

Liberty Mutual Holding Company Inc.

Second Quarter 2023

Consolidated Financial Statements

LIBERTY MUTUAL HOLDING COMPANY INC.

Consolidated Statements of Operations

(dollars in millions)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues				
Premiums earned	\$ 11,351	\$ 11,031	\$ 22,529	\$ 21,334
Net investment income	797	938	1,381	1,721
Fee and other revenues	269	194	483	417
Net realized losses	(63)	(583)	(112)	(673)
Total revenues	12,354	11,580	24,281	22,799
Claims, Benefits and Expenses				
Benefits, claims and claim adjustment expenses	9,178	8,495	17,610	15,754
Operating costs and expenses	2,008	1,914	4,031	3,899
Amortization of deferred policy acquisition costs	1,598	1,479	3,156	2,682
Interest expense	136	120	271	242
Total claims, benefits and expenses	12,920	12,008	25,068	22,577
Acquisition & integration costs	(13)	(48)	(25)	(57)
Restructuring costs	(38)	2	(40)	2
(Loss) income from continuing operations before income tax expense and non-controlling interest	(617)	(474)	(852)	167
Income tax (benefit) expense	(150)	(100)	(200)	49
Consolidated net (loss) income from continuing operations	(467)	(374)	(652)	118
Discontinued operations (net of income tax expense of \$85 and \$119 in 2023 and \$3 and \$13 in 2022, for the three and six months ended June 30, respectively)	(115)	32	2	38
Consolidated net (loss) income	(582)	(342)	(650)	156
Less: Net income attributable to non-controlling interest	3	1	10	1
Net (loss) income attributable to Liberty Mutual Holding Company Inc.	\$ (585)	\$ (343)	\$ (660)	\$ 155
Net Realized Losses				
Impairment losses ^(a)	\$ (8)	\$ (5)	\$ (20)	\$ (17)
Other net realized losses	(39)	(85)	(64)	(216)
Valuation changes on equity investments, derivatives, other	(16)	(493)	(28)	(440)
Total net realized losses	\$ (63)	\$ (583)	\$ (112)	\$ (673)

(a) The Company adopted ASC 326, *Measurement of Credit Losses on Financial Instruments* as of Jan 1, 2023. In prior year this amount related to other-than-temporary impairment.

Liberty Mutual Holding Company Inc.

Consolidated Balance Sheets

(dollars in millions)

(Unaudited)

	June 30, 2023	December 31, 2022
Assets:		
Investments		
Fixed maturities, available for sale (net of allowance for credit losses of \$11 in 2023) (amortized cost of \$71,464 and \$69,167)	\$ 65,750	\$ 62,860
Equity securities, at fair value	1,050	1,099
Short-term investments	634	418
Mortgage loans (net of allowance for credit losses of \$36 in 2023)	3,211	3,632
Other investments (net of allowance for credit losses of \$49 in 2023)	16,671	15,382
Total investments	87,316	83,391
Cash and cash equivalents	8,733	12,531
Premium and other receivables	17,055	15,476
Reinsurance recoverables (net of allowance for credit losses of \$144 and \$136 in 2023 and 2022, respectively)	18,903	18,777
Deferred tax asset	2,041	1,781
Deferred acquisition costs	3,722	3,855
Goodwill	5,437	5,412
Prepaid reinsurance premiums	3,223	2,605
Other assets	8,761	8,672
Assets held for sale	8,196	7,816
Total assets	\$ 163,387	\$ 160,316
Liabilities:		
Unpaid claims and claim adjustment expenses and future policy benefits:		
Property and casualty	\$ 78,771	\$ 76,986
Life	55	67
Unearned premiums	27,612	26,406
Funds held under reinsurance treaties	310	352
Short-term debt	546	547
Long-term debt	9,572	10,053
Accrued postretirement and pension benefits	2,938	3,003
Payable for investments purchased and loaned	3,215	3,034
Other liabilities	12,289	12,066
Liabilities held for sale	5,857	5,594
Total liabilities	141,165	138,108
Equity:		
Unassigned equity	29,118	29,822
Accumulated other comprehensive loss	(7,120)	(7,830)
Total policyholders' equity	21,998	21,992
Non-controlling interest	224	216
Total equity	22,222	22,208
Total liabilities and equity	\$ 163,387	\$ 160,316

Liberty Mutual Holding Company Inc.
Consolidated Statements of Comprehensive Income
(dollars in millions)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Consolidated net (loss) income	\$ (582)	\$ (342)	\$ (650)	\$ 156
Other comprehensive (loss) income, net of taxes:				
Unrealized (losses) gains on securities	(523)	(2,317)	541	(5,086)
Foreign currency translation and other adjustments	63	(205)	167	(82)
Other comprehensive (loss) income, net of taxes	(460)	(2,522)	708	(5,168)
Comprehensive (loss) income	<u>\$ (1,042)</u>	<u>\$ (2,864)</u>	<u>\$ 58</u>	<u>\$ (5,012)</u>

See accompanying notes to the unaudited consolidated financial statements

Liberty Mutual Holding Company Inc.
Consolidated Statements of Changes in Total Equity
(dollars in millions)
(Unaudited)

	Six Months Ended June 30,	
	2023	2022
Balance at beginning of the year	\$ 22,208	\$ 27,848
Cumulative effect from the adoption of new accounting standards	(44)	90
Mutual Merger with State Auto	-	542
Comprehensive income (loss):		
Consolidated net (loss) income	(650)	156
Other comprehensive income (loss), net of taxes	708	(5,168)
Total comprehensive income (loss)	58	(5,012)
Balance at end of the period	<u>\$ 22,222</u>	<u>\$ 23,468</u>

See accompanying notes to the unaudited consolidated financial statements

LIBERTY MUTUAL HOLDING COMPANY INC.

Consolidated Statements of Cash Flows

(dollars in millions)

(Unaudited)

	Six Months Ended	
	June 30,	
	2023	2022
Cash flows from operating activities:		
Consolidated net (loss) income	\$ (650)	\$ 156
Less income from Liberty Seguros – Latin America and Western Europe, net of tax expense	2	38
(Loss) Income from operations excluding Liberty Seguros – Latin America and Western Europe discontinued operations	(652)	118
Adjustments to reconcile consolidated net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	391	419
Realized losses	112	681
Undistributed private equity investment gains (losses)	91	(697)
Premium, other receivables, and reinsurance recoverables	(1,810)	(2,977)
Deferred acquisition costs	149	(302)
Liabilities for insurance reserves	2,568	4,652
Taxes payable, net of deferred	(464)	(364)
Pension plan contributions	(136)	-
Other, net	175	243
Total adjustments	1,076	1,655
Net cash provided by operating activities - excluding Liberty Seguros – Latin America and Western Europe discontinued operations	424	1,773
Net cash provided by operating activities - Liberty Seguros – Latin America and Western Europe discontinued operations	67	16
Net cash provided by operating activities	491	1,789
Cash flows from investing activities:		
Purchases of investments	(15,123)	(3,955)
Sales and maturities of investments	11,531	3,558
Property and equipment purchased, net	(67)	(14)
Other investing activities	67	12
Net cash used in investing activities - excluding Liberty Seguros – Latin America and Western Europe discontinued operations	(3,592)	(399)
Net cash used in investing activities - Liberty Seguros – Latin America and Western Europe discontinued operations	(415)	(51)
Net cash used in investing activities	(4,007)	(450)
Cash flows from financing activities:		
Net activity in policyholder accounts	(11)	(13)
Debt financing, net	(537)	174
Net security lending activity and other financing activities	(79)	18
Net cash (used in) provided by financing activities - excluding Liberty Seguros – Latin America and Western Europe discontinued operations	(627)	179
Net cash used in financing activities - Liberty Seguros – Latin America and Western Europe discontinued operations	(9)	(13)
Net cash (used in) provided by financing activities	(636)	166
Effect of exchange rate changes on cash - excluding Liberty Seguros – Latin America and Western Europe discontinued operations	(3)	(62)
Effect of exchange rate changes on cash - Liberty Seguros – Latin America and Western Europe discontinued operations	13	(7)
Effect of exchange rate changes on cash	10	(69)
Net (decrease) increase in cash and cash equivalents - excluding Liberty Seguros – Latin America and Western Europe discontinued operations	(3,798)	1,491
Net decrease in cash and cash equivalents - Liberty Seguros – Latin America and Western Europe discontinued operations	(344)	(55)
Net (decrease) increase in cash and cash equivalents	(4,142)	1,436
Cash and cash equivalents, beginning of year - excluding Liberty Seguros – Latin America and Western Europe discontinued operations	12,531	10,565
Cash and cash equivalents, end of period - excluding Liberty Seguros – Latin America and Western Europe discontinued operations	\$ 8,733	12,056

See accompanying notes to the unaudited consolidated financial statements

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

(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 (pre-tax), and the cumulative effect to opening retained earnings was a reduction of \$44. 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.

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.

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

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
Unrealized (losses) gains on securities	\$(4,832)	\$(5,373)
Foreign currency translation and other adjustments	(1,076)	(1,200)
Pension and post retirement liability funded status	(1,212)	(1,257)
Accumulated other comprehensive loss	<u>\$(7,120)</u>	<u>\$(7,830)</u>

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

The following tables present the changes in the components of other comprehensive (loss) income for three and six months ended June 30, 2023 and 2022, respectively.

