbestos & environmental	0.6	-	0.6	0.2	-	0.2
- All other[2,3]	(0.2)	(0.8)	0.6	(0.4)	(0.8)	0.4
Current accident year re-estimation[4]	0.1	-	0.1	-	-	-
Total combined ratio[5]	97.8%	95.6%	2.2	98.5%	98.4%	0.1

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

2 The nine months ended September 30, 2015 include a one-time benefit of $91 million due to a reduction in the estimated prior years' liability for state assessments related to workers compensation.

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

4 Re-estimation of the current accident year loss reserves for the six months ended June 30, 2016.

5 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 to earned premium 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; 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.

The consolidated combined ratio before catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation for the three and nine months ended September 30, 2016 was 94.2% and 93.0%, respectively, improvements of 1.2 points and 1.7 points over the same periods in 2015. The decreases in claims and claim adjustment expense ratio were primarily driven by improved current accident year losses across the casualty lines of business in Commercial Insurance and favorable current accident year losses in Global Specialty, partially offset by higher severity trends on the auto line of business in U.S. Consumer Markets and property losses in Commercial Insurance. The decreases in the underwriting expense ratio were primarily driven by lower employee pension expenses, lower operating costs in International Consumer Markets and higher earned premium, partially offset by higher employee related costs in Commercial Insurance and Global Specialty.

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 and nine months ended September 30, 2016 was 97.8% and 98.5%, respectively, increases of 2.2 points and 0.1 points over the same periods in 2015. Both periods reflect higher catastrophe losses and unfavorable net incurred losses attributable to prior years in U.S. Consumer Markets and Commercial Insurance, partially offset by favorable net incurred losses attributable to prior years in International Consumer Markets and the decreases in the combined ratio previously discussed. The year was further impacted by a reduction in 2015 in the estimated liability for state assessments related to workers compensation that did not recur.

GLOBAL CONSUMER MARKETS

Overview – Global Consumer Markets

On February 17, 2016, the Company announced the combination of its Personal Insurance and Liberty International SBUs to form a new SBU, Global Consumer Markets. This new SBU represents an opportunity to blend the complementary strengths of the two operations. The Company's local expertise in growth markets outside the U.S. coupled with strong and scalable U.S. personal lines capabilities puts it in a unique position to take advantage of opportunities to grow its business globally. The former Personal Insurance and Liberty International SBUs, now known as U.S. Consumer Markets and International Consumer Markets, respectively, 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, International Consumer Markets East and International Consumer Markets West. All prior periods have been restated to reflect the new structure.

Global Consumer Markets NWP by market segment was as follows:

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
U.S. Consumer Markets	$4,714	$4,547	3.7%	$13,282	$12,728	4.4%
International Consumer Markets	929	805	15.4	2,615	2,540	3.0
Total NWP	$5,643	$5,352	5.4%	$15,897	$15,268	4.1%

Results of Operations – Global Consumer Markets

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	$5,525	$5,233	5.6%	$16,166	$15,476	4.5%
PTOI before catastrophes and net incurred losses attributable to prior years	$586	$625	(6.2%)	$1,833	$1,767	3.7%
Catastrophes[1]	(184)	(75)	145.3	(1,065)	(910)	17.0
Net incurred losses attributable to prior years	(28)	(12)	133.3	13	(29)	NM
PTOI	$374	$538	(30.5%)	$781	$828	(5.7%)

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
GLOBAL CONSUMER MARKETS	**2016**	**2015**	**Change (Points)**	**2016**	**2015**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	65.2%	63.1%	2.1	63.8%	63.3%	0.5
Underwriting expense ratio	27.4	28.1	(0.7)	28.0	28.5	(0.5)
Subtotal	92.6	91.2	1.4	91.8	91.8	-
Catastrophes[1]	3.5	1.5	2.0	7.0	6.2	0.8
Net incurred losses attributable to prior years	0.5	0.3	0.2	(0.1)	0.2	(0.3)
Total combined ratio	96.6%	93.0%	3.6	98.7%	98.2%	0.5

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.

Management's discussion and analysis of Global Consumer Markets will be discussed at the market segment level in the following U.S. Consumer Markets and International Consumer Market 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 2,200 licensed employee sales representatives, approximately 600 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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Private passenger automobile	$2,817	$2,703	4.2%	$7,994	$7,610	5.0%
Homeowners and other	1,897	1,844	2.9	5,288	5,118	3.3
Total NWP	$4,714	$4,547	3.7%	$13,282	$12,728	4.4%

NWP for the three and nine months ended September 30, 2016 was $4.714 billion and $13.282 billion, respectively, increases of $167 million and $554 million over the same periods in 2015.

Private passenger automobile NWP for the three and nine months ended September 30, 2016 was $2.817 billion and $7.994 billion, respectively, increases of $114 million and $384 million over the same periods in 2015. The growth reflects a 4.4% increase in weighted average written premiums (adjusted for six and twelve month policy term mix) resulting from rate and model year increases, and growth in policies in-force of 1.8% for the twelve months ended September 30, 2016 as compared to the twelve months ended September 30, 2015.

Homeowners and other NWP for the three and nine months ended September 30, 2016 was $1.897 billion and $5.288 billion, respectively, increases of $53 million and $170 million over the same periods in 2015. The growth reflects a 1.5% increase in homeowners average written premiums (resulting from rate and coverage changes) and growth in homeowners policies in-force of 1.5% for the twelve months ended September 30, 2016 as compared to the twelve months ended September 30, 2015.

Results of Operations – U.S. Consumer Markets

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	$4,542	$4,321	5.1%	$13,327	$12,673	5.2%
PTOI before catastrophes and net incurred losses attributable to prior years	$560	$625	(10.4%)	$1,832	$1,804	1.6%
Catastrophes[1]	(183)	(75)	144.0	(1,059)	(910)	16.4
Net incurred losses attributable to prior years	(43)	(13)	NM	(46)	(9)	NM
PTOI	$334	$537	(37.8%)	$727	$885	(17.9%)

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.
NM = Not Meaningful

PTOI for the three and nine months ended September 30, 2016 was $334 million and $727 million, respectively, decreases of $203 million and $158 million from the same periods in 2015. The decreases in both periods were driven by unfavorable loss trends in the auto liability line of business due to an increase in severity, and an increase in catastrophe losses. These items were partially offset by profit margin on growth in earned premium. The decrease in the quarter was also impacted by an increase in current accident year non-catastrophe auto physical damage losses.

Revenues for the three and nine months ended September 30, 2016 were $4.542 billion and $13.327 billion, respectively, increases of $221 million and $654 million over the same periods in 2015. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three and nine months ended September 30, 2016 was $4.348 billion and $12.751 billion, respectively, increases of $216 million and $633 million over the same periods in 2015. The increases reflect the premium earned associated with the changes in NWP previously discussed and NWP growth during the last three months of 2015.

Net investment income for the three and nine months ended September 30, 2016 was $157 million and $472 million, respectively, no change and an increase of $11 million versus the same periods in 2015. The increase was driven by a higher invested asset base.

Claims, benefits and expenses for the three and nine months ended September 30, 2016 were $4.208 billion and $12.600 billion, respectively, increases of $424 million and $812 million over the same periods in 2015. The increases reflect higher catastrophe losses, higher expenses related to business growth, and worsening loss trends in the auto liability line of business.

	Three Months Ended September 30,			Nine Months Ended September 30,		
U.S. CONSUMER MARKETS	**2016**	**2015**	**Change (Points)**	**2016**	**2015**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	65.3%	62.5%	2.8	63.3%	62.8%	0.5
Underwriting expense ratio	24.8	25.6	(0.8)	25.3	25.5	(0.2)
Subtotal	90.1	88.1	2.0	88.6	88.3	0.3
Catastrophes[1]	4.2	1.8	2.4	8.3	7.5	0.8
Net incurred losses attributable to prior years	1.0	0.3	0.7	0.4	0.1	0.3
Total combined ratio	95.3%	90.2%	5.1	97.3%	95.9%	1.4

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.

The U.S. Consumer Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three and nine months ended September 30, 2016 was 90.1% and 88.6%, respectively, increases of 2.0 points and 0.3 points over the same periods in 2015. The increases in the claims and claim adjustment expense ratio primarily reflect higher severity trends in the auto liability line of business, partially offset by decreases in the expense ratio primarily driven by earned premium growth.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and nine months ended September 30, 2016 was 95.3% and 97.3%, respectively, increases of 5.1 points and 1.4 points over the same periods in 2015. The increases in both periods were driven by higher catastrophe losses and the changes in the claims and claim adjustment expense ratio previously discussed. Both periods were impacted by unfavorable net incurred losses attributable to prior years in auto liability driven by higher severity trends.

INTERNATIONAL CONSUMER MARKETS

Overview –International Consumer Markets

International Consumer Markets sells property-casualty, health and life insurance products and services to individuals and businesses in two market segments.

