

COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
LIBERTY MUTUAL INSURANCE COMPANY

Boston, Massachusetts

As of December 31, 2013

NAIC GROUP CODE 00111

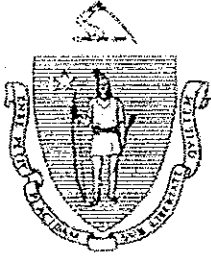
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EMPLOYER ID NUMBER 04-1543470

LIBERTY MUTUAL INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
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DIVISION OF INSURANCE

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COMMISSIONER OF INSURANCE

May 20, 2015

Honorable Daniel R. Judson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

LIBERTY MUTUAL INSURANCE COMPANY

at its home office located at 175 Berkeley Street, Boston, Massachusetts, 02116. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Liberty Mutual Insurance Company (hereinafter referred to as "Liberty Mutual," or the "Company") was last examined as of December 31, 2009 by the Massachusetts Division of Insurance ("Division"). The current Coordinated Group Examination covers the intervening period from January 1, 2010 through December 31, 2013, and any material transactions and/or events, occurring subsequent and noted during the examination.

The current examination was conducted at the direction of and under the overall management and control of the examination staff of the Massachusetts Division of Insurance in accordance with standards established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee, the requirements of the 2014 Edition of the NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division, and with Massachusetts General Laws. Representatives from the firm of PricewaterhouseCoopers LLP ("PwC") were engaged by the Division to assist in the examination by performing certain examination procedures at the direction of and under the overall management of the Division's examination staff. This assistance included a review of accounting records, information technology systems, taxes, investments, and actuarially determined loss and loss adjustment expense reserves of the Liberty Mutual Inter-company Reinsurance Pooling Agreement (the "LMIC Pool"). Examination procedures performed by PwC were reviewed and approved by the Division. PwC was also engaged to conduct concurrent examinations of Liberty Mutual Mid-Atlantic Insurance Company ("LMMAIC"), Montgomery Mutual Insurance Company ("MMIC") and Liberty Mutual Personal Insurance Company ("LMPIC"). Each of those examinations is the subject of separate reports.

The examination was conducted following the NAIC risk-focused examination process. The risk-focused approach requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and NAIC Annual Statement Instructions and applicable domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. In addition to the foregoing, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees' pension and benefits plans, disaster recovery plan and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company is audited annually by Ernst & Young LLP ("E&Y"), an independent certified public accounting firm, in accordance with 211 CMR 26.00. The firm expressed unqualified opinions on the Company's statutory financial statements for each of the years under examination. E&Y's audit work was evaluated and relied upon where deemed appropriate and effective. The work of the Company's internal auditors was also reviewed and relied upon to the extent deemed appropriate.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings identified during the examination.

SUBSEQUENT EVENTS

The following items are noted as "subsequent events," the disclosure of which in this Examination Report is considered appropriate.

Summit: On January 9, 2014, the Company announced the sale of Summit Holdings Southeast, Inc. and its related companies to American Financial Group ("AFG") in an all-cash transaction. The transaction received regulatory approval on April 1, 2014. Under the terms of the transaction, AFG paid LMIC \$260 million at closing. Summit Holdings Southeast, Inc. ("Summit") consists of two Florida-domiciled insurance companies: Bridgefield Employers Insurance Company and Bridgefield Casualty Insurance Company. Selected fiscal year 2013 financial data for both entities is shown in the table below. At the time of sale, Summit was a wholly-owned subsidiary of Liberty Mutual Insurance Company.

	<u>Year-ended 12/31/2013</u>		<u>As of 12/31/2013</u>	
	<u>Direct Written Prem</u>	<u>Direct Paid Loss</u>	<u>Direct Case</u>	<u>Direct IBNR</u>
Bridgefield Employers Insurance Company \$	275,885,366	\$ 168,188,858	\$ 129,823,550	\$ 356,172,866
Bridgefield Casualty Insurance Company	262,781,469	159,740,231	142,596,402	331,476,701

Pursuant to the close of the transaction noted above, the 100% quota share reinsurance agreements between the Bridgefield entities and LMIC were commuted, resulting in no further assumption of direct business by LMIC from these entities.

NICO: LMIC has entered into an adverse development cover with National Indemnity Company ("NICO") effective January 1, 2014 which provides coverage for LMIC's US commercial workers' compensation ("WC") and asbestos and environmental ("A&E") exposures. Specifically, the treaty provides \$6.5 billion of aggregate coverage on carried loss and allocated loss adjustment expense ("ALAE") reserves of \$15.8 billion as of December 31, 2013, with an attachment point of \$12.5 billion on combined WC and A&E reserves. Sub-limits are also in place, consisting of \$3.1 billion on A&E and \$4.5 billion on WC large deductible policy ("LDD") reserves. The cover excludes certain segments of WC business, such as UPS, CSO, and Summit. The treaty specifies that NICO will assume the claim handling responsibility for A&E claims, while the settlement of WC claims remains with LMIC. LMIC is paying NICO total consideration of \$3.05 billion. Based on carried reserves as of December 31, 2013, the NICO cover will provide LMIC with \$3.3 billion of reimbursement, leaving \$3.2 billion of the \$6.5 billion overall limit available to cover adverse development of the carried reserves.

COMPANY HISTORY

General

The Company was incorporated as a mutual insurance company on January 1, 1912 under the laws of the Commonwealth of Massachusetts and commenced business in July of that year. During the period covered by this examination the Company has undergone several significant changes, which are highlighted in more detail

in the "Affiliated Companies" section of this report.

In 2001, the Company reorganized into a stock insurance company as part of a mutual holding company structure. As part of its reorganization, the Company formed (1) Liberty Mutual Holding Company Inc. ("LMHC"), a Massachusetts mutual holding company and the ultimate parent in the mutual holding company structure; (2) LMHC Massachusetts Holdings Inc. ("LMHC-MA") a Massachusetts stock holding company, which is a direct, wholly-owned subsidiary of LMHC; and (3) Liberty Mutual Group Inc. ("LMGI"), a Massachusetts stock holding company which is a direct, wholly-owned subsidiary of LMHC-MA and the direct parent of the Company. The Company's reorganization was part of a series of transactions that resulted in the Company, Liberty Mutual Fire Insurance Company ("LMFIC") and Employers Insurance Company of Wausau ("EICOW") reorganizing to stock companies under the common ownership of LMHC. As a result of the reorganization, the policyholders of LMIC, LMFIC and EICOW became members of and have equity rights in LMHC. In 2006, Liberty Mutual Personal Insurance Company ("LMPIC") reorganized into a stock insurance company and became a wholly owned stock subsidiary of LMGI. In 2010, LMPIC issued its first policies since becoming a subsidiary of LMGI. As a result, the policyholders of LMIC, LMFIC, EICOW and LMPIC are currently members of and have equity rights in LMHC. Collectively, all of the affiliated companies in the holding company system are referred to as the "Group."