	Unrealized gains on securities ⁽¹⁾	Change in pension and post retirement plans funded status	Foreign currency translation and other adjustments ⁽²⁾	Total
Three months ended June 30, 2023				
Unrealized change arising during the period	\$ (727)	\$-	\$24	\$(703)
Less: Reclassification adjustments included in consolidated net income	(87)	(30)	-	(117)
Total other comprehensive (loss) income before income tax expense	(640)	30	24	(586)
Less: Income tax (benefit) expenses	(117)	6	(15)	(126)
Total other comprehensive (loss) income net of income tax expense	\$(523)	\$24	\$39	\$(460)

(1) Includes \$1M of non-controlling interest

(2) Includes \$(3M) of non-controlling interest

	Unrealized gains on securities ⁽¹⁾	Change in pension and post retirement plans funded status	Foreign currency translation and other adjustments ⁽²⁾	Total
Three months ended June 30, 2022				
Unrealized change arising during the period	\$(3,016)	\$-	\$(211)	\$(3,227)
Less: Reclassification adjustments included in consolidated net income	(67)	(30)	-	(97)
Total other comprehensive (loss) income before income tax expense	(2,949)	30	(211)	(3,130)
Less: Income tax (benefit) expenses	(632)	6	18	(608)
Total other comprehensive (loss) income net of income tax expense	\$(2,317)	\$24	\$(229)	\$(2,522)

(1) Includes \$(1M) of non-controlling interest

(2) Includes \$(2M) of non-controlling interest

	Unrealized gains on securities ⁽¹⁾	Change in pension and post retirement plans funded status	Foreign currency translation and other adjustments ⁽²⁾	Total
Six months ended June 30, 2023				
Unrealized change arising during the period	\$515	\$-	\$97	\$612
Less: Reclassification adjustments included in consolidated net income	(137)	(57)	-	(194)
Total other comprehensive (loss) income before income tax expense	652	57	97	806
Less: Income tax (benefit) expenses	111	12	(25)	98
Total other comprehensive (loss) income, net of income tax expense	\$541	\$45	\$122	\$708

(1) Includes \$1M of non-controlling interest

(2) Includes \$(3M) of non-controlling interest

	Unrealized gains on securities ⁽¹⁾	Change in pension and post retirement plans funded status	Foreign currency translation and other adjustments ⁽²⁾	Total
Six months ended June 30, 2022				
Unrealized change arising during the period	\$(6,616)	\$-	\$(105)	\$(6,721)
Less: Reclassification adjustments included in consolidated net income	(175)	(62)	-	(237)
Total other comprehensive (loss) income before income tax expense	(6,441)	62	(105)	(6,484)
Less: Income tax (benefit) expenses	(1,355)	13	26	(1,316)
Total other comprehensive (loss) income, net of income tax expense	\$(5,086)	\$49	\$(131)	\$(5,168)

(1) Includes \$(1M) of non-controlling interest

(2) Includes \$(2M) of non-controlling interest

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

2) ACQUISITIONS, MERGERS AND DISPOSITIONS

ACQUISITIONS

AmGeneral Insurance Berhad

On July 19, 2021, the Company announced they had applied 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 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 June 30, 2023, and are subject to adjustments as additional information becomes available to complete the allocation.

	<u>As of</u> <u>28-Jul-22</u>
Assets	
Total investments	\$835
Cash and cash equivalents	42
Premiums and other receivables	12
Reinsurance recoverables	114
Goodwill	97
Other assets	104
Total assets	<u><u>\$1,204</u></u>
Liabilities	
Unpaid claims and claims adjustment expenses	\$410
Unearned premium	177
Deferred tax liability	7
Other liabilities	87
Total liabilities	<u><u>\$681</u></u>

Direct costs related to the acquisition were expensed as incurred. Integration and acquisition costs principally consisting of non-recurring banking, legal, tax and accounting services, retention and severance costs are reflected separately on the consolidated statements of operations.

MERGERS

State Auto

On March 1, 2022, the Company completed its merger with State Auto Group, a super-regional insurance holding company headquartered in Columbus, Ohio. Under the terms of the agreement, State Auto mutual members became mutual members of Liberty Mutual and Liberty Mutual acquired all of the publicly held shares of common stock of State Auto Financial for \$52 per share in cash, totaling approximately \$980. As a mutual merger under ASC 805, *Business Combinations*, the fair value of SAM's member interest was estimated and used as a proxy for consideration in the merger. The Company recorded a direct increase to unassigned equity of \$542, which represent the fair value of SAM's member interest. The table below details the final allocation of assets acquired and liabilities assumed as of March 31, 2023.

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

	As of
	<u>1-Mar-22</u>
Assets	
Total investments	\$3,335
Cash and cash equivalents	176
Premiums and other receivables	650
Reinsurance recoverable	189
Goodwill	47
Prepaid reinsurance premiums	16
Deferred tax asset	75
Other assets	467
Total assets	<u><u>\$4,955</u></u>
Liabilities	
Unpaid claims and claim adjustment expenses	\$1,799
Unearned premiums	1,233
Long-term debt	203
Other liabilities	198
Total liabilities	<u><u>\$3,433</u></u>

Direct costs related to the merger were expensed as incurred. Integration and merger costs principally consisting of non-recurring banking, legal, tax and accounting services, retention and severance costs are reflected separately on the consolidated statements of operations.

DISPOSITIONS

In August 2021, the Company entered into an agreement to sell an Australian subsidiary entity (Baralaba Coal Company) and recorded an incremental impairment of \$10 in Q4, bringing the total 2021 impairment to \$509. The transaction closed in December 2021 with a realized loss incurred of \$30. In December 2022, the Company recognized a \$60 gain from contingent consideration related to the transaction. In Q1 2023, the Company received the contingent consideration payment and recognized an additional gain of \$5.

DISCONTINUED OPERATIONS

Liberty Seguros – Latin America & Western Europe

On May 27, 2023, the Company announced the sale of Liberty Seguros' personal and small commercial business in Brazil, Chile, Colombia, and Ecuador to Talanx Group. On June 15, 2023, the Company announced the sale of Liberty Seguros' personal and small commercial business operations in Ireland, Northern Ireland, Portugal, and Spain to Generali Group. Each transaction is subject to regulatory approval, which is expected by the first half of 2024.

A business is classified as held for sale when management, having the authority to approve the action, commits to a plan to sell the business, the sale is probable to occur within one year at a price that is reasonable in relation to its current fair value, and other criteria are met. A business classified as held for sale is recorded at the lower of carrying amount or estimated fair value less costs to sell. When the carrying amount of the business exceeds its estimated fair value less cost to sell, a loss is recognized and updated each reporting period as appropriate. The results of operations classified as held for sale are reported as discontinued operations if the disposal represents a strategic shift that has or will have a major effect on the entity's operations and financial results. Discontinued operations reporting requires that the results for prior periods are retrospectively reclassified as discontinued operations, results of operations are reported in a single line (net of tax) in the consolidated statements of operations, and assets and liabilities are reported as held for sale in the Consolidated Balance Sheets the period in which the business is classified as held for sale.

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

The Company met the criteria for held-for-sale and discontinued operations in Q2 2023, accordingly, for the three and six months ended June 30, 2023, and for all prior periods, the results of the disposal groups have been classified as discontinued operations in the consolidated statements of operations. As of June 30, 2023, and December 31, 2022, the assets and liabilities attributable to the disposal groups are reflected in assets and liabilities held for sale on the accompanying Consolidated Balance Sheets. As a result of the transaction, a loss of \$141 was recorded in the second quarter of 2023.

The following tables detail the major assets and liabilities classified as held for sale in the consolidated balance sheets.