International Consumer Markets was realigned effective in the first quarter of 2016. The realignment better positions International Consumer Markets for continued growth and improved profitability in an increasingly competitive global marketplace. The two operating regions that comprise International Consumer Markets are West, including Brazil, Colombia, Chile, Ecuador, Spain, Portugal, and Ireland; and East, including Thailand, Singapore, Hong Kong, Vietnam, Malaysia, India, China, Russia, and Turkey. Other includes internal reinsurance. All periods have been restated to reflect this change. 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 results of the Polish operation are presented in the Corporate and Other section and are no longer reported in International Consumer Markets. All prior periods have been adjusted to reflect this change.

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

On January 14, 2016, the Company completed the acquisition of Penta, the fourth largest non-life insurer in Chile. Penta had approximately $160 million of net written premium in 2015.

Effective September 30, 2015, the Company determined it was appropriate to deconsolidate the Venezuelan operations. Concurrent with this decision, the Company has classified the Venezuelan operations and the related impairment charge as discontinued operations. For further detail, see the Consolidated Results of Operations section. All prior periods have been adjusted to reflect this change.

On June 25, 2015, the Company announced its plans to withdraw from the personal motor insurance market in Great Britain and make significant changes to its operations in Ireland. On July 23, 2015, the Company sold its Great Britain personal motor book of business to Chaucer Insurance Services Ltd. The Company will now focus on the Republic of Ireland market and transferring the customer management of its Northern Ireland policies on renewal to Hughes Insurance Services Limited ("Hughes"). Costs associated with this restructuring are included in the Consolidated Financial Statements.

International Consumer Markets NWP by operating region was as follows:

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
$ in Millions	**2016**	**2015**	**Change**	**Change ex. foreign exchange[1]**	**2016**	**2015**	**Change**	**Change ex. foreign exchange[1]**
West	$703	$607	15.8%	12.8%	$1,959	$1,936	1.2%	6.7%
East	221	192	15.1	16.6	627	572	9.6	15.3
Other	5	6	(16.7	4.1	29	32	(9.4)	(6.8)
Total NWP	$929	$805	15.4	13.6%	$2,615	$2,540	3.0%	8.5%

1 Determined by assuming constant foreign exchange rates between periods.

International Consumer Markets NWP by line of business was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Private passenger automobile	$581	$510	13.9%	$1,602	$1,604	(0.1%)
Life and health	79	76	3.9	221	235	(6.0)
Commercial automobile	66	49	34.7	197	172	14.5
Homeowners	46	36	27.8	135	135	-
Commercial property	23	14	64.3	63	23	173.9
Other[1]	134	120	11.7	397	371	7.0
Total NWP	$929	$805	15.4%	$2,615	$2,540	3.0%

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

NWP for the three and nine months ended September 30, 2016 was $929 million and $2.615 billion, respectively, increases of $124 million and $75 million over the same periods in 2015. Both periods reflect the acquisition of Penta in Chile in January 2016, strong business growth in Portugal, and strong organic growth in Asia driven by China due to a large liability policy agreement, partially offset by a decrease in Ireland due to Hughes shifting to a broker business and the exit from the personal insurance market in Great Britain. The quarter was further positively impacted by foreign exchange driven by the weakening of the U.S. dollar against the Brazilian Real. The year was partially offset by the significant negative impact of foreign exchange driven by the strengthening of the U.S. dollar against most currencies (primarily the Brazilian Real, Colombian Peso, and Malaysian Ringgit).

Results of Operations – International Consumer Markets

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	$983	$912	7.8%	$2,839	$2,803	1.3%
West and Other[1] pre-tax operating income (loss) before catastrophes and net incurred losses attributable to prior years	$30	$4	NM	$16	($25)	NM
East[2] pre-tax operating loss before catastrophes and net incurred losses attributable to prior years	(4)	(4)	-	(15)	(12)	25.0
Catastrophes[3]	(1)	-	NM	(6)	-	NM
Net incurred losses attributable to prior years	15	1	NM	59	(20)	NM
Pre-tax operating income (loss)	$40	$1	NM	$54	($57)	NM

1 West operations include Brazil, Colombia, Chile, Ecuador, Spain, Portugal, and Ireland. Other includes internal reinsurance and home office revenue and expenses.
2 East operations include Thailand, Singapore, Hong Kong, Vietnam, Malaysia, India, China, Russia, and Turkey.
3 Catastrophes are defined as a natural catastrophe or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
NM = Not Meaningful

Pre-tax operating income (loss) for the three and nine months ended September 30, 2016 was $40 million and $54 million, respectively, versus $1 million and ($57) million for the same periods in 2015. The changes in both periods were primarily due to favorable net incurred losses attributable to prior years in Ireland, Spain, Brazil, and Hong Kong, improved earnings in Ireland as the prior year included higher restructuring costs and unfavorable net incurred losses that did not recur, and lower centralized operating costs. The quarter was further positively impacted by favorable earned premium growth in Chile. The year

was further impacted by favorable net incurred losses attributable to prior years in Singapore and Malaysia. These increases were partially offset by the strengthening of the U.S. dollar, increased auto losses in Brazil, and increased auto losses in Colombia due to higher frequency and severity and employee related costs.

Revenues for the three and nine months ended September 30, 2016 were $983 million and $2.839 billion, respectively, increases of $71 million and $36 million over the same periods in 2015. The primary components of revenues are net premium earned, net investment income and net realized investment gains.

Net premium earned for the three and nine months ended September 30, 2016 were $891 million and $2.565 billion, respectively, increases of $72 million and $28 million over the same periods in 2015. Both periods were driven by premiums earned associated with the organic growth changes in NWP previously discussed and NWP growth during the last three months of 2015, and the acquisition of Penta in Chile in January 2016, partially offset by a decrease in Ireland as a result of Hughes shifting to a broker business and the exit from the personal insurance market in Great Britain. The year was further negatively impacted by the strengthening of the U.S. dollar against most currencies.

Net investment income for the three and nine months ended September 30, 2016 was $69 million and $204 million, respectively, increases of $6 million and $17 million over the same periods in 2015. The increases were primarily driven by an increased asset base due to the Penta acquisition and Brazil.

Net realized gains for the three and nine months ended September 30, 2016 were zero versus $1 million and $7 million for the same periods in 2015. Beginning in 2016, all investment related realized gains (losses) are being recognized in the Corporate and Other section.

Claims, benefits and expenses for the three and nine months ended September 30, 2016 were $943 million and $2.785 billion, respectively, an increase of $33 million and a decrease of $68 million versus the same periods in 2015. The change in both periods was driven by the acquisition of Penta in Chile in January 2016, growth in China and Portugal associated with NWP, and increased auto losses in Portugal due to higher severity, partially offset by lower losses associated with NWP contraction in Ireland, lower restructuring costs in Ireland, and favorable incurred losses attributable to prior years in Ireland, Spain, Brazil, and Hong Kong. The quarter was further negatively impacted by the weakening of the U.S. dollar against the Brazilian Real. The year was significantly impacted by the strengthening of the U.S. dollar and favorable incurred losses attributable to prior years in Singapore and Malaysia, partially offset by increased auto losses in Brazil.

INTERNATIONAL CONSUMER MARKETS	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change (Points)	2016	2015	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	64.5%	66.2%	(1.7)	66.0%	65.3%	0.7
Underwriting expense ratio	40.3	41.3	(1.0)	41.6	43.0	(1.4)
Subtotal	104.8	107.5	(2.7)	107.6	108.3	(0.7)
Catastrophes[1]	0.1	-	0.1	0.2	-	0.2
Net incurred losses attributable to prior years	(1.7)	(0.1)	(1.6)	(2.4)	0.8	(3.2)
Total combined ratio	103.2%	107.4%	(4.2)	105.4%	109.1%	(3.7)

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

The International Consumer Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the three and nine months ended September 30, 2016 was 104.8% and 107.6%, respectively, decreases of 2.7 points and 0.7 points from the same periods in 2015. The claims and claim adjustment expense ratio in both periods was impacted by lower losses in Ireland due to re-underwriting initiatives taken in 2015. The decrease in the claims and claim adjustment expense ratio in the quarter was further positively impacted by favorable earned premium growth in Chile. The increase in the claims and claim adjustment expense ratio in the year was primarily driven by increased auto losses in Brazil and increased auto losses in Colombia due to higher frequency and severity. The decrease in the underwriting expense ratio in both periods was primarily driven by lower centralized operating costs and the favorable impact of the Penta acquisition in January 2016. The decrease in the underwriting expense ratio in the year was further impacted by Ireland due to higher restructuring costs in 2015.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and nine months ended September 30, 2016 was 103.2% and 105.4%, respectively, decreases of 4.2 points and 3.7 points from the same periods in 2015. The total combined ratio in both periods reflects the changes in the combined ratio previously discussed, as well as favorable net incurred losses attributable to prior years in Ireland, Spain, Brazil and Hong Kong. The year was further impacted by favorable net incurred losses attributable to prior years in Singapore and Malaysia.

COMMERCIAL INSURANCE

Overview – Commercial Insurance

Commercial Insurance offers a wide array of property-casualty, group 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 and middle market 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 large businesses. Liberty Mutual Benefits provides short and long-term disability, accident, health and group 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. The Company is also a servicing carrier for state-based workers compensation involuntary market pools.

