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

Year Ended December 31, 2017

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

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

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Cautionary Statement Regarding Forward Looking Statements

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

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

EXECUTIVE SUMMARY

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

Consolidated Results of Operations

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Net written premium ("NWP")	$8,861	$8,145	8.8%	$36,789	$33,857	8.7%
Pre-tax operating income (loss) before partnerships, LLC and other equity method income (loss)	165	429	(61.5)	(1,004)	1,485	NM
Net operating income (loss) before partnerships, LLC and other equity method income (loss)	65	335	(80.6)	(746)	1,124	NM
Partnerships, LLC and other equity method income (loss), net of tax	65	(22)	NM	371	3	NM
Net realized gains (losses), net of tax	72	(42)	NM	297	(81)	NM
Ironshore Inc. ("Ironshore") acquisition & integration costs, net of tax	(5)	-	NM	(56)	-	NM
Restructuring costs, net of tax	(44)	(46)	(4.3)	(59)	(46)	28.3
Loss on extinguishment of debt, net of tax	-	(44)	(100.0)	(1)	(49)	(98.0)
Discontinued operations, net of tax	52	25	108.0	213	118	80.5
Consolidated net income	205	206	(0.5)	19	1,069	(98.2)
Less: Net income attributable to non-controlling interest	-	63	(100.0)	2	63	(96.8)
Net income attributable to LMHC	205	143	43.4	17	1,006	(98.3)
Cash flow provided by continuing operations	$360	$838	(57.0%)	$1,824	$2,212	(17.5%)

NM = Not Meaningful

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2017	**2016**	**Change (Points)**	**2017**	**2016**	**Change (Points)**
Combined ratio before catastrophes[1], net incurred losses attributable to prior years[2], and current accident year re-estimation[3]	94.6%	93.7%	0.9	94.1%	93.7%	0.4
Combined ratio[4]	100.5%	97.0%	3.5	105.6%	98.3%	7.3

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 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, 2017 and 2016, respectively.

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

$ in Millions	**As of December 31, 2017**	**As of December 31, 2016**	**Change**
Short-term debt	$11	$-	NM
Long-term debt	8,314	7,603	9.4
Total debt	$8,325	$7,603	9.5%
Unassigned equity	$21,687	$21,670	0.1%
Accumulated other comprehensive loss	(1,026)	(1,304)	(21.3)
Non-controlling interest	27	21	28.6
Total equity	$20,688	$20,387	1.5%

NM = Not Meaningful

Subsequent Events

On January 22, 2018, the Company's Spanish subsidiary, Liberty Seguros Compania de Seguros y Reaseguros S.A., entered into an agreement to sell its entire 99.44% interest in its Turkish insurance affiliate, Liberty Sigorta A.S., to Talanx International. Completion of the transaction is subject to regulatory approval in Turkey.

On January 19, 2018, the Company announced the realignment of its businesses to enhance its ability to meet the changing needs of consumer and business customers. The Company's realignment will feature the following two businesses:

- Global Risk Solutions ("GRS") which will bring together Liberty's Global Specialty, Ironshore (formerly in Global Specialty), National Insurance (formerly in Commercial Insurance) and the Global Reinsurance Strategy Group (formerly in Corporate & Other) into a single business. Dennis J. Langwell, formerly the Company's Chief Financial Officer, will lead GRS.
- Global Retail Markets ("GRM") will combine Global Consumer Markets with Business Insurance and Accident and Health organizations (formerly in Commercial Insurance). Timothy Sweeney, formerly the President of Global Consumer Markets, will lead GRM.

- Christopher L. Peirce, formerly the President of Global Specialty, will become Liberty's Chief Financial Officer.

On January 19, 2018, the Company announced the sale of the Liberty Life Assurance Company ("LLAC"), which provides group disability, group life, individual life and annuity products, to Lincoln Financial Group. The companies expect to complete the transaction in the second quarter of 2018, pending regulatory approvals and other customary closing conditions. The results of LLAC are presented as discontinued operations in the accompanying Consolidated Statements of Income and are no longer included within Liberty Mutual Benefits in Commercial Insurance or within Corporate and Other. The prior periods have been restated to reflect this change.

Management has assessed material subsequent events through February 26, 2018, the date the financial statements were available to be issued.

CONSOLIDATED RESULTS OF OPERATIONS

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

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

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

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act of 2017 (the "Act"). The Act reduces the U.S. Federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign-sourced earnings. More details can be found in "Critical Accounting Estimates" under "Deferred Income Taxes."

On May 1, 2017, the Company acquired Ironshore for approximately $2.9 billion. Transaction related costs primarily consist of non-recurring banking, legal, tax, and accounting expenses. These expenses and integration related costs are reflected on the Consolidated Statements of Income separately. Concurrent with the acquisition, the Company combined its existing Liberty International Underwriters' U.S. business and Ironshore's U.S. specialty lines business under the Ironshore brand. Effective May 1, 2017, the Company also entered into a reinsurance transaction with National Indemnity Company ("NICO"), a subsidiary of Berkshire Hathaway Inc., on a combined aggregate excess of loss agreement providing coverage for substantially all of Ironshore's reserves ("Ironshore Reinsurance"). On May 2, 2017, Ironshore exercised its option to redeem in full its outstanding $250 million Ironshore Holdings (US) Inc. 8.5% Senior Notes maturing in 2020 in accordance with the contractual make whole provisions.

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

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

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

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

On August 16, 2016, the Company entered into an agreement to sell a 51% interest in its Chinese operation to Sanpower Group. Regulatory changes made the timing and outcome of the transaction uncertain. On November 16, 2017, the Company and Sanpower Group confirmed the termination of the agreement effective on August 16, 2017.

The Company's three SBUs are as follows:

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

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

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

- Commercial Insurance offers a wide array of property and casualty coverages through independent agents, brokers and captive agents throughout the United States. Commercial Insurance is organized into the following three market segments: Business Insurance, National Insurance, and Other Commercial Insurance.

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

Overview – Consolidated

Consolidated NWP by significant line of business was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Private passenger automobile	$3,370	$3,192	5.6%	$13,717	$12,788	7.3%
Homeowners	1,469	1,452	1.2	6,295	6,129	2.7
Specialty insurance[1]	1,015	633	60.3	3,608	2,512	43.6
Commercial multiple-peril	497	507	(2.0)	2,136	2,104	1.5
Commercial automobile	485	463	4.8	1,993	1,849	7.8
Workers compensation – Voluntary	488	477	2.3	1,971	1,969	0.1
Workers compensation – Involuntary	18	14	28.6	89	77	15.6
General liability	369	381	(3.1)	1,593	1,540	3.4
Global specialty reinsurance	244	162	50.6	1,450	1,158	25.2
Surety	187	175	6.9	827	807	2.5
Commercial property	170	165	3.0	726	766	(5.2)
Global specialty inland marine	141	122	15.6	550	498	10.4
Corporate reinsurance[2]	47	69	(31.9)	363	237	53.2
Other[3]	361	333	8.4	1,471	1,423	3.4
Total NWP	$8,861	$8,145	8.8%	$36,789	$33,857	8.7%

1 Specialty insurance is reported within Global Specialty and includes marine, energy, construction, aviation, property, casualty, warranty and indemnity, 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, domestic inland marine, and Life and health reported within Global Consumer Markets East | West.

NWP for the three months ended December 31, 2017 was $8.861 billion, an increase of $716 million over the same period in 2016.

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

- Private passenger automobile NWP increased $178 million. The increase reflects additional rate to keep pace with U.S. industry loss cost trends, partially offset by a decline in policies in-force in U.S. Consumer Markets. The increase also reflects organic growth in Global Consumer Markets East | West driven by Brazil, Turkey, and Ireland. The quarter over quarter change was further impacted by favorable foreign exchange due to the U.S. dollar weakening versus the euro as compared to the average rates in 2016.
- Specialty insurance NWP increased $382 million. The quarter over quarter change reflects the Ironshore acquisition, business growth, and foreign exchange due to weakening of the U.S. dollar versus the Canadian dollar, euro, British pound and Australian dollar as compared to the average rates in 2016.
- Global specialty reinsurance NWP increased $82 million. The increase reflects business growth and includes favorable LSM premium adjustments.

NWP for the twelve months ended December 31, 2017 was $36.789 billion, an increase of $2.932 billion over the same period in 2016.

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

- Private passenger automobile NWP increased $929 million. The increase reflects additional rate to keep pace with U.S. industry loss cost trends, partially offset by a decline in policies in-force in U.S. Consumer Markets. The increase also reflects organic growth in Global Consumer Markets East | West driven by growth in Brazil, Ireland, Portugal, and India. The year over year change was further impacted by favorable foreign exchange due to the U.S. dollar weakening versus the Brazilian real and the euro as compared to the average rates in 2016.

- Homeowners NWP increased $166 million. The increase reflects rate increases, as well as growth in homeowners policies in-force in U.S. Consumer Markets.
- Specialty insurance NWP increased $1.096 billion. The increase reflects the Ironshore acquisition and business growth, partially offset by lower LSM premium adjustments.
- Commercial automobile NWP increased $144 million. The increase reflects rate increases and exposure growth.
- Global specialty reinsurance NWP increased $292 million. The increase reflects business growth and includes catastrophe related reinstatement premiums.
- Corporate reinsurance NWP increased $126 million. The increase reflects increased premium on new and renewal internal programs, partially offset by increased spend on new ceded programs. The increased spend on new ceded programs is inclusive of an accounting change in the current period as to how reinsurance premiums on excess of loss contracts are reflected in our financials (ceded written premium is booked at inception versus over the life of the contract).

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	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Global Consumer Markets	$5,388	$5,174	4.1%	$22,320	$21,071	5.9%
U.S. Consumer Markets	4,365	4,254	2.6	18,363	17,536	4.7
Global Consumer Markets East | West	1,023	920	11.2	3,957	3,535	11.9
Commercial Insurance	1,848	1,811	2.0	7,698	7,506	2.6
Global Specialty	1,579	1,084	45.7	6,404	4,942	29.6
Corporate and Other	46	76	(39.5)	367	338	8.6
Total NWP	$8,861	$8,145	8.8%	$36,789	$33,857	8.7%
Foreign exchange effect on growth			0.8			0.3
NWP growth excluding foreign exchange[1]			8.0%			8.4%

1 Determined by assuming constant foreign exchange rates between periods.

Major drivers of NWP growth were as follows:

$ in Millions	Three Months Ended December 31, 2017	2016	$ Change	Points Attribution	Twelve Months Ended December 31, 2017	2016	$ Change	Points Attribution
Total NWP	$8,861	$8,145	$716	8.8	$36,789	$33,857	$2,932	8.7
Components of growth:								
Domestic personal automobile	2,705	2,620	85	1.1	11,237	10,614	623	1.8
Domestic homeowners	1,415	1,404	11	0.1	6,102	5,946	156	0.5
Global Consumer Markets East | West Local Business (ex foreign exchange)[1]	981	920	61	0.7	3,841	3,535	306	0.9
Specialty insurance (ex foreign exchange)[1]	998	633	365	4.5	3,612	2,512	1,100	3.2
Domestic workers compensation	482	462	20	0.2	1,941	1,932	9	-
Global specialty reinsurance (ex foreign exchange)[1]	240	162	78	1.0	1,452	1,158	294	0.9
Corporate reinsurance (ex foreign exchange)[1,2]	45	69	(24)	(0.3)	361	237	124	0.4
Surety	179	167	12	0.1	796	774	22	0.1
Global specialty inland marine (ex foreign exchange)[1]	139	122	17	0.2	551	498	53	0.2
Other lines	1,609	1,586	23	0.4	6,786	6,651	135	0.4
Foreign exchange[1]	68	-	68	0.8	110	-	110	0.3
Total NWP	$8,861	$8,145	$716	8.8	$36,789	$33,857	$2,932	8.7

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:

$ in Millions	Three Months Ended December 31, 2017	2016	Change	Twelve Months Ended December 31, 2017	2016	Change
U.S.	$7,065	$6,679	5.8%	$29,750	$27,675	7.5%
International[1]	1,796	1,466	22.5	7,039	6,182	13.9
Global Consumer Markets East | West	1,023	920	11.2	3,957	3,535	11.9
Global Specialty[1]	773	546	41.6	3,082	2,647	16.4
Total NWP	$8,861	$8,145	8.8%	$36,789	$33,857	8.7%

