(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Liberty Mutual Holding Company Inc., entities over which the Company exercises control including majority and wholly owned subsidiaries and variable interest entities ("VIE") when the Company is deemed the primary beneficiary (collectively "LMHC" or the "Company"). The minority ownership of consolidated affiliates is represented in equity as non-controlling interest. All material intercompany transactions and balances have been eliminated.

The accompanying consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's principal estimates include (1) unpaid claims and claim adjustment expense reserves, including asbestos and environmental liability reserves and loss sensitive premium attributable to prior years, (2) reinsurance recoverables and associated uncollectible allowance, (3) fair value determination and other-than temporary impairments of the investment portfolio and direct investments in natural resources, (4) valuation of goodwill and intangible assets, (5) deferred income tax valuation allowance, and (6) pension and post-retirement benefit obligations. While the amounts included in the consolidated financial statements reflect management's best estimates and assumptions, these amounts ultimately could vary.

Adoption of New Accounting Standards

The Company adopted the FASB issued updated guidance for leases, ASU 2016-02, which requires a lessee to recognize a right-of-use asset and a lease liability on the balance sheet for leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of income. The Company adopted the updated guidance for the quarter ended March 31, 2022, and elected the option allowed in the transition guidance to recognize a cumulative effect adjustment to the opening balance of unassigned equity in the year of adoption. The adoption resulted in the recognition of a right-of-use asset and a lease liability of $421 and an equity adjustment of $90, net of tax.

Effective January 1, 2023, the Company adopted ASC 326, *Measurement of Credit Losses on Financial Instruments*. As a result, the Company used modified retrospective transition and estimates allowance for credit losses on items measured at amortized cost within the scope of ASC 326-20, including mortgage loans, private loans, unfunded commitments, reinsurance recoverables, and premium receivables, to reflect management's estimate of expected credit losses considering historical losses, existing economic conditions, and reasonable and supportable forecasts. On January 1, 2023, the allowance for credit losses and liability for unfunded commitments increased by $56 million (pre-tax), and the cumulative effect to opening retained earnings was a reduction of $44 million. Adoption of ASC 326 for the AFS debt securities did not impact the transition adjustment as it is applied prospectively

There are no accounting standards not yet adopted by the Company that are expected to have a material impact on the consolidated financial statements.

Securities Lending

The Company participates in a securities lending program to generate additional income, whereby certain domestic fixed maturity securities and equity securities are loaned for a short period of time from the Company's portfolio to qualifying third parties via a lending agent. Terms of the agreement are for borrowers of these securities to provide collateral of at least 102% of the market value of the loaned securities. Acceptable collateral may be in the form of cash or permitted securities as outlined in the securities lending agreement. The market value of the loaned securities is monitored, and additional collateral is obtained if the market value of the collateral falls below 102% of the market value of the loaned securities. Under the terms of the securities lending program, the lending agent indemnifies the Company against borrower defaults. The loaned securities remain a recorded asset of the Company; however, the Company records a liability for amount of cash collateral held, representing its obligation to return the collateral related to the loaned securities.

Net Investment Hedge Instruments

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. Accordingly, the foreign currency translation of the debt instrument and accrued interest is recorded in accumulated other comprehensive loss, offsetting the foreign currency translation adjustment of the related net investment that is also recorded in accumulated other comprehensive loss. As of March 31, 2023, the Company had €2,250 million of outstanding long-term debt and approximately €42 million of accrued interest designated as non-derivative hedges of its net investment in certain foreign operations. As of March 31, 2023, the foreign currency translation of the debt instrument and accrued interest recorded in accumulated other comprehensive loss was $35.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists principally of unrealized gains and losses on certain investments in debt securities, foreign currency translation adjustments, and pension and postretirement liability adjustments.

(dollars in millions)

The components of accumulated other comprehensive loss excluding non-controlling interest, net of related deferred acquisition costs and taxes, are as follows:

	March 31, 2023	December 31, 2022
Unrealized losses on securities	$(4,309)	$(5,373)
Foreign currency translation and other adjustments	(1,117)	(1,200)
Pension and post retirement liability funded status	(1,236)	(1,257)
Accumulated other comprehensive loss	$(6,662)	$(7,830)

The following tables present the changes in the components of other comprehensive income (loss) for the three months ended March 31, 2023 and 2022, respectively.

Three months ended March 31, 2023	Unrealized gains on securities	Change in pension and post retirement plans funded status	Foreign currency translation and other adjustments	Total
Unrealized change arising during the period	$1,242	$-	$73	$1,315
Less: Reclassification adjustments included in consolidated net income	(50)	(27)	-	(77)
Total other comprehensive income before income tax expense	1,292	27	73	1,392
Less: Income tax expense (benefit)	228	6	(10)	224
Total other comprehensive income, net of income tax expense	$1,064	$21	$83	$1,168

Three months ended March 31, 2022	Unrealized gains on securities	Change in pension and post retirement plans funded status	Foreign currency translation and other adjustments	Total
Unrealized change arising during the period	$(3,600)	$-	$106	$(3,494)
Less: Reclassification adjustments included in consolidated net income	(108)	(32)	-	(140)
Total other comprehensive (loss) income before income tax expense	(3,492)	32	106	(3,354)
Less: Income tax expense (benefit)	(723)	7	8	(708)
Total other comprehensive (loss) income, net of income tax expense	$(2,769)	$25	$98	$(2,646)

(2) ACQUISITIONS, MERGERS AND DISPOSITIONS

ACQUISITIONS

AmGeneral Insurance Berhad

On July 19, 2021, the Company announced they will be applying for regulatory approval to acquire Malaysian insurer AmGeneral Insurance Berhad. The acquisition closed July 28, 2022. As a result of the transaction Liberty Insurance Berhad acquired 100% of shares of the AmGeneral. AmBank Group's share of the sale proceeds were in the form of cash and consideration shares, which resulted in AmBank Group holding a 30% interest in the Liberty Insurance Berhad and AmGeneral businesses. The AmGeneral and Liberty Insurance Berhad operations formally merged in Q1 2023. The table below details the preliminary allocation of assets acquired and liabilities assumed. The fair values listed below are the Company's best estimates as of March 31, 2023, and are subject to adjustments as additional information becomes available to complete the allocation.