Commercial Insurance NWP by market segment was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Business Insurance	$1,360	$1,336	1.8%	$3,966	$3,891	1.9%
National Insurance	561	541	3.7	1,616	1,622	(0.4)
Liberty Mutual Benefits	480	418	14.8	1,376	1,270	8.3
Other Commercial Insurance	37	39	(5.1)	113	114	(0.9)
Total NWP	$2,438	$2,334	4.5%	$7,071	$6,897	2.5%

Commercial Insurance NWP by line of business was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Commercial multiple-peril	$570	$556	2.5%	$1,597	$1,569	1.8%
Workers compensation - Voluntary	476	476	-	1,391	1,400	(0.6)
Workers compensation - Involuntary	22	26	(15.4)	63	73	(13.7)
Commercial automobile	411	377	9.0	1,189	1,111	7.0
Group disability and group life	372	314	18.5	1,087	925	17.5
General liability	313	306	2.3	917	915	0.2
Commercial property	166	175	(5.1)	538	559	(3.8)
Individual life and A&H	108	104	3.8	289	345	(16.2)
Total NWP	$2,438	$2,334	4.5%	$7,071	$6,897	2.5%

NWP for the three and nine months ended September 30, 2016 was $2.438 billion and $7.071 billion, respectively, increases of $104 million and $174 million over the same periods in 2015. The increases in both periods reflect higher group disability and group life premium due to strong new business sales as well as higher new business, higher retention and positive rate in the casualty lines. The increases in both periods were partially offset by a decrease in workers compensation audit and retrospective premium and lower property premium due to continued competitive market pressures. The year was further impacted by lower life-contingent structured settlement sales during the first six months of the year.

Results of Operations – Commercial Insurance

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	$2,883	$2,797	3.1%	$8,467	$8,373	1.1%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$208	$248	(16.1%)	$893	$876	1.9%
Catastrophes[1]	(52)	(8)	NM	(257)	(167)	53.9
Net incurred losses attributable to prior years[2,3]	(34)	2	NM	(28)	93	NM
Current accident year re-estimation[4]	(6)	-	NM	-	-	-
PTOI	$116	$242	(52.1%)	$608	$802	(24.2%)

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 The nine months ended September 30, 2015 include a one-time benefit of $91 million due to a reduction in the estimated prior years' liability for state assessments related to workers compensation.

3 Net of earned premium and reinstatement premium attributable to prior years of ($3) million and ($9) million for the three and nine months ended September 30, 2016 and zero and $3 million for the same periods in 2015.

4 Re-estimation of the current accident year workers compensation loss reserves for the six months ended June 30, 2016.

NM = Not Meaningful

PTOI for the three and nine months ended September 30, 2016 was $116 million and $608 million, respectively, decreases of $126 million and $194 million from the same periods in 2015. The decreases in both periods reflect unfavorable catastrophe and non-catastrophe property losses, unfavorable disability and mortality experience, lower servicing carrier revenue, higher employee related costs, increased expenses associated with investments in Liberty Mutual Benefits and adverse prior year development (related to general liability and a reserve increase associated with recent industry-wide workers compensation rulings in Florida). The decreases in both periods were partially offset by continued improvement in current accident year losses across the casualty lines of business. The quarter was further impacted by lower contingent commission expenses due to an increase in the estimate recorded in the third quarter of 2015. The year was further impacted by a reduction in the estimated prior years' liability for state assessments related to workers compensation in 2015 that did not recur.

Revenues for the three and nine months ended September 30, 2016 were $2.883 billion and $8.467 billion, respectively, increases of $86 million and $94 million over the same periods in 2015. 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 and nine months ended September 30, 2016 was $2.354 billion and $6.874 billion, respectively, increases of $69 million and $57 million over the same periods in 2015. The increases in both periods reflect growth in Liberty Mutual Benefits. The year was negatively impacted by a decline in property and casualty earned premium as the earned impact of the 2016 written premium growth previously mentioned was more than offset by earnings associated with the written premium decline experienced during the latter half of 2015.

Net investment income for the three and nine months ended September 30, 2016 was $387 million and $1.160 billion, respectively, a decrease of $3 million and an increase of $2 million versus the same periods in 2015. Both periods reflect a lower invested asset base in the property and casualty market segments, partially offset in the quarter and more than offset in the year by higher invested assets in Liberty Mutual Benefits.

Net realized gains for the three and nine months ended September 30, 2016 were $1 million and zero, respectively, versus net realized losses of $14 million for the same periods in 2015. Both periods in 2015

reflect technology impairments that did not recur. Beginning in 2016, all investment related realized gains (losses) are being recognized in the Corporate and Other section.

Fee and other revenues for the three and nine months ended September 30, 2016 were $141 million and $433 million, respectively, increases of $5 million and $21 million over the same periods in 2015. The increases in both periods reflect higher fees associated with life and group disability business and higher third-party administrator fee income, partially offset by lower commission revenue from servicing carrier operations.

Claims, benefits and expenses for the three and nine months ended September 30, 2016 were $2.766 billion and $7.859 billion, respectively, increases of $197 million and $274 million over the same periods in 2015. The increases in both periods reflect higher expenses driven by business growth and investments in Liberty Mutual Benefits, unfavorable disability and mortality experience, higher catastrophe and non-catastrophe property losses and adverse prior year reserve development. The increases in both periods were partially offset by improved current accident year losses across the casualty lines of business. The quarter was further impacted by lower contingent commission expenses due to an increase in the estimate recorded in the third quarter of 2015. The increase in the year further reflects a reduction in the estimated prior years' liability for state assessments related to workers compensation in 2015 that did not recur.

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
COMMERCIAL INSURANCE	**2016**	**2015**	**Change (Points)**	**2016**	**2015**	**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	63.7%	64.0%	(0.3)	60.7%	62.5%	(1.8)
Underwriting expense ratio	35.1	35.9	(0.8)	35.5	34.8	0.7
Dividend ratio	0.2	0.1	0.1	-	0.1	(0.1)
Subtotal	99.0	100.0	(1.0)	96.2	97.4	(1.2)
Catastrophes[1]	2.8	0.4	2.4	4.7	3.0	1.7
Net incurred losses attributable to prior years[2,3]	1.7	(0.1)	1.8	0.5	(1.6)	2.1
Current accident year re-estimation[4]	0.3	-	0.3	-	-	-
Total combined ratio	103.8%	100.3%	3.5	101.4%	98.8%	2.6

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

2 The nine months ended September 30, 2015 include a one-time benefit of $91 million due to a reduction in the estimated prior years' liability for state assessments related to workers compensation.

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

4 Re-estimation of the current accident year workers compensation loss reserves for the six months ended June 30, 2016.

The Commercial Insurance combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three and nine months ended September 30, 2016 was 99.0% and 96.2%, respectively, decreases of 1.0 point and 1.2 points from the same periods in 2015. The decreases in both periods reflect improved current accident year losses across the casualty lines of business as the overall quality of the casualty lines improved due to continued underwriting efforts. The decreases in both periods were partially offset by unfavorable non-catastrophe property losses, higher employee related costs and lower servicing carrier revenue. The improvement in the quarter further reflects a lower underwriting expense ratio as a result of lower contingent commission expenses due to an increase in the estimate recorded in the third quarter of 2015.

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 and nine months ended September 30, 2016 was 103.8% and 101.4%, respectively, increases of 3.5 points and 2.6 points over the same periods in 2015. The increases in both periods reflect unfavorable catastrophe results and adverse prior year development (related to general liability and a reserve increase associated with recent industry-wide workers compensation rulings in Florida), partially offset by the combined ratio decreases previously mentioned. The increase in the quarter further reflects the re-estimation of current accident year workers compensation loss reserves, also related to the rulings in Florida. The year was further impacted by a reduction in the estimated prior years' liability for state assessments related to workers compensation in 2015 that did not recur.

GLOBAL SPECIALTY

Overview – Global Specialty

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

Global Specialty NWP by market segment was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
LSM	$632	$549	15.1%	$2,099	$2,137	(1.8%)
LIU	384	333	15.3	1,054	1,022	3.1
LM Surety	197	196	0.5	594	610	(2.6)
Other	29	34	(14.7)	111	127	(12.6)
Total NWP	$1,242	$1,112	11.7%	$3,858	$3,896	(1.0%)
Foreign exchange effect on growth			(2.3)			(1.7)
NWP growth excluding foreign exchange[1]			14.0%			0.7%

1 Determined by assuming constant foreign exchange rates between periods.

Global Specialty's major product lines are as follows:

(1) Specialty insurance: includes marine, energy, construction, aviation, property, casualty, excess casualty, directors and officers, errors and omissions, environmental impairment liability, commercial automobile, 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 September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Specialty insurance	$654	$593	10.3%	$1,879	$1,969	(4.6%)
Reinsurance	257	203	26.6	996	972	2.5
Surety	202	200	1.0	607	622	(2.4)
Inland marine	129	116	11.2	376	333	12.9
Total NWP	$1,242	$1,112	11.7%	$3,858	$3,896	(1.0%)

NWP for the three and nine months ended September 30, 2016 was $1.242 billion and $3.858 billion, respectively, an increase of $130 million and a decrease of $38 million versus the same periods in 2015. Both periods reflect reinsurance and inland marine growth as well as favorable ultimate premium adjustments within specialty insurance and reinsurance. The year was more than offset by re-underwriting and pricing actions for selective products in specialty insurance, competitive market conditions across most lines and foreign exchange impact due to the strengthening of the U.S. dollar. The year was further impacted by specialty insurance multi-year policies written in 2015, as well as large bonds within surety in 2015, both of which did not recur.