On August 24, 2007, the Company and three affiliates (Liberty Mutual Fire Insurance Company, Peerless Insurance Company ("PIC"), and Employers Insurance Company of Wausau) acquired all of the outstanding and issued voting shares of Ohio Casualty Corporation, a non-insurance holding company, which is the upstream parent of four property and casualty insurance companies. The Company directly acquired a 78% ownership in Ohio Casualty Corporation, while the affiliates account for the remaining 22%.

Pursuant to the approval of the appropriate state insurance authorities, effective January 1, 2013, the participants of the Peerless Amended and Restated Reinsurance Pooling Agreement were added to the LMIC Pool. Also effective January 1, 2013, the Liberty Mutual Intercompany Reinsurance Agreement was renamed the Liberty Mutual Second Amended and Restated Intercompany Reinsurance Agreement, and the Peerless Amended and Restated Reinsurance Pooling Agreement was terminated. As a result of these changes, surplus within the LMIC Pool increased by \$41.1 million. The entities, state of domicile and net retained activity (relative pool participation ratio) are shown below:

Liberty Mutual Insurance Company (LMIC)	MA	50%
Peerless Insurance Company (PIC)	NH	20%
Liberty Mutual Fire Insurance Company (LMFIC)	WI	8%
Employers Insurance Company of Wasau (EICOW)	WI	8%
The Ohio Casualty Insurance Company (OCIC)	NH	8%
Safeco Insurance Company of America (SICOA)	NH	6%

Capital Stock

The Company has authorized and outstanding 100,000 shares of common capital stock with a par value of \$100.00 per share. All of the outstanding capital stock of the Company is owned by LMGI.

Dividends to Stockholders

The following table illustrates ordinary dividends paid by the Company to its parent, LMGI, during the period

Liberty Mutual Insurance Company

covered by this examination:

	<u>Stockholder Dividends</u>
2010	\$ 139,766,000
2011	64,766,000
2012	64,766,000
2013	199,766,000
	<u>\$ 469,064,000</u>

Dividends to Policyholders

Certain insurance contracts, primarily workers compensation policies, are issued with dividend plans to be paid subject to approval by the Company's Board of Directors. Incurred policyholder dividends for the years 2010 through 2013 are shown in the following schedule, which was prepared from the Company's statutory annual statements.

	<u>Dividends to Policyholders</u>
2010	\$ 46,455,510
2011	30,021,529
2012	18,157,361
2013	19,264,431
	<u>\$ 113,898,831</u>

CORPORATE RECORDS

Articles of Organization and Bylaws

The Company's articles of organization and bylaws were reviewed. Effective upon the Company's reorganization to a stock insurance company as part of a mutual holding company on November 28, 2001, the articles of organization and bylaws were extensively amended and restated to recognize the reorganized corporate structure. There were no amendments to the articles of organization and bylaws for the period ended December 31, 2013.

Board of Directors Minutes

The minutes of the Board of Directors and Committee meetings for the period under examination were obtained and reviewed. The review indicated that all meetings were held in accordance with Company bylaws and the laws of the Commonwealth of Massachusetts.

Conflict of Interest Procedures

The Group has developed an enterprise-wide approach to corporate compliance that specifically includes the means to manage conflict of interest issues. The enterprise-wide approach includes a Code of Business Ethics and Conduct as a reference guide to help personnel define and understand appropriate standards of business conduct and to establish compliance requirements. The approach also has established procedures for the disclosure of possible conflicts of interest involving directors, officers and key employees. The Group has

Liberty Mutual Insurance Company

established an Office of Corporate Compliance with responsibility for managing this disclosure program, investigating potential conflict situations, and making recommendations to management for the resolution of any such conflicts. The Group's General Counsel reports the results of the annual disclosure process to the Chief Executive Officer and to the Board of Directors. As a member of the Group, LMIC follows all requirements of the approach and is an active participant in it. As part of the examination, the following were obtained and reviewed:

- The Code of Business Ethics and Conduct
- Conflict of interest disclosure forms provided by elected officers and key employees

Disaster Recovery and Business Continuity

The Company provides for the continuity of management in the event of a catastrophe or other emergency in accordance with sections 180M through 180Q of Chapter 175 of the Massachusetts General Laws.

MANAGEMENT AND CONTROL

Annual Meeting of the Stockholder

In accordance with the bylaws, the annual meeting of the stockholder is held during the first six months of the calendar year, the purpose of which is to elect a Board of Directors and to act upon such matters as may properly arise at that meeting. Minutes of stockholder meetings were reviewed for the period covered by this examination and all meetings were held in accordance with the bylaws.

Board of Directors

The Company is managed by a Board of Directors, the Chairman of which presides at stockholder meetings and meetings of the Board. The Board consists of not less than seven nor more than twenty-four members, as determined from time to time by vote of a majority or by vote of the stockholder. Directors are elected for a period of one year, with all Board members' terms expiring annually.

The Board of Directors meets regularly throughout the year and may, in accordance with the bylaws hold special meetings or take action by unanimous written consent. A review was made of the minutes of meetings for the four-year period covered by this examination. During the examination period, the Board met at least four times during each calendar year.