Assets:	As of June 30, 2023	As of December 31, 2022
Total investments	\$5,367	\$4,624
Cash and cash equivalents	235	579
Premium and other receivables	985	880
Reinsurance recoverables	70	40
Deferred tax asset	110	149
Deferred acquisition costs	390	358
Goodwill	364	364
Prepaid reinsurance premiums	123	64
Other assets	552	758
Total assets held for sale	\$8,196	\$7,816
Liabilities:		
Unpaid claims and claim adjustment expenses and future policy benefits		
Property and casualty	\$1,655	\$1,612
Life	1,530	1,473
Unearned premiums	1,729	1,533
Funds held under reinsurance treaties	5	4
Other liabilities	938	972
Total liabilities held for sale	\$5,857	\$5,594

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

The following table summarizes the amounts related to discontinued operations in the consolidated statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues:				
Premiums earned	\$778	\$658	\$1,507	\$1,305
Net investment income	47	38	90	71
Fee and other revenues	28	28	56	56
Net realized (losses)	(111)	(89)	(79)	(142)
Total revenues	\$742	\$635	\$1,574	\$1,290
 Claims, Benefits and Expenses:				
Benefits, claims and claim adjustment expenses	\$451	\$418	\$831	\$845
Operating costs and expenses	151	129	292	263
Amortization of deferred policy acquisition costs	133	118	256	234
Interest credited to policyholders	7	8	15	15
Total claims, benefits and expenses	\$742	\$673	\$1,394	\$1,357
 Restructuring costs	(6)	-	(6)	(2)
Unit linked life insurance	(23)	73	(53)	120
 Income before income tax expense	(30)	35	121	51
Income tax expense	(85)	(3)	(119)	(13)
Net Income	\$(115)	\$32	\$2	\$38

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

(3) INVESTMENTS

The amortized cost, gross unrealized gains and losses and fair values of available for sale investments as of June 30, 2023 and December 31, 2022, are as follows:

	Amortized Cost	Credit Allowance	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2023					
U.S. government and agency securities	\$8,890	\$ -	\$-	\$(735)	\$8,155
Residential MBS ⁽¹⁾	6,578	-	5	(613)	5,970
Commercial MBS	4,543	-	6	(318)	4,231
Other MBS and ABS ⁽²⁾	4,995	-	1	(359)	4,637
U.S. state and municipal	7,183	-	20	(484)	6,719
Corporate and other	34,457	(11)	68	(2,979)	31,535
Foreign government securities	4,714	-	3	(319)	4,398
Redeemable Preferred Stock	104	-	1	-	105
Total securities available for sale	<u>\$71,464</u>	<u>\$(11)</u>	<u>\$104</u>	<u>\$(5,807)</u>	<u>\$65,750</u>
December 31, 2022					
U.S. government and agency securities	\$8,848	\$-	\$2	\$(777)	\$8,073
Residential MBS ⁽¹⁾	6,547	-	5	(605)	5,947
Commercial MBS	4,457	-	10	(310)	4,157
Other MBS and ABS ⁽²⁾	4,911	-	3	(395)	4,519
U.S. state and municipal	7,698	-	19	(586)	7,131
Corporate and other	32,132	-	36	(3,389)	28,779
Foreign government securities	4,495	-	3	(324)	4,174
Redeemable Preferred Stock	79	-	1	-	80
Total securities available for sale	<u>\$69,167</u>	<u>\$-</u>	<u>\$79</u>	<u>\$(6,386)</u>	<u>\$62,860</u>

(1) Mortgage-backed securities ("MBS")

(2) Asset-backed securities ("ABS")

As of June 30, 2023 and December 31, 2022, the fair values of fixed maturity securities and equity securities loaned were approximately \$3,266 and \$3,281, respectively. Cash and short-term investments received as collateral in connection with the loaned securities were approximately \$2,990 and \$2,917 as of June 30, 2023 and December 31, 2022, respectively. Investments other than cash and short-term investments received as collateral in connection with the loaned securities were approximately \$346 and \$434 as of June 30, 2023 and December 31, 2022, respectively.

The amortized cost and fair value of fixed maturities as of June 30, 2023, by contractual maturity are as follows:

	Amortized Cost	Fair Value
Due to mature:		
One year or less	\$2,399	\$2,357
Over one year through five years	24,152	22,564
Over five years through ten years	20,648	18,707
Over ten years	8,149	7,284
MBS and ABS of government and corporate agencies	16,116	14,838
Total fixed maturities	<u>\$71,464</u>	<u>\$65,750</u>

Actual maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Due to the potential for prepayment on MBS and ABS, they are not categorized by contractual maturity.

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

The following table summarizes the Company's gross realized gains and losses by asset type for the three months ended June 30, 2023 and 2022:

<i>Components of Net Realized (Losses)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Fixed maturities:				
Gross realized gains	\$22	\$29	\$48	\$114
Gross realized losses	(109)	(94)	(183)	(294)
Equities:				
Gross realized gains	30	123	43	177
Gross realized losses	(21)	(524)	(29)	(694)
Derivatives:				
Gross realized gains	27	40	55	54
Gross realized losses	(8)	(2)	(26)	(56)
Other:				
Gross realized gains	73	38	84	240
Gross realized losses	(77)	(193)	(104)	(214)
Total net realized (losses)	<u>\$(63)</u>	<u>\$(583)</u>	<u>\$(112)</u>	<u>\$(673)</u>

Included in the above are unrealized losses related to equity securities still held of \$(14) and \$(24) respectively, for the three and six months ended June 30, 2023, and \$(246) and \$(82), respectively, for the three and six months ended June 30, 2022.

During the three months ended June 30, 2023 and 2022, the Company recorded \$(8) and \$(5) of impairment losses, respectively. During the six months ended June 30, 2023 and 2022, the Company recorded \$(20) and \$(17) of impairment losses, respectively. Included in the impairment losses are impairment charges for assets measured at fair value on a non-recurring basis which are summarized in the following table for the six months ended June 30, 2023 and 2022:

	2023	2022
Natural resources	\$8	\$(12)
Software	(15)	(5)
Total	<u>\$(7)</u>	<u>\$(17)</u>

During the three months ended June 30, 2023 and 2022, proceeds from sales of fixed maturities available for sale were \$4,233 and \$4,544, respectively. The gross realized gains (losses) on sales of fixed maturities available for sale totaled \$13 and \$(95) in 2023 and \$25 and \$(90) in 2022. During the three months ended June 30, 2023 and 2022, proceeds from sales of equities at fair value were \$59 and \$1,970, respectively. The gross realized gains (losses) on sales of equities at fair value totaled \$8 and \$(2) in 2023 and \$80 and \$(141) in 2022. During the six months ended June 30, 2023 and 2022, proceeds from sales of fixed maturities available for sale were \$7,517 and \$24,030, respectively. The gross realized gains (losses) on sales of fixed maturities available for sale totaled \$33 and \$(153) in 2023 and \$106 and \$(280) in 2022. During the six months ended June 30, 2023 and 2022, proceeds from sales of equities at fair value were \$115 and \$2,730, respectively. The gross realized gains (losses) on sales of equities at fair value totaled \$9 and \$(4) in 2023 and \$148 and \$(168) in 2022.

The following tables summarize the gross unrealized losses and fair value of available for sale investments by the length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2023 and December 31, 2022, and that are not deemed to be other-than-temporarily impaired:

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

June 30, 2023	Less Than 12 Months		12 Months or Longer	
	Fair Value of		Fair Value of	
	Investments with		Investments with	
	Unrealized	Unrealized	Unrealized	Unrealized
	Losses	Losses	Losses	Losses
U.S. government and agency securities	(\$138)	\$2,382	(\$597)	\$5,752
Residential MBS	(78)	1,509	(535)	4,260
Commercial MBS	(107)	1,954	(211)	2,219
Other MBS and ABS	(20)	659	(339)	3,800
U.S. state and municipal	(40)	1,957	(444)	3,784
Corporate and other	(708)	10,382	(2,272)	17,756
Foreign government securities	(45)	1,469	(273)	2,648
Total securities available for sale	(\$1,136)	\$20,312	(\$4,671)	\$40,219

December 31, 2022	Less Than 12 Months		12 Months or Longer	
	Fair Value of		Fair Value of	
	Investments with		Investments with	
	Unrealized	Unrealized	Unrealized	Unrealized
	Losses	Losses	Losses	Losses
U.S. government and agency securities	\$(448)	\$5,338	\$(329)	\$2,462
Residential MBS	(431)	4,569	(174)	1,165
Commercial MBS	(222)	3,513	(88)	584
Other MBS and ABS	(139)	1,974	(257)	2,475
U.S. state and municipal	(284)	4,374	(302)	1,664
Corporate and other	(1,610)	17,987	(1,778)	9,163
Foreign government securities	(97)	2,079	(227)	1,821
Total securities available for sale	\$(3,231)	\$39,834	\$(3,155)	\$19,334

As of June 30, 2023, there were 6,945 securities that were in an unrealized loss position for 12 months or longer. The Company monitors the difference between the amortized cost and estimated fair value of 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 following table is a roll-forward of the allowance for credit losses for fixed income securities:

	2023
Balance at January 1,	\$-
Credit losses on securities not previously reported	22
Net increase/(decrease) on credit losses on securities previously reported	-
Reductions of allowance related to sales	-
Write-offs	(11)
Balance at June 30,	\$11

The Company believes the unrealized loss position as of June 30, 2023 does not contain credit loss because (i) the Company did not intend to sell these fixed maturity available for sale securities; (ii) it is not more likely than not that the Company will be required to sell the fixed maturity available for sale securities before recovery of their amortized cost basis; and (iii) the difference between the present value of cash flows expected to be collected from the security and the amortized cost basis of the security was due to factors other than credit loss.

As of June 30, 2023, the unrealized losses associated with the U.S. government and agency securities, U.S. state and municipal, and foreign government securities were attributable primarily to movement in interest rates and does not reflect a deterioration in the credit quality of the issuers.

Credit ratings express opinions of the credit quality of a security. Securities rated investment grade (those rated BBB- or higher by S&P) or Baa3 or higher by Moody's) are generally considered to have a low credit risk. As of June 30, 2023, 87% of the fair value of the

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

Company's Corporate bond and other securities was rated investment grade, and the portion of the Company's Corporate bond and other securities rated below investment grade had an amortized cost basis of \$4,516 and a fair value of \$4,140.