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

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

Results of Operations – Consolidated

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues	$10,228	$8,937	14.4%	$39,409	$35,451	11.2%
PTOI before catastrophes, net incurred losses attributable to prior years, current accident year re-estimation and partnerships, LLC and other equity method income (loss)	$702	$777	(9.7%)	$3,038	$3,121	(2.7%)
Catastrophes[1]	(450)	(266)	69.2	(3,608)	(1,674)	115.5
Net incurred losses attributable to prior years:						
- Asbestos and environmental[2]	(6)	(100)	(94.0)	(168)	(141)	19.1
- All other[2,3]	13	66	(80.3)	(266)	179	NM
Current accident year re-estimation[4]	(94)	(48)	95.8	-	-	-
Pre-tax operating income (loss) before partnerships, LLC and other equity method income (loss)	165	429	(61.5)	(1,004)	1,485	NM
Partnerships, LLC and other equity method income (loss)[5]	100	(30)	NM	570	2	NM
Pre-tax operating income (loss)	265	399	(33.6)	(434)	1,487	NM
Net realized gains (losses)	122	(74)	NM	468	(125)	NM
Ironshore acquisition & integration costs	(12)	-	NM	(86)	-	NM
Restructuring costs	(68)	(70)	(2.9)	(91)	(70)	30.0
Loss on extinguishment of debt	-	(67)	(100.0)	(1)	(76)	(98.7)
Pre-tax income (loss)	307	188	63.3	(144)	1,216	NM
Income tax expense	154	7	NM	50	265	(81.1)
Consolidated net income (loss) from continuing operations	153	181	(15.5)	(194)	951	NM
Discontinued operations, net of tax	52	25	108.0	213	118	80.5
Consolidated net income	205	206	(0.5)	19	1,069	(98.2)
Less: Net income attributable to non-controlling interest	-	63	(100.0)	2	63	(96.8)
Net income attributable to LMHC	$205	$143	43.4%	$17	$1,006	(98.3%)
Cash flow provided by continuing operations before Ironshore Reinsurance and pension contributions	$365	$839	(56.5%)	$2,782	$3,017	(7.8%)
Ironshore Reinsurance[6]	-	-	-	(550)	-	NM
Pension contributions	(5)	(1)	NM	(408)	(805)	(49.3)
Cash flow provided by continuing operations	$360	$838	(57.0%)	$1,824	$2,212	(17.5%)

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

3 Net of earned premium and reinstatement premium attributable to prior years of ($25) million and ($23) million for the three and twelve months ended December 31, 2017, and ($6) million and ($13) million for the same periods in 2016.

4 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2017 and 2016, respectively.

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

6 Ironshore reinsurance agreement, which is described further in "Reinsurance".

NM = Not Meaningful

Partnerships, LLC and Other Equity Method Income (Loss)	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	2017	2016	Change	2017	2016	Change
LP, LLC and other equity method income[1]	$122	$15	NM	$624	$146	NM
Direct investment in natural resources revenues[2]	68	50	36.0%	235	189	24.3%
Direct investment in natural resources expenses[3]	(90)	(95)	(5.3)	(289)	(333)	(13.2)
Partnerships, LLC and other equity method income (loss)	$100	($30)	NM	$570	$2	NM

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

Net Investment Income	Three Months Ended December 31,		Twelve Months Ended December 31,	
$ in Millions	2017	2016	2017	2016
Taxable interest income	$388	$353	$1,500	$1,422
Tax-exempt interest income	55	71	241	306
Dividends	13	13	60	54
LP, LLC and other equity method income	122	15	624	146
Commercial mortgage loans	18	19	76	76
Other investment income	2	2	7	14
Gross investment income	598	473	2,508	2,018
Investment expenses[1]	(54)	(40)	(212)	(169)
Total net investment income	$544	$433	$2,296	$1,849

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

Net Realized Gains (Losses) $ in Millions	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Three Months Ended December 31, 2017:				
Fixed maturities	$ 25	($9)	$ -	$ 16
Equities	258	(3)	-	255
Other	23	(177)	5	(149)
Total	$ 306	($189)	$ 5	$ 122
Three Months Ended December 31, 2016:				
Fixed maturities	$28	($8)	$-	$20
Equities	22	(82)	-	(60)
Other	(10)	(75)	51	(34)
Total	$40	($165)	$51	($74)

Net Realized Gains (Losses) $ in Millions	**Sales & Dispositions**	**Impairments**	**Change in Derivatives Value**	**Total**
Twelve Months Ended December 31, 2017:				
Fixed maturities	$ 135	($23)	$ -	$ 112
Equities	540	(69)	-	471
Other	136	(252)	1	(115)
Total	$ 811	($344)	$ 1	$ 468
Twelve Months Ended December 31, 2016:				
Fixed maturities	$121	($30)	$-	$91
Equities	60	(124)	-	(64)
Other	22	(212)	38	(152)
Total	$203	($366)	$38	($125)

Fourth Quarter Results:

Pre-tax operating income before partnerships, LLC and other equity method income (loss) for the three months ended December 31, 2017 was $165 million, a decrease of $264 million from the same period in 2016. The decrease reflects higher catastrophe losses primarily due to the California wildfires (net of expected recoveries on external reinsurance catastrophe treaties), higher current year losses (including losses across various commercial lines of business reflected in Commercial Insurance and Global Specialty and auto liability loss trends reflected in U.S. Consumer Markets), and favorable net incurred losses attributable to prior years in 2016 related to the reinsurance segment in Corporate. These losses were partially offset by less unfavorable asbestos and environmental development due to timing as development in 2017 was booked in the third quarter (NICO Reinsurance Transaction impact described further in “Reinsurance”), the profit margin on growth in earned premium and a lower underwriting expense ratio primarily due to lower employee related costs in U.S. Consumer Markets, Commercial Insurance and Corporate.

Partnerships, LLC and other equity method income (loss) including operating income from direct working interests for the three months ended December 31, 2017 was $100 million versus ($30) million for the same period in 2016. The increase reflects more favorable valuations in LP, LLC, and other equity method investments, with metals and mining, energy, traditional private equity investments all favorable as compared to the same period in 2016.

Revenues for the three months ended December 31, 2017 were $10.228 billion, an increase of $1.291 billion over the same period in 2016. The major components of revenues are net premium earned, net investment income, net realized gains (losses), and fee and other revenues.

Net premium earned for the three months ended December 31, 2017 was $9.321 billion, an increase of $927 million over the same period in 2016. The increase primarily reflects the premium earned associated with the changes in NWP previously discussed and the Ironshore acquisition.

Net investment income for the three months ended December 31, 2017 was $544 million, an increase of $111 million over the same period in 2016. The increase reflects more favorable valuations in LP, LLC and other equity method investments, with metals and mining, energy and traditional private equity investments all favorable as compared to the same period in 2016. The increase also reflects a higher invested asset base primarily driven by Ironshore.

Net realized gains (losses) for the three months ended December 31, 2017 were $122 million versus ($74) million for the same period in 2016. The increase in net realized gains primarily relates to equity gains realized from sales due to portfolio repositioning in 2017, partially offset by higher impairments on internally developed software compared to 2016.

Fee and other revenues for the three months ended December 31, 2017 were $241 million, an increase of $57 million over the same period in 2016. The increase was primarily driven by higher oil and gas revenues as a result of increased prices and production, the Ironshore acquisition and higher billing fees in U.S. Consumer Markets.

Claims, benefits and expenses for the three months ended December 31, 2017 were $9.841 billion, an increase of $1.229 billion over the same period in 2016. The increase reflects higher catastrophe losses primarily due to the California wildfires (net of expected recoveries on external reinsurance catastrophe treaties), business growth, higher current year losses (including losses across various commercial lines of business reflected in Commercial Insurance and Global Specialty and auto liability loss trends reflected in U.S. Consumer Markets), and favorable incurred losses attributable to prior years in 2016 related to the reinsurance segment in Corporate. These losses were partially offset by less unfavorable asbestos and environmental development due to timing as development in 2017 was booked in the third quarter (NICO Reinsurance Transaction impact described further in "Reinsurance").

Restructuring costs for the three months ended December 31, 2017 were $68 million, a decrease of $2 million from the same period in 2016.

Loss on extinguishment of debt for the three months ended December 31, 2017 was zero versus $67 million for the same period in 2016. The Company repurchased zero and $108 million of the 10.75% Junior Subordinated notes due 2088 during the three months ended December 31, 2017 and December 31, 2016, respectively.

Income tax expense on continuing operations for the three months ended December 31, 2017 was $154 million, an increase of $147 million over the same period in 2016. The Company's effective tax rate on continuing operations for the three months ended December 31, 2017 was 50%, compared to 4% for the same period in 2016. The increase in the effective tax rate on continuing operations from 2016 to 2017 was primarily driven by the impact of the Act, offset by a benefit for partial completion of the IRS examination covering tax years 2010 and 2011, and the decrease in the valuation allowance of certain foreign subsidiaries. The Company's effective tax rate on continuing operations differs from the U.S. Federal statutory rate of 35% principally due to tax-exempt investment income and the impact of the Act.

Discontinued operations, net of tax, for the three months ended December 31, 2017 were $52 million, an increase of $27 million over the same period in 2016.

Net income attributable to LMHC for the three months ended December 31, 2017 was $205 million, an increase of $62 million over the same period in 2016.

Cash flow provided by continuing operations for the three months ended December 31, 2017 was $360 million, a decrease of $478 million from the same period in 2016. The decrease reflects higher loss payments across most business units primarily due to higher catastrophe payments, business growth and unfavorable domestic auto liability loss trends, partially offset by higher premium collections in Global Consumer Markets driven by business growth.

Year-to-date Results:

Pre-tax operating loss before partnerships, LLC and other equity method income for the twelve months ended December 31, 2017 was $1.004 billion versus pre-tax operating income before partnerships, LLC and other equity method income of $1.485 billion for the same period in 2016. The change reflects higher catastrophe losses primarily due to Hurricanes Harvey, Irma, and Maria, the California wildfires and hailstorms in Texas and Colorado (net of

expected recoveries on external reinsurance catastrophe treaties), the impact of unfavorable domestic auto liability loss trends reflected in U.S. Consumer Markets and Commercial Insurance and higher losses within the reinsurance segment in Corporate. The change also reflects lower favorable net incurred losses attributable to prior years in Global Specialty, partially offset by the profit margin on growth in earned premium and a lower underwriting expense ratio primarily due to lower employee related costs in U.S. Consumer Markets, Commercial Insurance and Corporate.

Partnerships, LLC and other equity method income including operating income from direct working interests for the twelve months ended December 31, 2017 was $570 million, an increase of $568 million over the same period in 2016. The increase reflects more favorable valuations in LP, LLC, and other equity method investments, primarily traditional private equity and energy, in 2017 as compared to the same period in 2016.

Revenues for the twelve months ended December 31, 2017 were $39.409 billion, an increase of $3.958 billion over the same period in 2016. The major components of revenues are net premium earned, net investment income, net realized gains (losses), and fee and other revenues.

Net premium earned for the twelve months ended December 31, 2017 was $35.789 billion, an increase of $2.802 billion over the same period in 2016. The increase primarily reflects the premium earned associated with the changes in NWP previously discussed and the Ironshore acquisition.

Net investment income for the twelve months ended December 31, 2017 was $2.296 billion, an increase of $447 million over the same period in 2016. The increase reflects more favorable valuations in LP, LLC, and other equity investments, primarily traditional private equity and energy. The increase also reflects a higher invested asset base primarily driven by Ironshore.

Net realized gains (losses) for the twelve months ended December 31, 2017 were $468 million versus ($125) million for the same period in 2016. The increase in net realized gains primarily relates to gains from sales due to portfolio repositioning and a $109 million gain on the sale of the Company's 10 St. James and 75 Arlington properties. In addition, 2017 reflects lower impairments on direct investment in oil and gas wells, partially offset by higher impairments on internally developed software compared to 2016.

Fee and other revenues for the twelve months ended December 31, 2017 were $856 million, an increase of $116 million over the same period in 2016. The increase was primarily driven by higher billing fees in U.S. Consumer Markets, the Ironshore acquisition, and higher oil and gas revenues as a result of increased prices and production.

Claims, benefits and expenses for the twelve months ended December 31, 2017 were $39.375 billion, an increase of $5.286 billion over the same period in 2016. The increase reflects higher catastrophe losses primarily due to Hurricanes Harvey, Irma, and Maria, the California wildfires and hailstorms in Texas and Colorado (net of expected recoveries on external reinsurance catastrophe treaties), business growth, the impact of unfavorable domestic auto liability loss trends reflected in U.S. Consumer Markets and Commercial Insurance and higher losses within the reinsurance segment in Corporate. The increase also reflects lower favorable incurred losses attributable to prior years in Global Specialty, partially offset by lower employee related costs in U.S. Consumer Markets, Commercial Insurance and Corporate.

Restructuring costs for the twelve months ended December 31, 2017 were $91 million, an increase of $21 million over the same period in 2016.

Loss on extinguishment of debt for the twelve months ended December 31, 2017 was $1 million, a decrease of $75 million from the same period in 2016. The Company repurchased $2 million and $125 million of the 10.75% Junior Subordinated notes due 2088 during the twelve months ended December 31, 2017 and December 31, 2016, respectively.

