(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 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. Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the 2016 presentation.

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 working interests in oil and gas properties, (4) recoverability of deferred acquisition costs, (5) valuation of goodwill and intangible assets, (6) deferred income tax valuation allowance, and (7) pension and postretirement benefit obligations. While the amounts included in the consolidated financial statements reflect management's best estimates and assumptions, these amounts ultimately could vary.

Adoption of Accounting Standards

Effective January 1, 2016, the Company adopted the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-02, *Amendments to the Consolidation Analysis* ("ASU 2015-02") which amends the guidance for determining whether an entity is a variable interest entity ("VIE"). ASU 2015-02 eliminates the separate consolidation guidance for limited partnerships and with it, the presumption that a general partner should consolidate a limited partnership. In addition, ASU 2015-02 changes the guidance for determining if fee arrangements qualify as variable interests and the effect fee arrangements have on the determination of the primary beneficiary. The Company adopted ASU 2015-02 on a modified retrospective basis. ASU 2015-02 did not have an effect on the Company's results of operations or financial position, but changes to the Company's current year disclosures were required.

Effective January 1, 2016, the Company adopted ASU 2015-03, *Imputation of Interest* (Accounting Standards Codification ("ASC") 835), which requires debt issuance costs to be presented as a deduction from the carrying amount of the related debt, consistent with treatment required for debt discounts. The Company has applied the guidance retrospectively and as a result has reclassified $42 of unamortized debt issuance costs from other assets to long-term debt as of December 31, 2015.

Accounting Standards Not Yet Adopted

The Company will adopt the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 was issued to clarify the principles for recognizing revenue, however, insurance contracts and financial instrument transactions are not within the scope of this guidance. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers,* which deferred the effective date of ASU 2014-09 by one year. Accordingly, ASU 2014-09 is effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. For all other entities, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the impact the adoption of ASU 2014-09 is expected to have on the Company's financial statements.

The Company will adopt the FASB issued ASU 2015-09, *Disclosures about Short-Duration Contracts* ("ASU 2015-09"). The amendments apply to all insurance entities that issue short-duration contracts as defined in ASC 944, *Financial Services – Insurance.* The disclosures required by ASU 2015-09 are aimed at providing the users of the financial statements with more transparent information about initial claim estimates and subsequent adjustments to those estimates, methodologies and judgments in estimating claims, and the timing, frequency and severity of claims. The new disclosures will require the accumulation and reporting of new and different groupings of data by insurers for U.S. GAAP reporting from what is currently captured for U.S. statutory and other reporting purposes. The amendments of ASU 2015-09 are effective for public business entities for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. For all other entities, the amendments of ASU 2015-09 are effective for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017. The adoption of ASU 2015-09 is not expected to have an effect on the Company's results of operations and financial position, but changes to the Company's disclosures on loss reserves will be required.

The Company will adopt the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (*"ASU 2016-01"). ASU 2016-01 requires equity investments (excluding those accounted for under the equity method or those that result in consolidation) to be measured at fair value, with changes in fair value recognized in net income. ASU 2016-01 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. For all other entities, ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The adoption of ASU 2016-01 is expected to have a material impact on the Company's financial statements.

(dollars in millions)

The Company will adopt the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"). The amendments will require 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 will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The amendments of ASU 2016-02 are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For all other entities, the amendments in this update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact the adoption of ASU 2016-02 is expected to have on the Company's financial statements.

The Company will adopt the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 replaces the current incurred loss model with an expected credit loss model, which measures credit losses on financial instruments measured at amortized cost, and will require companies to recognize an allowance for expected credit losses. In addition, ASU 2016-13 also amends the credit loss measurement guidance for available-for-sale debt securities and beneficial interests in securitized financial assets. This amendment removes certain factors to consider when determining whether credit losses should be recognized and will require companies to recognize expected credit losses through an allowance. ASU 2016-13 is effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all other entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The adoption of ASU 2016-13 is expected to have a material impact on the Company's financial statements.

There are no other accounting standards not yet adopted by the Company that are expected to have a material impact on its financial position or results of operations.

Net Investment Hedge Instruments

The Company has designated non-derivative foreign-currency denominated long-term debt and the related accrued interest as hedges of its net investment in certain foreign operations. Accordingly, the foreign currency translation of the debt instrument and accrued interest is recorded in accumulated other comprehensive income (loss), offsetting the foreign currency translation adjustment of the related net investment that is also recorded in accumulated other comprehensive income (loss). As of September 30, 2016, the Company had €750 million of outstanding long-term debt and approximately €8 million of accrued interest designated as non-derivative hedges of its net investment in certain foreign operations. The foreign currency translation of the debt instrument and accrued interest recorded in accumulated other comprehensive income (loss) were immaterial. (See Note 5 for further discussion.)

Accumulated Other Comprehensive Income (Loss)

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

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

	September 30, 2016	December 31, 2015
Unrealized gains on securities	$2,223	$819
Foreign currency translation & other adjustments	(668)	(825)
Pension liability funded status[1]	(1,439)	(1,515)
Accumulated other comprehensive income (loss)	$116	$(1,521)

[1] Includes $60 for the nine months and year ended September 30, 2016 and December 31, 2015, respectively, due to the recognition of deferred taxes related to the Medicare Part D subsidy.

(dollars in millions)

The following table presents the consolidated other comprehensive income (loss) reclassification adjustments for the three and nine months ended September 30, 2016 and 2015, respectively.

Three months ended September 30, 2016	**Unrealized gains on securities[1]**	**Change in pension and post retirement plans funded status**	**Foreign currency translation and other adjustments[2]**	**Total**
Unrealized change arising during the period	$105	$ -	$(16)	$89
Less: Reclassification adjustments included in consolidated net income	56	(37)	-	19
Total other comprehensive income (loss), before income tax expense (benefit)	49	37	(16)	70
Less: Income tax expense (benefit)	20	13	(1)	32
Total other comprehensive income (loss), net of income tax expense (benefit)	$29	$24	$(15)	$38

[1] Includes $2 of non-controlling interest.
[2] Includes $4 of non-controlling interest.

Three months ended September 30, 2015	**Unrealized losses on securities**	**Change in pension and post retirement plans funded status**	**Foreign currency translation and other adjustments[1]**	**Total**
Unrealized change arising during the period	$(410)	$ -	$(224)	$(634)
Less: Reclassification adjustments included in consolidated net loss	(17)	(64)	-	(81)
Total other comprehensive (loss) income, before income tax (benefit) expense	(393)	64	(224)	(553)
Less: Income tax (benefit) expense	(109)	14	(30)	(125)
Total other comprehensive (loss) income, net of income tax (benefit) expense	$(284)	$50	$(194)	$(428)

[1] Includes $(7) of non-controlling interest.

Nine months ended September 30, 2016	**Unrealized gains on securities[1]**	**Change in pension and post retirement plans funded status**	**Foreign currency translation and other adjustments[2]**	**Total**
Unrealized change arising during the period	$2,197	$ -	$158	$2,355
Less: Reclassification adjustments included in consolidated net income	67	(117)	-	(50)
Total other comprehensive income, before income tax expense (benefit)	2,130	117	158	2,405
Less: Income tax expense (benefit)	724	41	(3)	762
Total other comprehensive income, net of income tax expense (benefit)	$1,406	$76	$161	$1,643

[1] Includes $2 of non-controlling interest.
[2] Includes $4 of non-controlling interest.

Nine months ended September 30, 2015	**Unrealized (losses) gains on securities**	**Change in pension and post retirement plans funded status**	**Foreign currency translation and other adjustments[1]**	**Total**
Unrealized change arising during the period	$(1,101)	$ -	$(505)	$(1,606)
Less: Reclassification adjustments included in consolidated net income	305	(171)	-	134
Total other comprehensive (loss) income, before income tax (benefit) expense	(1,406)	171	(505)	(1,740)
Less: Income tax (benefit) expense	(447)	50	(46)	(443)
Total other comprehensive (loss) income, net of income tax (benefit) expense	$(959)	$121	$(459)	$(1,297)

[1] Includes $(6) of non-controlling interest.

(2) ACQUISITIONS AND DISPOSITIONS

ACQUISITIONS

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

Hughes Insurance
On July 1, 2015, the Company completed the acquisition of Hughes Insurance, an independent insurance broker in Northern Ireland. Hughes Insurance offers motor, van, household, small-to-medium-enterprise commercial insurance and travel insurance. Hughes Insurance has been reflected in the consolidated financial statements since the second quarter of 2014.

DISPOSITIONS

Liberty Ubezpieczenia
On September 30, 2016, the Company completed the sale of substantially all the assets and liabilities of its Polish operation resulting in an immaterial gain. Liberty Ubezpieczenia had approximately $90 million of net written premium in 2015.

HELD FOR SALE

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

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

DISCONTINUED OPERATIONS

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

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

The evolving conditions in Venezuela, including the increasingly restrictive exchange control regulations and other factors, significantly impacted our control over the Venezuelan operations. As a result of these factors, which we believe to be other-than-temporary, we concluded that effective September 30, 2015, we do not meet the accounting criteria for control over the Venezuelan operations, and therefore have deconsolidated these operations in the accompanying financial statements. As a result of deconsolidating, the Company recognized an impairment charge of approximately $690 which includes the write down of the investment in the previously consolidated Venezuelan operations to fair value and the write-off of related intercompany balances. The Company's Venezuelan operations are classified as discontinued operations in the consolidated financial statements.

(dollars in millions)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Revenues:				
Premiums earned	$ -	$793	$ -	$1,949
Net investment income	-	39	-	95
Fee and other revenues	-	-	-	-
Net realized losses	-	(10)	-	(211)
Total revenues	$ -	$822	$ -	$1,833
Claims, Benefits and Expenses:				
Benefits, claims and claim adjustment expense	$ -	$588	$ -	$1,351
Operating costs and expenses	-	151	-	373
Amortization of deferred policy acquisition costs	-	121	-	303
Total claims, benefits and expenses	$ -	$860	$ -	$2,027
Loss before income tax expense	$ -	$(38)	$ -	$(194)
Income tax expense	-	16	-	25
Net loss	$ -	$(54)	$ -	$(219)
Net loss on deconsolidation, net of tax	$ -	$(662)	$ -	$(662)
Impairment of intercompany receivables, net of tax	-	(28)	-	(28)
Loss on discontinued operations, net of tax	$ -	$(744)	$ -	$(909)

(3) INVESTMENTS

The amortized cost, gross unrealized gains and losses and fair values of available for sale investments as of September 30, 2016 and December 31, 2015, are as follows:

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

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