As of June 30, 2023, the unrealized losses associated with the Company's MBS and ABS securities were attributable primarily to movement in interest rates. The Company assessed allowance for credit losses using the present value of expected cash flows which incorporates key assumptions, including credit spreads for the security, adverse conditions related to the security, the industry, or geographic area and assessment of the issuer being able to make payments.

Accrued interest is excluded from the amortized cost basis of the securities and is reported in the "Other assets" line item of the Consolidated Balance Sheet. As of June 30, 2023, accrued interest was \$449. For identifying and measuring an impairment, the Company monitors accrued interest receivables and writes them off by reversing interest income, and as of June 30, 2023, this written-off amount was \$0.

Starting January 1, 2023, the Company has a portfolio monitoring process to assess whether a credit loss exists. For an available for sale security in an unrealized loss position, the Company assesses whether management with the appropriate authority has decided to sell or it is more likely than not that the Company will be required to sell before recovery of the amortized cost basis. If the security meets either of these criteria, the allowance for credit losses is written off and the amortized cost basis is written down to the debt security's fair value at the reporting date with any incremental impairment reported in earnings. If the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the Company utilizes both qualitative and quantitative inputs to determine if a credit loss is expected. These factors include:

- the extent to which fair value is less than the amortized cost basis
- credit spreads for the security
- adverse conditions related to the security, the industry, or geographic area,
- assessment of the issuer being able to make payments,

When developing estimate of cash flows expected to be collected, the Company considers available information relevant to the collectability of the security, including information about past events, current conditions, and reasonable and supportable forecasts. This information includes:

- remaining payment terms of the security,
- prepayment speeds,
- value of the underlying collateral.

These considerations are part of the Company's portfolio monitoring process which includes a quarterly review of all securities to identify those whose fair value fell below their amortized cost basis by internally established thresholds. The securities identified, along with other securities for which the Company may have a concern, are evaluated to determine whether a credit loss exists. If the Company determines that a credit loss exists, an allowance for credit losses is recorded in the net realized gains (losses) line item of the statement of income, limited by the amount that the fair value is less than amortized cost basis. The Company calculates the present value of cash flows expected to be collected using the effective interest rate implicit in the security at the date of acquisition and compares it with the amortized cost basis of the security. The portion of the unrealized loss related to factors other than credit loss remains in other comprehensive income. Write-offs are deducted from the allowance in the period in which the securities are deemed uncollectible. Recoveries are recognized when received.

If the Company believes a decline in the value (including foreign exchange rates) of a particular fixed maturity security is temporary, the decline is recorded as an unrealized loss in policyholders' equity. If the decline is believed to be other-than-temporary, and the Company believes that it will not be able to collect all cash flows due on its fixed maturity securities, then the carrying value of the investment is written down to the expected cash flow amount and a realized loss is recorded as a credit impairment. A non-credit impairment loss is recognized in other comprehensive income, net of applicable taxes, as the difference between expected cash flows and fair value. The Company has concluded that the remaining gross unrealized losses of fixed maturity securities as of June 30, 2023, are temporary.

Prior to January 1, 2023, the Company reviewed fixed maturity securities and other investments for impairment on a quarterly basis. These investments are reviewed for both quantitative and qualitative considerations including, but not limited to: (a) the extent of the decline in fair value below book value, (b) the duration of the decline, (c) significant adverse changes in the financial condition or near term prospects of the investment or issuer, (d) significant change in the business climate or credit ratings of the issuer, (e) general market conditions and volatility, (f) industry factors, (g) the past impairment of the security holding or the issuer and (h) impact of foreign exchange rates on foreign currency denominated securities. For fixed maturity securities that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated recovery in value, the Company separates impairments into credit loss and non-credit loss components. The determination of the credit loss component of the impairment charge is based on the Company's best estimate of the present value of the cash flows expected to be collected from the fixed maturity security compared to its amortized cost and is reported as part of net realized gains (losses). The non-credit component, the residual difference between the credit impairment component and the fair value, is recognized in other comprehensive income. The factors considered in making an evaluation

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

for credit versus non-credit other-than-temporary impairment include the following: (a) failure of the issuer of the security to make scheduled interest or principal payments (including the payment structure of the fixed maturity security and the likelihood the issuer will be able to make payments that increase in the future), (b) performance indicators of the underlying assets in the security (including default and delinquency rates), (c) vintage, (d) geographic concentration and (e) industry analyst reports, sector credit ratings, and volatility of the security's fair value. In addition, the Company's accounting policy for other-than-temporary impairment recognition requires an other-than-temporary impairment charge be recorded when it is determined the security will be sold or it is more likely than not that the Company will be required to sell the security before recovery of the security's amortized cost basis (all fixed maturity securities and certain preferred equity securities) or the Company does not have the intent and ability to hold certain equity securities for a period of time that is sufficient to allow for any anticipated recovery in fair value.

The Company is required to review its 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.

Mortgage Loans

The Company's mortgage loans are commercial mortgage loans collateralized by real estate properties and totaled \$3,211 net of credit loss allowances. Loan to value ratio and debt service coverage ratio are considered key credit quality indicators when estimating expected credit loss allowance for mortgage loans. Payments on mortgage loans were current as of June 30, 2023.

Private Loans

Private loans consist of lending to small businesses, pools of individual consumers, and individual companies. The Company's private loans totaled \$2,411, net of credit loss allowance, as of June 30, 2023, and are reported in the "Other investments" line item of the Consolidated Balance Sheet. Credit rating is considered a key credit quality indicator when estimating expected credit loss allowances for private loans. Payments on private loans were current as of June 30, 2023.

Interest on loans

Interest income on a loan is recognized unless the loan is more than 90 days delinquent, at which time they are moved to non-accrual status. Amounts deemed uncollectable are written off. Subsequently collected amounts are recognized in the period in which the cash is collected. Accrued interest is excluded from the amortized cost of loans and is reported in the "Other assets" line item of the Consolidated Balance Sheet. As of June 30, 2023, accrued interest was \$19 and \$34 for mortgage loans and private loans, respectively.

The following table is a roll-forward of the allowance for credit losses for loan securities by segment:

	2023		
	Mortgage	Private	Total
Balance at January 1,	\$9	\$-	\$9
Adoption impact of ASC 326	21	28	49
Net increase/(decrease) due to credit losses	6	21	27
Balance at June 30,	\$36	\$49	\$85

Variable Interest Entities

The Company invests in limited partnerships and other entities subject to VIE analysis under the VIE subsections of ASC 810, *Consolidation*. The Company analyzes each investment to determine whether it is a VIE, and if so, whether the Company is the primary beneficiary or a significant interest holder based on a qualitative and quantitative assessment. The Company evaluates the design of the entity, the risks to which the entity was designed to expose the variable interest holder and the extent of the Company's control of and variable interest in the VIE. As of June 30, 2023 and December 31, 2022, the Company has determined that it is not the primary beneficiary of any of its VIEs except for the Company's investment in its India joint venture, which is deemed immaterial.

The Company has variable interests in VIEs for which it is not the primary beneficiary and accounts for these VIEs under the equity method in accordance with ASC 323, *Investments-Equity Method and Joint Ventures*. The VIEs are principally private equity limited partnerships in which the Company has invested as a passive limited partner. The partnerships were deemed to be VIEs because the equity holders as a group lack the power to direct the activities that most significantly impact the respective entity's economic performance. The VIEs generate variability primarily from investment portfolio performance and that variability is passed to equity holders. The net carrying value of non-consolidated VIEs in which the Company has a variable interest was \$12,339 and \$11,534 as of June 30, 2023 and December 31, 2022, respectively, and the Company's maximum exposure to loss was \$20,084 and \$18,233 as of June 30, 2023 and December 31, 2022, respectively. The assets are included in other investments on the accompanying consolidated balance sheets. Maximum exposure to loss includes the carrying value and unfunded commitment of the VIE. The increase in the maximum exposure to loss from December 31,

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

2022 to June 30, 2023 is primarily related to valuation changes and new commitments to VIEs related to private credit and traditional private equity.

Limited Partnership Investments

As of June 30, 2023 and December 31, 2022, the carrying values of limited partnership investments were \$13,056 and \$12,323, respectively. These investments consist of traditional private equity partnerships, real estate partnerships, natural resources partnerships (primarily energy, metals and mining, and agriculture and timber), and other partnership funds and equity method investments. Included in the carrying value of limited partnership investments are \$450 and \$518 of limited partnership investments where the Company has elected the fair value option as of June 30, 2023 and December 31, 2022, respectively. The Company's investments in limited partnership investments are long-term in nature. The Company believes these investments offer the potential for superior longterm returns and are appropriate in the overall context of a diversified portfolio.

(4) REINSURANCE

In the ordinary course of business, the Company assumes reinsurance and also cedes reinsurance to other insurers to reduce overall risk, including exposure to large losses and catastrophic events. The Company is also a member of various involuntary pools and associations and serves as a servicing carrier for residual market organizations. The Company remains contingently liable in the event reinsurers are unable to meet their obligations for paid and unpaid reinsurance recoverables and unearned premiums ceded under reinsurance agreements.