Results of Operations – Global Specialty

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	$1,307	$1,312	(0.4%)	$3,824	$3,940	(2.9%)
PTOI before catastrophes and net incurred losses attributable to prior years	$177	$109	62.4%	$462	$416	11.1%
Catastrophes [1]	(16)	(3)	NM	(80)	(21)	NM
Net incurred losses attributable to prior years [2]	11	58	(81.0)	93	86	8.1
PTOI	$172	$164	4.9%	$475	$481	(1.2%)

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 of $3 million and $2 million for the three months and nine months ended September 30, 2016, and zero and $2 million for the same periods in 2015.

NM = Not Meaningful

PTOI for the three and nine months ended September 30, 2016 was $172 million and $475 million, respectively, an increase of $8 million and a decrease of $6 million versus the same periods in 2015. Both periods reflect favorable LSM current accident year large loss activity and LM Surety attritional losses partially offset by higher catastrophe losses. The quarter was further impacted by LM Surety large loss activity in 2015, which did not recur partially offset by lower favorable incurred losses attributable to prior years.

Revenues for the three and nine months ended September 30, 2016 were $1.307 billion and $3.824 billion, respectively, decreases of $5 million and $116 million from the same periods in 2015. The major components of revenues are net premium earned and net investment income.

Net premium earned for the three and nine months ended September 30, 2016 was $1.220 billion and $3.560 billion, respectively, an increase of $1 million and a decrease of $104 million versus the same periods in 2015. The decrease in the year reflects the previously mentioned reductions in NWP as well as the foreign exchange impact due to the strengthening of the U.S. dollar, partially offset by growth within inland marine.

Net investment income for the three and nine months ended September 30, 2016 was $85 million and $254 million, respectively, increases of $1 million and $2 million over the same periods in 2015.

Claims, benefits and expenses for the three and nine months ended September 30, 2016 were $1.135 billion and $3.349 billion, respectively, decreases of $13 million and $101 million from the same periods in 2015. The decreases in both periods reflect favorable LSM current accident year large loss activity and LM Surety attritional losses partially offset by higher catastrophe losses. The quarter was further impacted by LM Surety large loss activity in 2015, which did not recur partially offset by lower favorable incurred losses attributable to prior years. The year was further impacted by lower current accident year loss activity in line with previously mentioned reduction in premium.

GLOBAL SPECIALTY	Three Months Ended September 30, 2016	2015	Change (Points)	Nine Months Ended September 30, 2016	2015	Change (Points)
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	57.4%	64.4%	(7.0)	59.0%	60.8%	(1.8)
Underwriting expense ratio	34.8	33.4	1.4	34.5	34.1	0.4
Dividend ratio	0.1	0.2	(0.1)	0.2	0.2	-
Subtotal	92.3	98.0	(5.7)	93.7	95.1	(1.4)
Catastrophes [1]	1.3	0.2	1.1	2.2	0.6	1.6
Net incurred losses attributable to prior years[2]	(0.8)	(4.7)	3.9	(2.6)	(2.4)	(0.2)
Total combined ratio	92.8%	93.5%	(0.7)	93.3%	93.3%	-

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.

The Global Specialty combined ratio before catastrophes and net incurred losses attributable to prior years for the three and nine months ended September 30, 2016 was 92.3% and 93.7%, respectively, decreases of 5.7 points and 1.4 points from the same periods in 2015. For both periods, the decreases in the claims and claim adjustment expense ratio reflect favorable LSM current accident year large loss activity and LM Surety attritional losses. The quarter was further impacted by LM Surety large loss activity in 2015, which did not recur. The increase in the underwriting expense ratio for the quarter reflects an increase in employee compensation. The year-to-date increase in the underwriting expense ratio is driven by the impact of lower earned premium primarily within LIU US and LSM. Though no impact to the combined ratio, the year was further impacted by the increased weighting of inland marine relative to the total SBU, which operates at a higher claims and claim adjustment expense ratio offset by lower underwriting expenses.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and nine months ended September 30, 2016 was 92.8% and 93.3%, respectively, a decrease of 0.7 points and no change versus the same periods in 2015. The impacts in both periods reflect the changes to the combined ratio mentioned above partially offset by higher catastrophe losses. The quarter was further offset by lower favorable net incurred losses attributable to prior years primarily within LSM and LM Surety.

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 USCM homeowners business covered by an externally ceded homeowners quota share reinsurance treaty.

- 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.

- For presentation in this MD&A, 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.

- Beginning in 2016, all investment related realized gains (losses) are being recognized in the Corporate and Other section.

- 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 results of the Polish operation are presented in the Corporate and Other section and are no longer reported in International Consumer Markets. All prior periods have been adjusted to reflect this change.

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Reinsurance, net	($15)	($19)	(21.1%)	$170	$246	(30.9%)
Workers compensation - Voluntary[1]	(33)	(28)	17.9	13	34	(61.8)
Other[2]	34	24	41.7	90	76	18.4
Total NWP	($14)	($23)	(39.1%)	$273	$356	(23.3%)

1 Booked as billed adjustment.
2 Other includes the Polish operation.

NWP for the three and nine months ended September 30, 2016 was ($14) million and $273 million, respectively, an increase of $9 million and a decrease of $83 million versus the same periods in 2015. Both periods reflect increases driven by the results from the Polish operation. The year was further impacted by the booked as billed adjustment and lower assumed NWP due to reinsurance program changes, lower subject premiums, and continued soft market conditions partially offset by lower external reinsurance costs.

Results of Operations – Corporate and Other

	Three Months Ended September 30,			Nine Months Ended September 30,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	$175	($30)	NM	$184	$493	(62.7%)
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income	($251)	($297)	(15.5%)	($647)	($786)	(17.7%)
Catastrophes[1]	(6)	2	NM	(6)	19	NM
Net incurred losses attributable to prior years:						
- Asbestos & environmental[2]	(50)	(2)	NM	(41)	(4)	NM
- All other[2,3]	62	24	158.3	34	25	36.0
Pre-tax operating loss before partnerships, LLC and other equity method income	(245)	(273)	(10.3)	(660)	(746)	(11.5)
Partnerships, LLC and other equity method income [4]	62	52	19.2	26	50	(48.0)
Pre-tax operating loss	($183)	($221)	(17.2%)	($634)	($696)	(8.9%)

1 Catastrophes are defined as a natural catastrophe or terror event exceeding $25 million in estimated ultimate losses, net of reinsurance, and before taxes. Catastrophe losses, where applicable, include the impact of accelerated earned catastrophe premiums and earned reinstatement premiums.
2 Asbestos & 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 nine months ended September 30, 2016 and 2015.
4 Partnerships, LLC and other equity method income includes LP, LLC and other equity method income within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from the production and sale of oil and gas.
NM = Not Meaningful

Pre-tax operating loss for the three and nine months ended September 30, 2016 was $183 million and $634 million, respectively, decreases of $38 million and $62 million from the same periods in 2015. The decreases in both periods reflect lower employee pension expenses and the write-off of certain prepaid assets in 2015 that did not recur, partially offset by lower net investment income excluding partnerships, LLC, and other equity method investments. The year also reflects a reduction in legal reserves.

Revenues for the three and nine months ended September 30, 2016 were $175 million and $184 million, respectively, an increase of $205 million and a decrease of $309 million versus the same periods in 2015. The major components of revenues are net premium earned, net investment (loss) income (driven by LP, LLC and other equity method investments), net realized gains (losses), and fee and other revenues.

Net premium earned for the three and nine months ended September 30, 2016 was $75 million and $220 million, respectively, increases of $9 million and $16 million over the same periods in 2015. Both periods reflect increases driven by the results from the Polish operation.

Net investment (loss) income for the three and nine months ended September 30, 2016 was ($39) million and ($147) million, respectively, versus $65 million and $9 million for the same periods in 2015. The decreases in both periods were primarily driven by lower traditional private equity valuation gains in 2016 as compared to 2015 and by lower bond yields, partially offset by more favorable valuations for energy LP, LLC and other equity method investments. Additionally, both periods were impacted by a lower asset base reflected in Corporate.

Net realized gains (losses) for the three and nine months ended September 30, 2016 were $83 million and ($50) million, respectively, versus ($243) million and $20 million for the same periods in 2015. The increase in the quarter was due to impairments of direct investments in oil and gas wells recognized in 2015 that did not recur in the same period of 2016, as well as gains from the sale of our Polish operation. On a year-to-date basis, both periods were negatively impacted by impairments of direct investments in oil and gas wells of $110 million in 2016 compared to $262 million in 2015. In addition, the net gains generated from bond and equity sales were lower in 2016 compared to the prior year due to a portfolio realignment in 2015.