At December 31, 2013, all Directors of the Company were inside Directors, and their names, together with their titles, were as follows:

Liberty Mutual Insurance Company

<u>Name</u>	<u>Title</u>
J. Paul Condrin, III	President Commercial Insurance, LMIG
Alex Fontanes	EVP Chief Investment Officer, LMIG
James F. Kelleher	EVP Chief Legal Officer, LMIG
Dennis J. Langwell	EVP Chief Financial Officer, LMIG
Dexter R. Legg	VP, Secretary & Chief of Staff to CEO, LMIG
David H. Long	Chairman, President and CEO, LMIG
Christopher L. Peirce	President Global Insurance, LMIG
Timothy M. Sweeney	President Personal Insurance, LMIG

Committees of the Board of Directors

During the period covered by this examination and in accordance with the bylaws, the Board of Directors may elect an Investment Committee and may elect, or by vote, authorize the Chief Executive Officer to appoint members of an Executive Committee and such other committees as may be required from time to time. As of the date of this examination, many aspects of corporate governance for the Group as a whole are handled by Committees of LMHC, including designated Executive, Investment, Audit, Nominating and Governance, Risk, Compensation, and Contributions Committees. This is in addition to the Board of Directors at the Company discussed above. These LMHC committees serve the Company in a governance perspective and are responsible for the approval of entity level decisions, investment strategies and transactions, and compensation matters.

At the LMHC level, a list of members serving on the Committees is as follows:

<u>Audit Committee</u>	<u>Executive Committee</u>	<u>Nominating & Governance</u>
Nicholas M. Donofrio	Francis A. Doyle	Nicholas M. Donofrio
Francis A. Doyle	David H. Long	Francis A. Doyle
Martin P. Slark	Thomas J. May	Ellen A. Rudnick
Eric A. Spiegel	Ellen A. Rudnick	William C. Van Faasen
William C. Van Faasen	William C. Van Faasen	
Annette M. Verschuren	Annette M. Verschuren	
<u>Compensation Committee</u>	<u>Investment Committee</u>	<u>Risk Committee</u>
Charles I. Clough, Jr.	Charles I. Clough, Jr.	Charles I. Clough, Jr.
John P. Manning	Francis A. Doyle	David H. Long
Thomas J. May	David H. Long	Myrtle S. Potter
Myrtle S. Potter	John P. Manning	Ellen A. Rudnick
William C. Van Faasen	Thomas J. May	Martin P. Slark
	Martin P. Slark	Annette M. Verschuren
<u>Contributions Committee</u>	Eric A. Spiegel	
David H. Long	Annette M. Verschuren	
John P. Manning		
Ellen A. Rudnick		
William C. Van Faasen		

Liberty Mutual Insurance Company

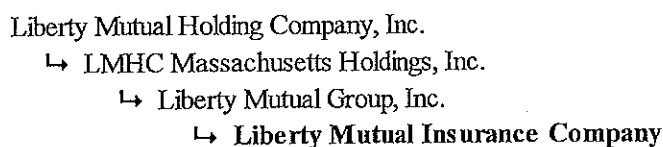
Officers

Corporate officers are elected by the Board of Directors at the annual stockholder meeting, and serve for one year in accordance with the Company's bylaws. The elected principal senior officers of the Company and their respective titles at December 31, 2013 were as follows:

<u>Name</u>	<u>Title</u>
David H. Long	President and CEO
Dexter R. Legg	Secretary and Vice President
Laurance H. Soyer Yahia	Treasurer and Vice President
Paul G. Alexander	EVP and Chief Communications Officer
John E. Brosius	EVP and Corporate Actuary
John D. Doyle	Vice President and Comptroller
Alex Fontanes	EVP and Chief Investment Officer
Dennis J. Langwell	EVP and Chief Financial Officer
Christopher L. Peirce	Executive Vice President
Luis Bonell	Executive Vice President
J. Paul Condryn III	Executive Vice President
Melanie M. Foley	EVP- Chief Human Resources & Admin. Off.
James F. Kelleher	EVP and Chief Legal Officer
James M. McGlennon	EVP and Chief Information Officer
Timothy M. Sweeney	Executive Vice President

Affiliated Companies

The Company is a member of a holding company system and is subject to the registration requirements of Chapter 175, Section 206C of the Massachusetts General Laws. LMHC is the "ultimate controlling person" of the Group per Form B, as filed with the Division. The following is a summary of the organization structure based on Schedule Y:



In addition to the above, the Company has in place various management agreements with other insurance entities within the Group. As many of these entities are mutual insurers, technically owned by their policyholders, they are affiliated with the Company through these management agreements and the Company controls a majority of each company's Board of Directors.

Acquisitions, Affiliates, and Key Transactions

- On June 9, 2010, the Company purchased LMFIC's 2.892% holdings of the shares of Liberty Insurance Holdings, Inc. ("LIH"), a non-insurance holding company, for \$249,957,350 in cash and securities and EICOW's 4.048% holdings of shares of LIH for \$349,871,398 in cash and securities. The purchase price represented the fair value of the LIH shares, and resulted in \$288,195,370 of goodwill to LMIC, which is being amortized over ten years.
- Pursuant to the approval of state insurance authorities, effective January 1, 2013, the participants of

Liberty Mutual Insurance Company

the Peerless Amended and Restated Reinsurance Pooling Agreement were added to the LMIC Pool. Also effective as of the same date, the Liberty Mutual Intercompany Reinsurance Agreement was renamed the Liberty Mutual Second Amended and Restated Intercompany Reinsurance Agreement, and the Peerless Amended and Restated Reinsurance Pooling agreement was terminated.

Transactions and Agreements with Subsidiaries & Affiliates

Management Services Agreement

The Company has in place various management and service agreements with most of its subsidiaries and affiliates whereby the Company may provide office space, supplies, equipment, telephone and wire services, the use of computers and office equipment and services of personnel employed by the Company, including, but not limited to, claims handling, credit and collections, sales and underwriting, and a wide variety of computer activities. The Company is also party to a similar agreement with LMGI whereby it acquires similar services from LMGI. The Company is reimbursed or charged respectively for the cost of the services provided to its subsidiaries and affiliates or acquired from LMGI under these agreements.

Investment and Cash Management Agreements

The Company is a party to an investment and cash management agreement with Liberty Mutual Investment Advisors LLC ("LMIA") whereby LMIA provides services to the Company. The Company is also a party to an investment management agreement with Liberty Mutual Group Asset Management ("LMGAM"). Furthermore, LMIC is a party to an investment management agreement with Safeco Insurance Foundation ("SIF"), where the company provides services to SIF. SIF merged with the Liberty Mutual Foundation on October 28, 2013.