The Company reported reinsurance recoverables of \$18,903 and \$18,777 as of June 30, 2023 and December 31, 2022, respectively, net of allowance for credit losses of \$144 and \$136, respectively. Included in these balances are \$1,270 and \$1,008 of paid recoverables and \$17,777 and \$17,905 of unpaid recoverables (including retroactive reinsurance), respectively.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies. The Company reports its reinsurance recoverables net of an allowance for credit losses. 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, including information relating to past events, current conditions, and reasonable and supportable forecasts. The Company assesses allowance for credit losses by individual reinsurers and uses a probability-of-default method. Write-offs of reinsurance recoverable are recorded in the period in which they are deemed uncollectible and are recorded against allowance for credit losses. The establishment of reinsurance recoverables and the related allowance for credit losses is also an inherently uncertain process involving estimates. Changes in these estimates could result in additional charges to the accompanying consolidated statements of operations.

On November 5, 2019, Liberty Mutual Insurance Company ("LMIC") entered into a reinsurance transaction with National Indemnity Company ("NICO"), a subsidiary of Berkshire Hathaway Inc., on a combined aggregate excess of loss agreement for certain GRM U.S. Business Lines and GRS National Insurance workers compensation liabilities, commercial auto liability and general liability excluding umbrella and warranty ("NICO Casualty Reinsurance Transaction"). The first layer of the contract attaches at \$300 below applicable held reserves at inception of \$8,342 of combined aggregate reserves. The second layer of the contract provides adverse development coverage for \$1,000 above a retention equal to \$8,742. The contract includes a sublimit of \$100 for certain general liability liabilities. At the closing of the NICO Casualty Reinsurance Transaction, but effective as of January 1, 2019, the Company ceded \$300 of existing undiscounted liabilities, paid NICO total consideration of \$462 and recorded a pre-tax loss of \$173. This contract is accounted for on a retroactive basis.

In general terms, the covered business includes post December 31, 2018 development on: (1) certain workers compensation liabilities arising under policies on the books of the Company's GRM U.S. Business Lines and GRS National Insurance strategic business units as of December 31, 2018 as respects injuries or accidents occurring after December 31, 2013 and prior to January 1, 2019; (2) commercial auto liabilities arising under policies on the books of the Company's GRM U.S. Business Lines and GRS National Insurance strategic business units as of December 31, 2018 as respects injuries or accidents occurring prior to January 1, 2019; and (3) general liability excluding umbrella and warranty arising under policies on the books of the Company's GRM U.S. Business Lines and GRS National Insurance strategic business units as of December 31, 2018 as respects injuries or accidents occurring prior to January 1, 2019.

Since the NICO Casualty Reinsurance Transaction is accounted for as retroactive reinsurance in the Company's 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 operations until those benefits exceed the loss on the transaction. Reinsurance benefits will be deferred and are amortized into earnings over the period when underlying claims are settled.

As the aggregate development on the contract has exceeded the original pre-tax loss of \$173, deferred gains are now being recorded. The Company reported deferred gain amortization of \$7 and \$5 at June 30, 2023 and June 30, 2022, respectively. As of June 30, 2023 and December 31, 2022, deferred gains were \$211 and \$218. Limits remaining on the contract as of June 30, 2023, were \$543.

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

In conjunction with the Ironshore acquisition and effective May 1, 2017, the Company entered into a reinsurance transaction with NICO 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 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 above a retention equal to \$3,006, 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 contract includes a sublimit of \$277 for certain construction liability liabilities. The Company paid NICO consideration of \$550, including interest accrued at the time of the settlement. The contract is accounted for on a prospective basis. Limits remaining on the contracts in total, and for construction liability liabilities, respectively, were \$456 and zero as of June 30, 2023.

On July 17, 2014, LMIC entered into a reinsurance transaction with NICO on a combined aggregate excess of loss agreement for substantially all of the Company's U.S. workers compensation, asbestos and environmental liabilities (the "NICO Reinsurance Transaction"), attaching at \$12,522 of combined aggregate reserves, with an aggregate limit of \$6,500 and sublimits of \$3,100 for asbestos and environmental liabilities and \$4,507 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 of existing undiscounted liabilities under this retroactive reinsurance agreement. NICO will provide \$3,180 of additional aggregate adverse development reinsurance. The Company paid NICO total consideration of \$3,046 and recorded a pre-tax loss of \$128. With respect to the ceded asbestos and environmental business, NICO has been given authority to handle claims, subject to the Company's oversight and control. With respect to the ceded workers compensation business, the Company will continue to handle claims. The 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 former Commercial Insurance Strategic Business Unit as of December 31, 2013, as respects injuries or accidents occurring prior to January 1, 2014.

As the aggregate development on the contract has exceeded the original pre-tax loss of \$128, deferred gains are now being recorded. The Company reported deferred gain amortization of \$1 and \$0 at June 30, 2023 and June 30, 2022, respectively. As of June 30, 2023 and December 31, 2022, deferred gains were \$20 and \$26. Limits remaining on the contract in total, and for asbestos and environmental liabilities, respectively, were \$3,180 and \$368 as of June 30, 2023.

Non Catastrophe Reinsurance

The Company purchases facultative and treaty reinsurance protection on a per risk, per policy, per loss and/or per occurrence basis. Treaty coverage is provided on a pro rata and excess of loss basis for portions of the Company's property, marine, terrorism, energy, third party motor, cyber, financial risk, surety, aviation and casualty lines portfolios.

Catastrophe Reinsurance

The Company has property catastrophe reinsurance coverage for its domestic business and certain specialty operations including: 1) hurricanes and earthquake reinsurance covering a substantial portion of \$3,600 of loss in excess of \$1,000 of retained loss in the United States, Canada and the Caribbean, excluding certain reinsurance exposures; 2) per occurrence and aggregate excess of loss coverage targeting our reinsurance exposures; and 3) quota share reinsurance programs. These programs are structured to meet the Company's established tolerances under its Enterprise Risk Management Program.

The Company purchases property catastrophe reinsurance coverage for the international property books to protect against international catastrophe events.

The Company purchases workers compensation catastrophe reinsurance, including coverage for its domestic commercial operations and certain specialty operations' US exposures. This program provides significant reinsurance protection in excess of \$330 per occurrence retention, including coverage for terrorism events and/or losses for a single event at a single insured location in excess of \$75. These contracts generally exclude acts of terrorism which are "certified" by the US government where such certified terrorism events involve the intentional use of nuclear, chemical, or biological materials.

Catastrophe Bond Reinsurance

On December 16, 2022, the Company entered into a multi-year property catastrophe reinsurance agreement, effective January 1, 2023, with Mystic Re IV Ltd. ("Mystic IV"), a Bermuda domiciled reinsurer, to provide a total of \$150 of reinsurance coverage for the Company and its affiliates for named storms and earthquakes covering U.S., Caribbean and Canada. The reinsurance agreement is collateralized. Such collateral is provided by Mystic IV using proceeds from the issuance of certain catastrophe bonds. The reinsurance agreement provides per occurrence indemnity coverage. The Company has not recorded any recoveries under this program.

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

On June 16, 2021, the Company entered into a multi-year property catastrophe reinsurance agreement, effective July 1, 2021, with Mystic IV to provide a total of \$300 of reinsurance coverage for the Company and its affiliates for named storms and earthquakes covering U.S., Caribbean and Canada. The reinsurance agreement is collateralized. Such collateral is provided by Mystic IV using proceeds from the issuance of certain catastrophe bonds. The reinsurance agreement provides per occurrence indemnity coverage. The Company has not recorded any recoveries under this program.

On December 21, 2020, the Company entered into a multi-year property catastrophe reinsurance agreement, effective January 1, 2021, with Mystic IV to provide a total of \$300 of reinsurance coverage for the Company and its affiliates for named storms covering U.S. and earthquakes covering U.S. and Canada. The reinsurance agreement is collateralized. Such collateral is provided by Mystic IV using proceeds from the issuance of certain catastrophe bonds. The reinsurance agreement provides per occurrence coverage based on weighted industry insured loss index. This loss index is weighted to align with the Company's assumed reinsurance portfolio. The Company has not recorded any recoveries under this program.

Florida Hurricane Catastrophe Fund

The Company participates in the Florida Hurricane Catastrophe Fund ("FHCF"), a state-mandated catastrophe fund that provides reimbursement to insurers for a portion of their Florida hurricane losses. FHCF resources may be insufficient to meet the obligations of FHCF. Limits, premium and reimbursements from FHCF apply on a per company basis. If losses fall disproportionately on one insurance entity within the Company, recovery from FHCF could be less than anticipated. On June 1, 2022, the Company renewed coverage for 90% of approximately \$52 excess of \$22. Recoveries from FHCF inure to the sole benefit of the Company. If the Company fails to recover as anticipated from FHCF there could be an adverse effect on the Company's business, financial condition or results of operations.

The Company participates in the Reinsurance to Assist Policyholders ("RAP") program, a state administered catastrophe fund that provides reimbursement to insurers for a portion of their Florida hurricane losses. Limits, premium and reimbursements from RAP apply on a per company basis. If losses fall disproportionately on one insurance entity within the Company, recovery from RAP could be less than anticipated. On July 15, 2022, the Company received coverage for 90% of approximately \$5 excess of \$14.