Fee and other revenues for the three and nine months ended September 30, 2016 were $56 million and $161 million, respectively, decreases of $26 million and $99 million from the same period in 2015. The decreases were primarily driven by lower oil and gas revenues as a result of lower production.

Claims, benefits and expenses for the three and nine months ended September 30, 2016 were $275 million and $868 million, respectively, decreases of $159 million and $301 million from the same period in 2015. The decreases in both periods reflect lower employee pension expenses, lower expenses related to Liberty Energy as a result of lower production, and the write-off of certain prepaid assets in 2015 that did not recur, partially offset by less favorable prior year development in the quarter and unfavorable prior year development year-to-date versus favorable prior year development in 2015.

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 September 30, 2016 and December 31, 2015:

$ in Millions	**As of September 30, 2016**		**As of December 31, 2015**	
Invested Assets by Type	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$66,320	79.2%	$62,794	80.3%
Equity securities, available for sale, at fair value	2,607	3.1	2,909	3.7
LP, LLC and other equity method investments	5,286	6.3	5,023	6.4
Commercial mortgage loans	2,560	3.1	2,317	3.0
Short-term investments	1,081	1.3	272	0.3
Other investments	804	1.0	668	0.9
Cash and cash equivalents	5,030	6.0	4,227	5.4
Total invested assets	$83,688	100.0%	$78,210	100.0%

Total invested assets as of September 30, 2016 were $83.688 billion, an increase of 5.478 billion or 7.0% over December 31, 2015. The increase primarily reflects the favorable impact of declining treasury rates, tightening credit spreads, increases in cash from financing and operations, and the weakening U.S. dollar.

Fixed maturities as of September 30, 2016 were $66.320 billion, an increase of $3.526 billion or 5.6% over December 31, 2015. The increase reflects the favorable impact of declining treasury rates, tightening credit spreads, the weakening U.S. dollar, purchases of fixed maturities driven by the reinvestment of proceeds generated by sales of equity securities, and investment of cash flows from financing and operations. As of September 30, 2016, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost of $201 million and fair value of $202 million, and various corporate and municipal securities at a cost and fair value of $159 million.

Equity securities as of September 30, 2016 were $2.607 billion ($2.249 billion common stock and $358 million preferred stock) versus $2.909 billion as of December 31, 2015 ($2.571 billion common stock and $338 million preferred stock), a decrease of $302 million or 10.4% from December 31, 2015. Of the $2.249 billion of common stock at September 30, 2016, $535 million relates to securities associated with

non-guaranteed unit linked products where the policyholder bears the investment risk. The decrease in total equity securities was primarily due to sales.

LP, LLC and other equity method investments as of September 30, 2016 were $5.286 billion, an increase of $263 million or 5.2% over December 31, 2015. The increase primarily reflects net contributions and valuation changes. These investments consist of traditional private equity partnerships of $2.896 billion, natural resources partnerships of $583 million ($389 million related to energy investments), real estate partnerships of $709 million, other partnerships of $866 million, and other equity method investments of $232 million ($230 million of which is related to natural resources). The Company's investments in LP, LLC and other equity method investments are long-term in nature. The Company believes these investments offer the potential for superior long-term returns and are appropriate in the overall context of a diversified portfolio.

Commercial mortgage loans as of September 30, 2016 were $2.560 billion (net of $9 million of loan loss reserves or 0.35% of the outstanding loan portfolio), an increase of $243 million or 10.5% over December 31, 2015. The increase primarily reflects $409 million in funding and a decrease of $2 million to the loan loss reserve, partially offset by $168 million in principal reductions. The entire commercial mortgage loan portfolio is U.S.-based. The number of loans in the portfolio increased from 4,763 at December 31, 2015 to 4,850 at September 30, 2016.

Short-term investments as of September 30, 2016 were $1.081 billion, an increase of $809 million or 297.4% over December 31, 2015. The increase was primarily related to purchases of commercial paper to take advantage of favorable yields.

Other investments as of September 30, 2016 were $804 million, an increase of $136 million or 20.4% over December 31, 2015. The increase was primarily related to new purchases and valuation increases, partially offset by reduced Additional Securities Limited ("ASL") deposit balances in the Company's international operations.

Cash and cash equivalents as of September 30, 2016 were $5.030 billion, an increase of $803 million or 19.0% over December 31, 2015. The increase was primarily related to increases in cash from financing and operations.

Regarding fair value measurements, as of September 30, 2016, excluding other assets, the Company reflected $4.890 billion (6.9%) 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 September 30, 2016, the Company reported $64.617 billion (91.5%) as level 2, consisting primarily of fixed maturity securities. Finally, the Company reported $1.112 billion (1.6%) as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

As of September 30, 2016, the Company had unfunded commitments in traditional private equity partnerships, natural resources, real estate, and other of $1.789 billion, $938 million (all of which is related to energy investments), $603 million, and $563 million, respectively. The $938 million unfunded energy investment commitments as of September 30, 2016 included $574 million related to natural resource partnerships and $364 million related to direct investments in oil and gas wells. Energy commitments declined $658 million in the quarter, primarily due to the termination of a $600 million commitment made by the Company to invest in the successor fund of an existing private equity energy fund. Year-to-date, energy commitments have declined $2.072 billion.

As of September 30, 2016, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 0.8% of invested assets. As of September 30, 2016, investments in the energy sector accounted for $2.992 billion or 3.6% of total invested assets. These investments consist of investment grade bonds of $2.088 billion, bonds that were rated below investment grade of $326 million, publicly traded equity securities of $187 million, and natural resources partnerships and other equity

method investments of $391 million. In addition, the Company has direct investments in oil and gas wells of $1.325 billion which are included in other assets on the Consolidated Balance Sheets.

The following tables summarize the Company's available for sale portfolio by security type as of September 30, 2016 and December 31, 2015:

$ in Millions **September 30, 2016**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$3,203	$180	($2)	$3,381
Residential MBS [1]	6,704	256	(3)	6,957
Commercial MBS	1,663	68	-	1,731
Other MBS and ABS [2]	3,028	88	(6)	3,110
U.S. state and municipal	13,848	1,024	(14)	14,858
Corporate and other	29,510	1,942	(86)	31,366
Foreign government securities	4,659	263	(5)	4,917
Total fixed maturities	62,615	3,821	(116)	66,320
Common stock	1,829	471	(51)	2,249
Preferred stock	363	16	(21)	358
Total equity securities	2,192	487	(72)	2,607
Total securities available for sale	$64,807	$4,308	($188)	$68,927

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

$ in Millions **December 31, 2015**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$3,182	$142	($12)	$3,312
Residential MBS	7,224	185	(29)	7,380
Commercial MBS	1,592	20	(16)	1,596
Other MBS and ABS	3,051	57	(15)	3,093
U.S. state and municipal	13,553	666	(54)	14,165
Corporate and other	28,749	991	(694)	29,046
Foreign government securities	4,042	197	(37)	4,202
Total fixed maturities	61,393	2,258	(857)	62,794
Common stock	2,193	488	(110)	2,571
Preferred stock	378	14	(54)	338
Total equity securities	2,571	502	(164)	2,909
Total securities available for sale	$63,964	$2,760	($1,021)	$65,703

The following table summarizes the Company's mortgage and asset-backed fixed maturity portfolio by credit quality as of September 30, 2016:

$ in Millions	**As of September 30, 2016**							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$2,042	$-	$-	$-	$-	$-	$2,042	17.3%
GNMA residential mortgage	2,579	-	-	-	-	-	2,579	21.8
FNMA residential mortgage	2,321	1	-	-	-	-	2,322	19.7
FHLMC residential mortgage	1,827	-	-	-	-	-	1,827	15.5
Non-agency residential mortgage	31	4	-	3	9	182	229	1.9
Commercial MBS	1,633	73	5	20	-	-	1,731	14.7
Non-mortgage ABS	607	1	80	371	2	7	1,068	9.1
Total	$11,040	$79	$85	$394	$11	$189	$11,798	100.0%
% of Total	93.6%	0.7%	0.7%	3.3%	0.1%	1.6%	100.0%	

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

Approximately 74% of the Company's mortgage and asset-backed fixed maturity portfolio is explicitly backed by the U.S. government (SBA and GNMA) or by government-sponsored entities (FNMA and FHLMC). Approximately 94% of the holdings are rated AAA. The commercial mortgage-backed securities portfolio is well diversified and of high quality with approximately 94% rated AAA.