Revolving Credit Agreements

As of December 31, 2013, the Company is a party to revolving credit agreements under which the Company may lend funds to twenty-two different subsidiaries and affiliates. Credit lines available under the arrangement range from \$20 million to \$1.15 billion from each party. As of December 31, 2013, there were \$30 million of loans outstanding to various affiliates.

Under a similar arrangement, LMIC is able to borrow funds from certain subsidiaries and affiliates. Credit lines available under this agreement range from \$50 million to \$1 billion from each party. There were no loans payable balances outstanding at December 31, 2013.

Tax Sharing Agreement

The Company's federal income tax return is consolidated with other affiliates in the federal income tax return of LMHC. The income tax allocation is subject to a written tax sharing agreement and allocation is based upon separate return calculations with credit applied for losses as appropriate. The Company has the enforceable right to recoup prior year payments in the event of future losses.

Liberty Mutual Insurance Company

Guarantees with Affiliates

The Company has entered into guarantees with the following affiliates:

Entity	Maximum future payments	Guarantee Description
• America First Insurance Company	\$ 5,000,000	Reduction in fair value of "qualifying Louisiana investments"
• Liberty Corporate Capital Limited	289,747,500	Standby letter of credit issued by LMIC to LCCL
• Liberty Information Technology Limited	10,448,193	Future noncancellable lease obligations
• Liberty Insurance Company Limited	57,813	Tax obligations and certain other indebtedness
• Liberty Life Assurance Company of Boston	-	Capital sufficient to ensure Best Capital Adeq. Ratio > 150%
• Liberty Mutual Group Inc.	-	Performance of a \$750 million commercial paper program
• Liberty Mutual Insurance Europe	-	Guarantee of obligations until LMIE receives a spec. S&P rating
• Liberty Personal Insurance Company	6,764,584	Reduction in fair value of "qualifying Louisiana investments"
• Liberty Re (Bermuda) Limited	161,972,652	Guarantee of obligations under certain reinsurance policies
• Liberty Surplus Insurance Company	-	Minimum capital levels within LSI of \$500,000
• Safeco Insurance Company of America	974,469	Performance of obligation under a lease agreement
• Safeco Insurance Company of Oregon	8,635,706	Reduction in fair value of "qualifying Louisiana investments"
• San Diego Insurance Company	55,317,001	Guarantee of obligations via reinsurance contract

Organizational Chart

LMIG operates in 30 countries and key markets around the globe which include 12 countries in Europe, nine countries throughout Asia and the Pacific, and eight countries in Latin America. In the United States there are 59 licensed insurance companies domiciled in nine different states. Additionally, there are a number of non-insurance entities within the LMIG organizational structure. Please refer to the Company's December 31, 2013 Annual Statement filing for a complete organizational chart.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, under a Financial Institutions Bond designed for insurance companies, consistent with Massachusetts General Laws, Chapter 175, Section 60. The aggregate limit of liability on these policies is in excess of NAIC suggested minimum amounts for fidelity insurance. The Company is also a name insured, either itself or together with other subsidiaries and affiliates on policies with external carriers that provide coverage for aircraft liability, excess umbrella and property damage. The excess umbrella policies are with external carriers however, the lead umbrella carrier is Liberty Insurance Corporation. All policies evidencing the above coverages were with licensed and/or authorized insurers in Massachusetts and were in-force at December 31, 2013.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

Eligible employees may participate in the Liberty Mutual Retirement Benefit Plan for US Employees, the Supplemental Income Retirement Plan ("SIRP") which has both a defined benefit component and a defined contribution savings component, the Employees' Thrift Incentive Plan (defined contribution savings) and the US postretirement health and life insurance benefit plans sponsored by the holding company, LMGI. None of these plans are included within the Company's assets and obligations, given that the Company is not the direct sponsor. The holding company allocates costs to the Company pursuant to the Employee Benefits Plans Cost-Sharing Agreement. The reimbursement is based on the required contributions to the Liberty Mutual

Liberty Mutual Insurance Company

Retirement Benefit Plan and with respect to other plans, the benefits incurred on the Company's behalf. LMIC's allocation for these plans during 2013 was:

<u>Plan</u>	<u>Expense</u>
Non-contributory defined benefit	\$ 694,467,044
Contributory defined contribution	100,753,547
Other postretirement benefits	44,881,494

The Company continues to sponsor non-contributory defined benefit pension and contributory defined contribution savings plans covering substantially all Canadian employees and certain US employees. Also, the Company continues to provide certain health care and life insurance postretirement benefits for Canadian and certain US employees. The pension and postretirement benefits and eligibility are based on age, years of service and the employee's compensation.

TERRITORY AND PLAN OF OPERATION

The Company is the largest member of the Group. The Group is a diversified international group of insurance companies, and as a Group, for 2013, is the fourth largest property and casualty insurer in the United States, based on direct premiums written. In 2012, the Company realigned the four historical Strategic Business Units ("SBUs"), which were Personal Markets, Commercial Markets, Liberty Mutual Agency Corporation and International. The four new SBUs are Personal Insurance, Commercial Insurance, Global Specialty and International. This change in structure was a direct result of the Group's rapid growth in the past decade, continuous initiative for cost saving, increasing complexity in the business, and to take advantage of the scale, talent and technology as well as to realign the SBUs in accordance with the Companies' products rather than distribution channel. For 2013, the business mix (measured by net written premium within each SBU) was approximately 44%, 24%, 14%, and 17% respectively.

- The Personal Market SBU includes private passenger auto, homeowners, personal liability, and individual life (traditional, variable and annuity products) products.
- The Commercial SBU offers workers' compensation, group disability and life, general liability, commercial multiple peril or fire, and commercial automobile coverage.
- The Global Specialty SBU offers personal and small commercial line products as well as specialty commercial and reinsurance worldwide.
- The International SBU includes personal and small commercial line products as well as specialty commercial and reinsurance worldwide. International SBU activity is not considered material to the Pool's results for purposes of this examination.

It should be noted that not all business written, including group disability, life and certain international business is part of the pooling operations.

The Company distributes products and services through direct sales representatives, independent agents and brokers, affinity groups, marketing alliances, direct response call centers and the Internet. The Company believes that this multi-channel distribution strategy permits potential customers to access the Company's full product portfolio through the channel of their choice.