Income tax expense on continuing operations for the twelve months ended December 31, 2017 was $50 million, a decrease of $215 million from the same period in 2016. The Company's effective tax rate on continuing operations for the twelve months ended December 31, 2017 was (35%), compared to 22% for the same period in 2016. For the twelve months ended December 31, 2017, the Company reported an income tax expense on a pre-tax loss, compared to reporting an income tax expense on pre-tax income for the twelve months ended December 31, 2016. The decrease

in the effective tax rate on continuing operations from 2016 to 2017 was driven by the impact of the Act primarily offset by 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 and the impact of the Act.

Discontinued operations, net of tax, for the twelve months ended December 31, 2017 were $213 million, an increase of $95 million over the same period in 2016.

Net income attributable to LMHC for the twelve months ended December 31, 2017 was $17 million, a decrease of $989 million from the same period in 2016.

Cash flow provided by continuing operations for the twelve months ended December 31, 2017 was $1.824 billion, a decrease of $388 million from the same period in 2016. The decrease reflects a payment for Ironshore Reinsurance and higher loss payments across most business units primarily due to higher catastrophe payments, business growth and unfavorable domestic auto liability loss trends, partially offset by lower pension funding, higher premium collections in Global Consumer Markets driven by business growth, and the Ironshore acquisition.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
CONSOLIDATED	**2017**	**2016**	**Change (Points)**	**2017**	**2016**	**Change (Points)**
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	64.8%	62.6%	2.2	64.5%	62.7%	1.8
Underwriting expense ratio	29.8	31.1	(1.3)	29.6	31.0	(1.4)
Subtotal	94.6	93.7	0.9	94.1	93.7	0.4
Catastrophes[1]	4.8	3.2	1.6	10.1	5.1	5.0
Net incurred losses attributable to prior years:						
- Asbestos and environmental	0.1	0.4	(0.3)	0.5	0.1	0.4
- All other[2]	-	(0.9)	0.9	0.9	(0.6)	1.5
Current accident year re-estimation[3]	1.0	0.6	0.4	-	-	-
Total combined ratio[4]	100.5%	97.0%	3.5	105.6%	98.3%	7.3

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

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

3 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2017 and 2016, respectively.

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

Fourth Quarter Results:

The consolidated combined ratio before catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation for the three months ended December 31, 2017 was 94.6%, an increase of 0.9 points over the same period in 2016. The claims and claim adjustment expense ratio reflects higher current year losses across various commercial lines of business reflected in Commercial Insurance and Global Specialty and auto liability loss trends reflected in U.S. Consumer Markets. The decrease in the underwriting expense ratio reflects lower employee

related costs in U.S. Consumer Markets, Commercial Insurance and Corporate and, more significantly, the impact of premium rate increases.

Including the impact of catastrophes, net incurred losses attributable to prior years, and current accident year re-estimation, the total combined ratio for the three months ended December 31, 2017 was 100.5%, an increase of 3.5 points over the same period in 2016. The increase reflects higher catastrophe losses, favorable prior year development in 2016, higher current accident year re-estimation in 2017 and increases in the combined ratio previously discussed, partially offset by less unfavorable asbestos and environmental development due to timing as development in 2017 was booked in the third quarter.

Year-to-date Results:

The consolidated combined ratio before catastrophes and net incurred losses attributable to prior years for the twelve months ended December 31, 2017 was 94.1%, an increase of 0.4 points over the same period in 2016. The claims and claim adjustment expense ratio reflects higher loss trends in the auto lines of business in U.S. Consumer Markets and Commercial Insurance and higher losses within the reinsurance segment in Corporate. The decrease in the underwriting expense ratio reflects lower employee related costs in U.S. Consumer Markets, Commercial Insurance and Corporate and, more significantly, the impact of premium rate increases.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the twelve months ended December 31, 2017 was 105.6%, an increase of 7.3 points over the same period in 2016. The increase reflects the increases in the combined ratio already discussed, higher catastrophe losses, unfavorable net incurred losses attributable to prior years in commercial auto in Commercial Insurance, and lower favorable net incurred losses attributable to prior years in Global Specialty.

GLOBAL CONSUMER MARKETS

Overview – Global Consumer Markets

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

Global Consumer Markets NWP by market segment was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
U.S. Consumer Markets	$4,365	$4,254	2.6%	$18,363	$17,536	4.7%
Global Consumer Markets East | West	1,023	920	11.2	3,957	3,535	11.9
Total NWP	$5,388	$5,174	4.1%	$22,320	$21,071	5.9%

Results of Operations – Global Consumer Markets

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues	$5,734	$5,514	4.0%	$22,585	$21,501	5.0%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$671	$625	7.4%	$2,476	$2,268	9.2%
Catastrophes[1]	(715)	(162)	NM	(2,221)	(1,227)	81.0
Net incurred losses attributable to prior years	6	3	100.0	43	16	168.8
Current accident year re-estimation[2]	(56)	(10)	NM	-	-	-
Pre-tax operating (loss) income	($94)	$456	NM	$298	$1,057	(71.8%)

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

2 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2017 and 2016, respectively.

NM = Not Meaningful

GLOBAL CONSUMER MARKETS	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2017	2016	Change (Points)	2017	2016	Change (Points)
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	63.3%	62.9%	0.4	64.1%	63.7%	0.4
Underwriting expense ratio	26.9	27.5	(0.6)	26.9	27.8	(0.9)
Subtotal	90.2	90.4	(0.2)	91.0	91.5	(0.5)
Catastrophes[1]	12.7	3.1	9.6	10.2	6.0	4.2
Net incurred losses attributable to prior years	(0.1)	-	(0.1)	(0.2)	(0.1)	(0.1)
Current accident year re-estimation[2]	1.0	0.2	0.8	-	-	-
Total combined ratio	103.8%	93.7%	10.1	101.0%	97.4%	3.6

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 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2017 and 2016, respectively.

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

U.S. CONSUMER MARKETS

Overview – U.S. Consumer Markets

U.S. Consumer Markets sells automobile, homeowners and other types of property and casualty insurance coverage to individuals in the United States. U.S. Consumer Markets' products are distributed through approximately 2,000 licensed employee sales representatives, approximately 800 licensed telesales counselors, independent agents, third-party producers and the Internet. U.S. Consumer Markets has more than 21,100 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	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Private passenger automobile	$2,705	$2,620	3.2%	$11,237	$10,614	5.9%
Homeowners and other	1,660	1,634	1.6	7,126	6,922	2.9
Total NWP	$4,365	$4,254	2.6%	$18,363	$17,536	4.7%

Fourth Quarter Results:

NWP for the three months ended December 31, 2017 was $4.365 billion, an increase of $111 million over the same period in 2016.

Private passenger automobile NWP for the three months ended December 31, 2017 was $2.705 billion, an increase of $85 million over the same period in 2016. The growth reflects an increase in weighted average written premiums (adjusted for changes in six and twelve month policy term mix) resulting from rate to keep pace with U.S. industry loss cost trends, partially offset by a decline in policies in-force.

Homeowners and other NWP for the three months ended December 31, 2017 was $1.660 billion, an increase of $26 million over the same period in 2016. The growth reflects an increase in homeowners average written premiums (resulting from rate) and growth in homeowners policies in-force.

Year-to-date Results:

NWP for the twelve months ended December 31, 2017 was $18.363 billion, an increase of $827 million over the same period in 2016.

Private passenger automobile NWP for the twelve months ended December 31, 2017 was $11.237 billion, an increase of $623 million over the same period in 2016. The growth reflects a 6.3% increase in weighted average written premiums (adjusted for changes in six and twelve month policy term mix) resulting from rate to keep pace with U.S. industry loss cost trends, partially offset by a decline in policies in-force of 0.5% for the twelve months ended December 31, 2017. Renewal rate for the twelve months ended December 31, 2017 was 9.4%.

Homeowners and other NWP for the twelve months ended December 31, 2017 was $7.126 billion, an increase of $204 million over the same period in 2016. The growth reflects a 1.8% increase in homeowners average written premiums (resulting from rate) and growth in homeowners policies in-force of 1.6% for the twelve months ended December 31, 2017.

Results of Operations – U.S. Consumer Markets

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues	$4,637	$4,533	2.3%	$18,409	$17,680	4.1%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$657	$635	3.5%	$2,467	$2,277	8.3%
Catastrophes[1]	(715)	(166)	NM	(2,221)	(1,225)	81.3
Net incurred losses attributable to prior years	(11)	(26)	(57.7)	(14)	(72)	(80.6)
Current accident year re-estimation[2]	(56)	(10)	NM	-	-	-
Pre-tax operating (loss) income	($125)	$433	NM	$232	$980	(76.3%)

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, 2017 and 2016, respectively.
NM = Not Meaningful

Fourth Quarter Results:

Pre-tax operating (loss) income for the three months ended December, 2017 was ($125) million versus $433 million for the same period in 2016. The change was driven primarily by higher current accident year catastrophe losses due primarily to property losses related to California wildfires and higher loss trends in the auto line of business (including higher current accident year re-estimation). These items were partially offset by profit margin on growth in earned premium and lower net incurred losses attributable to prior years.

Revenues for the three months ended December 31, 2017 were $4.637 billion, an increase of $104 million over the same period in 2016. The increase reflects the premium earned associated with the changes in NWP previously discussed.

Claims, benefits and expenses for the three months ended December 31, 2017 were $4.849 billion, an increase of $749 million over the same period in 2016. The increase was driven by higher current accident year catastrophe losses due primarily to property losses related to California wildfires and higher auto losses driven by business growth and higher auto liability loss trends.

Year-to-date Results:

PTOI for the twelve months ended December 31, 2017 was $232 million, a decrease of $748 million from the same period in 2016. The decrease was primarily driven by current accident year catastrophe losses due to property losses caused by California wildfires, hail storms in Texas and Colorado and Hurricane Irma and auto losses from Hurricane Harvey as well as higher loss trends in the auto line of business. These items were partially offset by the profit margin on growth in earned premium and lower net incurred losses attributable to prior years due to reserve releases on prior year catastrophe losses

Revenues for the twelve months ended December 31, 2017 were $18.409 billion, an increase of $729 million over the same period in 2016. The increase reflects the premium earned associated with the changes in NWP previously discussed.

Claims, benefits and expenses for the twelve months ended December 31, 2017 were $18.264 billion, an increase of $1.564 billion over the same period in 2016. The increase was primarily driven by current accident year catastrophe losses due to property losses caused by California wildfires, hail storms in Texas and Colorado and Hurricane Irma and auto losses from Hurricane Harvey. Also contributing to the increase were higher auto losses driven by business growth and higher auto liability loss trends.

U.S. CONSUMER MARKETS	Three Months Ended December 31, 2017	2016	Change (Points)	Twelve Months Ended December 31, 2017	2016	Change (Points)
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	63.4%	62.3%	1.1	63.8%	63.2%	0.6
Underwriting expense ratio	23.7	24.6	(0.9)	24.0	25.1	(1.1)
Subtotal	87.1	86.9	0.2	87.8	88.3	(0.5)
Catastrophes[1]	15.5	3.8	11.7	12.4	7.1	5.3
Net incurred losses attributable to prior years	0.3	0.6	(0.3)	-	0.4	(0.4)
Current accident year re-estimation[2]	1.2	0.2	1.0	-	-	-
Total combined ratio	104.1%	91.5%	12.6	100.2%	95.8%	4.4

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

2 Re-estimation of the current accident year loss reserves for the nine months ended September 30, 2017 and 2016, respectively.

Fourth Quarter Results:

The U.S. Consumer Markets combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three months ended December 31, 2017 was 87.1%, an increase of 0.2 points over the same period in 2016. The increase in the claims and claim adjustment expense ratio was due to current accident year non-catastrophe losses due to higher loss trends in the auto liability line of business. The decrease in the underwriting expense ratio was due to earned premium growth and lower employee-related costs.

Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the total combined ratio for the three months ended December 31, 2017 was 104.1%, an increase of 12.6 points over the same period in 2016. The increase was driven by higher catastrophe losses, higher current accident year re-estimation from the same period in 2016, and the changes in the claims and claim adjustment expense ratio previously discussed, partially offset by favorable changes in both the underwriting expense and net incurred losses attributable to prior years ratios (due to reserve releases on prior year catastrophe losses).