The following table summarizes the Company's U.S. state and municipal fixed maturity portfolio by credit quality as of September 30, 2016 and December 31, 2015:

$ in Millions	**As of September 30, 2016**			**As of December 31, 2015**		
U.S. State and Municipal by Credit Quality	**Fair Value**	**% of Total**	**Average Credit Rating**	**Fair Value**	**% of Total**	**Average Credit Rating**
State general obligation	$2,046	13.8%	AA	$2,078	14.7%	AA
Local general obligation	1,362	9.2	AA	1,188	8.4	AA
Revenue	10,277	69.1	AA	9,173	64.7	AA
Pre-refunded	1,173	7.9	AAA	1,726	12.2	AAA
Total U.S. state and municipal	$14,858	100.0%	AA	$14,165	100.0%	AA

The Company's fixed maturity investment portfolio at September 30, 2016 and December 31, 2015 included $14.858 billion and $14.165 billion, respectively, of securities which are obligations of states, municipalities and political subdivisions (collectively referred to as U.S. state and municipal bonds). The municipal bond portfolio 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 September 30, 2016 and December 31, 2015 were $1.173 billion and $1.726 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 September 30, 2016 and December 31, 2015:

$ in Millions	As of September 30, 2016		As of December 31, 2015	
Fixed Maturities by Credit Quality[1]	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
AAA	$18,999	28.7%	$19,777	31.5%
AA+, AA, AA-	13,013	19.6	11,459	18.2
A+, A, A-	15,609	23.5	14,620	23.3
BBB+, BBB, BBB-	14,368	21.7	13,474	21.5
Total investment grade	61,989	93.5	59,330	94.5
BB+, BB, BB-	2,457	3.7	1,585	2.5
B+, B, B-	1,480	2.2	1,448	2.3
CCC or lower	394	0.6	431	0.7
Total below-investment grade	4,331	6.5	3,464	5.5
Total fixed maturities	$66,320	100.0%	$62,794	100.0%

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

The Company's allocation to investment grade (fixed maturities with an average credit rating of BBB- or higher) securities was approximately 93.5% at September 30, 2016, slightly lower than December 31, 2015. The Company's allocation to below-investment grade (fixed maturities with an average credit rating below BBB-) securities was approximately 6.5% at September 30, 2016, slightly higher than December 31, 2015, primarily driven by credit downgrades in 2016. 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 September 30, 2016.

The following table summarizes available for sale fixed maturity securities by contractual maturity at September 30, 2016 and December 31, 2015. 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.

$ in Millions	As of September 30, 2016		As of December 31, 2015	
Fixed Maturities by Maturity Date	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
One year or less	$3,562	5.4%	$3,515	5.6%
Over one year through five years	17,439	26.3	16,298	26.0
Over five years through ten years	17,596	26.5	17,255	27.5
Over ten years	15,925	24.0	13,657	21.7
MBS and ABS	11,798	17.8	12,069	19.2
Total fixed maturities	$66,320	100.0%	$62,794	100.0%

During 2016, 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.

Net Investment Income

The following table summarizes the Company's net investment income for the three and nine months ended September 30, 2016 and 2015:

$ in Millions	Three Months Ended September 30,		Nine Months Ended September 30,	
Net Investment Income	**2016**	**2015**	**2016**	**2015**
Taxable interest income	$515	$523	$1,564	$1,559
Tax-exempt interest income	72	89	235	287
Dividends	13	14	42	49
LP, LLC and other equity method (loss) income	72	139	125	190
Commercial mortgage loans	29	30	88	83
Other investment income	6	6	18	19
Gross investment income	707	801	2,072	2,187
Investment expenses[1]	(48)	(42)	(129)	(120)
Net investment income	$659	$759	$1,943	$2,067

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

Net investment income for the three and nine months ended September 30, 2016 was $659 million and $1.943 billion, respectively, decreases of $100 million and $124 million from the same periods in 2015. The decreases in both periods were primarily driven by lower traditional private equity valuation gains in 2016 as compared to 2015 and by lower bond yields, partially offset by more favorable valuations for energy LP, LLC and other equity method investments, and a higher invested asset base.

Net Realized Gains (Losses)

The following tables summarize the Company's net realized gains (losses) for the three and nine months ended September 30, 2016 and 2015:

$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Three Months Ended September 30, 2016:				
Fixed maturities	$50	($4)	$-	$46
Equities	15	(5)	-	10
Other	23	(2)	7	28
Total	$88	($11)	$7	$84
Three Months Ended September 30, 2015:				
Fixed maturities	$1	($7)	$-	($6)
Equities	3	(14)	-	(11)
Other	2	(268)	27	(239)
Total	$6	($289)	$27	($256)

$ in Millions **Net Realized Gains (Losses)**	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Nine Months Ended September 30, 2016:				
Fixed maturities	$95	($24)	$-	$71
Equities	38	(42)	-	(4)
Other	33	(137)	(13)	(117)
Total	$166	($203)	($13)	($50)
Nine Months Ended September 30, 2015:				
Fixed maturities	$127	($19)	$-	$108
Equities	225	(29)	-	196
Other	(9)	(289)	16	(282)
Total	$343	($337)	$16	$22

$ in Millions Components of Net Realized Gains (Losses)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Fixed maturities:				
Gross realized gains	$69	$20	$175	$155
Gross realized losses	(23)	(26)	(104)	(47)
Equities:				
Gross realized gains	31	25	161	276
Gross realized losses	(21)	(36)	(165)	(80)
Other:				
Gross realized gains	36	31	74	46
Gross realized losses	(8)	(270)	(191)	(328)
Total net realized gains (losses)	$84	($256)	($50)	$22

Net realized gains (losses) for the three and nine months ended September 30, 2016 were $84 million and ($50) million, respectively, versus ($256) million and $22 million for the same periods in 2015. The increase in the quarter was due to impairments of direct investments in oil and gas wells recognized in 2015 that did not recur in the same period of 2016, as well as gains from the sale of our Polish operation. On a year-to-date basis, both periods were negatively impacted by impairments of direct investments in oil and gas wells of $110 million in 2016 compared to $262 million in 2015. In addition, the net gains generated from bond and equity sales were lower in 2016 compared to the prior year due to a portfolio realignment in 2015.

The following table summarizes 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 September 30, 2016 and that are not deemed to be other-than-temporarily impaired:

$ in Millions	Less Than 12 Months		12 Months or Longer	
Unrealized Losses & Fair Value by Security Type	Unrealized Losses	Fair Value of Investments with Unrealized Losses	Unrealized Losses	Fair Value of Investments with Unrealized Losses
U.S. Government and agency securities	($2)	$465	$-	$6
Residential MBS	(1)	408	(2)	62
Commercial MBS	-	58	-	9
Other MBS and ABS	(4)	253	(2)	83
U.S. state and municipal	(10)	966	(4)	64
Corporate and other	(14)	1,324	(72)	1,125
Foreign government securities	(1)	376	(4)	469
Total fixed maturities	(32)	3,850	(84)	1,818
Common stock	(34)	290	(17)	108
Preferred stock	-	-	(21)	265
Total equity securities	(34)	290	(38)	373
Total securities available for sale	($66)	$4,140	($122)	$2,191

Unrealized losses decreased from $1.021 billion as of December 31, 2015 to $188 million as of September 30, 2016 primarily due to the declining treasury rates and tightening credit spreads. Unrealized losses less than 12 months decreased from $731 million at December 31, 2015 to $66 million as of September 30, 2016. Unrealized losses 12 months or longer decreased from $290 million as of December 31, 2015 to

$122 million as of September 30, 2016. Of the $17 million of unrealized losses 12 months or longer on common stock, $4 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. As of September 30, 2016, there were 1,040 securities that were in an unrealized loss position for 12 months or longer. The Company monitors the difference between the amortized cost and estimated fair value of debt 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.

If the Company believes a decline in the value (including foreign exchange rate changes) of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be other-than-temporary and the Company believes that it will not be able to collect all cash flows due on its fixed maturity securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes, as the difference between expected cash flows and fair value. The Company has concluded that the gross unrealized losses of fixed maturity securities as of September 30, 2016 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 gross unrealized losses recorded on equity securities at September 30, 2016 resulted primarily from decreases in quoted fair values from the dates that certain investment securities were acquired as opposed to fundamental changes in the issuer's financial performance and near-term financial prospects. The Company has concluded that the gross unrealized losses of equity securities as of September 30, 2016 are temporary, and the Company has the intent and ability to hold these securities until recovery.

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 September 30, 2016 (including cash and cash equivalents) totaled $83.688 billion.

Debt outstanding as of September 30, 2016 and December 31, 2015 was as follows:

Short-term debt and current maturities of long-term debt:

$ in Millions	**As of September 30, 2016**	**As of December 31, 2015**
Short-term debt	$ 3	$ -
Current maturities of long-term debt[1]	-	249
Total short-term debt and current maturities of long-term debt	$ 3	$ 249

[1] Includes $249 million of 6.70% Notes due 8/15/2016.

