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

Year Ended December 31, 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 twelve months ended December 31, 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, 2016 Audited Consolidated Financial Statements and Fourth 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 Audited Consolidated Financial Statements.

Consolidated Results of Operations

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Net written premium ("NWP")	$8,615	$8,116	6.1%	$35,714	$34,533	3.4%
Pre-tax operating income ("PTOI") before partnerships, LLC and other equity method loss	468	661	(29.2)	1,672	2,026	(17.5)
Net operating income before partnerships, LLC and other equity method (loss) income	359	525	(31.6)	1,245	1,462	(14.8)
Partnerships, LLC and other equity method loss	(27)	(84)	(67.9)	(1)	(34)	(97.1)
Net realized losses	(77)	(46)	67.4	(127)	(24)	NM
Restructuring costs	(70)	-	NM	(70)	-	NM
Loss on extinguishment of debt	(67)	-	NM	(76)	(1)	NM
Consolidated net income from continuing operations	206	445	(53.7)	1,069	1,443	(25.9)
Discontinued operations, net of tax	-	-	-	-	(909)	(100.0)
Net income attributable to LMHC	$143	$411	(65.2%)	$1,006	$514	95.7%
Cash flow provided by continuing operations	$1,102	$890	23.8%	$3,017	$3,543	(14.8%)

NM = Not Meaningful

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2016	**2015**	**Change (Points)**	**2016**	**2015**	**Change (Points)**
Combined ratio before catastrophes[1], net incurred losses attributable to prior years[2], and current accident year re-estimation[3]	93.5%	94.7%	(1.2)	93.4%	94.6%	(1.2)
Combined ratio[4]	97.6%	95.9%	1.7	98.4%	97.8%	0.6

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

2 Net 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 nine months ended September 30, 2016 and current accident year loss and earned but not reported reserves for the nine months ended September 30, 2015.

4 The combined ratio, expressed as a percentage, is a measure of underwriting profitability. This measure should only be used in conjunction with, and not in lieu of, underwriting income and may not be comparable to other performance measures used by the Company's competitors. The combined ratio is computed as the sum of the following property and casualty ratios: the ratio of claims and claim adjustment expense less managed care income to earned premium; the ratio 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 asbestos and environmental and certain other run off. Restructuring costs are not included in the combined ratio.

$ in Millions	As of December 31, 2016	As of December 31, 2015	Change
Short-term debt	$-	$249	(100.0%)
Long-term debt	7,603	6,940	9.6
Total debt	$7,603	$7,189	5.8%
Unassigned equity	$21,670	$20,664	4.9%
Accumulated other comprehensive loss	(1,304)	(1,521)	(14.3)
Non-controlling interest	21	98	(78.6)
Total equity	$20,387	$19,241	6.0%

Subsequent Events

On January 5, 2017, the Company completed the sale of its 10 St. James and 75 Arlington properties. The sale resulted in a gain of $302 million, of which $188 million was deferred over the terms of the lease and $114 million was recognized in the Consolidated Statements of Income. The Company has entered into a sale lease back agreement which extends over 15 years resulting in a net lease obligation of $258 million.

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

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 restructuring related costs and the extinguishment of debt are not connected to the management of the insurance and underwriting aspects of the Company's business. Income taxes are significantly impacted by permanent differences and timing differences, whose related deferred tax assets/liabilities could be impacted by tax reform. References to NWP represent the amount of premium recorded for policies issued during a fiscal period including audits, retrospectively rated premium related to loss sensitive policies, and assumed premium, less ceded premium. Assumed and ceded reinsurance premiums include premium adjustments for reinstatement of coverage when a loss has used some portion of the reinsurance provided, generally under catastrophe treaties ("reinstatement premium"), and changes in estimated premium. In addition, the majority of workers compensation premium is adjusted to the "booked as billed" method through the Corporate and Other segment. The Company believes that NWP is a performance measure useful to investors as it generally reflects current trends in the Company's sale of its insurance products.

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

On December 20, 2016, the Company entered into a multi-year collateralized reinsurance transaction led by an unaffiliated Bermuda domiciled segregated cell company, Limestone Re Ltd. providing for approximately $160 million of reinsurance collateralized with investor capital and covering risks for U.S. property catastrophe, U.S. homeowners and London Market specialty insurance.

On December 5, 2016, the Company entered into an agreement to purchase Ironshore Inc. ("Ironshore") from Fosun International Ltd. Ironshore had $2.2 billion of gross written premium in 2015. The transaction is subject to regulatory approval and expected to close in the first half of 2017.

Effective September 30, 2016, the Company changed its definition of a catastrophe 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 Global Consumer Markets East | West. 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. The sale was completed on January 5, 2017. The sale resulted in a gain of $302 million, of which $188 million was deferred over the terms of the lease and $114 million was recognized in the Consolidated Statements of Income. The Company has entered into a sale lease back agreement which extends over 15 years resulting in a net lease obligation of $258 million.

On 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 this 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 Global Consumer Markets East | West, 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, Global Consumer Markets East and Global Consumer Markets West. All prior periods have been restated to reflect the new structure.

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.

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

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. Hughes Insurance has been reflected in the Consolidated Financial Statements since the second quarter of 2014.

The Company's three SBUs are as follows:

- Global Consumer Markets comprises two market segments: U.S. Consumer Markets and Global Consumer Markets East | West. These market segments comprise three operating regions: U.S. Consumer Markets, Global Consumer Markets East and Global Consumer Markets West.
    - U.S. Consumer Markets includes all domestic personal lines business. Products are distributed through multiple distribution channels, including employee sales representatives, telesales counselors, independent agents, third-party producers and the Internet.
    - Global Consumer Markets East | West sells property and casualty, health and life insurance products and services to individuals and businesses in two operating regions: West, including Brazil, Colombia, Chile, Ecuador, Spain, Portugal, and Ireland; and East,

including Thailand, Singapore, Hong Kong, Vietnam, Malaysia, India, China, Russia, and Turkey.

- Commercial Insurance offers a wide array of property and 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"). On December 5, 2016 the Company announced its purchase of Ironshore which is expected to close in the first half of 2017 and will be reported as part of Global Specialty.

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Private passenger automobile	$3,192	$2,985	6.9%	$12,788	$12,199	4.8%
Homeowners	1,452	1,416	2.5	6,129	5,949	3.0
Specialty insurance[1]	633	611	3.6	2,512	2,580	(2.6)
Commercial multiple-peril	507	500	1.4	2,104	2,069	1.7
Workers compensation – Voluntary	477	427	11.7	1,969	1,949	1.0
Workers compensation - Involuntary	14	34	(58.8)	77	107	(28.0)
Commercial automobile	463	417	11.0	1,849	1,700	8.8
Group disability and group life	404	356	13.5	1,634	1,429	14.3
General liability	381	364	4.7	1,540	1,504	2.4
Global specialty reinsurance	162	144	12.5	1,158	1,116	3.8
Surety	175	165	6.1	807	816	(1.1)
Commercial property	165	198	(16.7)	766	780	(1.8)
Individual life and A&H	136	120	13.3	503	552	(8.9)
Global specialty inland marine	122	118	3.4	498	451	10.4
Corporate reinsurance[2]	70	12	NM	240	258	(7.0)
Other[3]	262	249	5.2	1,140	1,074	6.1
Total NWP	$8,615	$8,116	6.1%	$35,714	$34,533	3.4%

1 Specialty insurance is reported within Global Specialty and includes marine, energy, construction, aviation, property, casualty, excess casualty, directors and officers, errors and omissions, environmental impairment liability, railroad, trade credit, excess and surplus property, crisis management, contingent lines and other.
2 NWP associated with internal reinsurance, net of corporate external placements.
3 Primarily includes NWP from allied lines and domestic inland marine.
NM = Not Meaningful

NWP for the three and twelve months ended December 31, 2016 was $8.615 billion and $35.714 billion, respectively, increases of $499 million and $1.181 billion over the same periods in 2015.

Significant changes by major line of business include:

- Private passenger automobile NWP (36% of total 2016 NWP) increased $207 million and $589 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 Global Consumer Markets East | West primarily driven by the aforementioned acquisition in Chile (January 2016). The quarter was further positively impacted by foreign exchange driven by the weakening of the U.S. dollar against the Brazilian Real. The increase in the year was partially offset by the strengthening of the U.S. dollar and the exit from the personal insurance market in Great Britain.
- Homeowners NWP (17% of total 2016 NWP) increased $36 million and $180 million in the quarter and year, respectively. The increases reflect rate, coverage increases, and growth in policies in-force in U.S. Consumer Markets.
- Specialty insurance NWP (7% of total 2016 NWP) increased $22 million and decreased $68 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.
- Workers compensation - Voluntary NWP (6% of total 2016 NWP) increased $50 million and $20 million in the quarter and year, respectively. Both periods reflect new and renewal business outpacing lost business in Commercial Insurance. The quarter was further impacted by the seasonality of the booked as billed adjustment in Corporate. The year was partially offset by a decrease in workers compensation audit and retrospective premium in Commercial Insurance.