Year-to-date Results:

The U.S. Consumer Markets combined ratio before catastrophes and net incurred losses attributable to prior years for the twelve months ended December 31, 2017 was 87.8%, a decrease of 0.5 points from the same period in 2016. The decrease was driven by a decrease in the underwriting expense ratio which reflects earned premium growth and lower employee-related costs, partially offset by an increase in the claims and claim adjustment expense ratio driven by current accident year non-catastrophe losses due to higher loss trends in the auto liability line of business.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the twelve months ended December 31, 2017 was 100.2%, an increase of 4.4 points over the same period in 2016. The increase was primarily driven by higher catastrophe losses and changes in the claims and claim adjustment expense ratio previously discussed, partially offset by favorable changes in both the underwriting expense and net incurred losses attributable to prior years ratios (due to reserve releases on prior year catastrophe losses).

GLOBAL CONSUMER MARKETS EAST | WEST

Overview – Global Consumer Markets East | West

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

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

On January 22, 2018, the Company's Spanish subsidiary, Liberty Seguros Compania de Seguros y Reaseguros S.A., entered into an agreement to sell its entire 99.44% interest in its Turkish insurance affiliate, Liberty Sigorta A.S., to Talanx International. Completion of the transaction is subject to regulatory approval in Turkey.

On July 5, 2017, the Company finalized a merger of its Chilean operations under the Liberty Seguros brand.

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

On August 16, 2016, the Company entered into an agreement to sell a 51% interest in its Chinese operation to Sanpower Group. Regulatory changes made the timing and outcome of the transaction uncertain. On November 16, 2017, the Company and Sanpower Group confirmed the termination of the agreement effective on August 16, 2017.

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

	Three Months Ended December 31,				Twelve Months Ended December 31,			
$ in Millions	**2017**	**2016**	**Change**	**Change ex. foreign exchange[1]**	**2017**	**2016**	**Change**	**Change ex. foreign exchange[1]**
West	$757	$688	10.0%	4.9%	$2,970	$2,671	11.2%	6.7%
East	266	232	14.7	11.6	987	864	14.2	14.4
Total NWP	$1,023	$920	11.2%	6.6%	$3,957	$3,535	11.9%	8.7%

1 Determined by assuming constant foreign exchange rates between periods.

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Private passenger automobile	$665	$572	16.3%	$2,480	$2,174	14.1%
Life and health	76	73	4.1	319	294	8.5
Commercial automobile	64	70	(8.6)	286	267	7.1
Homeowners	54	48	12.5	193	183	5.5
Other[1]	164	157	4.5	679	617	10.0
Total NWP	$1,023	$920	11.2%	$3,957	$3,535	11.9%

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

Fourth Quarter Results:

NWP for the three months ended December 31, 2017 was $1.023 billion, an increase of $103 million or 11.2% over the same period in 2016 and 6.6% on a local currency basis. The local currency increase was primarily driven by private passenger auto growth across various local operations, including Brazil, Turkey, and Ireland, partially offset by initiatives to improve commercial lines profitability in Chile and a decline in private passenger auto and workers compensation in Portugal.

Year-to-date Results:

NWP for the twelve months ended December 31, 2017 was $3.957 billion, an increase of $422 million or 11.9% over the same period in 2016 and 8.7% on a local currency basis. The local currency increase was driven by increased auto business in Brazil driven by higher average written premium and higher retention, increased auto business in Ireland, Portugal, and India, a favorable renewal of a large liability policy in China, and changes to terms and coverage of internal reinsurance programs, partially offset by initiatives to improve commercial lines profitability in Chile.

Results of Operations – Global Consumer Markets East / West

	Three Months Ended December 31,			**Twelve Months Ended December 31,**		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues	$1,097	$981	11.8%	$4,176	$3,821	9.3%
West pre-tax operating income before catastrophes and net incurred losses attributable to prior years	$31	$6	NM	$84	$30	180.0%
East pre-tax operating loss before catastrophes and net incurred losses attributable to prior years	(17)	(16)	6.3	(75)	(39)	92.3
Catastrophes[1]	-	4	(100.0)	-	(2)	(100.0)
Net incurred losses attributable to prior years	17	29	(41.4)	57	88	(35.2)
PTOI	$31	$23	34.8%	$66	$77	(14.3%)

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

Fourth Quarter Results:

PTOI for the three months ended December 31, 2017 was $31 million, an increase of $8 million over the same period in 2016. The increase was primarily driven by Colombia due to lower expenses, Brazil due to a reduction in the private auto loss ratio, profit margin growth on earned premium in Spain, and favorable foreign exchange quarter over quarter primarily due to the weakening of the U.S. dollar against the Brazilian real as compared to the average rates in 2016, partially offset by higher underwriting expenses in Chile and less favorable incurred losses attributable to prior years.

Revenues for the three months ended December 31, 2017 were $1.097 billion, an increase of $116 million over the same period in 2016. The increase reflects the premiums earned associated with the changes in NWP previously discussed.

Claims, benefits and expenses for the three months ended December 31, 2017 were $1.080 billion, an increase of $125 million over the same period in 2016. The increase was primarily driven by overall growth in the personal lines of business across both the East and West market segments, the quarter over quarter change of the weakening of the U.S. dollar against the euro as compared to the average rates in 2016, internal reinsurance losses, and less favorable incurred losses attributable to prior years.

Year-to-date Results:

PTOI for the twelve months ended December 31, 2017 was $66 million, a decrease of $11 million from the same period in 2016. The decrease was primarily driven by Chile due to unfavorable underwriting results in auto and property and higher weather-related losses, less favorable net incurred losses attributable to prior years, and higher losses in Thailand, Singapore, and Malaysia. These decreases were partially offset by favorable commercial results in Ireland and favorable foreign exchange year over year primarily due to the weakening of the U.S. dollar against the Brazilian real as compared to the average rates in 2016.

Revenues for the twelve months ended December 31, 2017 were $4.176 billion, an increase of $355 million over the same period in 2016. The increase reflects the premiums earned associated with the changes in NWP previously discussed.

Claims, benefits and expenses for the twelve months ended December 31, 2017 were $4.124 billion, an increase of $384 million over the same period in 2016. The year over year change was primarily driven by the weakening of the U.S. dollar against the Brazilian real as compared to the average rates in 2016, higher underwriting expenses and losses across various operations due to business growth, increased expenses and weather-related losses in Chile, and increased auto losses in Thailand. Partially offsetting these increases were lower losses in Ireland.

	Three Months Ended December 31,			**Twelve Months Ended December 31,**		
GLOBAL CONSUMER MARKETS EAST | WEST	**2017**	**2016**	**Change (Points)**	**2017**	**2016**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	63.3%	66.4%	(3.1)	65.6%	66.1%	(0.5)
Underwriting expense ratio	41.2	41.7	(0.5)	40.5	41.6	(1.1)
Subtotal	104.5	108.1	(3.6)	106.1	107.7	(1.6)
Catastrophes[1]	-	(0.4)	0.4	-	0.1	(0.1)
Net incurred losses attributable to prior years	(1.7)	(3.3)	1.6	(1.5)	(2.6)	1.1
Total combined ratio	102.8%	104.4%	(1.6)	104.6%	105.2%	(0.6)
GCM West combined ratio	99.3%	103.2%	(3.9)	102.3%	104.4%	(2.1)
GCM East combined ratio	111.7%	110.1%	1.6	111.0%	107.1%	3.9

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

Fourth Quarter Results:

The Global Consumer Markets East | West combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended December 31, 2017 was 104.5%, a decrease of 3.6 points from the same period in 2016. The decrease was driven by a decrease in the claims and claim adjustment expense ratio which reflects a reduction in the auto private loss ratio in Brazil, lower losses in Ireland, and the impact of premium growth previously discussed. The decrease in the underwriting expense ratio was primarily driven by lower expenses in Spain and the impact of premium growth previously discussed, partially offset by higher expenses in Ireland.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended December 31, 2017 was 102.8%, a decrease of 1.6 points from the same period in 2016. The total combined ratio reflects the changes in the combined ratio previously discussed, partially offset by less favorable net incurred losses attributable to prior years.

Year-to-date Results:

The Global Consumer Markets East | West combined ratio before catastrophes and net incurred losses attributable to prior years for the twelve months ended December 31, 2017 was 106.1%, a decrease of 1.6 points from the same period in 2016. The decrease was driven by a decrease in the underwriting expense ratio which was primarily driven by lower home office expenses, lower expenses in Colombia, and the impact of premium growth previously discussed, partially offset by an increase in expenses in Chile. The decrease in the claims and claim adjustment expense ratio reflects lower underwriting losses in Ireland and the impact of premium growth previously discussed, partially offset by higher losses in Chile and Thailand.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the twelve months ended December 31, 2017 was 104.6%, a decrease of 0.6 points from the same period in 2016. The total combined ratio reflects the changes in the combined ratio previously discussed partially offset by less favorable net incurred losses attributable to prior years.

COMMERCIAL INSURANCE

Overview – Commercial Insurance

Commercial Insurance offers a wide array of property and casualty coverages through independent agents, brokers and captive agents throughout the United States. Commercial Insurance is organized into the following three market segments: Business Insurance; National Insurance; and Other Commercial Insurance. Business Insurance serves small commercial customers through an operating model that combines local underwriting, market knowledge and service with the scale advantages of a national company. National Insurance provides commercial lines products and services, including third-party administration, to middle market customers and large businesses. National Insurance is also a servicing carrier for state-based workers compensation involuntary market pools. Other Commercial Insurance primarily consists of internal reinsurance and assumed business from state-based workers compensation involuntary market pools.

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

On January 19, 2018, Liberty Mutual Insurance announced the sale of LLAC to Lincoln Financial Group. As a result, the Liberty Mutual Benefits segment previously reported within Commercial Insurance will be reported within the Liberty Mutual Corporate business unit as Discontinued Operations. The prior period has been restated to reflect this change.

Commercial Insurance NWP by market segment was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Business Insurance	$1,032	$1,008	2.4%	$4,281	$4,098	4.5%
National Insurance	714	771	(7.4)	3,197	3,266	(2.1)
Other Commercial Insurance	102	32	NM	220	142	54.9
Total NWP	$1,848	$1,811	2.0%	$7,698	$7,506	2.6%

NM = Not Meaningful

Commercial Insurance NWP by line of business was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Commercial multiple-peril	$497	$507	(2.0%)	$2,136	$2,104	1.5%
Workers compensation – Voluntary	463	439	5.5	1,838	1,830	0.4
Workers compensation – Involuntary	18	14	28.6	89	77	15.6
Commercial automobile	421	393	7.1	1,707	1,582	7.9
General liability	288	307	(6.2)	1,253	1,224	2.4
Commercial property	161	151	6.6	675	689	(2.0)
Total NWP	$1,848	$1,811	2.0%	$7,698	$7,506	2.6%

Fourth Quarter Results:

NWP for the three months ended December 31, 2017 was $1.848 billion, an increase of $37 million over the same period in 2016. The increase reflects significant rate increases in commercial auto in order to mitigate higher industry-wide loss trends, property lines rate increases due to industry rate actions and exposure growth across all lines. These increases were partially offset by lost business outpacing new business in most of the casualty lines and a decrease in workers compensation construction wrap-up premium.

Year-to-date Results:

NWP for the twelve months ended December 31, 2017 was $7.698 billion, an increase of $192 million over the same period in 2016. The increase reflects rate increases across most lines led by commercial auto and exposure growth across all lines. These increases were partially offset by lost business outpacing new business in the property lines and most of the casualty lines and a decrease in construction wrap-up premium (primarily general liability and workers compensation).

Results of Operations – Commercial Insurance

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues	$2,188	$2,108	3.8%	$8,588	$8,283	3.7%
PTOI before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation	$91	$190	(52.1%)	$577	$792	(27.1%)
Catastrophes[1]	(42)	(39)	7.7	(893)	(296)	NM
Net incurred losses attributable to prior years[2]	(23)	(116)	(80.2)	(372)	(143)	160.1
Current accident year re-estimation[3]	(38)	(38)	-	-	-	-
Pre-tax operating (loss) income	($12)	($3)	NM	($688)	$353	NM

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

2 Net of earned premium and reinstatement premium attributable to priors years of ($4) million and $8 million for the three and twelve months ended December 31, 2017 and $3 million and ($6) million for the same periods in 2016.

3 Re-estimation of the current accident year loss and loss adjustment expense reserves for the nine months ended September 30, 2017 and 2016, respectively.

NM = Not Meaningful

Fourth Quarter Results:

Pre-tax operating loss for the three months ended December 31, 2017 was $12 million, an increase of $9 million over the same period in 2016. The increase reflects higher current accident year casualty losses driven by commercial auto and general liability, higher non-catastrophe property losses and higher unallocated loss adjustment expense reserves. The increase was partially offset by unfavorable prior year development in 2016 (primarily attributed to commercial auto liability loss reserves), lower employee related expenses and profit margin on growth in earned premium.

Revenues for the three months ended December 31, 2017 were $2.188 billion, an increase of $80 million over the same period in 2016. The increase reflects the earned impact of the 2017 written premium growth previously mentioned and higher commission revenue from servicing carrier operations.