Treatment of Policyholders

During the financial examination of the Company, the Division's Market Conduct Department initiated a

Liberty Mutual Insurance Company

comprehensive market conduct examination of the Company for the period January 1, 2013 through December 31, 2013. The market conduct examination was called pursuant to authority in Massachusetts General Laws Chapter 175, Section 4. The market conduct examination was conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose and Noller Advisors, LLC were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Regulation Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The business areas that were reviewed under this comprehensive market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating and Claims. Each business area reviewed includes the identification and evaluation of the insurer's internal controls.

GROWTH OF COMPANY

The growth of the Company for the years 2010 through 2013 is shown in the following schedule, which was prepared from the Company's statutory annual statements:

	Gross Written Premium	Net Written Premium	Admitted Assets	Liabilities	Surplus
2010	\$ 15,537,747,482	\$ 7,740,795,092	\$ 36,701,548,343	\$ 22,938,257,314	\$ 13,763,291,029
2011	16,963,680,855	8,449,255,998	37,394,843,149	23,798,408,089	13,596,435,060
2012	19,226,350,961	9,635,369,446	40,205,366,577	25,694,899,915	14,510,466,662
2013	35,952,614,118	13,889,152,052	44,475,809,095	29,349,412,770	15,126,396,325

REINSURANCE

The Company's reinsurance program primarily consists of ceded business in the form of excess of loss contracts, catastrophe contracts, facultative treaties, and intercompany treaties. These contracts are primarily prospective in nature however the Company is party to a few large retroactive contracts, including the agreement with National Indemnity Insurance Company previously discussed. The Company has an additional thirty-four ceded and five assumed retroactive contracts that transferred liabilities for losses that had already occurred. These amounts are included in the balance sheet presentation.

The Global Reinsurance Strategy Group ("GRSG") is the Company's integrated reinsurance purchasing group, supporting both internal and ceded reinsurance programs. Internal reinsurance underwrites a portfolio of reinsurance that is purchased by the SBU's which in turn facilitates the purchase of the external ceded programs. Ceded reinsurance is designed and managed to support the risk management needs of the overall organization including catastrophic losses.

Risk Transfer Review

To determine whether a reinsurance contract meets the risk transfer conditions established by SSAP 62, the authoritative guidance requires a complete understanding of the reinsurance contract and any side agreements that may have an impact on the contract under review. In evaluating whether a reinsurance contract satisfies the risk transfer conditions of SSAP 62, special attention is given to contractual features that:

Liberty Mutual Insurance Company

- Limit the amount of insurance risk to which the reinsurer is subject (such as experience refunds, cancellation provisions, adjustable features, or required additions of profitable lines of business to the reinsurance contract); and
- Delay the timely reimbursement of claims by the reinsurer (such as payment schedules or calendar-year retentions that accumulate over multiple years of coverage). In this context, "timely" refers to the relationship between the date that a ceding company pays a claim covered by a reinsurance contract and the date of actual cash reimbursement by the reinsurer.

The Company's process is to first evaluate if risk transfer is self-evident, with no risk limiting features or delays on settlement. The Company performs risk transfer reviews on all new ceded reinsurance contracts. These risk transfer analysis controls were tested as part of our Phase 3 procedures for ceded reinsurance and as a result of those controls tested, no exceptions were noted relating to risk transfer as of December 31, 2013.

We reviewed the Company's catastrophe reinsurance program structure for the 2013 fiscal year, upon which the examination team actuaries relied in assessing ultimate reserving risk to Liberty Mutual. The Company's catastrophe program is designed primarily to mitigate catastrophe exposure to higher-prone areas, including those subject to natural disasters. In order to validate actual placement of treaties against the Company's plan, the examination team agreed each of the placements back to specific reinsurance contracts. As a result of the procedures performed, the examination team validated placement of the reinsurance program in accordance with the Company's reinsurance strategic plan.

Liberty Mutual Inter-Company Reinsurance Pooling Agreement

The Company shares the results of its underwriting operations through an inter-company reinsurance pooling arrangement with a number of subsidiaries and affiliates. The Company is the lead insurer of the Liberty Mutual Second Amended & Restated Inter-company Reinsurance Agreement ("Pool" or "LMIC Pool") and as such is the principal administrator of all pooling operations. In addition, pursuant to the approval of the state insurance regulators, effective January 1, 2013, the participants of the Peerless Amended and Restated Reinsurance Pooling Agreement were added to the LMIC Pool and the Peerless Amended and Restated Reinsurance Pooling Agreement was terminated. After external reinsurance, all participants cede 100% of underwriting operations to the Pool, and assume from the Pool their respective share of the net underwriting results of the Pool on a pro-rata basis. Since the last examination, the members of the Pool have changed as well as the participation percentages under which each company shares in the underwriting results of the Pool. All of the Pool participants cede to the Pool after their cessions to third party reinsurers.

Pool participants and their respective pro-rata pooling percentages as of December 31, 2013 are as follows:

Liberty Mutual Insurance Company

		2013 Pooling	State of	
Insurer		NAIC #	Percentage	Domicile
Lead Company	Liberty Mutual Insurance Company ("LMIC")	23043	50.00%	MA
Affiliated Pool Companies	Peerless Insurance Company ("PIC")	24198	20.00%	NH
	Liberty Mutual Fire Insurance Company ("LMFIC")	23035	8.00%	WI
	Employers Insurance Company of Wausau ("EICOW")	21458	8.00%	WI
	The Ohio Casualty Insurance Company ("OCIC")	24074	8.00%	NH
	Safeco Insurance Company of America ("SICOA")	24740	6.00%	NH
	Liberty Insurance Corporation ("LIC")	42204	0.00%	IL
	Wausau Business Insurance Company ("WBIC")	26069	0.00%	WI
	Wausau Underwriters Insurance Company ("WUIC")	26042	0.00%	WI
	LM Insurance Company ("LMC")	33600	0.00%	IL
	LM General Insurance Company ("LMGIC")	36447	0.00%	IL
	The First Liberty Insurance Company ("FST")	33588	0.00%	IL
	Liberty County Mutual Insurance Company ("LCMIC")	19544	0.00%	TX
	Liberty Insurance Underwriters Inc. ("LIU")	19917	0.00%	IL
	Liberty Lloyds of Texas Insurance Company ("LLOT")	11041	0.00%	TX
	Liberty Mutual Mid Atlantic Insurance Company ("LMMIAIC")	14486	0.00%	MA
	Liberty Mutual Personal Insurance Company ("LMPICO")	12484	0.00%	MA
	Liberty Personal Insurance Company ("LPIC")	11746	0.00%	NH
	Liberty Surplus Insurance Company ("LSI")	10725	0.00%	NH
	Insurance Company of Illinois ("ICIL")	26700	0.00%	IL
	Wausau General Insurance Company ("WGIC")	26425	0.00%	WI
	General Insurance Company of America ("GICA")	24732	0.00%	NH
	American States Insurance Company ("ASIC")	19704	0.00%	IN
	American Economy Insurance Company ("AEIC")	19690	0.00%	IN
	Indiana Insurance Company ("IIC")	22659	0.00%	IN
	Golden Eagle Insurance Company ("GEIC")	10836	0.00%	NH
	Peerless Indemnity Insurance Company ("PIIC")	18333	0.00%	IL
	Safeco Insurance Company of Illinois ("SICIL")	39012	0.00%	IL
	The Netherland Insurance Company ("NIC")	24171	0.00%	NH
	American States Preferred Insurance Company ("ASPCO")	37214	0.00%	IN
	First National Insurance Company of America ("FNICA")	24724	0.00%	NH
	American Fire and Casualty Insurance Company ("AFCIC")	24066	0.00%	NH
	America First Insurance Company ("AFIC")	12696	0.00%	NH
	American First Lloyds Insurance Company ("AFLIC")	11526	0.00%	TX
	American States Insurance Company of Texas ("ASICT")	19712	0.00%	TX
	American States Lloyd Insurance Company ("ASLCO")	31933	0.00%	TX
	Colorado Casualty Insurance Company ("CCIC")	41785	0.00%	NH
	Consolidated Insurance Company ("CIC")	22640	0.00%	IN
	Excelsior Insurance Company ("EIC")	11045	0.00%	NH
	Hawkeye-Security Insurance Company (fka Tower) ("HSIC")	36919	0.00%	WI
	Liberty Northwest Insurance Company ("LNW")	41939	0.00%	OR
	Mid-American Fire and Casualty Company ("MAFCC")	23507	0.00%	NH
	Montgomery Mutual Insurance Company ("MMIC")	14613	0.00%	MA
	National Insurance Association ("NIA")	27944	0.00%	IN
	North Pacific Insurance Company ("NPIC")	23892	0.00%	OR
	Ohio Security Insurance Company ("OSIC")	24082	0.00%	NH
	Oregon Automobile Insurance Company ("OAIC")	23922	0.00%	OR
	Safeco Insurance Company of Indiana ("SICIN")	11215	0.00%	IN
Safeco Insurance Company of Oregon ("SICOR")	11071	0.00%	OR	
Safeco Lloyds Insurance Company ("SLICO")	11070	0.00%	TX	
Safeco National Insurance Company ("SNIC")	24759	0.00%	NH	
Safeco Surplus Lines Insurance Company ("SSLIC")	11100	0.00%	NH	
The Midwestern Indemnity Company ("MWIC")	23515	0.00%	NH	
West American Insurance Company ("WAIC")	44393	0.00%	IN	
100% Quota	Bridgefield Casualty Insurance Company ("BCIC")	10335	0.00%	FL
Share Affiliated Companies	Bridgefield Employers Insurance Company ("BEIC")	10701	0.00%	FL
	LM Property and Casualty Insurance Company ("LMPAC")	32352	0.00%	IN

Liberty Mutual Insurance Company

Ceded Reinsurance

In addition to the LMIC Pool Agreement described above, the company has unsecured reinsurance recoverables that exceed 3% of the Company's policyholder's surplus with the National Workers' Compensation Reinsurance Pool and Swiss Re Group, as shown below:

<u>Reinsurer</u>	<u>Balance</u>
National Workers' Compensation Reinsurance Pool	\$ 1,232,476,000
Total Swiss Re Group	818,491,000

There was no reinsurance recoverable in dispute from an individual reinsurer that exceeds 5% of the Company's policyholder's surplus.

Assumed Reinsurance

Excluding the Company's Pool participation, the Company assumes a significant part of its business through participation in numerous involuntary pools and associations, the largest of which is the National Workers Compensation Pool. Insurers, including the Company, generally record their respective financial results from these pools and associations as reported to them in quarterly statements. Because of the reporting lags commonly associated with pools and associations, LMIC often supplements the reported results with more current estimates of its share of premiums and losses relating to this business.

ACCOUNTS AND RECORDS

The Company's accounts and records are maintained on a general ledger system consisting of a general ledger ("ledger") and numerous automated feeder systems which interface with the ledger. Manual entries are also input into the ledger. The ledger maintains account level detail on a company basis. The ledger interfaces with a reporting tool that is used to produce financial statements and supplemental reports.

All accounting entries have specific elements for GAAP and statutory accounting basis. These elements serve as the basis for proper posting to the appropriate entity and accounting basis. Additionally, information is broken down into the appropriate segment, line of business and cost center. Cost center information is used to capture expense information and to allocate those expenses to various reporting entities by ratios determined by line of business and function. The core financial application systems include general ledger, accounts payable, and cash disbursements.

The accounts and records of the Company are subject to review by the Company's Corporate Auditing Department and are audited annually by Ernst and Young LLP, independent certified public accountants. No material deficiencies were noted in the Company's accounts and records in the course of this examination.

The internal control structure was examined using the following major approaches: review of the work performed by E&Y; discussions with management based on the use of the NAIC's Exhibit B and Exhibit C Questionnaires, and re-performance testing to the extent necessary and deemed appropriate.

The books and records of the Company are audited annually by E&Y, in accordance with 211 CMR 26.00.