- Commercial automobile NWP (5% of total 2016 NWP) increased $46 million and $149 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 (5% of total 2016 NWP) increased $48 million and $205 million in the quarter and year, respectively. The increases reflect strong new business sales.
- Corporate reinsurance NWP (1% of total 2016 NWP) increased $58 million and decreased $18 million in the quarter and year, respectively. The increase in the quarter reflects lower external reinsurance costs due to program changes and continued soft market conditions. The year reflects lower assumed NWP 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 December 31,			**Twelve Months Ended December 31,**		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Global Consumer Markets	$5,174	$4,893	5.7%	$21,071	$20,161	4.5%
U.S. Consumer Markets	4,254	4,079	4.3	17,536	16,807	4.3
Global Consumer Markets East | West	920	814	13.0	3,535	3,354	5.4
Commercial Insurance	2,278	2,180	4.5	9,349	9,077	3.0
Global Specialty	1,084	1,027	5.6	4,942	4,923	0.4
Corporate and Other	79	16	NM	352	372	(5.4)
Total NWP	$8,615	$8,116	6.1%	$35,714	$34,533	3.4%
Foreign exchange effect on NWP change			-			(0.6)
NWP change excluding foreign exchange[1]			6.1%			4.0%

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

Major drivers of NWP growth were as follows:

	Three Months Ended December 31,				Twelve Months Ended December 31,			
$ in Millions	2016	2015	$ Change	Points Attribution	2016	2015	$ Change	Points Attribution
Total NWP	$8,615	$8,116	$499	6.1	$35,714	$34,533	$1,181	3.4
Components of growth:								
Domestic personal automobile	2,620	2,487	133	1.6	10,614	10,097	517	1.4
Domestic homeowners	1,404	1,370	34	0.4	5,946	5,768	178	0.5
Global Consumer Markets East | West Local Business (ex foreign exchange)[1]	896	814	82	1.0	3,650	3,354	296	0.8
Specialty insurance (ex foreign exchange)[1]	650	611	39	0.5	2,567	2,580	(13)	-
Global specialty reinsurance (ex foreign exchange)[1]	166	144	22	0.3	1,183	1,116	67	0.2
Domestic workers compensation	462	433	29	0.4	1,932	1,943	(11)	-
Global specialty inland marine (ex foreign exchange)[1]	125	118	7	0.1	509	451	58	0.2
Domestic individual life and A&H	106	94	12	0.1	395	439	(44)	(0.1)
Domestic group disability and group life	361	315	46	0.6	1,448	1,240	208	0.6
Surety	175	165	10	0.1	807	816	(9)	-
Corporate reinsurance (ex foreign exchange)[1,2]	71	12	59	0.7	242	258	(16)	-
Foreign exchange[1]	(2)	-	(2)	-	(209)	-	(209)	(0.6)
Other lines	1,581	1,553	28	0.3	6,630	6,471	159	0.4
Total NWP	$8,615	$8,116	$499	6.1	$35,714	$34,533	$1,181	3.4

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 December 31,			Twelve Months Ended December 31,		
$ in Millions	2016	2015	Change	2016	2015	Change
U.S.	$7,149	$6,778	5.5%	$29,532	$28,484	3.7%
International[1]	1,466	1,338	9.6	6,182	6,049	2.2
Global Consumer Markets East | West	920	814	13.0	3,535	3,354	5.4
Global Specialty[1]	546	524	4.2	2,647	2,695	(1.8)
Total NWP	$8,615	$8,116	6.1%	$35,714	$34,533	3.4%

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 December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Net operating income before partnerships, LLC and other equity method (loss) income	$359	$525	(31.6%)	$1,245	$1,462	(14.8%)
Partnerships, LLC and other equity method (loss) income, net of tax	(20)	(54)	(63.0)	1	(7)	NM
Net realized losses, net of tax	(43)	(26)	65.4	(82)	(11)	NM
Restructuring costs, net of tax	(46)	-	NM	(46)	-	NM
Loss on extinguishment of debt, net of tax	(44)	-	NM	(49)	(1)	NM
Discontinued operations, net of tax	-	-	-	-	(909)	(100.0)
Less: Net income attributable to non-controlling interest, net of tax	63	34	85.3	63	20	NM
Net income attributable to LMHC	$143	$411	(65.2%)	$1,006	$514	95.7%

NM = Not Meaningful

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	$9,667	$9,335	3.6%	$38,308	$37,617	1.8%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method loss	$815	$750	8.7%	$3,308	$3,038	8.9%
Catastrophes[1]	(266)	(241)	10.4	(1,674)	(1,320)	26.8
Net incurred losses attributable to prior years:						
- Asbestos and environmental[2]	(100)	-	NM	(141)	(4)	NM
- All other[2,3,4]	67	137	(51.1)	179	312	(42.6)
Current accident year re-estimation[5]	(48)	15	NM	-	-	-
PTOI before partnerships, LLC and other equity method loss	468	661	(29.2)	1,672	2,026	(17.5)
Partnerships, LLC and other equity method loss [6]	(27)	(84)	(67.9)	(1)	(34)	(97.1)
PTOI	441	577	(23.6)	1,671	1,992	(16.1)
Net realized losses	(77)	(46)	67.4	(127)	(24)	NM
Restructuring costs	(70)	-	NM	(70)	-	NM
Loss on extinguishment of debt	(67)	-	NM	(76)	(1)	NM
Pre-tax income	227	531	(57.3)	1,398	1,967	(28.9)
Income tax expense	21	86	(75.6)	329	524	(37.2)
Consolidated net income from continuing operations	206	445	(53.7)	1,069	1,443	(25.9)
Discontinued operations, net of tax	-	-	-	-	(909)	(100.0)
Consolidated net income	206	445	(53.7)	1,069	534	100.2
Less: Net income attributable to non-controlling interest	63	34	85.3	63	20	NM
Net income attributable to LMHC	$143	$411	(65.2%)	$1,006	$514	95.7%
Cash flow provided by continuing operations	$1,102	$890	23.8%	$3,017	$3,543	(14.8%)

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 and environmental is gross of the related adverse development cover (the "NICO Reinsurance Transaction"), and All other includes all cessions related to the NICO Reinsurance Transaction, which is described further in "Reinsurance Recoverables".

3 The twelve months ended December 31, 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 ($6) million and ($13) million for the three and twelve months ended December 31, 2016 and $33 million and $38 million for the same periods in 2015.

5 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2016 and current accident year loss and earned but not reported reserves for the nine months ended September 30, 2015.

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

NM = Not Meaningful

PTOI before partnerships, LLC, and other equity method loss for the three and twelve months ended December 31, 2016 was $468 million and $1.672 billion, respectively, decreases of $193 million and $354 million from the same periods in 2015. Both periods reflect higher catastrophe losses, unfavorable asbestos and environmental development (NICO Reinsurance Transaction impact is described further in "Reinsurance Recoverables") and the impact of unfavorable domestic auto liability loss trends reflected in U.S. Consumer Markets and Commercial Insurance for both prior and current accident years. The comparison between years 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 Global Consumer Markets East | West and Corporate, improved current accident year losses across the casualty lines of business (excluding auto liability) 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 loss including operating losses from direct working interests for the three and twelve months ended December 31, 2016 was $27 million and $1 million, respectively, decreases of $57 million and $33 million from the same periods in 2015. Both periods reflect improved energy operations PTOI (reflects partnerships and direct investment in oil and gas wells). The quarter was further impacted by higher traditional private equity valuation gains in 2016 as compared to 2015. The year was partially offset by lower non-energy private equity valuation gains in 2016 as compared to 2015.

PTOI for the three and twelve months ended December 31, 2016 was $441 million and $1.671 billion, respectively, decreases of $136 million and $321 million from the same periods in 2015.

Revenues for the three and twelve months ended December 31, 2016 were $9.667 billion and $38.308 billion, respectively, increases of $332 million and $691 million over the same periods in 2015. The major components of revenues are net premium earned, net investment income, net realized losses, and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2016 was $8.865 billion and $34.835 billion, respectively, increases of $321 million and $951 million over the same periods in 2015. The increases primarily reflect the premium earned associated with the changes in NWP previously discussed. The year was further negatively impacted by the strengthening of the U.S. dollar against most currencies.

Net investment income for the three and twelve months ended December 31, 2016 was $620 million and $2.563 billion, respectively, an increase of $37 million and a decrease of $87 million versus the same periods in 2015. The increase in the quarter was primarily driven by more favorable valuations for traditional private equity investments in 2016 as compared to the same period in 2015 and a higher invested asset base, partially offset by lower bond yields. The decrease in the year was largely a result of lower bond yields and lower non-energy private equity valuation gains in 2016 as compared to 2015, partially offset by lower valuation decreases for energy LP, LLC and other equity method investments, and a higher invested asset base.

Net realized losses for the three and twelve months ended December 31, 2016 were $77 million and $127 million, respectively, increases of $31 million and $103 million over the same periods in 2015. Both quarters were negatively impacted by impairments, with the current quarter driven by impairments of direct investments in oil and gas wells and a natural resource equity investment, and the prior quarter driven by bond and equity impairments. On a year-to-date basis, both periods were negatively impacted by impairments of direct investments in oil and gas wells of $181 million in 2016 compared to $259 million in

2015. In addition, the net gains generated from 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 twelve months ended December 31, 2016 were $259 million and $1.037 billion, respectively, an increase of $5 million and a decrease of $70 million versus the same periods in 2015. The decrease in the year primarily reflects 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.

Claims, benefits and expenses for the three and twelve months ended December 31, 2016 were $9.303 billion and $36.764 billion, respectively, increases of $499 million and $1.115 billion over the same periods in 2015. The increases in both periods reflect business growth, higher catastrophe losses, unfavorable asbestos and environmental development, and the impact of unfavorable domestic auto liability loss trends. These increases were partially offset by favorable incurred losses attributable to prior years in Global Consumer Markets East | West and Corporate, improved current accident year losses across the casualty lines of business (excluding auto liability) in Commercial Insurance and lower employee pension expenses. The comparison between years was further impacted by a $91 million non-recurring reduction in an assessment liability in 2015, partially offset by lower expenses related to Liberty Energy in Corporate and the strengthening of the U.S. dollar.

Restructuring costs for both the three and twelve months ended December 31, 2016 were $70 million, versus zero for the same periods in 2015. The changes reflect estimated costs associated with planned organizational restructuring in 2017.

Loss on extinguishment of debt for the three and twelve months ended December 31, 2016 was $67 million and $76 million, respectively, increases of $67 million and $75 million over the same periods in 2015. During the three and twelve months ended December 31, 2016, the Company repurchased $108 million and $125 million, respectively, of the 10.75% Junior Subordinated notes due 2088 compared to repurchases of zero and $3 million for the same periods in 2015.

Income tax expense on continuing operations for the three and twelve months ended December 31, 2016 was $21 million and $329 million, respectively, decreases of $65 million and $195 million from the same periods in 2015. The Company's effective tax rate on continuing operations for the three and twelve months ended December 31, 2016 was 9% and 24%, respectively, compared to 16% and 27% for the same periods in 2015. The decrease in the effective tax rate on continuing operations from 2015 to 2016 is primarily due to lower pre-tax income. 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 twelve months ended December 31, 2016 was $206 million and $1.069 billion, respectively, decreases of $239 million and $374 million from the same periods in 2015.