Long-term debt:

$ in Millions	As of September 30, 2016	As of December 31, 2015
7.00% Junior Subordinated notes, due 2067[1]	$ 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
8.50% Surplus notes, due 2025	140	140
2.75% €750 Million Notes, due 2026	843	-
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]	176	193
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	7,820	6,994
Unamortized discount	(17)	(12)
Long-term debt excluding unamortized debt issuance costs	7,803	6,982
Unamortized debt issuance costs	(43)	(42)
Total long-term debt	$7,760	$6,940

[1] The par value call date and final fixed rate interest payment date is March 15, 2017, subject to certain requirements.
[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 nine months ended September 30, 2016, the Company repurchased $1 and $17 million, respectively, of the 10.75% Junior Subordinated notes due 2088 compared to repurchases of $3 million for the same periods in 2015. Pre-tax losses of $1 million and $9 million were recorded on these transactions for the three and nine months ended September 30, 2016, respectively, compared to pre-tax losses of $1 million recorded for the same periods in 2015 and are included in loss on extinguishment of debt in the accompanying Consolidated Statements of Income.

On May 5, 2016, LMIC extended the termination date of a $1 billion repurchase agreement from July 3, 2017 to July 3, 2018, unless extended. To date, no funds have been borrowed under the facility.

On May 4, 2016, 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. To date, no funds have been borrowed under the facility.

On April 8, 2015, LMGI increased its commercial paper program from $750 million to $1 billion. There was no commercial paper outstanding at September 30, 2016.

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

LMIC, Peerless Insurance Company ("PIC"), Liberty Life Assurance Company of Boston ("LLAC"), Liberty Mutual Fire Insurance Company ("LMFIC") and Employers Insurance Company of Wausau ("EICOW") are members of the Federal Home Loan Bank. On March 21, 2012, LMFIC borrowed $150 million at a rate of 3.91% with a maturity date of March 22, 2032. On March 23, 2012 and April 2, 2012, LMIC borrowed $127 million at a rate of 4.24% with a maturity date of March 23, 2032 and $23 million at a rate of 4.25% with a maturity date of April 2, 2032, respectively. As of September 30, 2016, all of the outstanding Federal Home Loan Bank borrowings are fully collateralized.

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

Interest Expense

Consolidated interest expense for the three and nine months ended September 30, 2016 was $113 million and $335 million, respectively, increases of $3 million and $6 million over the same period in 2015.

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 September 30, 2016, the Company, through its downstream subsidiary LMGI, had $6.890 billion 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, 2015) and 2016 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	**2015**	**2014**	**2016**	**2016**
LMIC	497%	514%	$1,531	$49
LMFIC	518%	485%	$139	$11
EICOW	512%	467%	$151	-

[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 nine months ended September 30, 2016. Available dividend capacity as of September 30, 2016 is calculated as 2016 dividend capacity less dividends paid for the preceding 12 months. Dividends paid October 1, 2015 through September 30, 2016 for LMIC, LMFIC, and EICOW were $65 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 nine months ended September 30, 2016, LCS recorded $81 million and $230 million, respectively, in pre-tax income.
- Approximately $80 million of annual dividends related to non-redeemable perpetual preferred stock issuances by LMIC and LMFIC.

Statutory Surplus

Statutory surplus as regards policyholders for the combined operations of LMIC and its U.S affiliates, including international branches, was $19.496 billion and $18.687 billion as of September 30, 2016 and December 31, 2015, respectively. The increase in surplus primarily reflects $400 million of the Euro debt proceeds contributed to LMIC along with net income of $355 million (the sum of earnings & losses from the Company's 56 domestic property-casualty insurance companies and dividends from subsidiaries) and unaffiliated unrealized gains of $160 million, partially offset by affiliated unrealized losses of $63 million, and a reduction to other changes in surplus of $43 million. Other changes in surplus is primarily driven by net deferred income tax and dividends to stockholders, partially offset by foreign exchange and non-admitted assets.

CRITICAL ACCOUNTING POLICIES

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) recoverability of deferred acquisition costs, (5) valuation of goodwill and intangible assets, (6) deferred income tax valuation allowance, and (7) pension and postretirement benefit obligations.

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

Unpaid Claims and Claim Adjustment Expenses

Reserves for property-casualty unpaid claims and claim adjustment expenses were $49.727 billion and $49.323 billion as of September 30, 2016 and December 31, 2015, respectively.

Property-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. Changes in the law, results of litigation, medical costs, the costs of repair materials, and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement can be. Accordingly, "short-tail" claims, such as property damage claims, tend to be easier to estimate than "long-tail" claims, such as workers compensation or general liability claims.

As information develops that varies from past experience, provides additional data, or in some cases, augments data that previously was not considered sufficient for use in determining reserves, changes in the Company's estimate of ultimate liabilities may be required. The effects of these changes are reflected in current operating results.

Asbestos and Environmental

The Company's asbestos and environmental ("A&E") reserves for unpaid claims and claim adjustment expenses, net of reinsurance before National Indemnity Company ("NICO") and including uncollectible reinsurance, were $879 million and $952 million as of September 30, 2016 and December 31, 2015, respectively.

All A&E claims against policies issued prior to 1986 by EICOW and its affiliates are 100% ceded to Nationwide Indemnity Company and guaranteed by Nationwide Mutual Insurance Company. In addition, the Company acquired PruPac in 2003 and any increase in A&E reserves is reinsured by Vantage Casualty Insurance Company and guaranteed by Prudential Financial, Inc.

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 A&E related claims could result in a liability that differs from current reserves by an amount that could be material to the Company's future operating results and financial condition.

Reinsurance Recoverables

The Company reported reinsurance recoverables of $13.723 billion and $13.575 billion at September 30, 2016 and December 31, 2015, respectively, net of allowance for doubtful accounts of $167 million and $131 million, respectively. Included in these balances are $595 million and $486 million of paid recoverables and $13.295 billion and $13.220 billion of unpaid recoverables (including retroactive reinsurance), respectively.

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 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.

On July 17, 2014, the Company entered into a reinsurance transaction with NICO, a subsidiary of Berkshire Hathaway Inc., on a combined aggregate excess of loss agreement (the "NICO Reinsurance Transaction") for substantially all of the Company's U.S. workers compensation (pre-2014 accident year) and A&E liabilities, attaching at approximately $12.5 billion of combined aggregate reserves, with an aggregate limit of $6.5 billion and sublimits of $3.1 billion for A&E liabilities and approximately $4.5 billion for certain large dollar deductible workers compensation liabilities. At the closing of the NICO Reinsurance Transaction, but effective as of January 1, 2014, the Company ceded approximately $3.3 billion of existing liabilities under this retroactive reinsurance agreement. NICO will provide approximately $3.2 billion of additional aggregate adverse development cover. The Company paid NICO total consideration of approximately $3.0 billion. In general terms, the covered business includes post December 31, 2013 development on: (1) A&E liabilities arising under policies of insurance and reinsurance with effective dates prior to January 1, 2005 including unallocated loss adjustment costs; 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. With respect to the ceded A&E 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.

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.

The following table displays the impact of the NICO Reinsurance Transaction on the Consolidated Statements of Income and the remaining unrecognized reinsurance benefit (amounts in millions):

Change in unrecognized benefit under NICO Reinsurance Transaction	Nine Months Ended September 30, 2016	Twelve Months Ended December 31, 2015
Unrecognized reinsurance benefit related to original transaction loss at the beginning of the period	$59	$43
A&E unfavorable loss development	41	5
Workers compensation unfavorable/(favorable) loss development	18	(21)
Total amounts ceded under NICO Reinsurance Transaction	59	(16)
Retroactive reinsurance (benefits)/reductions recognized into income	(59)	16
Pre-tax impact of unrecognized deferred retroactive reinsurance benefit	-	-
Unrecognized reinsurance benefit related to original transaction loss at the end of the period	$-	$59

Once the aggregate of workers compensation and A&E development exceeds the original pre-tax loss of $128 million, deferred gains will be recorded. Deferred gains are subsequently amortized into earnings over the period when underlying claims are settled.

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. The highest priority is given to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Securities are classified based on the lowest level of input that is significant to the fair value measurement. The Company recognizes transfers between levels at the end of each reporting period. The three hierarchy levels are defined as follows:

• Level 1 — Valuations based on unadjusted quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access.

• Level 2 — Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets or liabilities at the measurement date, quoted prices in markets that are not active, or other inputs that are observable, either directly or indirectly.

• Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement and involve management judgment. The unobservable inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the assets and liabilities.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors, including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3.

Impairment Losses on Investments

If the Company believes a decline in the value (including foreign exchange rate changes) of a particular investment is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be other-than-temporary, and the Company believes that it will not be able to collect all cash flows due on its fixed maturity securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes as the difference between expected cash flow and fair value.

The Company reviews fixed maturity securities, equity securities and other investments for impairment on a quarterly basis. Securities 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. For fixed maturity securities that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated recovery in value, the Company separates impairments into credit loss and non-credit loss components. The determination of the credit loss component of the impairment charge is based on the Company's best estimate of the present value of the cash flows expected to be collected from the fixed maturity security compared to its amortized cost and is reported as part of net realized gains. The non-credit component, the residual difference between the credit impairment component and the fair value, is recognized in other comprehensive income. The factors considered in making an evaluation for credit versus non-credit other-than-temporary impairment include the following: (a) failure of the issuer of the security to make scheduled interest or principal payments (including the payment structure of the fixed maturity security and the likelihood the issuer will be able to make payments that increase in the future), (b) performance indicators of the underlying assets in the security (including default and delinquency rates), (c) vintage, (d) geographic concentration, and (e) industry analyst reports, sector credit ratings, and volatility of the security's fair value. In addition, the Company's accounting policy for other-than-temporary impairment recognition requires an other-than-temporary impairment charge be recorded when it is determined the security will be sold or it is more likely than not that the Company will be required to sell the security before recovery of the security's amortized cost basis (all fixed maturity securities and certain preferred equity securities) or the Company does not have the intent and ability to hold certain equity securities for a period of time that is sufficient to allow for any anticipated recovery in fair value.