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

(5) DEBT OUTSTANDING

Debt outstanding as of June 30, 2023 and December 31, 2022 includes the following:

Short-term debt:

	2023	2022
4.25% Notes, due 2023 ⁽¹⁾	\$-	\$547
1.75% €500 million Notes, due 2024 ⁽¹⁾	546	-
Total short-term debt	\$546	\$547

Long-term debt:

	2023	2022
1.75% €500 million Notes, due 2024 ⁽¹⁾	\$-	\$533
8.50% Surplus Notes, due 2025	140	140
2.75% €750 million Notes, due 2026	818	801
7.875% Surplus Notes, due 2026	227	227
7.625% Notes, due 2028	3	3
4.569% Notes, due 2029	1,000	1,000
4.625% €500 million Notes, due 2030	545	533
3.91% - 4.25% Federal Home Loan Bank Borrowings due 2032	300	300
7.00% Notes, due 2034	124	124
6.50% Notes, due 2035	271	271
7.50% Notes, due 2036	19	19
6.50% Notes, due 2042	250	250
4.85% Notes, due 2044	564	564
4.50% Notes, due 2049	232	232
3.951% Notes, due 2050	1,248	1,248
4.125% Junior Subordinated Notes, due 2051 ⁽²⁾	500	500
5.50% Notes, due 2052	1,000	1,000
3.625% €500 million Junior. Subordinated Notes, due 2059 ⁽³⁾	545	533
3.95% Notes, due 2060	746	746
4.30% Junior Subordinated Notes, due 2061 ⁽⁴⁾	800	800
7.80% Junior Subordinated Notes, due 2087 ⁽⁵⁾	437	437
10.75% Junior Subordinated Notes, due 2088 ⁽⁶⁾	35	35
7.697% Surplus Notes, due 2097	260	260
	10,064	10,556
Unamortized Discount	(466)	(437)
Long-term debt excluding unamortized debt issuance costs	9,598	10,119
Unamortized debt issuance costs	(26)	(66)
Total long-term debt	\$9,572	\$10,053

(1) Short-term debt is the current maturities of the 4.25% Notes, due June 15, 2023, and the 1.75% Notes, due March 27, 2024.

(2) The par value call date is three months prior to and on December 15, 2026, after which the notes are callable at par during the three-month period prior to and on each succeeding interest reset date.

(3) The par value call date and final fixed rate interest payment date is May 23, 2024, subject to certain requirements.

(4) The par value call date is February 1, 2026, after which the notes are callable at par on each subsequent interest payment date.

(5) The par value call date and final fixed rate interest payment date is March 15, 2037, subject to certain requirements.

(6) The par value call date and final fixed rate interest payment date is June 15, 2038, subject to certain requirements.

Debt Transactions and In-Force Credit Facilities

On June 15, 2023, \$547 of Liberty Mutual Group, Inc. (“LMGI”) 4.25% Notes were paid at maturity.

On December 15, 2022, \$40 of Rockhill Holding Company (“RHC”) Notes were redeemed.

On December 2, 2022, LMGI issued EUR500 of Senior Notes, due 2030 (the “2030 Notes”). Interest is payable annually at a fixed rate of 4.625%. The 2030 Notes mature on December 2, 2030.

On November 23, 2022, \$15 of State Auto Financial Corporation (“STFC”) Notes were redeemed.

On November 3, 2022, \$96 of State Auto Property & Casualty Insurance Company (“SPC”) Federal Home Loan Bank (FHLB) borrowings were paid.

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

On September 21, 2022, \$19 of State Automobile Mutual Insurance Company (“SAM”) and \$21 of SPC FHLB borrowings were paid.

On September 2, 2022, \$11 of SAM FHLB borrowings were paid.

On June 6, 2022, LMGI issued \$1,000 of Senior Notes, due 2052 (the “2052 Notes”). Interest is payable semi-annually at a fixed rate of 5.50%. The 2052 Notes mature on June 15, 2052.

On May 2, 2022, \$473 of LMGI 4.95% Notes were paid at maturity.

On April 18, 2022, LMGI amended and restated its five-year unsecured revolving credit facility of \$1,000 with an expiration date of April 18, 2027. To date, no funds have been borrowed under the facility.

LMIC, Peerless Insurance Company (“PIC”), Liberty Mutual Fire Insurance Company (“LMFIC”), Employers Insurance Company of Wausau (“EICOW”), Safeco Insurance Company of America (“SICOA”), Ohio Casualty Insurance Company (“OCIC”), SAM, SPC and Rockhill Insurance Company (“RIC”) are members of the Federal Home Loan Bank. On March 21, 2012, LMFIC borrowed \$150 at a rate of 3.91% with a maturity date of March 22, 2032. On March 23, 2012 and April 2, 2012, LMIC borrowed \$127 at a rate of 4.24% with a maturity date of March 23, 2032 and \$23 at a rate of 4.25% with a maturity date of April 2, 2032, respectively. As of June 30, 2023, all outstanding Federal Home Loan Bank borrowings are fully collateralized. On December 29, 2022, SICOA and OCIC became members of FHLB Boston. Ironshore Indemnity Insurance (“III”) and Ironshore Specialty Insurance Company (“ISIC”) memberships were cancelled on February 24th and 25th, 2020, respectively. Final cancellation of membership has a five-year waiting period. III’s waiting period was waived by FHLB, so final membership cancellation was effective on February 9, 2022. For ISIC, the effective date of its final membership cancellation will be February 2025.

Payments of interest and principal of the surplus notes are expressly subordinate to all policyholder claims and other obligations of LMIC. Accordingly, interest and principal payments are contingent upon prior approval of the Commissioner of Insurance of the Commonwealth of Massachusetts.

(6) UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

The Company establishes reserves for payment of claims and claim adjustment expenses that arise from the policies issued. As required by applicable accounting rules, no reserves are established until a loss, including a loss from a catastrophe, occurs. The Company’s reserves are segmented into three major categories: reserves for reported claims (estimates made by claims adjusters); incurred but not reported claims reserves (“IBNR”) representing reserves for unreported claims and supplemental reserves for reported claims; and reserves for the costs to settle claims. The Company establishes its reserves net of salvage and subrogation by line of business or coverage and year in which losses occur.

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the costs of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement can be. Accordingly, “short-tail” claims, such as property damage claims, tend to be easier to estimate than “long-tail” claims, such as workers compensation or general liability claims.

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

In order to establish a reserve for IBNR claims, the actuarial teams within each of the SBUs use their experience and knowledge of the lines of business to estimate the potential future development of the incurred claims. The Company uses a number of actuarial methods and assumptions to develop an estimate of ultimate claim liabilities. Generally, these are a combination of exposure and experience based actuarial methods and review of other pertinent and available information from claims, underwriting, product and finance. Exposure based actuarial methods consider historical loss ratios and adjust for rate changes, premium and loss trends, industry trends and other information. These methods are typically used when developing an actuarial central estimate for more recent policy periods when claims data is insufficient to produce a reliable indication. As claims data becomes more reliable for a given policy period, more consideration is given to experience methods which review and monitor actual paid and reported development.

A comprehensive actuarial reserve review is performed for each product line at least once a year. The process and methods used for each product line vary depending on the circumstances and include input from claims, underwriting, product and finance. Each quarter the

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

actuarial central estimate for each product line is reviewed and updated based upon development and presented to the reserving committee to conclude on the Company's best estimate of ultimate claim liabilities.

Activity in property and casualty unpaid claims and claim adjustment expenses of the Company are summarized as follows:

	2023	2022
Balance as of January 1	\$78,598	\$70,341
Less: unpaid reinsurance recoverables ⁽¹⁾	13,605	12,559
Net balance as of January 1	64,993	57,782
Balance attributable to acquisitions and dispositions ⁽²⁾	(1,582)	1,333
Incurred attributable to:		
Current year	18,019	15,801
Prior years ⁽³⁾	(476)	(75)
Discount accretion attributable to prior years	20	18
Total incurred	17,563	15,744
Paid attributable to:		
Current year	7,438	6,672
Prior years	8,369	6,957
Total paid	15,807	13,629
Amortization of deferred retroactive reinsurance gain	12	12
Net adjustment due to foreign exchange	73	(481)
Add: unpaid reinsurance recoverables ⁽¹⁾	13,519	13,114
Balance as of June 30	\$78,771	\$73,875

⁽¹⁾ In addition to the unpaid reinsurance recoverable balances noted above, and as a result of retroactive reinsurance agreements, the Company has recorded retroactive reinsurance recoverable balances of \$4,266 and \$4,180 as of June 30, 2023 and 2022, respectively.

⁽²⁾ The balance attributable to acquisitions, mergers, and dispositions in 2023 represents the divestiture of GRM West Operations. The balance attributable to acquisitions, mergers, and dispositions in 2022 represents the impact of the termination of our participation in Syndicates 2014 and 1980 via reinsurance to close transactions with Riverstone, as well as the mutual merger with State Auto Group.

⁽³⁾ Does not include decreases in allowance related to reinsurance recoverables due to prior year development of \$9 and \$1 as of June 30, 2023 and 2022, respectively.