Net operating income before partnerships, LLC and other equity method (loss) income for the three and twelve months ended December 31, 2016 was $359 million and $1.245 billion, respectively, decreases of $166 million and $217 million from the same periods in 2015.

Discontinued operations, net of tax for both the three and twelve months ended December 31, 2016 were zero, compared to zero and ($909) million for the same periods in 2015. The prior year reflects the Venezuelan operations deconsolidation.

Net income attributable to LMHC for the three and twelve months ended December 31, 2016 was $143 million and $1.006 billion, respectively, a decrease of $268 million and an increase of $492 million versus the same periods in 2015.

Cash flow provided by continuing operations for the three and twelve months ended December 31, 2016 was $1.102 billion and $3.017 billion, respectively, an increase of $212 million and a decrease of $526

million versus the same periods in 2015. The increase in the quarter reflects higher premium collections in Global Consumer Markets due to growth, lower LM Surety loss payments in Global Specialty, and favorable IRS audit settlements, partially offset by higher loss payments in U.S. Consumer Markets and higher underwriting expenses paid in Commercial Insurance. The decrease in the year reflects higher loss payments in U.S. Consumer Markets, higher underwriting expenses paid in Commercial Insurance, and higher pension contributions, partially offset by lower LM Surety loss payments in Global Specialty, favorable IRS audit settlements, and lower asbestos and environmental payments.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
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	62.7%	62.7%	-	62.7%	62.9%	(0.2)
Underwriting expense ratio	30.8	32.0	(1.2)	30.7	31.6	(0.9)
Dividend ratio	-	-	-	-	0.1	(0.1)
Subtotal	93.5	94.7	(1.2)	93.4	94.6	(1.2)
Catastrophes[1]	3.2	3.0	0.2	5.1	4.1	1.0
Net incurred losses attributable to prior years:						
- Asbestos and environmental	1.2	-	1.2	0.4	-	0.4
- All other[2,3]	(0.9)	(1.6)	0.7	(0.5)	(0.9)	0.4
Current accident year re-estimation[4]	0.6	(0.2)	0.8	-	-	-
Total combined ratio[5]	97.6%	95.9%	1.7	98.4%	97.8%	0.6

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 twelve months ended December 31, 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 nine months ended September 30, 2016 and current accident year loss and earned but not reported reserves for the nine months ended September 30, 2015.

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

The consolidated combined ratio before catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation for the three and twelve months ended December 31, 2016 was 93.5% and 93.4%, respectively, improvements of 1.2 points over the same periods in 2015. The claims and claim adjustment expense ratios reflect improved current accident year losses across the casualty lines of business (excluding auto liability) in Commercial Insurance, favorable LM Surety attritional losses and lower LIU US current accident year loss activity in Global Specialty. This was partially offset in the year and completely offset in the quarter by higher loss trends, particularly severity, in the auto lines of business in U.S. Consumer Markets and Commercial Insurance. The decreases in the underwriting expense ratio were primarily driven by lower employee pension expenses, lower centralized operating costs in Global Consumer Markets East | West, lower employee related costs in U.S. Consumer Markets, lower variable compensation expense in Commercial Insurance, and higher earned premium.

Including the impact of catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation, the total combined ratio for the three and twelve months ended December 31, 2016 was

97.6% and 98.4%, respectively, increases of 1.7 points and 0.6 points over the same periods in 2015. Both periods reflect higher catastrophe losses, unfavorable net incurred losses attributable to prior years in U.S. Consumer Markets and Commercial Insurance, and asbestos and environmental strengthening, partially offset by favorable net incurred losses attributable to prior years in Global Consumer Markets East | West and Corporate, and the decreases in the combined ratio previously discussed. The quarter was further impacted by current accident year re-estimation in Commercial Insurance and U.S. Consumer Markets. The comparison between years was further impacted by a non-recurring reduction in an assessment liability in 2015.

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 Global Consumer Markets East | West, 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, Global Consumer Markets East and Global 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 December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
U.S. Consumer Markets	$4,254	$4,079	4.3%	$17,536	$16,807	4.3%
Global Consumer Markets East | West	920	814	13.0	3,535	3,354	5.4
Total NWP	$5,174	$4,893	5.7%	$21,071	$20,161	4.5%

Results of Operations – Global Consumer Markets

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	$5,574	$5,273	5.7%	$21,741	$20,749	4.8%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$685	$621	10.3%	$2,508	$2,388	5.0%
Catastrophes[1]	(162)	(146)	11.0	(1,227)	(1,056)	16.2
Net incurred losses attributable to prior years	3	30	(90.0)	16	1	NM
Current accident year re-estimation[2]	(10)	-	NM	-	-	-
PTOI	$516	$505	2.2%	$1,297	$1,333	(2.7%)

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

2 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2016.

NM = Not Meaningful

GLOBAL CONSUMER MARKETS	Three Months Ended December 31, 2016	2015	Change (Points)	Twelve Months Ended December 31, 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	62.9%	62.9%	-	63.7%	63.2%	0.5
Underwriting expense ratio	27.5	28.6	(1.1)	27.8	28.5	(0.7)
Subtotal	90.4	91.5	(1.1)	91.5	91.7	(0.2)
Catastrophes[1]	3.1	2.9	0.2	6.0	5.4	0.6
Net incurred losses attributable to prior years	-	(0.6)	0.6	(0.1)	-	(0.1)
Current accident year re-estimation[2]	0.2	-	0.2	-	-	-
Total combined ratio	93.7%	93.8%	(0.1)	97.4%	97.1%	0.3

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

2 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2016.

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

U.S. CONSUMER MARKETS

Overview – U.S. Consumer Markets

U.S. Consumer Markets sells automobile, homeowners and other types of property and casualty insurance coverage to individuals in the United States. U.S. Consumer Markets' products are distributed through approximately 2,100 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 December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Private passenger automobile	$2,620	$2,487	5.3%	$10,614	$10,097	5.1%
Homeowners and other	1,634	1,592	2.6	6,922	6,710	3.2
Total NWP	$4,254	$4,079	4.3%	$17,536	$16,807	4.3%

NWP for the three and twelve months ended December 31, 2016 was $4.254 billion and $17.536 billion, respectively, increases of $175 million and $729 million over the same periods in 2015.

Private passenger automobile NWP for the three and twelve months ended December 31, 2016 was $2.620 billion and $10.614 billion, respectively, increases of $133 million and $517 million over the same periods in 2015. The growth reflects a 4.8% increase in weighted average written premiums (adjusted for changes in six and twelve month policy term mix) resulting from rate and model year increases, and growth in policies in-force of 1.5% for the twelve months ended December 31, 2016, partially offset by a decrease from policies that were converted from six to twelve month terms in late 2015 that did not recur. The increase in weighted average written premium reflects additional rate required to keep pace with industry loss cost trends.

Homeowners and other NWP for the three and twelve months ended December 31, 2016 was $1.634 billion and $6.922 billion, respectively, increases of $42 million and $212 million over the same periods in 2015. The growth reflects a 1.1% 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 December 31, 2016.

Results of Operations – U.S. Consumer Markets

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	$4,593	$4,363	5.3%	$17,920	$17,036	5.2%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$695	$612	13.6%	$2,517	$2,416	4.2%
Catastrophes[1]	(166)	(139)	19.4	(1,225)	(1,049)	16.8
Net incurred losses attributable to prior years	(26)	8	NM	(72)	(1)	NM
Current accident year re-estimation[2]	(10)	-	NM	-	-	-
PTOI	$493	$481	2.5%	$1,220	$1,366	(10.7%)

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

2 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2016.

NM = Not Meaningful

PTOI for the three and twelve months ended December 31, 2016 was $493 million and $1.220 billion, respectively, an increase of $12 million and a decrease of $146 million versus the same periods in 2015. The increase in the quarter reflects the profit margin on growth in earned premium, lower current accident year non-catastrophe homeowners losses and lower employee related costs, partially offset by unfavorable current and prior accident year loss trends in the auto liability line of business driven by an increase in severity, and higher catastrophe losses. The decrease in the year reflects the unfavorable loss trends in the auto liability line of business and an increase in catastrophe losses, partially offset by profit margin on growth in earned premium and lower employee related costs.

Revenues for the three and twelve months ended December 31, 2016 were $4.593 billion and $17.920 billion, respectively, increases of $230 million and $884 million over the same periods in 2015. The major components of revenues are net premium earned, net investment income, and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2016 was $4.395 billion and $17.146 billion, respectively, increases of $219 million and $852 million over the same periods in 2015. The increases reflect the premium earned associated with the changes in NWP previously discussed.

Net investment income for the three and twelve months ended December 31, 2016 was $158 million and $630 million, respectively, increases of $3 million and $14 million over the same periods in 2015.

Fee and other revenues for the three and twelve months ended December 31, 2016 were $40 million and $144 million, respectively, increases of $8 million and $18 million over the same periods in 2015.

Claims, benefits and expenses for the three and twelve months ended December 31, 2016 were $4.100 billion and $16.700 billion, respectively, increases of $218 million and $1.030 billion over the same periods in 2015. The increases reflect worsening loss trends in the auto liability line of business, higher catastrophe losses, and higher losses and expenses related to business growth.

U.S. CONSUMER MARKETS	Three Months Ended December 31, 2016	2015	Change (Points)	Twelve Months Ended December 31, 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	62.3%	62.5%	(0.2)	63.2%	62.8%	0.4
Underwriting expense ratio	24.6	26.0	(1.4)	25.1	25.6	(0.5)
Subtotal	86.9	88.5	(1.6)	88.3	88.4	(0.1)
Catastrophes[1]	3.8	3.3	0.5	7.1	6.4	0.7
Net incurred losses attributable to prior years	0.6	(0.2)	0.8	0.4	-	0.4
Current accident year re-estimation[2]	0.2	-	0.2	-	-	-
Total combined ratio	91.5%	91.6%	(0.1)	95.8%	94.8%	1.0

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

2 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2016.