The Company is required to review its oil and gas properties when facts and circumstances indicate that net book values may not be recoverable. In performing a quarterly review, an undiscounted cash flow test is performed at the lowest level for which identifiable cash flows are independent of cash flows from other assets. If the sum of the undiscounted future net cash flows is less than the net book value of the property, an impairment loss is recognized for the excess, if any, of the property's net book value over its estimated fair value.

Variable Interest Entities

The Company invests in limited partnerships and other entities subject to Variable Interest Entity ("VIE") analysis under the VIE subsections of Accounting Standards Codification ("ASC") 810, *Consolidation*. The Company analyzes each investment to determine whether it is a VIE, and if so, whether the Company is the primary beneficiary or a significant interest holder based on a qualitative and quantitative assessment. The Company evaluates the design of the entity, the risks to which the entity was designed to expose the variable interest holder and the extent of the Company's control of and variable interest in the VIE. As of September 30, 2016, the Company has determined that it was not the primary beneficiary of any VIEs, except for the Company's investment in its India joint venture which is deemed immaterial.

The Company has variable interests in VIEs for which it is not the primary beneficiary and accounts for these VIEs under the equity method in accordance with ASC 323, *Investments – Equity Method and Joint Ventures*. The VIEs are principally private equity limited partnerships in which the Company has invested as a passive limited partner. The partnerships were deemed to be VIEs because the equity holders as a group lack the power to direct the activities that most significantly impact the respective entity's economic performance. The VIEs generate variability primarily from investment portfolio performance and that variability is passed to equity holders. The net carrying value of non-consolidated VIEs in which the Company has a variable interest was $4.509 billion and $1.719 billion as of September 30, 2016 and December 31, 2015, respectively and the Company's maximum exposure to loss was $7.398 billion and $2.487 billion as of September 30, 2016 and December 31, 2015, respectively. The assets are included in other investments in the accompanying consolidated balance sheets. Maximum exposure to loss includes the carrying value and unfunded commitment of the VIE. The increase in the maximum exposure to loss from December 31, 2015 to September 30, 2016 is primarily related to an increase in the number of investments considered VIEs due to the adoption of Accounting Standards Update 2015-02, Consolidation Topic 810, *Amendments to the Consolidation Analysis*. There is no recourse provision to the general credit of the Company for any VIE beyond the full amount of the Company's loss exposure.

Deferred Acquisition Costs

Total deferred acquisition costs were $3.351 billion and $3.164 billion as of September 30, 2016 and December 31, 2015, respectively. Deferred acquisition costs are costs that are directly related to the acquisition or renewal of insurance contracts. All other acquisition related costs, including market research, training, administration, unsuccessful acquisition or renewal efforts, and product development, are charged to expense as incurred. Deferred acquisition costs are reviewed annually for recoverability. Investment income is considered in the recoverability assessment. For short-duration insurance contracts, acquisition costs include commissions, underwriting expenses, and premium taxes and assessments. For long-duration insurance contracts, these costs include first year commissions in excess of annual renewal commissions and variable sales and underwriting expenses.

Goodwill

Goodwill assets were $4.877 billion and $4.758 billion as of September 30, 2016, and December 31, 2015, respectively. Goodwill is tested for impairment at least annually using either a qualitative or a quantitative process. Election of the approach can be made at the reporting unit level. The reporting unit has the option to skip the qualitative test and move directly to completion of the quantitative process. As of September 30, 2016, the Company's SBUs are deemed our reporting units.

The qualitative approach can be used to evaluate if there are any indicators of impairment. Through this process, the reporting unit must determine if there is indication that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill. If it is determined that there is an indication of potential impairment, the reporting unit must complete the quantitative process. The quantitative approach is a two-step process. The first step is performed to identify potential impairment and, if necessary, the second step is performed for the purpose of measuring the amount of impairment, if any. Impairment is recognized only if the carrying amount is not recoverable from the discounted cash flows using a "market" rate and is measured as the difference between the carrying amount and the implied

fair value. Other changes in the carrying amount of goodwill are primarily caused by foreign currency translation adjustments and acquisitions.

There were no goodwill impairments recognized as of September 30, 2016 and December 31, 2015, respectively.

Deferred Income Taxes

The net deferred tax liability was $296 million as of September 30, 2016, and the net deferred tax asset was $795 million as of December 31, 2015, net of a valuation allowance of $106 million and $106 million, respectively. The net decrease in the Company's net deferred income tax asset is primarily due to changes in net unrealized gains and losses on investments and the utilization of net operating losses. The valuation allowance balance remained unchanged due to the sale of foreign assets, offset by currency translation adjustments and net operating losses generated in certain foreign subsidiaries. Management believes it is more likely than not that the Company's net deferred income tax assets will be realized based upon the Company's ability and the likelihood of generating future taxable income.

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 net unrealized gains and losses on investments, insurance loss reserves, unearned premiums, deferred policy acquisition costs, employee benefits, net operating losses, intangibles, and fixed assets.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (amounts in millions):

Balance at December 31, 2015	$249
Additions based on tax positions related to current year	4
Additions for tax positions of prior years	28
Reductions for tax positions of prior years	(236)
Settlements	17
Translation	5
Balance at September 30, 2016	$67

Included in the tabular roll forward of unrecognized tax benefits is interest and penalties in the amount of $7 million and $34 million as of September 30, 2016 and December 31, 2015, respectively.

Included in the balance at September 30, 2016, is $38 million related to tax positions that would impact the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in Federal, state, and foreign income tax expense. For the three months ended September 30, 2016 and 2015, the Company recognized ($30) million and $2 million of interest and penalties in each period, respectively. For the nine months ended September 30, 2016 and 2015, the Company recognized ($28) million and $3 million of interest and penalties, respectively. The Company had $4 million and $31 million of interest and penalties accrued as of September 30, 2016 and December 31, 2015, respectively.

The IRS has completed its review of the Company's United States Federal income tax returns through the 2009 tax year and is currently reviewing income tax returns for the 2010 through 2014 tax years. Any adjustments that may result from the IRS examinations of these income tax returns are not expected to have a material impact on the financial position, liquidity, or results of operations of the Company.

The Company believes that the range of reasonably possible changes to the balance of unrecognized tax benefits could decrease by $0 to $10 million within the next twelve months as a result of potential settlements with the IRS for prior years.

Pension and Postretirement Benefit Obligations

The Company sponsors non-contributory defined benefit pension plans (the "Plans") covering substantially all U.S. and Canadian employees. The benefits and eligibility are based on age, years of service, and the employee's final average compensation, as more fully described in the Plans. Some foreign subsidiaries also sponsor defined benefit pension plans. In 2014, the Company added a new cash balance benefit formula for all eligible U.S. employees and froze credited service under the plan's final average pay formula.

The Company sponsors non-qualified supplemental pension plans for selected highly compensated employees to restore the pension benefits they would be entitled to under the Company's U.S. tax qualified, defined benefit pension plan had it not been for limits imposed by the Internal Revenue Code. The supplemental plans are unfunded.

The Company also provides certain postretirement healthcare and life insurance benefits covering substantially all U.S. and Canadian employees. In 2014, the Company's U.S. postretirement medical and dental cost sharing arrangement changed to a defined contribution model with an annual dollar contribution amount based on age and years of eligible credited service. Life insurance benefits are based on a participant's final compensation subject to the plan maximum. The postretirement plan is unfunded.

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. Prior to December 31, 2015, the process calculated the present value of these cash flows and determined the weighted average discount rate that produced the same present value of the future cash flows. The single effective discount rate was also used to determine the Service cost and Interest cost components of net periodic benefit cost. Effective December 31, 2015, 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 an immaterial impact in the third quarter of 2016.

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

About the Company

Boston-based LMHC, the parent corporation of the Liberty Mutual Insurance group of entities, is a diversified global insurer and fifth largest property and casualty insurer in the U.S. based on 2015 direct written premium. The Company also ranks 73rd on the Fortune 100 list of largest corporations in the U.S. based on 2015 revenue. As of December 31, 2015, LMHC had $121.665 billion in consolidated assets[1], $102.424 billion in consolidated liabilities[1], and $37.617 billion in annual consolidated revenue.

LMHC, through its subsidiaries and affiliated companies, offers a wide range of property-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.

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[1] Reflects the 2016 adoption of the Financial Accounting Standards Board issued Accounting Standards Update 2015-03, *Imputation of Interest* (ASC 835).