In 2023, the change in incurred attributable to prior years, excluding asbestos and environmental and amortization of deferred retroactive loss, is primarily attributable to favorable development on homeowners, personal auto, workers' compensation, and reinsurance lines of business, partially offset by unfavorable development on the commercial property line of business. In 2022, the change in incurred attributable to prior years, excluding asbestos and environmental and amortization of deferred retroactive loss, is primarily attributable to favorable development on specialty, personal auto, and surety lines of business, partially offset by unfavorable development on reinsurance, casualty/general liability, and homeowners.

In response to the COVID-19 pandemic, several states have passed amendments to expand Worker's Compensation coverage to ensure certain workers who contract the virus are eligible for compensation. In addition, some states have explored legislation that may expand the coverage obligations of certain insurance policies, such as business interruption policies. The Company continues to evaluate the potential exposures, but could experience increased claims frequency and severity depending on the terms and number of states implementing such changes.

Asbestos and Environmental Reserves

The Company's asbestos and environmental reserves for unpaid claims and claim adjustment expenses, net of reinsurance before the NICO Reinsurance Transaction and including uncollectible reinsurance, were \$1,141 and \$1,199 as of June 30, 2023 and December 31, 2022, respectively.

(7) INCOME TAXES

The income tax provision is calculated under the liability method of accounting. The Company recognizes deferred income tax assets and liabilities for the expected future tax effects attributable to temporary differences between the financial statement and tax return bases of assets and liabilities based on enacted tax rates and other provisions of the tax laws. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax assets will not be realized.

The Company's effective tax rate on continuing operations differs from the U.S. Federal statutory rate of 21% primarily due to the impact of non-U.S. operations, partially offset by tax-exempt investment income.

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

For the year ended December 31, 2022, the Company established a partial valuation allowance of \$62 on certain deferred tax assets related to unrealized losses in the available for sale securities portfolio. For the six-month period ended June 30, 2023, changes in market conditions resulted in a partial release of the valuation allowance of \$19. Changes in the valuation allowance have been allocated to other comprehensive income.

On August 16, 2022, the U.S. enacted the Inflation Reduction Act (“IRA”). For tax years beginning after December 31, 2022, the IRA imposes a new corporate alternative minimum tax (“CAMT”) on applicable corporations with average adjusted financial statement income in excess of \$1,000 for the three prior tax years. Based on the guidance currently available, the Company expects to be an applicable corporation subject to the CAMT; however, it is not expected to have a material effect on the Company’s consolidated results of operations or financial position. As Treasury issues further guidance related to the IRA, the Company will continue to evaluate any impacts.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at December 31, 2022	\$56
Additions based on tax positions related to current year	1
Additions for tax positions of prior years	2
Reductions for tax positions of prior years	(7)
Removal of interest and penalties	(20)
Balance at June 30, 2023	\$32

Unrecognized tax benefits of \$41 attributable to discontinued operations as of December 31, 2022, have been removed from the tabular rollforward of unrecognized tax benefits for continuing operations.

Interest and penalties (related to continuing operations) historically included in the tabular rollforward of unrecognized tax benefits have also been removed from the rollforward presentation.

Included in the balance at June 30, 2023, is \$32 related to tax positions that would impact the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in U.S. Federal, state, and foreign income tax expense. For the three months ended June 30, 2023 and 2022, the Company recognized \$1 and \$0 of interest and penalties, respectively. For the six months ended June 30, 2023 and 2022, the Company recognized \$2 and \$0 of interest and penalties, respectively. The Company had approximately \$21 and \$19 of interest and penalties accrued as of June 30, 2023, and December 31, 2022, respectively.

The U.S. Federal statute of limitations has expired through the 2018 tax year; however, it remains open for certain impacts of the Tax Cuts and Jobs Act of 2017. The Company has foreign entities that are open for examination in their local countries for tax years after 2013. Any adjustments that may result from the examinations of these income tax returns are not expected to have a material impact on the financial position, liquidity, or results of operations of the Company.

The Company does not expect any significant changes to its liability for unrecognized tax benefits during the next twelve months.

(8) BENEFIT PLANS

The net benefit costs for the three and six months ended June 30, 2023 and 2022, include the following components:

Three months ended June 30,	Pension Benefits		Supplemental Pension Benefits ⁽¹⁾		Postretirement Benefits	
	2023	2022	2023	2022	2023	2022
Components of net periodic benefit costs:						
Service costs	\$52	\$41	\$2	\$2	\$2	\$3
Interest costs	86	55	4	3	9	6
Expected return on plan assets	(122)	(128)	-	-	-	-
Settlement Charge	-	-				
Amortization of unrecognized:						
Net loss	41	30	2	4	(3)	4
Prior service cost	(5)	(5)	-	(1)	(3)	(3)
Net periodic benefit costs ⁽²⁾	\$52	\$(7)	\$8	\$8	\$5	\$10

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

(2) All components of net periodic benefit costs are reported in operating costs and expenses on the accompanying consolidated statements of operations.

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

Six months ended June 30,	Supplemental					
	Pension Benefits		Pension Benefits ⁽¹⁾		Postretirement Benefits	
	2023	2022	2023	2022	2023	2022
Components of net periodic benefit costs:						
Service costs	\$94	\$81	\$4	\$4	\$4	\$7
Interest costs	172	106	9	5	19	13
Expected return on plan assets	(244)	(250)	-	-	-	-
Settlement Charge	-	-	-	-	-	-
Amortization of unrecognized:						
Net loss	79	62	3	10	(6)	6
Prior service cost	(11)	(11)	(1)	(1)	(6)	(6)
Net periodic benefit costs⁽²⁾	\$90	\$(12)	\$15	\$18	\$11	\$20

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

(2) All components of net periodic benefit costs are reported in operating costs and expenses on the accompanying consolidated statements of operations.

The Company has contributed \$136 to the qualified plans as of June 30, 2023, and does not expect any additional contributions for 2023.

(9) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- Level 1 — Valuations based on unadjusted quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 — Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets or liabilities at the measurement date, quoted prices in markets that are not active, or other inputs that are observable, either directly or indirectly.
- Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement and involve management judgment. The unobservable inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the assets and liabilities.

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

The Company is responsible for the determination of fair value and the supporting assumptions and methodologies. The Company gains assurance on the overall reasonableness and consistent application of valuation methodologies and inputs and compliance with accounting standards through the execution of various processes and controls designed to ensure that the Company's assets and liabilities are appropriately valued. For fair values received from third parties or internally estimated, the Company's processes are designed to determine that the valuation methodologies and inputs are appropriate and consistently applied, the assumptions are reasonable and consistent with the objective of determining fair value, and the fair values are accurately recorded. For example, on a continuing basis, the Company assesses the reasonableness of individual fair values that have stale security prices or that exceed certain thresholds as compared to previous fair values received from valuation service providers or brokers or derived from internal models. The Company performs procedures to understand and assess the methodologies, processes and controls of valuation service providers. In addition, the Company may validate the reasonableness of fair values by comparing information obtained from valuation service providers or brokers to other third party valuation sources for selected securities.

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

The Company used the following methods and assumptions in estimating the fair value of its financial instruments as well as the general classification of such financial instruments pursuant to the above fair value hierarchy:

Fixed Maturities

At each valuation date, the Company uses various valuation techniques to estimate the fair value of its fixed maturities portfolio. The primary method for valuing the Company's securities is through independent third-party valuation service providers. For positions where valuations are not available from independent third-party valuation service providers, the Company utilizes broker quotes and internal pricing methods to determine fair values. The Company obtains a single non-binding price quote from a broker familiar with the security who, similar to the Company's valuation service providers, may consider transactions or activity in similar securities, as applicable, among other information. The brokers providing price quotes are generally from the brokerage divisions of leading financial institutions with market making, underwriting and distribution expertise regarding the security subject to valuation. The evaluation and prioritization of these valuation sources is systematic and predetermined resulting in a single quote or price for each financial instrument. The following describes the techniques generally used to determine the fair value of the Company's fixed maturities by asset class:

U.S. Government and Agency Securities

U.S. government and agency securities consist primarily of bonds issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal Home Loan Bank, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. As the fair values of the Company's U.S. Treasury securities are based on active markets and unadjusted market prices, they are classified within Level 1. The fair value of U.S. government agency securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, reported trades, bids, offers and credit spreads. Accordingly, the fair value of U.S. government agency securities is primarily classified within Level 2.

Mortgage-Backed Securities

The Company's portfolio of residential and commercial MBS is originated by both agencies and non-agencies, the majority of which are pass-through securities issued by U.S. government agencies. The fair value of MBS is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, contractual cash flows, prepayment speeds, collateral performance and credit spreads. Accordingly, the fair value of MBS is primarily classified within Level 2.

Asset-Backed Securities

ABS include mostly investment-grade bonds backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, credit card receivables, and collateralized loan obligation securities originated by a variety of financial institutions. The fair value of ABS is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, contractual cash flows, prepayment speeds, collateral performance and credit spreads. Accordingly, the fair value of ABS is primarily classified within Level 2.

Municipal Securities

The Company's municipal portfolio is comprised of bonds issued by U.S. domiciled state and municipal entities. The fair value of municipal securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, binding broker quotes, issuer ratings, reported trades and credit spreads. Accordingly, the fair value of municipal securities is primarily classified within Level 2.

Corporate Debt and Other Securities

Corporate debt securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. The fair value of corporate and other securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, new issuances, issuer ratings, reported trades of identical or comparable securities, bids, offers and credit spreads. Accordingly, the fair value of corporate and other securities is primarily classified within Level 2. In the event third-party vendor valuation is not available, prices are determined using non-binding price quotes from a broker familiar with the security. In this instance, the valuation inputs are generally unobservable and the fair value is classified within Level 3.

Foreign Government Securities

Foreign government securities include bonds issued or guaranteed by foreign governments. The fair value of foreign government securities is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, binding broker quotes, issuer ratings, reported trades of identical or comparable securities and credit spreads. Accordingly, the fair value of foreign government securities is primarily classified within Level 2. In the event third-party vendor valuation is not available, prices are determined using non-binding price quotes from a broker familiar with the security. In this instance, the valuation inputs are generally unobservable and the fair value is classified within Level 3.

Equity Securities

Equity securities include common and preferred stocks. Common stocks with fair values based on quoted market prices in active markets are classified within Level 1. Common stocks with fair values determined using observable market inputs that include quoted prices for

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

identical or similar assets in markets that are not active are classified within Level 2. The fair value of preferred stock is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active. Accordingly, the fair value of preferred stock is primarily classified within Level 2.

Short-Term Investments

The fair value of short-term investments is generally determined using observable market inputs that include quoted prices for identical or similar assets in markets that are not active, benchmark yields, new issuances, issuer ratings, reported trades of identical or comparable securities, bids, offers and credit spreads. Accordingly, the fair value of short-term investments is primarily classified within Level 2 of the fair value hierarchy.

Other Investments

Other investments include primarily foreign cash deposits, equity investments in privately held businesses and limited partnerships where the Company has elected the fair value option. Cash deposits are primarily valued using quoted prices for similar instruments in active markets; these assets are categorized within Level 2 of the fair value hierarchy. Equity investments in privately held businesses are valued using internal management estimates; they are categorized within Level 3 of the hierarchy. Loans, limited partnership and other equity method investments, which represent the remainder of the other investment balance on the accompanying consolidated balance sheet are not subject to these disclosures and therefore are excluded from the table in this note.

Other Assets and Other Liabilities

Other assets primarily consist of fixed maturities, short-term investments, and equity securities of captive companies sponsored by the Company. These assets are measured based on the methodology for individual securities as discussed above.

Additionally, other assets and other liabilities classified within Level 2 and Level 3 represent the Company's derivatives which can be exchange-traded or traded over-the-counter ("OTC"). OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means, and model selection does not involve significant management judgment.

Life Insurance Obligations

Life insurance obligations include certain variable annuity contracts that provide guaranteed minimum income benefits. These benefits are accounted for as embedded derivatives and are bifurcated from the host contract and carried at fair value. The fair value of these embedded derivatives is computed on a recurring basis using assumptions predominately classified as Level 3 (significant unobservable) inputs. While some inputs are observable in the market, such as risk free rates, volatility and historical equity returns, the underlying future policyholder behavior inputs are highly unobservable. The significant policyholder behavior assumptions include lapse and the underlying annuitization rate.

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

The following tables summarize the Company's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2023 and December 31, 2022:

As of June 30, 2023				
<i>Assets, at Fair Value</i>	Level 1	Level 2	Level 3	Total
U.S. government and agency securities	\$7,903	\$252	\$-	\$8,155
Residential MBS	-	5,970	-	5,970
Commercial MBS	-	4,152	79	4,231
Other MBS and ABS	-	4,588	49	4,637
U.S. state and municipal	-	6,406	313	6,719
Corporate and other	-	31,130	405	31,535
Foreign government securities	-	4,367	31	4,398
Redeemable Preferred Stock	-	-	105	105
Total fixed maturities, available for sale	<u>\$7,903</u>	<u>\$56,865</u>	<u>\$982</u>	<u>\$65,750</u>
Common stock	387	23	640	1,050
Total equity securities	<u>387</u>	<u>23</u>	<u>640</u>	<u>1,050</u>
Short-term investments	3	616	15	634
Other investments	87	529	1,041	1,657
Other assets	-	-	8	8
Total assets	<u><u>\$8,380</u></u>	<u><u>\$58,033</u></u>	<u><u>\$2,686</u></u>	<u><u>\$69,099</u></u>

Liabilities, at Fair Value

Life insurance obligations	\$-	\$-	\$(39)	\$(39)
Other liabilities	-	(110)	-	(110)
Total liabilities	<u>\$-</u>	<u>\$(110)</u>	<u>\$(39)</u>	<u>\$(149)</u>

As of December 31, 2022				
<i>Assets, at Fair Value</i>	Level 1	Level 2	Level 3	Total
U.S. government and agency securities	\$7,822	\$251	\$-	\$8,073
Residential MBS	-	5,947	-	5,947
Commercial MBS	-	4,076	81	4,157
Other MBS and ABS	-	4,437	82	4,519
U.S. state and municipal	-	6,666	465	7,131
Corporate and other	-	28,410	369	28,779
Foreign government securities	-	4,141	33	4,174
Redeemable preferred stock	-	-	80	80
Total fixed maturities, available for sale	<u>7,822</u>	<u>53,928</u>	<u>1,110</u>	<u>62,860</u>
Common stock	439	21	638	1,098
Preferred stock	-	-	1	1
Total equity securities	<u>439</u>	<u>21</u>	<u>639</u>	<u>1,099</u>
Short-term investments	11	406	1	418
Other investments	66	579	948	1,593
Other assets	-	-	10	10
Total assets	<u><u>\$8,338</u></u>	<u><u>\$54,934</u></u>	<u><u>\$2,708</u></u>	<u><u>\$65,980</u></u>

Liabilities, at Fair Value

Life insurance obligations	\$-	\$-	\$(47)	\$(47)
Other liabilities	-	(101)	-	(101)
Total liabilities	<u>\$-</u>	<u>\$(101)</u>	<u>\$(47)</u>	<u>\$(148)</u>

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

The following tables summarize the fair values of assets on a recurring basis classified as Level 3 within the fair value hierarchy:

	As of June 30, 2023			As of December 31, 2022		
	Purchases	Transfer in to Level 3	Transfer out of Level 3	Purchases	Transfer in to Level 3	Transfer out of Level 3
Assets, at Fair Value						
U.S. government and agency securities	\$-	\$-	\$-	\$-	\$-	\$-
Residential MBS	-	-	-	-	-	-
Commercial MBS	-	-	-	31	-	(44)
Other MBS and ABS	-	-	(33)	31	32	(10)
U.S. state and municipal	-	-	(154)	15	181	-
Corporate and other	143	1	(19)	976	1	(108)
Foreign government securities	3	-	-	24	8	-
Redeemable Preferred Stock	25	-	-	55	24	-
Total fixed maturities	171	1	(206)	1,132	246	(162)
Common stock	111	-	(1)	2,516	66	(33)
Preferred stock	-	-	(1)	1	-	-
Total equity securities	111	-	(2)	2,517	66	(33)
Short-term investments	14	-	-	60	-	(1)
Other investments	122	7	(4)	699	-	(472)
Total assets	\$418	\$8	\$(212)	\$4,408	\$312	\$(668)
Liabilities, at Fair Value						
Life insurance obligations	\$5	\$-	\$-	\$8	\$-	\$-
Total liabilities	\$5	\$-	\$-	\$8	\$-	\$-

Transfers into and out of Level 3 were primarily due to changes in the observability of pricing inputs.

The Company had no material assets or liabilities that were measured at fair value on a nonrecurring basis during the six months ended June 30, 2023.

Fair Value Option

The Company has elected to apply the fair value option to certain financial instruments in limited circumstances. The fair value option election is made on an instrument by instrument basis. All periodic changes in the fair value of the elected instruments are reflected in the accompanying consolidated statements of operations. The impact of the fair value option election is 1% of total invested assets.

The Company has not applied ASC 820 to non-financial assets and liabilities.

(10) COMMITMENTS AND CONTINGENT LIABILITIES

Various lawsuits against the Company have arisen in the normal course of business. Contingent liabilities arising from litigation, income taxes, and other matters are not considered material in relation to the financial position of the Company.

As of June 30, 2023, the Company had unfunded commitments in traditional private equity partnerships, real estate, private credit, natural resources, and other of \$2,589, \$3,120, \$2,403, \$1,333 (\$1,300 of which is related to energy transition and infrastructure), and \$145, respectively.

As of June 30, 2023, the Company had commitments to purchase various residential MBS at a cost and fair value of \$83 and \$82, respectively.

The Company holds unfunded commitments related to commercial mortgage loans. The liability for expected credit losses related to these unfunded commitments is reported in Other Liabilities and is measured in a manner consistent with the approach of the funded mortgage loan portfolio. As of June 30, 2023, the amount of the liability for expected credit losses of unfunded commitments was \$9.

Liberty Mutual Holding Company Inc.

Notes to Consolidated Financial Statements

(dollars in millions)

(Unaudited)

(11) SUBSEQUENT EVENTS

Management has assessed material subsequent events through August 9, 2023, the date the financial statements were available to be issued.