The U.S. Consumer Markets combined ratio before catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation for the three and twelve months ended December 31, 2016 was 86.9% and 88.3%, respectively, decreases of 1.6 points and 0.1 points from the same periods in 2015. The decreases in both periods were driven by a lower underwriting expense ratio driven by earned premium growth and lower employee related costs. The decrease in the claims and claim adjustment expense ratio in the quarter is due to lower current accident year non-catastrophe homeowners losses, partially offset by higher severity trends in the auto liability line of business. The increase in the claims and claim adjustment expense ratio in the year primarily reflects higher severity trends in the auto liability line of business.

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 twelve months ended December 31, 2016 was 91.5% and 95.8%, respectively, a decrease of 0.1 points and an increase of 1.0 point versus the same periods in 2015. The decrease in the quarter was driven by changes in the underwriting expense ratio previously discussed, partially offset by unfavorable net incurred losses attributable to prior years in auto liability driven by higher severity trends, higher catastrophe losses and current accident year re-estimation. The increase in the year reflects higher catastrophe losses, unfavorable net incurred losses attributable to prior years in auto liability and the changes in the claims and claim adjustment expense ratio previously discussed, partially offset by changes in the underwriting expense ratio previously discussed.

GLOBAL CONSUMER MARKETS EAST | WEST

Overview – Global Consumer Markets East | West

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

Global Consumer Markets East | West, previously referred to as International Consumer Markets, was realigned effective in the first quarter of 2016. The realignment better positions Global Consumer Markets East | West for continued growth and improved profitability in an increasingly competitive global marketplace. The two operating regions that comprise Global Consumer Markets East | West 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 Global Consumer Markets East | West. 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.

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”).

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

	Three Months Ended December 31,				Twelve Months Ended December 31,			
$ in Millions	**2016**	**2015**	**Change**	**Change ex. foreign exchange[1]**	**2016**	**2015**	**Change**	**Change ex. foreign exchange[1]**
West	$685	$616	11.2%	6.8%	$2,644	$2,552	3.6%	6.6%
East	231	198	16.7	19.0	858	770	11.4	16.2
Other	4	-	NM	NM	33	32	3.1	7.0
Total NWP	$920	$814	13.0%	10.3%	$3,535	$3,354	5.4%	8.8%

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

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Private passenger automobile	$572	$498	14.9%	$2,174	$2,102	3.4%
Life and health	73	66	10.6	294	301	(2.3)
Commercial automobile	70	53	32.1	267	225	18.7
Homeowners	48	46	4.3	183	181	1.1
Commercial property	14	29	(51.7)	77	52	48.1
Other[1]	143	122	17.2	540	493	9.5
Total NWP	$920	$814	13.0%	$3,535	$3,354	5.4%

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 twelve months ended December 31, 2016 was $920 million and $3.535 billion, respectively, increases of $106 million and $181 million over the same periods in 2015. Both periods reflect the acquisition of Penta in Chile in January 2016, organic growth in Asia driven by China due to strong auto growth and an increase in the renewal of a large liability policy agreement, and business growth in auto and workers compensation in Portugal. 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 a decrease in Ireland due to re-underwriting, the exit from the personal insurance market in Great Britain and the significant negative impact of foreign exchange driven by the strengthening of the U.S. dollar against most currencies.

Results of Operations – Global Consumer Markets East | West

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	$981	$910	7.8%	$3,821	$3,713	2.9%
West and Other[1] PTOI before catastrophes and net incurred losses attributable to prior years	$3	$28	(89.3%)	$19	$3	NM
East[2] pre-tax operating loss before catastrophes and net incurred losses attributable to prior years	(13)	(19)	(31.6)	(28)	(31)	(9.7)
Catastrophes[3]	4	(7)	NM	(2)	(7)	(71.4)
Net incurred losses attributable to prior years	29	22	31.8	88	2	NM
Pre-tax operating income (loss)	$23	$24	(4.2%)	$77	($33)	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 twelve months ended December 31, 2016 was $23 million and $77 million, respectively, versus $24 million and ($33) million for the same periods in 2015. The changes in both periods were impacted by favorable net incurred losses attributable to prior years in Spain and Brazil, as well as favorable auto results associated with the Malaysian motor pool. Offsetting these items in the quarter was the negative impact of the release of a contingent liability in 2015 that did not recur in Ireland and increased auto losses in Chile. The year was further positively impacted by improved

earnings in Ireland as the prior year included higher costs and unfavorable net incurred losses that did not recur, favorable net incurred losses attributable to prior years in Ireland, Singapore, and Hong Kong, and lower centralized operating costs. These increases were partially offset by the strengthening of the U.S. dollar and increased auto and workers compensation losses in Colombia and employee related costs.

Revenues for the three and twelve months ended December 31, 2016 were $981 million and $3.821 billion, respectively, increases of $71 million and $108 million over the same periods in 2015. The major components of revenues are net premium earned, net investment income, net realized investment gains, and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2016 was $885 million and $3.450 billion, respectively, increases of $94 million and $122 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 the acquisition of Penta in Chile in January 2016, partially offset by a decrease in Ireland as a result of re-underwriting and the exit from the personal insurance market in Great Britain. The quarter was further positively impacted by the weakening of the U.S. dollar against the Brazilian Real. The year was further negatively impacted by the strengthening of the U.S. dollar against most currencies.

Net investment income for the three and twelve months ended December 31, 2016 was $68 million and $272 million, respectively, increases of $4 million and $21 million over the same periods in 2015. The increases were driven by an increased asset base primarily due to the Penta acquisition and Brazil.

Net realized gains for the three and twelve months ended December 31, 2016 were $3 million and $4 million, respectively, decreases of $24 million and $30 million from the same periods in 2015. Beginning in 2016, all investment related realized gains (losses) are being recognized in the Corporate and Other section. The non-investment realized gains related to sales of fixed assets within the operation.

Fee and other revenues for the three and twelve months ended December 31, 2016 were $25 million and $95 million, respectively, decreases of $3 million and $5 million from the same periods in 2015.

Claims, benefits and expenses for the three and twelve months ended December 31, 2016 were $955 million and $3.740 billion, respectively, increases of $96 million and $28 million over the same periods in 2015. Both periods were driven by the acquisition of Penta in Chile in January 2016, losses and expenses in China and Portugal associated with business growth, and increased auto losses in Portugal due to higher severity, partially offset by lower losses associated with business contraction in Ireland, lower costs in Ireland, and favorable incurred losses attributable to prior years in Spain and Brazil. The quarter was further negatively impacted by the weakening of the U.S. dollar against the Brazilian Real. The year was further negatively impacted by increased auto losses in Brazil, partially offset by significant strengthening of the U.S. dollar and favorable incurred losses attributable to prior years in Ireland, Singapore, and Hong Kong.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
GLOBAL CONSUMER MARKETS EAST | WEST	**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	66.4%	65.1%	1.3	66.1%	65.3%	0.8
Underwriting expense ratio	41.7	42.6	(0.9)	41.6	42.9	(1.3)
Subtotal	108.1	107.7	0.4	107.7	108.2	(0.5)
Catastrophes[1]	(0.4)	1.0	(1.4)	0.1	0.2	(0.1)
Net incurred losses attributable to prior years	(3.3)	(3.0)	(0.3)	(2.6)	(0.1)	(2.5)
Total combined ratio	104.4%	105.7%	(1.3)	105.2%	108.3%	(3.1)

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

The Global Consumer Markets East | West combined ratio before catastrophes and net incurred losses attributable to prior years for the three and twelve months ended December 31, 2016 was 108.1% and 107.7%, respectively, an increase of 0.4 points and a decrease of 0.5 points versus the same periods in 2015. The claims and claim adjustment expense ratio in both periods was negatively impacted by increased auto losses in Chile, and partially offset by favorable auto results associated with the Malaysian motor pool. The claims and claim adjustment expense ratio in the year was further negatively impacted by increased auto losses in Brazil and increased auto and workers compensation losses in Colombia, partially offset by lower losses in Ireland due to re-underwriting initiatives taken in 2015. 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 costs in 2015 and China due to premium growth.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and twelve months ended December 31, 2016 was 104.4% and 105.2%, respectively, decreases of 1.3 points and 3.1 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 Spain and Brazil. The quarter was further positively impacted by catastrophe losses reflecting favorable development related to the Ecuador earthquake, compared to 2015 which included catastrophe losses related to the U.K. severe storms. The year was further impacted by favorable net incurred losses attributable to prior years in Ireland, Singapore, and Hong Kong.

COMMERCIAL INSURANCE

Overview – Commercial Insurance

Commercial Insurance offers a wide array of property and 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 December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Business Insurance	$1,257	$1,252	0.4%	$5,223	$5,143	1.6%
National Insurance	522	469	11.3	2,138	2,091	2.2
Liberty Mutual Benefits	467	409	14.2	1,843	1,679	9.8
Other Commercial Insurance	32	50	(36.0)	145	164	(11.6)
Total NWP	$2,278	$2,180	4.5%	$9,349	$9,077	3.0%

Commercial Insurance NWP by line of business was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Commercial multiple-peril	$507	$500	1.4%	$2,104	$2,069	1.7%
Workers compensation - Voluntary	439	410	7.1	1,830	1,810	1.1
Workers compensation - Involuntary	14	34	(58.8)	77	107	(28.0)
Commercial automobile	393	364	8.0	1,582	1,475	7.3
Group disability and group life	361	315	14.6	1,448	1,240	16.8
General liability	307	294	4.4	1,224	1,209	1.2
Commercial property	151	169	(10.7)	689	728	(5.4)
Individual life and A&H	106	94	12.8	395	439	(10.0)
Total NWP	$2,278	$2,180	4.5%	$9,349	$9,077	3.0%

NWP for the three and twelve months ended December 31, 2016 was $2.278 billion and $9.349 billion, respectively, increases of $98 million and $272 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 growth in the casualty lines driven primarily by higher new business, higher retention and positive rate. The increases in both periods were partially offset by lower involuntary workers compensation premium due to a final prior year premium adjustment for the Tennessee Workers Compensation Insurance Plan in 2015 that did not recur and lower property premium due to continued competitive market pressures. The increase in the year was partially offset by a decrease in workers compensation audit and retrospective premium and lower life-contingent structured settlement sales.

Results of Operations – Commercial Insurance

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	$2,888	$2,814	2.6%	$11,355	$11,187	1.5%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$260	$249	4.4%	$1,115	$1,140	(2.2%)
Catastrophes[1]	(39)	(48)	(18.8)	(296)	(215)	37.7
Net incurred losses attributable to prior years[2,3]	(115)	47	NM	(143)	140	NM
Current accident year re-estimation[4]	(38)	15	NM	-	-	-
PTOI	$68	$263	(74.1%)	$676	$1,065	(36.5%)

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

2 Net of earned premium and reinstatement premium attributable to prior years of $3 million and ($6) million for the three and twelve months ended December 31, 2016 and $36 million and $39 million for the same periods in 2015.

3 The twelve months ended December 31, 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 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2016 and current accident year loss and earned but not reported reserves for the nine months ended September 30, 2015.

NM = Not Meaningful

PTOI for the three and twelve months ended December 31, 2016 was $68 million and $676 million, respectively, decreases of $195 million and $389 million from the same periods in 2015. Both periods reflect adverse prior year development in 2016 (due to higher auto liability loss trends) versus favorable prior year development in 2015 (primarily attributed to workers compensation, commercial multiple-peril, general liability and property lines of business, partially offset by auto liability), higher employee related costs, lower servicing carrier revenue and a favorable group disability reserve release in 2015 that did not recur. The decreases in both periods were partially offset by lower variable compensation expense. The decrease in the quarter was further driven by unfavorable current accident year re-estimation in 2016 (primarily attributed to auto liability) versus favorable current accident year re-estimation in 2015, partially offset by lower property losses. The decrease in the year was further driven by higher property losses, a reduction in the prior years' workers compensation state assessments liability in 2015 that did not recur, unfavorable individual life mortality experience and increased costs associated with investments in Liberty Mutual Benefits, partially offset by improved current accident year losses across the casualty lines of business, excluding auto liability.

Revenues for the three and twelve months ended December 31, 2016 were $2.888 billion and $11.355 billion, respectively, increases of $74 million and $168 million over the same periods in 2015. The major components of revenues are net premium earned, net investment income, net realized losses, and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2016 was $2.361 billion and $9.235 billion, respectively, increases of $61 million and $118 million over the same periods in 2015. The increases in both periods reflect the earned impact of the 2016 written premium growth previously mentioned, partially offset by an increase to earned but not reported premium in 2015 that did not recur. The year was further impacted by lower earnings associated with the property and casualty written premium decline experienced during the latter half of 2015.

Net investment income for the three and twelve months ended December 31, 2016 was $393 million and $1.553 billion, respectively, increases of zero and $2 million over the same periods in 2015. Both periods reflect a lower invested asset base in the property and casualty market segments, entirely offset in the quarter and more than offset in the year by higher invested assets in Liberty Mutual Benefits.

Net realized losses for both the three and twelve months ended December 31, 2016 were $4 million, decreases of $17 million and $31 million from the same periods in 2015. Both periods reflect higher technology impairments in 2015. 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 twelve months ended December 31, 2016 were $138 million and $571 million, respectively, a decrease of $4 million and an increase of $17 million versus the same periods in 2015. Both periods reflect lower commission revenue from servicing carrier operations, partially offset in the quarter and more than offset in the year by higher fees associated with individual life and group disability business.

Claims, benefits and expenses for the three and twelve months ended December 31, 2016 were $2.824 billion and $10.683 billion, respectively, increases of $252 million and $526 million over the same periods in 2015. The increases in both periods reflect adverse prior year development in 2016 versus favorable prior year development in 2015 as well as higher expenses driven by business growth and investments in Liberty Mutual Benefits. The increase in the quarter also reflects unfavorable current accident year re-estimation in 2016 versus favorable current accident year re-estimation in 2015. The increase in the year further reflects higher catastrophe and non-catastrophe property losses, partially offset by improved current accident year losses across the casualty lines, excluding auto liability.

	Three Months Ended December 31,			**Twelve Months Ended December 31,**		
			Change			**Change**
COMMERCIAL INSURANCE	**2016**	**2015**	**(Points)**	**2016**	**2015**	**(Points)**
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	63.4%	63.6%	(0.2)	62.0%	62.7%	(0.7)
Underwriting expense ratio	34.4	36.4	(2.0)	35.2	35.1	0.1
Dividend ratio	-	0.1	(0.1)	-	0.1	(0.1)
Subtotal	97.8	100.1	(2.3)	97.2	97.9	(0.7)
Catastrophes[1]	2.1	2.6	(0.5)	4.0	2.9	1.1
Net incurred losses attributable to prior years[2,3]	5.7	(2.6)	8.3	1.8	(1.9)	3.7
Current accident year re-estimation[4]	2.0	(0.8)	2.8	-	-	-
Total combined ratio	107.6%	99.3%	8.3	103.0%	98.9%	4.1

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 of earned premium and reinstatement premium attributable to prior years.
3 The twelve months ended December 31, 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 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2016 and current accident year loss and earned but not reported reserves for the nine months ended September 30, 2015.

The Commercial Insurance combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three and twelve months ended December 31, 2016 was 97.8% and 97.2%, respectively, decreases of 2.3 points and 0.7 points from the same periods in 2015. The decreases in both periods reflect lower variable compensation expense, partially offset in the quarter and more than offset in the year by higher employee related costs and lower servicing carrier revenue. The decrease in the quarter was further impacted by property and casualty earned premium growth and lower non-catastrophe property losses. The decrease in the year was further impacted by improved current

accident year losses across the casualty lines of business, excluding auto liability, partially offset by higher non-catastrophe property losses.

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 twelve months ended December 31, 2016 was 107.6% and 103.0%, respectively, increases of 8.3 points and 4.1 points over the same periods in 2015. The combined ratio decreases previously mentioned were entirely offset in both periods by adverse prior year development in 2016 (due to higher auto liability loss trends) versus favorable prior year development in 2015 (primarily attributed to workers compensation, commercial multiple-peril, general liability and property lines of business, partially offset by auto liability). The quarter was further impacted by unfavorable current accident year re-estimation in 2016 (primarily attributed to auto liability) versus favorable current accident year re-estimation in 2015, partially offset by lower catastrophes. The year was further impacted by higher catastrophes and a reduction in the prior years' workers compensation state assessments liability 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 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 December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
LSM	$478	$477	0.2%	$2,577	$2,614	(1.4%)
LIU	401	359	11.7	1,455	1,381	5.4
LM Surety	164	151	8.6	758	761	(0.4)
Other	41	40	2.5	152	167	(9.0)
Total NWP	$1,084	$1,027	5.6%	$4,942	$4,923	0.4%
Foreign exchange effect on growth			(2.4)			(1.8)
NWP growth excluding foreign exchange[1]			8.0%			2.2%

1 Determined by assuming constant foreign exchange rates between periods.

Global Specialty's major product lines are as follows:

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

Global Specialty NWP by line of business was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Specialty insurance	$633	$611	3.6%	$2,512	$2,580	(2.6%)
Reinsurance	162	144	12.5	1,158	1,116	3.8
Surety	167	154	8.4	774	776	(0.3)
Inland marine	122	118	3.4	498	451	10.4
Total NWP	$1,084	$1,027	5.6%	$4,942	$4,923	0.4%

NWP for the three and twelve months ended December 31, 2016 was $1.084 billion and $4.942 billion, respectively, increases of $57 million and $19 million over the same periods in 2015. Both periods reflect inland marine growth as well as favorable LSM ultimate premium adjustments within specialty insurance and reinsurance, partially offset by the impact of foreign exchange due to the strengthening of the U.S. dollar. The increase in the year was further driven by reinsurance growth, partially offset by re-underwriting and pricing actions for selective products in specialty insurance and competitive market conditions across most lines. The change in the quarter was further impacted by favorable economic conditions within LM Surety as well as timing of premium within specialty.

Results of Operations – Global Specialty

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	$1,261	$1,287	(2.0%)	$5,085	$5,227	(2.7%)
PTOI before catastrophes and net incurred losses attributable to prior years	$163	$122	33.6%	$625	$538	16.2%
Catastrophes [1]	(67)	(51)	31.4	(147)	(72)	104.2
Net incurred losses attributable to prior years [2]	34	51	(33.3)	127	137	(7.3)
PTOI	$130	$122	6.6%	$605	$603	0.3%

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

2 Net of earned premium and reinstatement premium attributable to prior years of ($9) million and ($7) million for the three months and twelve months ended December 31, 2016 and ($3) million and ($1) million for the same periods in 2015.

PTOI for the three and twelve months ended December 31, 2016 was $130 million and $605 million, respectively, increases of $8 million and $2 million over the same periods in 2015. The increases in both periods reflect lower LM Surety attritional losses and lower LIU US current accident year loss activity, partially offset by higher catastrophe losses and lower favorable incurred losses attributable to prior years.

Revenues for the three and twelve months ended December 31, 2016 were $1.261 billion and $5.085 billion, respectively, decreases of $26 million and $142 million from the same periods in 2015. The major components of revenues are net premium earned, net investment income, net realized (losses) gains, and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2016 was $1.173 billion and $4.733 billion, respectively, decreases of $28 million and $132 million from the same periods in 2015. The decreases in both periods reflect higher writings in prior years as well as business mix primarily within LM Surety and LSM.

Net investment income for the three and twelve months ended December 31, 2016 was $87 million and $341 million, respectively, decreases of $3 million and $1 million from the same periods in 2015.

Net realized (losses) gains for both the three and twelve months ended December 31, 2016 were zero, versus ($7) million and $2 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.

Fee and other revenues for the three and twelve months ended December 31, 2016 were $1 million and $11 million, respectively, decreases of $2 million and $7 million from the same periods in 2015.

Claims, benefits and expenses for the three and twelve months ended December 31, 2016 were $1.131 billion and $4.480 billion, respectively, decreases of $41 million and $142 million from the same periods in 2015. The decreases in both periods reflect lower LM Surety attritional losses, lower LIU US current accident year loss activity and lower current accident year loss activity in line with the previously mentioned reduction in premium. This was partially offset by higher catastrophe losses and lower favorable incurred losses attributable to prior years.