Liberty Mutual Insurance Company

STATUTORY DEPOSITS

The following identifies the statutory deposits maintained by the Company with numerous jurisdictions as of December 31, 2013:

		<i>Deposits with the State of Domicile For the Benefit of All Policyholders</i>		<i>All Other Special Deposits</i>	
		Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Alaska	AK	\$ 49,909	\$ 51,877	\$ -	\$ -
Arizona	AZ	-	-	83,193,519	87,358,092
Arkansas	AR	-	-	130,108	156,000
California	CA	-	-	1,213,352,621	1,274,341,449
Connecticut	CT	49,896	47,524	-	-
Delaware	DE	-	-	130,537	142,969
Georgia	GA	154,867	162,029	-	-
Idaho	ID	-	-	136,387	148,926
Illinois	IL	-	-	59,875	57,028
Indiana	IN	64,864	61,781	-	-
Kansas	KS	-	-	67,456	75,382
Maryland	MD	59,875	57,028	-	-
Massachusetts	MA	3,194,001	3,336,000	3,492,063	4,251,070
Montana	MT	-	-	210,417	225,772
Nebraska	NE	50,067	54,259	-	-
Nevada	NV	-	-	100,250	98,704
New Hampshire	NH	-	-	54,135	59,571
New Mexico	NM	-	-	329,312	313,655
New York	NY	-	-	54,555	59,571
North Carolina	NC	311,424	322,969	-	-
Oregon	OR	4,099,053	4,345,836	112,539,247	118,082,905
Texas	TX	-	-	54,885	52,276
Virginia	VA	-	-	75,000	76,088
Wisconsin	WI	9,312,552	9,799,962	-	-
Puerto Rico	PR	-	-	1,067,339	1,068,825
Canada	CAN	660,465,492	672,024,699	-	-
Aggregate Alien and Other	OT	-	-	114,859,372	120,861,486
Total		\$ 677,812,000	\$ 690,263,964	\$1,529,907,078	\$ 1,607,429,769

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2013. The financial statements are the responsibility of Company management. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2013

Statement of Income for the Year Ended December 31, 2013

Statement of Capital and Surplus for the Year Ended December 31, 2013

Reconciliation of Capital and Surplus for Each Year in the Four-Year Period Ended December 31, 2013

Liberty Mutual Insurance Company

Liberty Mutual Insurance Company Statement of Assets, Liabilities, Surplus and Other Funds For the year-ended December 31, 2013

	Per Company	Exam Changes	Per Examination
Bonds	\$ 13,927,716,758	\$ -	\$ 13,927,716,758
Preferred Stocks	207,095,260	-	207,095,260
Common Stocks	8,823,866,852	-	8,823,866,852
Mortgage loans on real estate	533,145,880	-	533,145,880
Real estate	251,301,907	-	251,301,907
Cash and Short-term Investments	1,118,180,550	-	1,118,180,550
Other invested assets	10,246,718,522	-	10,246,718,522
Receivables for securities	35,022,063	-	35,022,063
Securities lending reinvested collateral assets	338,945,591	-	338,945,591
Investment income due and accrued	149,855,386	-	149,855,386
Uncollected premiums and agents' balances in the course of collection	1,019,705,850	-	1,019,705,850
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,525,968,004	-	3,525,968,004
Accrued retrospective premiums	235,369,077	-	235,369,077
Amounts recoverable from reinsurers	1,127,095,512	-	1,127,095,512
Funds held by or deposited with reinsured companies	20,025,367	-	20,025,367
Net deferred tax asset	1,622,078,425	-	1,622,078,425
Guaranty funds receivable or on deposit	10,736,889	-	10,736,889
Electronic data processing equipment and software	98,305,487	-	98,305,487
Receivables from parent, subsidiaries and affiliates	488,906,261	-	488,906,261
Aggregate write-ins for other than invested assets	695,769,454	-	695,769,454
Total assets	\$ 44,475,809,095	\$ -	\$ 44,475,809,095
 Losses (see Note 1)	 \$ 14,246,684,189	 \$ -	 \$ 14,246,684,189
Reinsurance payable on paid losses and loss adjustment expenses	624,435,364	-	624,435,364
Loss adjustment expenses (see Note 1)	3,058,379,371	-	3,058,379,371
Commissions payable, contingent commissions and other similar charges	269,333,475	-	269,333,475
Other expenses (excluding taxes, licenses and fees)	396,150,682	-	396,150,682
Taxes, licenses and fees (excluding federal and foreign income taxes)	141,406,690	-	141,406,690
Current federal and foreign income taxes	158,270,114	-	158,270,114
Borrowed money	150,547,865	-	150,547,865
Unearned Premium	5,940,431,054	-	5,940,431,054
Advance premium	44,109,881	-	44,109,881
Dividend declared and unpaid: Policyholders	1,226,236	-	1,226,236
Ceded reinsurance premiums payable (net of ceding commissions)	1,724,740,983	-	1,724,740,983
Funds held by company under reinsurance treaties	212,659,311	-	212,659,311
Amounts withheld or retained by company for account of others	587,712,719	-	587,712,719
Provision for reinsurance	63,348,980	-	63,348,980
Drafts outstanding	416,164,643	-	416,164,643
Payable to parent, subsidiaries and affiliates	141,241,606	-	141,241,606
Payable for securities	59,630,434	-	59,630,434
Payable for securities lending	338,945,591	-	338,945,591
Aggregate write-ins for liabilities	773,993,582	-	773,993,582
Total liabilities	29,349,412,770	-	29,349,412,770
 Aggregate write-ins for special surplus funds	 55,686,852	 -	 55,686,852
Common capital stock	10,000,000	-	10,000,000
Aggregate write-ins for other than special surplus funds	1,250,000	-	1,250,000
Surplus notes	623,358,904	-	623,358,904
Gross paid in and contributed surplus	7,274,929,263	-	7,274,929,263
Unassigned funds (surplus)	7,161,171,306	-	7,161,171,306
Total surplus as regards policyholders.	15,126,396,325	-	15,126,396,325
 Total liabilities and surplus	 \$ 44,475,809,095	 \$ -	 \$ 44,475,809,095

Liberty Mutual Insurance Company

Liberty Mutual Insurance Company
Statement of Income

For the year-ended December 31, 2013

	Per Company	Exam Changes	Per Examination
Premiums earned	\$ 12,178,725,634	\$ -	\$ 12,178,725,634
Losses incurred	7,204,816,646	-	7,204,816,646
Loss adjustment expenses incurred	1,745,581,044	-	1,745,581,044
Other underwriting expenses incurred	3,964,974,147	-	3,964,974,147
Net underwriting gain (loss)	(736,646,203)		(736,646,203)
Net investment income earned	1,331,811,562	-	1,331,811,562
Net realized capital gains (losses)	78,197,075	-	78,197,075
Net investment gain (loss)	1,410,008,637		1,410,008,637
Net gain (loss)	(40,156,204)	-	(40,156,204)
Finance and service charges not included in premiums	66,936,403	-	66,936,403
Aggregate write-ins for miscellaneous income	(44,868,269)	-	(44,868,269)
Net income before dividends	655,274,364		655,274,364
Less:			
Dividends to policyholders	19,264,431	-	19,264,431
Federal and foreign income taxes incurred	128,598,187	-	128,598,187
Net Income	\$ 507,411,746	\$ -	\$ 507,411,746