Claims, benefits and expenses for the three months ended December 31, 2017 were $2.200 billion, an increase of $89 million over the same period in 2016. The increase was driven by increased current accident year casualty losses in commercial auto and general liability, higher non-catastrophe property losses and business growth mostly in the casualty lines of business. The increase further reflects higher unallocated loss adjustment expense reserves and higher commission expense, partially offset by lower unfavorable prior year development and lower employee related expenses.

Year-to-date Results:

Pre-tax operating (loss) income for the twelve months ended December 31, 2017 was ($688) million versus $353 million for the same period in 2016. The change reflects higher catastrophe losses mostly due to Hurricanes Harvey, Irma and Maria and the California wildfires, increased current accident year casualty losses driven by commercial auto and general liability and higher adverse prior year development (primarily attributed to commercial auto liability loss reserves, partially offset by prior year catastrophe reserve releases). The change further reflects higher non-

catastrophe property losses, higher unallocated loss adjustment expense reserves and a higher commission expense ratio, partially offset by lower employee related and information technology expenses and profit margin on growth in earned premium.

Revenues for the twelve months ended December 31, 2017 were $8.588 billion, an increase of $305 million over the same period in 2016. The increase reflects the earned impact of the 2017 written premium growth previously mentioned.

Claims, benefits and expenses for the twelve months ended December 31, 2017 were $9.276 billion, an increase of $1.346 billion over the same period in 2016. The increase was driven by higher catastrophe losses, increased current accident year casualty losses in commercial auto and general liability, higher adverse prior year development (primarily attributed to commercial auto liability loss reserves, partially offset by prior year catastrophe reserve releases) and business growth mostly in the casualty lines of business. The increase further reflects higher non-catastrophe property losses, higher unallocated loss adjustment expense reserves and higher commission expense, partially offset by lower employee related and information technology expenses.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
COMMERCIAL INSURANCE	**2017**	**2016**	**Change (Points)**	**2017**	**2016**	**Change (Points)**
Combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation						
Claims and claim adjustment expense ratio	70.4%	63.4%	7.0	66.7%	62.0%	4.7
Underwriting expense ratio	32.2	34.5	(2.3)	33.3	35.3	(2.0)
Dividend ratio	0.1	-	0.1	0.1	-	0.1
Subtotal	102.7	97.9	4.8	100.1	97.3	2.8
Catastrophes[1]	2.2	2.1	0.1	11.6	4.0	7.6
Net incurred losses attributable to prior years[2]	0.9	5.7	(4.8)	4.8	1.9	2.9
Current accident year re-estimation[3]	1.9	2.0	(0.1)	-	-	-
Total combined ratio	107.7%	107.7%	-	116.5%	103.2%	13.3

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

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

3 Re-estimation of the current accident year loss and loss adjustment expense reserves for the nine months ended September 30, 2017 and 2016, respectively.

Fourth Quarter Results:

The Commercial Insurance combined ratio before catastrophes, net incurred losses attributable to prior years and current accident year re-estimation for the three months ended December 31, 2017 was 102.7%, an increase of 4.8 points over the same period in 2016. The claims and claim adjustment expense increase reflects a higher current accident year commercial auto and general liability claims and claim adjustment expense ratio, higher non-catastrophe property losses and higher unallocated loss adjustment expense reserves. This increase was partially offset by a lower underwriting expense ratio due to lower employee related expenses and casualty lines earned premium growth.

Including the impact of catastrophes, net incurred losses attributable to prior years and current accident year re-estimation, the total combined ratio for the three months ended December 31, 2017 was 107.7%, no change versus the same period in 2016. This reflects the combined ratio components previously mentioned offset by lower unfavorable prior year development.

Year-to-date Results:

The Commercial Insurance combined ratio before catastrophes and net incurred losses attributable to prior years for the twelve months ended December 31, 2017 was 100.1%, an increase of 2.8 points over the same period in 2016. The increase reflects a higher current accident year commercial auto and general liability claims and claim adjustment expense ratio, higher non-catastrophe property losses and higher unallocated loss adjustment expense reserves. This increase was partially offset by a lower underwriting expense ratio due to lower employee related and information technology expenses and casualty lines earned premium growth, partially offset by an increase in the commission expense ratio driven by business mix and lower servicing carrier commission revenue.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the twelve months ended December 31, 2017 was 116.5%, an increase of 13.3 points over the same period in 2016. The increase reflects the combined ratio components previously mentioned, higher catastrophe losses and higher adverse prior year development (primarily attributed to commercial auto liability loss reserves, partially offset by prior year catastrophe reserve releases).

GLOBAL SPECIALTY

Overview – Global Specialty

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

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

Global Specialty NWP by market segment was as follows:

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
LSM	$608	$478	27.2%	$2,912	$2,577	13.0%
LIU[1]	293	265	10.6	1,046	959	9.1
LM Surety	174	164	6.1	777	758	2.5
Ironshore[2]	467	136	NM	1,501	496	NM
Other	37	41	(9.8)	168	152	10.5
Total NWP	$1,579	$1,084	45.7%	$6,404	$4,942	29.6%
Foreign exchange effect on growth			2.2			(0.1)
NWP growth excluding foreign exchange[3]			43.5%			29.7%

1 LIU excludes LIU U.S. results.
2 Ironshore includes LIU U.S. results.
3 Determined by assuming constant foreign exchange rates between periods.
NM = Not Meaningful

Global Specialty's major product lines are as follows:

(1) Specialty insurance: includes marine, energy, construction, aviation, property, casualty, warranty and indemnity, 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	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Specialty insurance	$1,015	$633	60.3%	$3,608	$2,512	43.6%
Reinsurance	244	162	50.6	1,450	1,158	25.2
Surety	179	167	7.2	796	774	2.8
Inland marine	141	122	15.6	550	498	10.4
Total NWP	$1,579	$1,084	45.7%	$6,404	$4,942	29.6%

Fourth Quarter Results:

NWP for the three months ended December 31, 2017 was $1.579 billion, an increase of $495 million over the same period in 2016. The increase reflects the Ironshore acquisition and growth within LSM, including favorable ultimate premium adjustments, surety, and inland marine. Additionally, foreign exchange favorably impacted the quarter over quarter change due to the weakening of the U.S. dollar versus the Canadian dollar, euro, British pound and Australian dollar as compared to the average rates in 2016.

Year-to-date Results:

NWP for the twelve months ended December 31, 2017 was $6.404 billion, an increase of $1.462 billion over the same period in 2016. The increase reflects the Ironshore acquisition and growth within LSM, including reinstatement premium, U.S. specialty and inland marine, partially offset by less favorable LSM ultimate premium adjustments and the impact from the sale of the LSM regional UK commercial business in 2016.

Results of Operations – Global Specialty

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues	$1,795	$1,245	44.2%	$6,445	$5,020	28.4%
PTOI before catastrophes and net incurred losses attributable to prior years	$181	$147	23.1%	$644	$560	15.0%
Catastrophes[1]	(120)	(67)	79.1	(999)	(147)	NM
Net incurred losses attributable to prior years[2]	31	34	(8.8)	17	127	(86.6)
Pre-tax operating income (loss)	$92	$114	(19.3%)	($338)	$540	NM

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

2 Net of earned premium and reinstatement premium attributable to priors years of ($21) million and ($31) million for the three and twelve months ended December 31, 2017, and ($9) million and ($7) million for the same periods in 2016.

NM = Not Meaningful

Fourth Quarter Results:

PTOI for the three months ended December 31, 2017 was $92 million, a decrease of $22 million from the same period in 2016. The decrease reflects higher catastrophe losses primarily due to the California wildfires, modest lower favorable net incurred losses attributable to prior years and higher current year large loss activity, primarily within U.S. specialty, partially offset by profit margin on higher earned premium in LSM and the impact of the Ironshore acquisition.

Revenues for the three months ended December 31, 2017 were $1.795 billion, an increase of $550 million over the same period in 2016. The increase was driven by an increase in earned premium, which reflects the impact of the Ironshore acquisition and higher current year writings primarily within the LSM Reinsurance and Specialty business segments, U.S. specialty and inland marine.

Claims, benefits and expenses for the three months ended December 31, 2017 were $1.703 billion, an increase of $572 million over the same period in 2016. The increase reflects higher catastrophe losses due to the California wildfires, modest lower favorable incurred losses attributable to prior years, the impact of the Ironshore acquisition, higher current year large loss activity, primarily within U.S. specialty, and attritional losses from growth within targeted lines of business across various market segments.

Year-to-date Results:

Pre-tax operating (loss) income for the twelve months ended December 31, 2017 was ($338) million versus $540 million for the same period in 2016. The change reflects higher catastrophe losses primarily due to Hurricanes Harvey, Irma, and Maria and the California wildfires, lower favorable net incurred losses attributable to prior years and higher current year loss activity primarily within U.S. specialty and the LSM Specialty business segment. These losses were partially offset by growth including the impact of the Ironshore acquisition and favorable underwriting expense driven by lower employee compensation expense.

Revenues for the twelve months ended December 31, 2017 were $6.445 billion, an increase of $1.425 billion over the same period in 2016. The increase was driven by an increase in earned premium, which reflects the impact of the Ironshore acquisition as well as higher current year writings within the LSM Reinsurance business segment, including reinstatement premium, U.S. specialty and inland marine. This increase was partially offset by the LSM Commercial business segment due to a reduction from the sale of the regional UK business in 2016 as well as unfavorable LSM ultimate premium adjustments primarily within the Specialty business segment.

Claims, benefits and expenses for the twelve months ended December 31, 2017 were $6.783 billion, an increase of $2.303 billion over the same period in 2016. The increase reflects higher catastrophe losses due primarily to Hurricanes Harvey, Irma, and Maria and the California wildfires, lower favorable incurred losses attributable to prior years, the impact of the Ironshore acquisition, higher current year loss activity and attritional losses from growth within targeted lines of business across various market segments.

	Three Months Ended December 31,			**Twelve Months Ended December 31,**		
GLOBAL SPECIALTY	**2017**	**2016**	**Change (Points)**	**2017**	**2016**	**Change (Points)**
Combined ratio before catastrophes and net incurred losses attributable to prior years						
Claims and claim adjustment expense ratio	61.6%	56.1%	5.5	61.1%	58.2%	2.9
Underwriting expense ratio	32.7	36.7	(4.0)	33.5	35.1	(1.6)
Dividend ratio	0.1	0.2	(0.1)	0.1	0.2	(0.1)
Subtotal	94.4	93.0	1.4	94.7	93.5	1.2
Catastrophes[1]	7.1	5.7	1.4	16.5	3.2	13.3
Net incurred losses attributable to prior years[2]	(1.8)	(3.0)	1.2	(0.2)	(2.8)	2.6
Total combined ratio	99.7%	95.7%	4.0	111.0%	93.9%	17.1

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.

Fourth Quarter Results:

The Global Specialty combined ratio before catastrophes and net incurred losses attributable to prior years for the three months ended December 31, 2017 was 94.4%, an increase of 1.4 points over the same period in 2016. The increase in the claims and claim adjustment expense ratio reflects higher current year loss activity within U.S. specialty and Ironshore. The decrease in the underwriting expense ratio is driven by higher earned premium primarily from LSM as well as the impact of the Ironshore business.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the three months ended December 31, 2017 was 99.7%, an increase of 4.0 points over the same period in 2016. The increase reflects the changes to the combined ratio mentioned above as well as unfavorable catastrophe losses and lower favorable net incurred losses attributable to prior years.

Year-to-date Results:

The Global Specialty combined ratio before catastrophes and net incurred losses attributable to prior years for the twelve months ended December 31, 2017 was 94.7%, an increase of 1.2 points over the same period in 2016. The increase in the claims and claim adjustment expense ratio reflects higher current year loss activity within U.S. specialty and the LSM Specialty business segment as well as the impact of the Ironshore business. The decrease in the underwriting expense ratio is driven by lower employee compensation expense and higher earned premium primarily from LSM, as well as the impact of the Ironshore business.

Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the twelve months ended December 31, 2017 was 111.0%, an increase of 17.1 points over the same period in 2016. The increase reflects the changes to the combined ratio mentioned above as well as 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."

- 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."

- Interest expense on the Company's outstanding debt.

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

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

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

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

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

- Investment-related realized gains (losses).

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

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

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

- The results of LLAC presented as discontinued operations.

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

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Reinsurance, net	$47	$69	(31.9%)	$363	$237	53.2%
Workers compensation – Voluntary[1]	-	8	(100.0)	10	21	(52.4)
Other[2]	(1)	(1)	-	(6)	80	NM
Total NWP	$46	$76	(39.5%)	$367	$338	8.6%

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

Fourth Quarter Results:

NWP for the three months ended December 31, 2017 was $46 million, a decrease of $30 million from the same period in 2016. The decrease primarily reflects the reinsurance line of business due to higher ceded premium on new programs and is inclusive of an accounting change in the current period as to how reinsurance premiums on excess of loss contracts are reflected in our financials (ceded written premium is booked at inception versus over the life of the contract).

Year-to-date Results:

NWP for the twelve months ended December 31, 2017 was $367 million, an increase of $29 million over the same period in 2016. The increase reflects an increase in the reinsurance line of business due to increased premium on new and renewal internal programs, partially offset by increased spend on new ceded programs and premium written by the Polish operation prior to it being sold in the third quarter of 2016. The increased spend on new ceded programs is inclusive of an accounting change in the current period as to how reinsurance premiums on excess of loss contracts are reflected in our financials (ceded written premium is booked at inception versus over the life of the contract).

Results of Operations – Corporate and Other

	Three Months Ended December 31,			Twelve Months Ended December 31,		
$ in Millions	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Revenues	$511	$70	NM	$1,791	$647	176.8%
Pre-tax operating loss before catastrophes, net incurred losses attributable to prior years, and partnerships, LLC and other equity method income (loss)	($241)	($185)	30.3%	($659)	($499)	32.1%
Catastrophes[1]	427	2	NM	505	(4)	NM
Net incurred losses attributable to prior years:						
-Asbestos and environmental[2]	(6)	(100)	(94.0)	(168)	(141)	19.1
-All other[2,3]	(1)	145	NM	46	179	(74.3)
Pre-tax operating income (loss) before partnerships, LLC and other equity method income (loss)	179	(138)	NM	(276)	(465)	(40.6)
Partnerships, LLC and other equity method income (loss)[4]	100	(30)	NM	570	2	NM
Pre-tax operating income (loss)	$279	($168)	NM	$294	($463)	NM

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

2 Asbestos and environmental is gross of the NICO Reinsurance Transaction, and All other includes all cessions related to the NICO Reinsurance Transaction, which is described further in “Reinsurance”.
3 Net of earned premium attributable to prior years of zero for the three and twelve months ended December 31, 2017 and 2016.
4 Partnerships, LLC and other equity method income (loss) includes LP, LLC and other equity method income (loss) within net investment income in the accompanying Consolidated Statements of Income and revenue and expenses from the production and sale of oil and gas.
NM = Not Meaningful

Fourth Quarter Results:

Pre-tax operating income (loss) for the three months ended December 31, 2017 was $279 million versus ($168) million for the same period in 2016. The change reflects favorable expected recoveries on external reinsurance catastrophe treaties outpacing internal assumed catastrophe losses, higher valuations on partnerships, LLC and other equity method income, and less unfavorable asbestos and environmental development due to timing as development in 2017 was booked in the third quarter (NICO Reinsurance Transaction impact described further in “Reinsurance”), partially offset by favorable net incurred losses attributable to prior years in 2016 related to the reinsurance segment, higher current accident year large loss activity within the reinsurance segment and lower net investment income excluding partnerships, LLC and other equity method investments.

Revenues for the three months ended December 31, 2017 were $511 million, an increase of $441 million over the same period in 2016. The major components of revenues are net premium earned, net investment income (including LP, LLC and other equity method investments), net realized gains (losses), and fee and other revenues.

Net premium earned for the three months ended December 31, 2017 was $88 million, an increase of $42 million over the same period in 2016. The increase reflects the earned impact of the 2017 written premium growth previously discussed.

Net investment income for the three months ended December 31, 2017 was $124 million, an increase of $83 million over the same period in 2016. The increase reflects more favorable valuations in LP, LLC and other equity method investments, with metals and mining, energy and traditional private equity investments all favorable as compared to the same period in 2016.

Net realized gains (losses) for the three months ended December 31, 2017 were $223 million versus ($77) million for the same period in 2016. The increase in net realized gains primarily relates to equity gains realized from sales due to portfolio repositioning in 2017, partially offset by higher impairments on internally developed software compared to 2016.

Fee and other revenues for the three months ended December 31, 2017 were $76 million, an increase of $16 million over the same period in 2016. The increase was primarily driven by higher oil and gas revenues as a result of increased prices and production.

Claims, benefits and expenses for the three months ended December 31, 2017 were $9 million, a decrease of $306 million from the same period in 2016. The decrease reflects favorable expected recoveries on external reinsurance catastrophe treaties outpacing internal assumed catastrophe losses and less unfavorable asbestos and environmental development due to timing as development in 2017 was booked in the third quarter (NICO Reinsurance Transaction impact described further in “Reinsurance”), partially offset by favorable incurred losses attributable to prior years in 2016 related to the reinsurance segment and higher current accident year large loss activity within the reinsurance segment.

Year-to-date Results:

Pre-tax operating income (loss) for the twelve months ended December 31, 2017 was $294 million versus ($463) million for the same period in 2016. The change reflects higher valuations on partnerships, LLC and other equity method income, favorable expected recoveries on external reinsurance catastrophe treaties outpacing internal assumed catastrophe losses, lower expenses retained in Corporate and favorable employee benefits expenses. These changes were partially offset by higher current accident year large loss activity within the reinsurance segment, lower net investment income excluding partnerships, LLC and other equity method investments, higher unfavorable asbestos

and environmental development (NICO Reinsurance Transaction impact described further in "Reinsurance"), and lower favorable net incurred losses attributable to prior years related to the reinsurance segment.

Revenues for the twelve months ended December 31, 2017 were $1.791 billion, an increase of $1.144 billion over the same period in 2016. The major components of revenues are net premium earned, net investment income (including LP, LLC and other equity method investments), net realized gains (losses), and fee and other revenues.

Net premium earned for the twelve months ended December 31, 2017 was $313 million, an increase of $56 million over the same period in 2016. The increase was driven by increased premium on new and renewal internal programs, partially offset by increased spend on new ceded programs and premium earned by the Polish operation in 2016.

Net investment income for the twelve months ended December 31, 2017 was $659 million, an increase of $365 million over the same period in 2016. The increase reflects more favorable valuations in LP, LLC, and other equity investments, primarily traditional private equity and energy.

Net realized gains (losses) for the twelve months ended December 31, 2017 were $569 million versus ($129) million for the same period in 2016. The increase in net realized gains primarily relates to gains from sales due to portfolio repositioning and a $109 million gain on the sale of the Company's 10 St. James and 75 Arlington properties. In addition, 2017 reflects lower impairments on direct investment in oil and gas wells, partially offset by higher impairments on internally developed software compared to 2016.

Fee and other revenues for the twelve months ended December 31, 2017 were $250 million, an increase of $25 million over the same period in 2016. The increase was primarily driven by higher oil and gas revenues as a result of increased prices and production.

Claims, benefits and expenses for the twelve months ended December 31, 2017 were $928 million, a decrease of $311 million from the same period in 2016. The decrease reflects favorable expected recoveries on external reinsurance catastrophe treaties outpacing internal assumed catastrophe losses, lower expenses retained in Corporate, favorable employee benefits expenses, lower expenses due to the sale of the Polish operation, and lower depreciation, depletion and amortization expenses related to Liberty Energy. These decreases were partially offset by higher unfavorable asbestos and environmental development (NICO Reinsurance Transaction impact described further in "Reinsurance"), lower favorable incurred losses attributable to prior years related to the reinsurance segment, and higher current accident year large loss activity within the reinsurance segment.

INVESTMENTS

General

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

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

Invested Assets (including cash and cash equivalents)

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

Invested Assets by Type	**As of December 31, 2017**		**As of December 31, 2016**	
$ in Millions	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities, available for sale, at fair value	$54,040	76.4%	$49,280	76.6%
Equity securities, available for sale, at fair value[1]	2,608	3.7	2,570	4.0
LP, LLC and other equity method investments	6,223	8.8	5,180	8.1
Commercial mortgage loans	1,623	2.3	1,567	2.4
Short-term investments	494	0.7	1,147	1.8
Other investments	905	1.3	709	1.1
Cash and cash equivalents	4,827	6.8	3,861	6.0
Total invested assets	$70,720	100.0%	$64,314	100.0%

1 Included in Equity securities, available for sale, at fair value is $1.217 billion of investments in bond ETFs.

Total invested assets as of December 31, 2017 were $70.720 billion, an increase of $6.406 billion or 10.0% over December 31, 2016. The increase primarily reflects $5.535 billion in invested assets acquired as part of the Ironshore acquisition, more favorable valuations in LP, LLC, and other equity method investments in 2017 as compared to the same period in 2016, cash from operations and financing, as well as the favorable impact of tightening credit spreads. The effect of exchange rate changes also had a favorable impact on the invested assets.

Fixed maturities as of December 31, 2017 were $54.040 billion, an increase of $4.760 billion or 9.7% over December 31, 2016. The increase is primarily due to the Ironshore acquisition favorable impact of tightening credit spreads, and the favorable effect of foreign exchange rates. As of December 31, 2017, included in fixed maturities are commitments to purchase various residential mortgage-backed securities at a cost and fair value of $553 million.

Equity securities as of December 31, 2017 were $2.608 billion ($2.556 billion common stock and $52 million preferred stock) versus $2.570 billion as of December 31, 2016 ($2.233 billion common stock and $337 million preferred stock), an increase of $38 million or 1.5% from December 31, 2016. Of the $2.556 billion of common stock at December 31, 2017, $682 million relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The increase in total equity securities is primarily due to purchases of ETFs offset by equity sales.

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

LP, LLC and other equity method investments	**As of December 31, 2017**		**As of December 31, 2016**	
$ in Millions	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Traditional private equity	$3,422	55.0%	$2,994	57.8%
Natural resources – Energy	605	9.7	384	7.4
Natural resources – Other[1]	338	5.4	292	5.6
Real estate	915	14.7	713	13.8
Other	943	15.2	797	15.4
Total LP, LLC and other equity method investments	$6,223	100.0%	$5,180	100.0%

1 Included in Natural Resources – Other is $244 million of investments in metals & mining and $94 million of investments in agriculture and timber.

Commercial mortgage loans as of December 31, 2017 were $1.623 billion (net of $3 million of loan loss reserves or 0.18% of the outstanding loan portfolio), an increase of $56 million or 3.6% over December 31, 2016. The increase primarily reflects $233 million in funding and a decrease of $3 million to the loan loss reserve, partially offset by $180 million in principal reductions. The entire commercial loan portfolio is U.S.-based. The number of loans in the portfolio decreased from 4,836 at December 31, 2016 to 4,827 at December 31, 2017.

Short-term investments as of December 31, 2017 were $494 million, a decrease of $653 million or 56.9% from December 31, 2016. The decrease was primarily due to maturing commercial paper that was purchased in 2016 to take advantage of favorable yields. Partially offsetting this was an increase due to the Ironshore acquisition.

Cash and cash equivalents as of December 31, 2017 were $4.827 billion, an increase of $966 million or 25.0% over December 31, 2016. The increase was primarily related to operating and financing activities.

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

	As of December 31, 2017			
$ in Millions	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. government and agency securities	$3,485	$13	($32)	$3,466
Residential MBS [1]	6,589	59	(52)	6,596
Commercial MBS	1,941	11	(11)	1,941
Other MBS and ABS [2]	3,265	25	(18)	3,272
U.S. state and municipal	9,088	271	(35)	9,324
Corporate and other	23,894	502	(91)	24,305
Foreign government securities	4,961	196	(21)	5,136
Total fixed maturities	53,223	1,077	(260)	54,040
Common stock	2,345	221	(10)	2,556
Preferred stock	45	7	-	52
Total equity securities	2,390	228	(10)	2,608
Total securities available for sale	$55,613	$1,305	($270)	$56,648

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

$ in Millions	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$2,677	$17	($28)	$2,666
Residential MBS	5,891	94	(48)	5,937
Commercial MBS	1,327	19	(5)	1,341
Other MBS and ABS	2,656	29	(21)	2,664
U.S. state and municipal	10,556	193	(162)	10,587
Corporate and other	20,835	499	(140)	21,194
Foreign government securities	4,734	186	(29)	4,891
Total fixed maturities	48,676	1,037	(433)	49,280
Common stock	1,795	469	(31)	2,233
Preferred stock	363	14	(40)	337
Total equity securities	2,158	483	(71)	2,570
Total securities available for sale	$50,834	$1,520	($504)	$51,850

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

Mortgage & Asset-Backed Fixed Maturities by Credit Quality[1]	As of December 31, 2017							
$ in Millions	AAA	AA	A	BBB	BB	B or Lower	Total	% of Total
SBA loans	$1,470	$-	$-	$-	$-	$-	$1,470	12.4%
GNMA residential mortgage	2,110	-	-	-	-	-	2,110	17.9
FNMA residential mortgage	2,769	1	-	-	-	-	2,770	23.5
FHLMC residential mortgage	1,546	-	-	-	-	-	1,546	13.1
Non-agency residential mortgage	50	11	-	1	6	102	170	1.4
Commercial MBS	1,784	124	16	8	4	5	1,941	16.4
Non-mortgage ABS	1,064	144	78	478	32	6	1,802	15.3
Total	$10,793	$280	$94	$487	$42	$113	$11,809	100%
% of Total	91.3%	2.4%	0.8%	4.1%	0.4%	1.0%	100%	

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

Approximately 67% 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 91% of the holdings are rated AAA. The commercial mortgage-backed securities portfolio is well diversified and of high quality with approximately 92% rated AAA.

The following table summarizes the Company's U.S. state and municipal fixed maturity portfolio of securities which are obligations of states, municipalities and political subdivisions (collectively referred to as U.S. state and municipal bonds) by credit quality as of December 31, 2017 and December 31, 2016:

U.S. State and Municipal by Credit Quality[1]	As of December 31, 2017			As of December 31, 2016		
$ in Millions	Fair Value	% of Total	Average Credit Rating	Fair Value	% of Total	Average Credit Rating
State general obligation	$1,316	14.1%	AA	$1,518	14.3%	AA
Local general obligation	1,113	11.9	AA	1,307	12.3	AA
Revenue	6,498	69.7	AA	6,691	63.3	AA
Pre-refunded	397	4.3	AAA	1,071	10.1	AAA
Total U.S. state and municipal	$9,324	100%	AA	$10,587	100.0%	AA

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

The municipal bond portfolio (taxable and tax-exempt) includes general obligation and revenue bonds issued by states, cities, counties, school districts, hospitals, educational institutions, and similar issuers. Included in the municipal bond portfolio at December 31, 2017 and December 31, 2016 were $397 million and $1.071 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, 2017 and December 31, 2016:

Fixed Maturities by Credit Quality[1]	As of December 31, 2017		As of December 31, 2016	
$ in Millions	Fair Value	% of Total	Fair Value	% of Total
AAA	$17,178	31.8%	$15,730	31.9%
AA+, AA, AA-	8,859	16.4	9,493	19.3
A+, A, A-	11,354	21.0	10,029	20.4
BBB+, BBB, BBB-	12,956	24.0	10,261	20.8
Total investment grade	50,347	93.2	45,513	92.4
BB+, BB, BB-	1,851	3.4	2,103	4.3
B+, B, B-	1,486	2.8	1,344	2.7
CCC or lower	237	0.4	320	0.6
Unrated[2]	119	0.2	-	-
Total below-investment grade	3,693	6.8	3,767	7.6
Total fixed maturities	$54,040	100.0%	$49,280	100.0%

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

The Company's holdings of below investment grade securities primarily consist of an actively managed diversified portfolio of high yield securities and leveraged loans within the domestic insurance portfolios and investments in emerging market sovereign and corporate debt primarily in support of the Company's international insurance operations. Overall, the average credit quality rating stands at A+ as of December 31, 2017.

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

Fixed Maturity by Maturity Date	**As of December 31, 2017**		**As of December 31, 2016**	
$ in Millions	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
One year or less	$2,943	5.4%	$2,887	5.9%
Over one year through five years	19,635	36.3	15,274	31.0
Over five years through ten years	12,867	23.8	13,649	27.7
Over ten years	6,786	12.6	7,528	15.2
MBS and ABS	11,809	21.9	9,942	20.2
Total fixed maturities	$54,040	100.0%	$49,280	100.0%

The fixed maturities over one year through five years as of December 31, 2017 were $19.635 billion, an increase of $4.361 billion or 28.6% over December 31, 2016. The increase is primarily due to the Ironshore acquisition. During 2017, after taking into consideration changes in investment opportunities and its view of the current and prospective business and economic environment, the Company has made only minor adjustments to the average duration of its investment portfolio. The average duration of the investment portfolio as of December 31, 2017 was 4.0 (domestic P&C was also 4.0).

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, 2017 and December 31, 2016 that are not deemed to be other-than-temporarily impaired:

	As of December 31, 2017			
$ in Millions	**Less Than 12 Months**		**12 Months or Longer**	
Unrealized Losses & Fair Value by Security Type	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Government and agency securities	($20)	$2,544	($12)	$486
Residential MBS	(24)	3,318	(28)	1,466
Commercial MBS	(9)	1,122	(2)	113
Other MBS and ABS	(6)	1,270	(12)	437
U.S. state and municipal	(8)	958	(27)	1,214
Corporate and other	(64)	7,575	(27)	1,115
Foreign government securities	(11)	1,260	(10)	411
Total fixed maturities	(142)	18,047	(118)	5,242
Common stock	(8)	599	(2)	21
Preferred stock	-	-	-	-
Total equity securities	(8)	599	(2)	21
Total securities available for sale	($150)	$18,646	($120)	$5,263

	As of December 31, 2016			
$ in Millions	**Less Than 12 Months**		**12 Months or Longer**	
Unrealized Losses & Fair Value by Security Type	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**	**Unrealized Losses**	**Fair Value of Investments with Unrealized Losses**
U.S. Government and agency securities	($27)	$1,699	($1)	$6
Residential MBS	(47)	3,033	(1)	29
Commercial MBS	(5)	527	-	8
Other MBS and ABS	(17)	1,397	(4)	144
U.S. state and municipal	(156)	3,730	(6)	59
Corporate and other	(104)	5,770	(36)	624
Foreign government securities	(26)	1,331	(3)	243
Total fixed maturities	(382)	17,487	(51)	1,113
Common stock	(13)	187	(18)	164
Preferred stock	(1)	17	(39)	241
Total equity securities	(14)	204	(57)	405
Total securities available for sale	($396)	$17,691	($108)	$1,518

Unrealized losses decreased from $504 million as of December 31, 2016 to $270 million as of December 31, 2017. The $2 million of unrealized losses 12 months or longer on common stock relates to securities associated with non-guaranteed unit linked products where the policyholder bears the investment risk. The Company monitors the difference between the amortized cost and estimated fair value of fixed maturity securities to ascertain whether declines in value are temporary in nature. The Company currently does not have the intent to sell these securities and has determined it is not more likely than not that it would be required to sell these fixed maturity securities before they

recover their fair value. The Company has concluded that the gross unrealized losses of fixed maturity securities as of December 31, 2017 are temporary.

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

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

Top 10 Issuers	**As of December 31, 2017**				
$ in Millions	**Fixed Maturity**	**Equity**	**Short Term**	**Total Exposure**	**% of Invested Assets**
Government of United Kingdom	$681	$-	$-	$681	0.96%
Government of Brazil	630	-	-	630	0.89
Invenergy	-	429	-	429	0.61
Government of Spain	360	-	-	360	0.51
Government of Colombia	301	-	-	301	0.43
State of Illinois	288	-	-	288	0.41
Anheuser Busch InBev NV	265	-	-	265	0.37
Government of Canada	252	-	3	255	0.36
Banco Santander	225	-	-	225	0.32
Apple Inc.	221	-	-	221	0.31
Total	$3,223	$429	$3	$3,655	5.17%

Top 10 Sectors	**As of December 31, 2017**				
$ in Millions	**Fixed Maturity**	**Equity**	**Short Term**	**Total Exposure**	**% of Invested Assets**
Banking	$4,435	$183	$359	$4,977	7.04%
Foreign Government	4,069	-	15	4,084	5.78
Electric Utility	1,825	148	9	1,982	2.80
Technology	1,660	206	-	1,866	2.64
Food and Beverage	1,325	11	9	1,345	1.90
US Municipal – State	1,316	-	1	1,317	1.86
REITS	262	908	-	1,170	1.65
US Municipal – Education	1,152	-	-	1,152	1.63
US Municipal – Local	1,111	-	-	1,111	1.57
Pharmaceuticals	983	69	2	1,054	1.49
Total	$18,138	$1,525	$395	$20,058	28.36%

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

As of December 31, 2017, investments in the energy sector accounted for $2.782 billion or 3.9% of total invested assets. The energy sector is comprised of investments in the following sub-sectors: independent energy, integrated energy, midstream, oil field services, and refining (*classification per Bloomberg Barclays Industry Groups*). These individual energy sub-sectors are not material enough at an individual level to appear within the top 10 rankings in the sector table above. Energy investments consist of investment grade bonds of $1.964 billion, bonds that were rated below investment grade of $204 million, publicly traded equity securities of $7 million, and natural resources partnerships and other equity method investments of $607 million. In addition, the Company has direct investments in oil and gas wells of $1.057 billion which are included in other assets on the Consolidated Balance Sheets.

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

Unfunded Commitments[1]	**As of December 31, 2017**		**As of December 31, 2016**	
$ in Millions	**Total**	**% of Total**	**Total**	**% of Total**
Traditional private equity	$1,554	45.3%	$1,698	46.7%
Natural resources – Energy	715	20.8	652	17.9
Natural resources – Other[2]	20	0.6	1	-
Real estate	607	17.7	746	20.5
Other	537	15.6	541	14.9
Total unfunded commitments	$3,433	100.0%	$3,638	100.0%

1 Represents Liberty Mutual Holding Company Inc. view.
2 Includes both agriculture and timber commitments.

Unfunded commitments as of December 31, 2017 were $3.433 billion, a $205 million decrease from December 31, 2016. The decrease is primarily driven by contributions net of new commitments related to traditional private equity partnerships and real estate investments. The $715 million unfunded energy investment commitments as of December 31, 2017 included $355 million related to energy partnerships and $360 million related to direct investments in oil and gas wells. The $652 million unfunded energy investment commitments as of December 31, 2016 included $563 million related to natural resource partnerships and $89 million related to direct investments in oil and gas wells.

LIQUIDITY AND CAPITAL RESOURCES

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

- On December 1, 2017, Liberty Mutual Insurance Company ("LMIC") replaced its $1 billion repurchase agreement with a $250 million repurchase agreement for a three-year period, which terminates December 1, 2020. At December 31, 2017, no funds were borrowed under the facility.
- On November 24, 2017, LMIC entered into a $250 million repurchase agreement with an expiration date of November 24, 2020. At December 31, 2017, no funds were borrowed under the facility.
- LMIC, Peerless Insurance Company ("PIC"), LLAC, Liberty Mutual Fire Insurance Company ("LMFIC"), Employers Insurance Company of Wausau ("EICOW"), Ironshore Specialty Insurance Company ("ISIC") and Ironshore Indemnity Insurance ("III") are members of the Federal Home Loan Bank. The Company has $300 million of Federal Home Loan Bank borrowings with maturity dates in 2032. As of December 31, 2017, all of the outstanding Federal Home Loan Bank borrowings are fully collateralized.

Net cash flows are generally invested in marketable securities while keeping a certain amount in cash and short-term investments to meet unpredictable cash obligations. The Company monitors the duration of these investments, and purchases and sales are executed with the objective of having adequate cash available to satisfy its maturing liabilities. As the Company's investment strategy focuses on overall asset and liability durations, and not specific cash flows, asset sales may be required to satisfy obligations or rebalance asset portfolios. The Company's invested assets as of December 31, 2017 (including cash and cash equivalents) totaled $70.720 billion.

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

Short-term debt:

$ in Millions	**As of December 31, 2017**	**As of December 31, 2016**
Short-term debt	$ 11	$ -

Long-term debt:

$ in Millions	As of December 31, 2017	As of December 31, 2016
Junior Subordinated notes, due 2067[1, 2]	$ 300	$ 300
5.00% Notes, due 2021	600	600
4.95% Notes, due 2022	750	750
4.25% Notes, due 2023	1,000	1,000
1.75% €500 Million Notes, due 2024	600	-
8.50% Surplus notes, due 2025	140	140
2.75% €750 Million Notes, due 2026	901	791
7.875% Surplus notes, due 2026	227	227
7.625% Notes, due 2028	3	3
3.91% - 4.25% Federal Home Loan Bank Borrowings, due 2032	300	300
7.00% Notes, due 2034	231	231
6.50% Notes, due 2035	471	471
7.50% Notes, due 2036	19	19
7.80% Junior Subordinated notes, due 2087[2]	700	700
10.75% Junior Subordinated notes, due 2088[3]	66	68
6.50% Notes, due 2042	750	750
4.85% Notes, due 2044	1,050	1,050
7.697% Surplus notes, due 2097	260	260
Subtotal	8,368	7,660
Unamortized discount	(13)	(15)
Long-term debt excluding unamortized debt issuance costs	8,355	7,645
Unamortized debt issuance costs	(41)	(42)
Total long-term debt	$8,314	$7,603

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

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

Debt Transactions

During the three and twelve months ended December 31, 2017, the Company repurchased zero and $2 million respectively, of the 10.75% Junior Subordinated notes due 2088 compared to $108 million and $125 million for the same periods in 2016. Pre-tax losses of zero and $1 million, respectively, were recorded on these transactions for the three and twelve months ended December 31, 2017 compared to $67 million and $76 million for the same periods in 2016 and are included in loss on extinguishment of debt in the accompanying Consolidated Statements of Income.

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

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

On May 4, 2016, Liberty Mutual Group Inc. ("LMGI") issued €750 million par value of Senior Notes due 2026 (the "2026 Notes"). Interest is payable annually at a fixed rate of 2.75%. The 2026 Notes mature on May 4, 2026. The

Company has designated non-derivative foreign-currency denominated long-term debt and the related accrued interest as hedges of its net investment in certain foreign operations.

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

Interest Expense

Consolidated interest expense for the three and twelve months ended December 31, 2017 was $110 million and $441 million, respectively, no change and $4 million decrease from the same periods in 2016.

Holding Company Liquidity and Capital Resources

The Company conducts substantially all of its operations through its wholly owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to the Company, whether in the form of loans, dividends or other distributions. As of December 31, 2017, the Company, through its downstream subsidiaries LMGI and LMFE, had $6.838 billion and $600 million, respectively, of debt outstanding, excluding discount and issuance costs.

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

The authorized control level risk-based capital (as of December 31, 2017) and 2018 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	**2017**	**2016**	**2018**	**2017**
LMIC	354%	487%	$1,423	$70
LMFIC	452%	502%	$112	$15
EICOW	422%	507%	$143	$-

[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, 2017. Available dividend capacity as of December 31, 2017 is calculated as 2018 dividend capacity less dividends paid for the preceding 12 months.

LMGI also has access to the following sources of funding:

- An unsecured revolving credit facility of $1 billion with an expiration date of March 5, 2020. To date, no funds have been borrowed under the facility.
- A management services agreement with LMIC pursuant to which LMGI is entitled to collect certain costs plus a management fee for services rendered by LMGI employees.
- Investment management agreements with affiliated entities pursuant to which an LMGI subsidiary investment advisor is entitled to recover annual expenses for investment management services performed by its employees.
- Liberty Corporate Services LLC ("LCS"), which through its subsidiaries collects fees and other revenues, primarily for claims administration and agency services rendered for affiliated and non-affiliated entities. For the three and twelve months ended December 31, 2017, LCS recorded $83 million and $370 million, respectively, in pre-tax income.
- Approximately $80 million of annual dividends related to non-redeemable perpetual preferred stock issuances by LMIC and LMFIC.

On October 9, 2017, LMGI terminated its $1 billion commercial paper program.

$ in Millions	**As of December 31, 2017**	**As of December 31, 2016**
Total debt	$8,325	$7,603
Adjusted debt[1]	$7,325	$6,603
Total equity	$20,688	$20,387
Less: Accumulated other comprehensive loss	(1,026)	(1,304)
Total equity excluding accumulated other comprehensive loss	$21,714	$21,691
Total capital excluding accumulated other comprehensive loss	$30,039	$29,294
Adjusted debt-to-capital capitalization excluding accumulated other comprehensive loss	24.4%	22.5%
Statutory surplus	$17,493	$19,582

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

The adjusted debt-to-capital capitalization ratio excluding accumulated other comprehensive loss is calculated by dividing (a) adjusted debt by (b) total capital excluding accumulated other comprehensive loss. Net unrealized gains and losses on investments can be significantly impacted by both interest rate movements and other economic factors. Accordingly, in the opinion of the Company's management, the debt-to-total capital ratio calculated on this basis provides another useful metric for investors to understand the Company's financial leverage position. The Company's ratio of debt-to-capital (excluding accumulated other comprehensive loss) of 24.4% at December 31, 2017 was within the Company's target range.

REINSURANCE

Reinsurance Recoverables

The Company reported reinsurance recoverables of $16.899 billion and $13.513 billion at December 31, 2017 and December 31, 2016, respectively, net of allowance for doubtful accounts of $218 million and $235 million, respectively. Included in these balances are $725 million and $547 million of paid recoverables and $16.392 billion and $13.201 billion of unpaid recoverables (including retroactive reinsurance), respectively. In conjunction with the significant catastrophe losses incurred, the Company has ceded approximately $1.234 billion to its reinsurance partners.

The year-to-date $3.386 billion increase in the reported reinsurance recoverables, net of allowance for doubtful accounts, primarily reflects the Ironshore acquisition and cessions of catastrophe related loss activity primarily due to the California wildfires and Hurricanes Harvey, Irma, and Maria.

S&P Rating[1]	**As of December 31, 2017**			
$ in Millions	**Gross Recoverables[2]**	**Collateral Held[3]**	**Net Recoverables[4]**	**% of Total Net Recoverables**
<u>Rated Entities</u>				
AAA	$ -	$ -	$ -	-
AA+, AA, AA-	6,924	4,489	2,972	27%
A+, A, A-	4,670	404	4,291	38%
BBB+, BBB, BBB-	2	-	2	-
BB+ or below	1	-	1	-
Subtotal	11,597	4,893	7,266	65%
<u>Pools & Associations</u>				
State mandated involuntary pools and associations	3,092	-	3,092	28%
Voluntary	212	101	206	2%
Subtotal	3,304	101	3,298	30%
<u>Non-Rated Entities[5]</u>				
Captives & fronting companies	1,497	1,746	210	2%
Other	719	819	387	3%
Subtotal	2,216	2,565	597	5%
Grand Total	$17,117	$7,559	$11,161	100%

1 Standard & Poor's ratings are as of December 31, 2017.
2 Gross recoverables are defined as paid and unpaid claims and claim adjustment expense including IBNR and before both bad debt reserve set aside for potential uncollectible reinsurance and consideration of collateral.
3 Collateral refers to letters of credit, trust accounts, and funds held against outstanding and potential future claims and claim adjustment expenses related to reinsurance recoverable balances.
4 Net recoverables are defined as the difference between the amount of gross recoverables and collateral held for each reinsurer. If the collateral held for a reinsurer is greater than the gross recoverable, net recoverables are reported as $0.
5 Reinsurers not rated by Standard & Poor's.

Reinsurance Groups[1]	As of December 31, 2017		
$ in Millions	Gross Recoverables[2]	Collateral Held[3]	Net Recoverables[4]
1. Berkshire Hathaway Insurance Group	$3,947	$3,533	$710
2. Swiss Re Group	1,723	806	1,137
3. Nationwide Group	1,525	-	1,525
4. Everest Re Group	556	161	400
5. Alleghany Corp	530	40	489
6. Munich Re Group	478	19	468
7. Lloyd's of London	443	-	443
8. UPINSCO	435	550	-
9. Builders Reinsurance S.A.	266	329	-
10. CUMIS Insurance Society Group	250	-	250
11. Partner Re Group	237	27	216
12. Exchange Indemnity Company	216	95	121
13. AEGIS Group	196	232	-
14. Markel Corp	162	3	160
15. Hannover Re Group	162	7	158
State Mandated Involuntary pools and associations	3,092	-	3,092
Voluntary pools and associations	212	101	206
All Other	2,687	1,656	1,786
Total Reinsurance Recoverables	$17,117	$7,559	$11,161

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

Approximately 95% of the Company's reinsurance recoverable balance, net of collateral held and including voluntary and involuntary pools and associations, was from reinsurers rated A- or better from A.M. Best and Standard & Poor's at December 31, 2017. Collateral held against outstanding gross reinsurance recoverable balances was $7.559 billion at December 31, 2017.

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 1% of GAAP equity. In addition, the average net reinsurance recoverable balance from individual reinsurers rated below A- or not rated by A.M. Best and Standard & Poor's was approximately $1 million as of December 31, 2017.

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

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

Property Catastrophe Reinsurance

The Company has reinsurance coverage for its domestic business and certain specialty operations including: 1) hurricanes and earthquake reinsurance covering a substantial portion of $3.1 billion of loss in excess of $500 million

of retained loss in the United States, Canada and the Caribbean, excluding certain reinsurance exposures; 2) aggregate excess of loss programs; 3) quota share reinsurance programs; and 4) regional or country specific catastrophe reinsurance programs. These programs are structured to meet the Company's established tolerances under its Enterprise Risk Management Program.

Adverse Development Reinsurance

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

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

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

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

As the aggregate of workers compensation and asbestos and environmental development has exceeded the original pre-tax loss of $128 million, deferred gains are now being recorded. Deferred gains are amortized into earnings over the period when underlying claims are settled. The Company reported deferred gain amortization of $21 million and $13 million at December 31, 2017 and December 31, 2016, respectively. As of December 31, 2017 and December 31, 2016, deferred gains were $205 million and $62 million, respectively, and are included in other liabilities within the accompanying Consolidated Balance Sheets.

CRITICAL ACCOUNTING ESTIMATES

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

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

For additional discussion, please refer to footnote 1 in the Company's December 31, 2017 Audited Consolidated Financial Statements.

Unpaid Claims and Claim Adjustment Expenses

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

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

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

Asbestos and Environmental

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

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

Reinsurance Recoverables

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

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

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

For additional discussion, please refer to footnote 5 in the Company's December 31, 2017 Audited Consolidated Financial Statements.

Fair Value Determination

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

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

Regarding fair value measurements, as of December 31, 2017, excluding other assets, the Company reflected $5.826 billion (10.0%) as level 1 (quoted prices in active markets) primarily consisting of U.S. Treasuries and common equity securities. The majority of the Company's invested assets are reported as level 2 (quoted prices from other observable inputs). As of December 31, 2017, the Company reported $50.874 billion (88.0%) as level 2, consisting primarily of fixed maturity securities. Finally, the Company reported $1.131 billion (2.0%) as level 3 (unobservable inputs), primarily consisting of international and privately held securities for which a market price is not readily observable.

For additional discussion, please refer to footnote 10 in the Company's December 31, 2017 Audited Consolidated Financial Statements.

Impairment Losses on Investments

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

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

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

For additional discussion, please refer to footnote 1 in the Company's December 31, 2017 Audited Consolidated Financial Statements.

Goodwill and Intangible Assets

Goodwill is tested for impairment at least annually using either a qualitative or a quantitative process. Election of the approach can be made at the reporting unit level. As of December 31, 2017, the Company has five reporting units – Global Consumer Markets, Commercial Insurance, Liberty Mutual Benefits, Global Specialty and Ironshore. The reporting unit has the option to skip the qualitative test and move directly to completion of the quantitative process.

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

For additional discussion, please refer to footnote 1 in the Company's December 31, 2017 Audited Consolidated Financial Statements.

Deferred Income Taxes

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

On December 22, 2017, the U.S. enacted the Act. The Act reduces the U.S. Federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign-sourced earnings. At December 31, 2017, the Company has made a reasonable estimate of the effects of the reduction in the U.S. corporate income tax rate and the one-time transition tax, resulting in a tax expense of $252 million, of which $240 million is considered provisional and $12 million is due to the impact of proportional amortization on investments in qualified affordable housing projects. In accordance with SEC guidance, provisional amounts may change as a result of additional guidance from, and interpretations by, U.S. regulatory and standard-setting bodies, and changes in assumptions the Company has made. Calculations for provisional amounts will be completed within one year of the date of enactment of the Act.

The Company revalued certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. The Company is still analyzing certain aspects of the Act and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amount recorded related to revaluing the deferred tax balance was $91 million.

The one-time transition tax is based on the Company's total post-1986 earnings and profits ("E&P") for which the Company has previously deferred from U.S. income taxes. Based on information available, the Company recorded a provisional amount for the one-time transition tax liability, resulting in an increase in income tax expense of $149 million. The Company has not yet completed its calculation of the total post-1986 foreign E&P, therefore it is subject to change. No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax or any additional outside basis differences as these amounts continue to be indefinitely reinvested in foreign operations. Determining the amount of unrecognized deferred tax liability related to any

remaining undistributed foreign earnings not subject to the transition tax or additional outside basis differences is not practicable.

In addition, the Act includes two new provisions that impact global companies: base erosion and anti-abuse tax ("BEAT") and global intangible low-taxed income ("GILTI"). BEAT is required to be treated as a period expense. GILTI will also be treated by the Company as a period expense.

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

Pension and Postretirement Benefit Obligations

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

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

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

For additional discussion, please refer to footnote 9 in the Company's December 31, 2017 Audited Consolidated Financial Statements.

ABOUT THE COMPANY

Boston-based LMHC, the parent corporation of the Liberty Mutual Insurance group of entities, is a diversified global insurer and fourth largest property and casualty insurer in the U.S. based on 2016 direct written premium. The Company also ranks 75th on the Fortune 100 list of largest corporations in the U.S. based on 2016 revenue. As of December 31, 2017, LMHC had $142.502 billion in consolidated assets, $121.814 billion in consolidated liabilities, and $39.409 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.