GLOBAL SPECIALTY	Three Months Ended December 31,			Twelve Months Ended December 31,		
	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	56.1%	60.4%	(4.3)	58.2%	60.7%	(2.5)
Underwriting expense ratio	36.7	35.7	1.0	35.1	34.5	0.6
Dividend ratio	0.2	0.2	-	0.2	0.2	-
Subtotal	93.0	96.3	(3.3)	93.5	95.4	(1.9)
Catastrophes [1]	5.7	4.2	1.5	3.2	1.5	1.7
Net incurred losses attributable to prior years[2]	(3.0)	(4.2)	1.2	(2.8)	(2.9)	0.1
Total combined ratio	95.7%	96.3%	(0.6)	93.9%	94.0%	(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 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 twelve months ended December 31, 2016 was 93.0% and 93.5%, respectively, decreases of 3.3 points and 1.9 points from the same periods in 2015. For both periods, the decreases in the claims and claim adjustment expense ratio reflect lower LM Surety attritional losses and lower LIU US current accident year loss activity. For both periods, the increase in the underwriting expense ratio reflects the impact of lower earned premium primarily within LIU US and LSM.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three and twelve months ended December 31, 2016 was 95.7% and 93.9%, respectively, decreases of 0.6 points and 0.1 points from 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 and lower favorable net incurred losses attributable to prior years.

CORPORATE AND OTHER

Overview – Corporate and Other

Corporate and Other includes the following significant items:

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

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

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

- Interest expense on the Company's outstanding debt.

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

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

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

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

- 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 Global Consumer Markets East | West. All prior periods have been adjusted to reflect this change.

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Reinsurance, net	$70	$12	NM	$240	$258	(7.0%)
Workers compensation - Voluntary[1]	8	(12)	NM	21	22	(4.5)
Other[2]	1	16	(93.8)	91	92	(1.1)
Total NWP	$79	$16	NM	$352	$372	(5.4%)

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

NWP for the three and twelve months ended December 31, 2016 was $79 million and $352 million, respectively, an increase of $63 million and a decrease of $20 million versus the same periods in 2015. The increase in the quarter reflects lower external reinsurance costs due to program changes and continued soft market conditions, and seasonality of the book as billed adjustment, partially offset by results from the Polish operation. The year reflects 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 December 31,			Twelve Months Ended December 31,		
$ in Millions	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Revenues	($56)	($39)	43.6%	$127	$454	(72.0%)
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method loss	($293)	($242)	21.1%	($940)	($1,028)	(8.6%)
Catastrophes[1]	2	4	(50.0)	(4)	23	NM
Net incurred losses attributable to prior years:						
- Asbestos and environmental[2]	(100)	-	NM	(141)	(4)	NM
- All other[2,3]	145	9	NM	179	34	NM
Pre-tax operating loss before partnerships, LLC and other equity method loss	(246)	(229)	7.4	(906)	(975)	(7.1)
Partnerships, LLC and other equity method loss[4]	(27)	(84)	(67.9)	(1)	(34)	(97.1)
Pre-tax operating loss	($273)	($313)	(12.8%)	($907)	($1,009)	(10.1%)

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 Asbestos and environmental is gross of the NICO Reinsurance Transaction, and All other includes all cessions related to the NICO Reinsurance Transaction, which is described further in "Reinsurance Recoverables".
3 Net of earned premium attributable to prior years of zero for the three and twelve months ended December 31, 2016 and 2015.
4 Partnerships, LLC and other equity method loss includes LP, LLC and other equity method loss within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from the production and sale of oil and gas.
NM = Not Meaningful

Pre-tax operating loss for the three and twelve months ended December 31, 2016 was $273 million and $907 million, respectively, decreases of $40 million and $102 million from the same periods in 2015. The decreases in both periods reflect lower partnerships, LLC, and other equity method losses in 2016 versus the prior year, lower employee pension expenses, and favorable net incurred losses attributable to prior years in the reinsurance segment and internal discontinued operations. The decreases were partially offset by unfavorable asbestos and environmental development (NICO Reinsurance Transaction impact described further in "Reinsurance Recoverables") and lower net investment income excluding partnerships, LLC, and other equity method investments. The quarter was further negatively impacted by higher current accident

year losses within the reinsurance segment. The year also reflects the write off of certain prepaid assets in 2015 that did not recur and a reduction in legal reserves.

Revenues for the three and twelve months ended December 31, 2016 were ($56) million and $127 million, respectively, versus ($39) million and $454 million for the same periods in 2015. The major components of revenues are net premium earned, net investment loss (including LP, LLC and other equity method investments), net realized losses, and fee and other revenues.

Net premium earned for the three and twelve months ended December 31, 2016 was $51 million and $271 million, respectively, decreases of $25 million and $9 million from the same periods in 2015. Both periods reflect decreases driven by the results from the Polish operation.

Net investment loss for the three and twelve months ended December 31, 2016 was $86 million and $233 million, respectively, a decrease of $33 million and an increase of $123 million versus the same periods in 2015. The decrease in the quarter was primarily driven by more favorable valuations for traditional private equity investments in 2016 as compared to the same period in 2015 and a higher invested asset base, partially offset by lower bond yields. The increase in the year was largely a result of lower bond yields and lower non-energy private equity valuation gains in 2016 as compared to 2015, partially offset by lower valuation decreases for energy LP, LLC and other equity method investments, and a higher invested asset base.

Net realized losses for the three and twelve months ended December 31, 2016 were $76 million and $127 million, respectively, increases of $31 million and $102 million over the same periods in 2015. Both quarters were negatively impacted by impairments, with the current quarter driven by impairments of direct investments in oil and gas wells and a natural resource equity investment, and the prior quarter driven by bond and equity impairments. On a year-to-date basis, both periods were negatively impacted by impairments of direct investments in oil and gas wells of $181 million in 2016 compared to $259 million in 2015. In addition, the net gains generated from 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 twelve months ended December 31, 2016 were $55 million and $216 million, respectively, an increase of $6 million and a decrease of $93 million versus the same periods in 2015. The decrease in the year was primarily driven by lower oil and gas revenues as a result of lower production.

Claims, benefits and expenses for the three and twelve months ended December 31, 2016 were $293 million and $1.161 billion, respectively, decreases of $26 million and $327 million from the same periods in 2015. Both periods reflect unfavorable asbestos and environmental development, more than offset by lower employee pension expenses and favorable incurred losses attributable to prior years in the reinsurance segment and internal discontinued operations. The quarter was further negatively impacted by higher current accident year losses within the reinsurance segment. The year was further impacted by lower expenses related to Liberty Energy as a result of lower production, the write-off of certain prepaid assets in 2015 that did not recur, and a reduction in legal reserves.

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 December 31, 2016 and December 31, 2015:

$ in Millions	**As of December 31, 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	$64,700	79.2%	$62,794	80.3%
Equity securities, available for sale, at fair value	2,576	3.2	2,909	3.7
LP, LLC and other equity method investments	5,316	6.5	5,023	6.4
Commercial mortgage loans	2,582	3.2	2,317	3.0
Short-term investments	1,147	1.4	272	0.3
Other investments	709	0.9	668	0.9
Cash and cash equivalents	4,608	5.6	4,227	5.4
Total invested assets	$81,638	100.0%	$78,210	100.0%

Total invested assets as of December 31, 2016 were $81.638 billion, an increase of $3.428 billion or 4.4% over December 31, 2015. The increase primarily reflects increases in cash from financing and operations as well as the favorable impact of tightening credit spreads.

Fixed maturities as of December 31, 2016 were $64.700 billion, an increase of $1.906 billion or 3.0% over December 31, 2015. The increase reflects the investment of cash flows from financing and operations, and favorable impact of tightening credit spreads, partially offset by the increase in treasury rates and purchases of fixed maturities driven by the reinvestment of proceeds generated by sales of equity securities. As of December 31, 2016, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost and fair value of $302 million, and various corporate and municipal securities at a cost of $17 million and fair value of $18 million.

Equity securities as of December 31, 2016 were $2.576 billion ($2.239 billion common stock and $337 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 $333 million or 11.4% from December 31, 2015. Of the

$2.239 billion of common stock at December 31, 2016, $538 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 December 31, 2016 were $5.316 billion, an increase of $293 million or 5.8% over December 31, 2015. The increase primarily reflects net contributions and valuation changes. These investments consist of traditional private equity partnerships of $3.034 billion, natural resources partnerships of $514 million ($384 million related to energy investments), real estate partnerships of $713 million, other partnerships of $891 million, and other equity method investments of $164 million ($162 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 December 31, 2016 were $2.582 billion (net of $8 million of loan loss reserves or 0.31% of the outstanding loan portfolio), an increase of $265 million or 11.4% over December 31, 2015. The increase primarily reflects $485 million in funding and a decrease of $3 million to the loan loss reserve, partially offset by $223 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 4,856 at December 31, 2016.

Short-term investments as of December 31, 2016 were $1.147 billion, an increase of $875 million over December 31, 2015. The increase was primarily related to purchases of commercial paper to take advantage of favorable yields.

Other investments as of December 31, 2016 were $709 million, an increase of $41 million or 6.1% 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 December 31, 2016 were $4.608 billion, an increase of $381 million or 9.0% over December 31, 2015. The increase was primarily related to increases in cash from financing and operations.

Regarding fair value measurements, as of December 31, 2016, excluding other assets, the Company reflected $4.768 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 December 31, 2016, the Company reported $63.313 billion (91.7%) as level 2, consisting primarily of fixed maturity securities. Finally, the Company reported $945 million (1.4%) as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

As of December 31, 2016, the Company had unfunded commitments in traditional private equity partnerships, natural resources, real estate, and other of $1.698 billion, $653 million (of which $652 million is related to energy investments), $746 million, and $541 million, respectively. The $652 million unfunded energy investment commitments as of December 31, 2016 included $563 million related to natural resource partnerships and $89 million related to direct investments in oil and gas wells. Energy commitments declined $286 million in the quarter, primarily due to a net decrease of $275 million related to direct investments in oil and gas wells. Year-to-date, energy commitments have declined $2.358 billion.

As of December 31, 2016, no single issuer, excluding U.S. Treasuries, agency securities and mortgage-backed securities, accounted for more than 0.9% of invested assets. As of December 31, 2016, investments in the energy sector accounted for $3.189 billion or 3.9% of total invested assets. These investments consist of investment grade bonds of $2.271 billion, bonds that were rated below investment grade of $333 million, publicly traded equity securities of $199 million, and natural resources partnerships and other equity

method investments of $386 million. In addition, the Company has direct investments in oil and gas wells of $1.188 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 December 31, 2016 and December 31, 2015:

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

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 December 31, 2016:

$ in Millions	**As of December 31, 2016**							
Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	**AAA**	**AA**	**A**	**BBB**	**BB**	**B or Lower**	**Total**	**% of Total**
SBA loans	$1,929	$-	$-	$-	$-	$-	$1,929	17.1%
GNMA residential mortgage	2,383	-	-	-	-	-	2,383	21.1
FNMA residential mortgage	2,235	1	-	-	-	-	2,236	19.8
FHLMC residential mortgage	1,818	-	-	-	-	-	1,818	16.1
Non-agency residential mortgage	28	3	-	3	9	171	214	1.8
Commercial MBS	1,582	72	5	19	-	-	1,678	14.8
Non-mortgage ABS	579	31	77	355	2	7	1,051	9.3
Total	$10,554	$107	$82	$377	$11	$178	$11,309	100.0%
% of Total	93.3%	1.0%	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 93% 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 December 31, 2016 and December 31, 2015:

$ in Millions	**As of December 31, 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	$1,954	13.7%	AA	$2,078	14.7%	AA
Local general obligation	1,430	10.0	AA	1,188	8.4	AA
Revenue	9,818	68.7	AA	9,173	64.7	AA
Pre-refunded	1,080	7.6	AAA	1,726	12.2	AAA
Total U.S. state and municipal	$14,282	100.0%	AA	$14,165	100.0%	AA

The Company's fixed maturity investment portfolio at December 31, 2016 and December 31, 2015 included $14.282 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 (taxable and tax-exempt) includes general obligation and revenue bonds issued by states, cities, counties, school districts, hospitals, educational institutions, and similar issuers. Included in the municipal bond portfolio at December 31, 2016 and December 31, 2015 were $1.080 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 December 31, 2016 and December 31, 2015:

$ in Millions	As of December 31, 2016		As of December 31, 2015	
Fixed Maturities by Credit Quality[1]	Fair Value	% of Total	Fair Value	% of Total
AAA	$18,057	27.9%	$19,777	31.5%
AA+, AA, AA-	12,563	19.4	11,459	18.2
A+, A, A-	15,336	23.7	14,620	23.3
BBB+, BBB, BBB-	14,530	22.5	13,474	21.5
Total investment grade	60,486	93.5	59,330	94.5
BB+, BB, BB-	2,358	3.6	1,585	2.5
B+, B, B-	1,483	2.3	1,448	2.3
CCC or lower	373	0.6	431	0.7
Total below-investment grade	4,214	6.5	3,464	5.5
Total fixed maturities	$64,700	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 December 31, 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 December 31, 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 December 31, 2016.

The following table summarizes available for sale fixed maturity securities by contractual maturity at December 31, 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 December 31, 2016		As of December 31, 2015	
Fixed Maturities by Maturity Date	Fair Value	% of Total	Fair Value	% of Total
One year or less	$3,323	5.1%	$3,515	5.6%
Over one year through five years	17,696	27.4	16,298	26.0
Over five years through ten years	17,341	26.8	17,255	27.5
Over ten years	15,031	23.2	13,657	21.7
MBS and ABS	11,309	17.5	12,069	19.2
Total fixed maturities	$64,700	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 twelve months ended December 31, 2016 and 2015:

$ in Millions	Three Months Ended December 31,		Twelve Months Ended December 31,	
Net Investment Income	**2016**	**2015**	**2016**	**2015**
Taxable interest income	$524	$521	$2,088	$2,080
Tax-exempt interest income	71	87	306	374
Dividends	13	16	55	65
LP, LLC and other equity method income (loss)	18	(37)	143	153
Commercial mortgage loans	30	29	118	112
Other investment income	4	7	22	26
Gross investment income	660	623	2,732	2,810
Investment expenses[1]	(40)	(40)	(169)	(160)
Net investment income	$620	$583	$2,563	$2,650

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

Net investment income for the three and twelve months ended December 31, 2016 was $620 million and $2.563 billion, respectively, an increase of $37 million and a decrease of $87 million versus the same periods in 2015, respectively. The increase in the quarter was primarily driven by more favorable valuations for traditional private equity investments in 2016 as compared to the same period in 2015 and a higher invested asset base, partially offset by lower bond yields. The decrease in the year was largely a result of lower bond yields and lower non-energy private equity valuation gains in 2016 as compared to 2015, partially offset by lower valuation decreases for energy LP, LLC and other equity method investments, and a higher invested asset base.

Net Realized (Losses)

The following tables summarize the Company's net realized (losses) for the three and twelve months ended December 31, 2016 and 2015:

$ in Millions Net Realized (Losses)	Sales & Dispositions	Impairments	Change in Derivatives Value	Total
Three Months Ended December 31, 2016:				
Fixed maturities	$29	($8)	$-	$21
Equities	22	(82)	-	(60)
Other	(14)	(75)	51	(38)
Total	$37	($165)	$51	($77)
Three Months Ended December 31, 2015:				
Fixed maturities	($20)	($43)	$-	($63)
Equities	34	(19)	-	15
Other	(4)	(11)	17	2
Total	$10	($73)	$17	($46)

$ in Millions Net Realized (Losses)	Sales & Dispositions	Impairments	Change in Derivatives Value	Total
Twelve Months Ended December 31, 2016:				
Fixed maturities	$124	($32)	$-	$92
Equities	60	(124)	-	(64)
Other	19	(212)	38	(155)
Total	$203	($368)	$38	($127)
Twelve Months Ended December 31, 2015:				
Fixed maturities	$107	($62)	$-	$45
Equities	259	(48)	-	211
Other	(13)	(300)	33	(280)
Total	$353	($410)	$33	($24)

$ in Millions	Three Months Ended December 31,		Twelve Months Ended December 31,	
Components of Net Realized (Losses)	2016	2015	2016	2015
Fixed maturities:				
Gross realized gains	$63	$25	$238	$180
Gross realized losses	(42)	(88)	(146)	(135)
Equities:				
Gross realized gains	32	66	193	342
Gross realized losses	(92)	(51)	(257)	(131)
Other:				
Gross realized gains	52	21	126	67
Gross realized losses	(90)	(19)	(281)	(347)
Total net realized gains (losses)	($77)	($46)	($127)	($24)

Net realized losses for the three and twelve months ended December 31, 2016 were $77 million and $127 million, respectively, increases of $31 million and $103 million over the same periods in 2015. Both quarters were negatively impacted by impairments, with the current quarter driven by impairments of direct investments in oil and gas wells and a natural resource equity investment, and the prior quarter driven by bond and equity impairments. On a year-to-date basis, both periods were negatively impacted by impairments of direct investments in oil and gas wells of $181 million in 2016 compared to $259 million in 2015. In addition, the net gains generated from equity sales were lower in 2016 compared to the prior year due to a portfolio realignment in 2015.

The following tables summarize the Company's gross unrealized losses and fair value of fixed income and equity securities by the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2016 and December 31, 2015 that are not deemed to be other-than-temporarily impaired:

$ in Millions December 31, 2016	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	($28)	$1,774	($1)	$6
Residential MBS	(49)	3,135	(1)	34
Commercial MBS	(6)	639	-	8
Other MBS and ABS	(18)	1,499	(5)	155
U.S. state and municipal	(188)	4,491	(6)	66
Corporate and other	(178)	7,878	(55)	840
Foreign government securities	(30)	1,425	(4)	263
Total fixed maturities	(497)	20,841	(72)	1,372
Common stock	(14)	187	(17)	164
Preferred stock	(1)	17	(40)	241
Total equity securities	(15)	204	(57)	405
Total securities available for sale	($512)	$21,045	($129)	$1,777

$ in Millions December 31, 2015	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	($8)	$1,304	($4)	$245
Residential MBS	(21)	2,445	(8)	364
Commercial MBS	(13)	737	(3)	122
Other MBS and ABS	(11)	1,280	(4)	166
U.S. state and municipal	(47)	1,647	(7)	142
Corporate and other	(510)	10,543	(184)	1,027
Foreign government securities	(22)	911	(15)	298
Total fixed maturities	(632)	18,867	(225)	2,364
Common stock	(98)	653	(12)	33
Preferred stock	(1)	4	(53)	254
Total equity securities	(99)	657	(65)	287
Total securities available for sale	($731)	$19,524	($290)	$2,651

Unrealized losses decreased from $1.021 billion as of December 31, 2015 to $641 million as of December 31, 2016 primarily due to tightening credit spreads. Unrealized losses less than 12 months decreased from $731 million at December 31, 2015 to $512 million as of December 31, 2016. Unrealized losses 12 months or longer decreased from $290 million as of December 31, 2015 to $129 million as of December 31, 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 December 31, 2016, there were 985 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 December 31, 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 December 31, 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 December 31, 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 December 31, 2016 (including cash and cash equivalents) totaled $81.638 billion.

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

Current maturities of long-term debt:

$ in Millions	**As of December 31, 2016**	**As of December 31, 2015**
Current maturities of long-term debt[1]	$ -	$ 249

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

Long-term debt:

$ in Millions	As of December 31, 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	791	-
7.875% Surplus notes, due 2026	227	227
7.625% Notes, due 2028	3	3
3.91% - 4.25% Federal Home Loan Bank Borrowings, due 2032	300	300
7.00% Notes, due 2034	231	231
6.50% Notes, due 2035	471	471
7.50% Notes, due 2036	19	19
7.80% Junior Subordinated notes, due 2087[2]	700	700
10.75% Junior Subordinated notes, due 2088[3]	68	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	7,660	6,994
Unamortized discount	(15)	(12)
Long-term debt excluding unamortized debt issuance costs	7,645	6,982
Unamortized debt issuance costs	(42)	(42)
Total long-term debt	$7,603	$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 twelve months ended December 31, 2016, the Company repurchased $108 million and $125 million, respectively, of the 10.75% Junior Subordinated notes due 2088 compared to repurchases of zero and $3 million for the same periods in 2015. Pre-tax losses of $67 million and $76 million were recorded on these transactions for the three and twelve months ended December 31, 2016, respectively, compared to pre-tax losses of zero and $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 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 December 31, 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 December 31, 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 twelve months ended December 31, 2016 was $110 million and $445 million, respectively, increases of $1 million and $7 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 December 31, 2016, the Company, through its downstream subsidiary LMGI, had $6.730 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, 2016) and 2017 available dividend capacity prior to needing regulatory approval for LMIC, LMFIC and EICOW were as follows:

$ in Millions	RBC Ratio[1]		Dividend Capacity[2]	Dividends Paid[3]
RBC Ratios and Dividend Capacity	**2016**	**2015**	**2017**	**2016**
LMIC	487%	497%	$1,612	$68
LMFIC	502%	518%	$147	$15
EICOW	507%	512%	$158	$-

[1] Authorized control level risk-based capital as defined by the NAIC.
[2] Represents the estimated maximum allowable dividend without prior regulatory approval in the state of domicile.
[3] Dividends paid represent amounts paid during the twelve months ended December 31, 2016. Available dividend capacity as of December 31, 2016 is calculated as 2017 dividend capacity less dividends paid for the preceding 12 months.

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 twelve months ended December 31, 2016, LCS recorded $82 million and $312 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 $19.582 billion and $18.687 billion as of December 31, 2016 and December 31, 2015, respectively. The increase in surplus primarily reflects net income of $823 million (the sum of earnings & losses from the Company's 56 domestic property and casualty insurance companies and dividends from subsidiaries) along with $400 million of the Euro debt proceeds contributed to LMIC and unaffiliated unrealized gains of $180 million, partially offset by affiliated unrealized losses of $357 million and a reduction to other changes in surplus of $151 million. Other changes in surplus is primarily driven by dividends to stockholders and net deferred income tax, partially offset by non-admitted assets and foreign exchange.

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 and casualty unpaid claims and claim adjustment expenses were $49.721 billion and $49.323 billion as of December 31, 2016 and December 31, 2015, respectively.

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

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. 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 reserves for unpaid claims and claim adjustment expenses, net of reinsurance before National Indemnity Company ("NICO") and including uncollectible reinsurance, were $936 million and $952 million as of December 31, 2016 and December 31, 2015, respectively.

In 2016, the Company completed asbestos ground-up and aggregate environmental reserve studies. These studies were completed by a multi-disciplinary team of internal claims, legal, reinsurance and actuarial personnel, and included all major business segments of the Company's direct, assumed, and ceded asbestos and environmental unpaid claim liabilities. As part of the internal review, policyholders with the largest direct asbestos unpaid claim liabilities were individually evaluated using the Company's proprietary

stochastic ground-up model, which is consistent with published actuarial methods of asbestos reserving. Among the factors reviewed in depth by the team of specialists were the type of business, level of exposure, coverage limits, geographic distribution of products, injury type, jurisdiction and legal defenses. Reinsurance recoveries for these policyholders were then separately evaluated by the Company's reinsurance and actuarial personnel. Asbestos and environmental unpaid claim liabilities for all other policyholders were evaluated using aggregate methods that utilized information and experience specific to these policyholders. The studies resulted in an increase to reserves of $150 million including: $100 million of asbestos reserves and $50 million of pollution reserves.

All asbestos and environmental 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 asbestos and environmental 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 asbestos and environmental 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 $13.820 billion and $13.575 billion at December 31, 2016 and December 31, 2015, respectively, net of allowance for doubtful accounts of $235 million and $131 million, respectively. Included in these balances are $564 million and $486 million of paid recoverables and $13.491 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 the NICO Reinsurance Transaction with NICO, a subsidiary of Berkshire Hathaway Inc., on a combined aggregate excess of loss agreement for substantially all of the Company's U.S. workers compensation (pre-2014 accident year) and asbestos and environmental 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 asbestos and environmental 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) asbestos and environmental 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 asbestos and environmental business, NICO has been given authority to handle claims, subject to the Company's oversight and control. With respect to the ceded workers compensation business, the Company will continue to handle claims.

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	**Twelve Months Ended December 31, 2016**	**Twelve Months Ended December 31, 2015**
Unrecognized reinsurance benefit related to original transaction loss at the beginning of the period	$59	$43
Asbestos and environmental unfavorable loss development	141	5
Workers compensation favorable loss development	(7)	(21)
Total amounts ceded under NICO Reinsurance Transaction	134	(16)
Retroactive reinsurance (benefits) / reductions related to original transaction loss recognized into income	(59)	16
Deferred gain amortization	(13)	-
Pre-tax impact of unrecognized deferred retroactive reinsurance benefit	62	-
Unrecognized reinsurance benefit related to original transaction loss at the end of the period	$0	$59

As the aggregate of workers compensation and asbestos and environmental development has exceeded the original pre-tax loss of $128 million, deferred gains are now being recorded. Deferred gains are amortized into earnings over the period when underlying claims are settled. For the years ended December 31, 2016, and 2015, deferred gain amortization was $13 million and zero, respectively. As of December 31, 2016, and 2015, deferred gains were $62 million and zero, respectively, and are included in other liabilities within the accompanying Consolidated Balance Sheets.

The Company's reinsurance recoverables from Nationwide Indemnity Company have been fully guaranteed by its parent, Nationwide Mutual Insurance Company, which has a financial strength rating of A+ from Standard & Poor's and A+ from A.M. Best. The reinsurance recoverables from state mandated involuntary pools and associations primarily represent the Company's servicing carrier business. As a servicing carrier, the Company retains no direct underwriting risk but instead cedes 100% of the involuntary market premium and losses back to the pool. Payment of losses is shared by the pool participants in proportion to their pool participation. Reinsurer credit risk with respect to any such involuntary pool or association is a function of the creditworthiness of all the pool participants.

Approximately 95% of the Company's reinsurance recoverable balance, net of collateral held and including voluntary and involuntary pools and associations, was from reinsurers rated A- or better from A.M. Best and Standard & Poor's at December 31, 2016. Collateral held against outstanding gross reinsurance recoverable balances was $6.367 billion and $5.913 billion at December 31, 2016 and December 31, 2015, respectively.

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

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

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

impairment of the security holding or the issuer, and (h) impact of foreign exchange rates on foreign currency denominated securities.

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. If the Company believes a decline in the value (including foreign exchange rate changes) of a particular equity security is temporary, the decline is recorded as an unrealized loss in policyholders' equity.

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

The Company is required to review its oil and gas properties when facts and circumstances indicate the possible existence of impairment. The Company tests for recoverability on proved oil and gas properties quarterly by comparing the undiscounted cash flows expected to be generated by a project to the property's carrying value. When a property's carrying value is greater than the expected future cash flows, impairment expense is recognized to the extent that the carrying value of the property exceeds its estimated fair market value. In employing the discounted cash flow method described, key inputs include commodity prices, locational basis difference, production, project development costs and the discount rate which are based on management's expectations about outcomes with respect to these variables. Unproved properties are assessed at least annually to determine whether impairment has occurred. Appropriate adjustments to the costs of unproved properties are made when necessary and are included in realized gains (losses) on the Consolidated Statements of Income. Impairment is assessed on a field-by-field basis.

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 December 31, 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 $4.675 billion and $1.719 billion as of December 31, 2016 and December 31, 2015, respectively and the Company's maximum exposure to loss was $7.477 billion and $2.487 billion as of December 31, 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 December 31, 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 $3.348 billion and $3.164 billion as of December 31, 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 $4.850 billion and $4.758 billion as of December 31, 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 December 31, 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.

For the year ended December 31, 2016, the Company utilized a qualitative test in accordance with its accounting policy for all reporting units. There were no goodwill impairments recognized in 2016 or 2015.

Deferred Income Taxes

The net deferred tax asset was $402 million and $795 million as of December 31, 2016 and December 31, 2015, net of a valuation allowance of $91 million and $106 million, respectively. The net decrease in the Company's net deferred income tax asset is primarily due to higher pension funding. The decrease in the valuation allowance is primarily due to the sale of foreign assets and revised income projections for 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 unearned premiums, employee benefits, credits, net operating losses, insurance loss reserves, deferred policy acquisition costs, net unrealized gains and losses on investments, fixed assets, and intangibles.

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	13
Additions for tax positions of prior years	46
Reductions for tax positions of prior years	(231)
Settlements	17
Translation	5
Balance at December 31, 2016	$99

Included in the tabular roll forward of unrecognized tax benefits is interest and penalties in the amount of $6 million and $34 million as of December 31, 2016 and December 31, 2015, respectively.

Included in the balance at December 31, 2016, is $40 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 December 31, 2016 and 2015, the Company recognized $0 and ($33) million of interest and penalties in each period, respectively. For the years ended December 31, 2016 and 2015, the Company recognized ($28) million and ($30) million of interest and penalties, respectively. The Company had $6 million and $31 million of interest and penalties accrued as of December 31, 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 $20 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. In 2016, the Company announced changes to the U.S. pension plan which included freezing the final average pay formula effective December 31, 2020, and increasing pay credits under the cash balance formula from 4.5% to 5.0% of eligible pay effective January 1, 2018.

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. In 2016, the Company announced employees hired on or after January 1, 2018, will not be eligible for coverage under the U.S. postretirement health and life insurance plans.

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 a $57 million impact on the net periodic benefit cost reported for 2016. There was no impact on the benefit obligation.

In choosing the expected long-term rate of return on plan assets, the Company's Retirement Committee 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, 2016, LMHC had $125.592 billion in consolidated assets, $105.205 billion in consolidated liabilities, and $38.308 billion in annual consolidated revenue.

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

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

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