Liberty Mutual Insurance Company

Liberty Mutual Insurance Company
Statement of Capital and Surplus
For the year-ended December 31, 2013

	Per Company	Exam Changes	Per Examination
Surplus as regards policyholders, December 31, 2012	\$ 14,510,466,662	\$ -	\$ 14,510,466,662
Net income	507,411,746	-	507,411,746
Change in net unrealized capital gains or (losses) less capital gains tax	351,408,096	-	351,408,096
Change in net unrealized foreign exchange capital gain (loss)	(71,343,116)	-	(71,343,116)
Change in net deferred income tax	330,318,276	-	330,318,276
Change in nonadmitted assets	(276,739,508)	-	(276,739,508)
Change in provision for reinsurance	(14,852,501)	-	(14,852,501)
Change in surplus notes	66,281	-	66,281
Cumulative effect of changes in accounting principles	-	-	-
Surplus adjustments: Paid In	-	-	-
Dividends to stockholder	(199,766,000)	-	(199,766,000)
Aggregate write-ins for gains and losses in surplus	(10,573,611)	-	(10,573,611)
Change in surplus as regards policyholders for the year	615,929,663	-	615,929,663
Surplus as regards policyholders, December 31, 2013	<u>\$ 15,126,396,325</u>	<u>\$ -</u>	<u>\$ 15,126,396,325</u>

Liberty Mutual Insurance Company

Liberty Mutual Insurance Company
Reconciliation of Capital and Surplus
For each of the four year periods-ended December 31, 2013

	2013	2012	2011	2010
Surplus as regards policyholders, beginning of year	\$ 14,510,466,662	\$ 13,596,435,060	\$ 13,763,291,029	\$ 12,491,552,915
Net income	507,411,746	163,582,312	(536,232,804)	2,921,743,414
Change in net unrealized capital gains or (losses) less capital gains tax	351,408,096	308,512,139	568,633,094	(1,964,736,596)
Change in net unrealized foreign exchange capital gain (loss)	(71,343,116)	(9,991,288)	(61,963,284)	59,088,381
Change in net deferred income tax	330,318,276	169,534,773	226,810,008	(19,974,701)
Change in nonadmitted assets	(276,739,508)	594,706,311	(490,846,199)	(70,281,000)
Change in provision for reinsurance	(14,852,501)	28,498,435	11,578,369	(17,343,044)
Change in surplus notes	66,281	(172,246,746)	95,838	95,838
Cumulative effect of changes in accounting principles	-	-	7,369,449	-
Surplus adjustments: Paid In	-	339,656,981	-	500,000,000
Dividends to stockholder	(199,766,000)	(64,766,000)	(64,766,000)	(139,766,000)
Aggregate write-ins for gains and losses in surplus	(10,573,611)	(443,455,315)	172,465,560	2,911,822
Change in surplus as regards policyholders for the year	615,929,663	914,031,602	(166,855,969)	1,271,738,114
Surplus as regards policyholders, end of year	\$15,126,396,325	\$ 14,510,466,662	\$ 13,596,435,060	\$ 13,763,291,029

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1 – Summary of Loss and Loss Adjustment Expense Reserves (“Loss and LAE Reserves”)

The Division retained PwC to review the reasonableness of LMIC's loss and loss adjustment expense reserves as of December 31, 2013. In order to review the reasonableness of its reserves, PwC reviewed the reasonableness of the LMIC Pool's reserves. The Pooling Agreement described in the Reinsurance section of this report identifies all members of the Pool as well as each entity's pro-rata share of the Pool's underwriting results. The actuarial review process included individual consideration of the Pool's direct, assumed and ceded components in order to determine the reasonableness of its net loss and loss adjustment expense reserves. The net result for the Pool is then allocated to individual pooling members based on its pro-rata share of the Pool. The Company's share of the pooled results for the period under examination is illustrated in the following table:

	Net Loss Reserves	Net LAE Reserves	Total
2010	\$ 12,871,308,239	\$ 2,579,498,004	\$ 15,450,806,243
2011	13,102,230,732	2,715,673,770	15,817,904,502
2012	14,144,212,624	2,912,207,583	17,056,420,207
2013	14,246,684,189	3,058,379,371	17,305,063,560

The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the standards of practice adopted by the Actuarial Standards Board. The results of PwC's actuarial review indicated that the Company's reserves at December 31, 2013 made a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its policies and reinsurance agreements. The following table summarizes PwC's estimates of the Pool's loss and loss adjustment expense reserves including its estimate of a reasonable range. The Company's 50% allocation per its stated participation ratio is also illustrated.

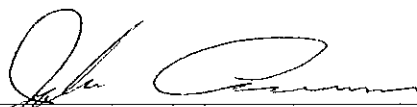
<u>LMIC Inter-Company Reinsurance Pool (Total Pool)</u> (in \$ millions)					
<u>PwC Estimates</u>					
	<u>Low</u>	<u>Indicated</u>	<u>High</u>	<u>Total Pool Carried</u>	<u>(Deficiency) Vs. Indicated</u>
Net Pooled Loss & LAE	\$ 33,234	\$ 34,983	\$ 37,781	\$ 34,611	\$ (372)

<u>Liberty Mutual Insurance Company Net Loss and LAE Reserves</u> (in \$ millions)					
<u>PwC Estimates</u>					
	<u>Low</u>	<u>Indicated</u>	<u>High</u>	<u>Company Carried</u>	<u>(Deficiency) Vs. Indicated</u>
LMIC Net Loss and LAE Reserves (50% Participation)	\$ 16,617	\$ 17,491	\$ 18,890	\$ 17,305	\$ (186)

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by PwC who participated in this examination hereby is acknowledged.



John M. Curran, CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance