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, 2018

NAIC GROUP CODE 0111

NAIC COMPANY CODE 23043

EMPLOYER ID NUMBER 04-1543470

LIBERTY MUTUAL INSURANCE COMPANY

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GARY D. ANDERSON
COMMISSIONER OF INSURANCE

June 10, 2020

The Honorable Gary D. Anderson
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 ("Company" or "LMIC") was last examined as of December 31, 2013 by the Massachusetts Division of Insurance ("Division"). The current multi-state Coordinated Group Examination was also conducted by the Division and covers the five-year period from January 1, 2014 through December 31, 2018, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division and with Massachusetts General Laws. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify current and 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 identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 175, Section 4, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company is audited annually by Ernst & Young ("EY"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Liberty Mutual Insurance Company Pool's financial statements for the calendar years 2014 through 2018. A review and use of the Certified Public Accountants' work papers was made to the extent deemed appropriate and effective.

Representatives from the firm of Risk & Regulatory Consulting, LLC ("RRC") were retained by the Division to assist in the examination by performing certain examination procedures at the direction and under the overall management of the Division's examination staff. The assistance included a review of accounting records, information systems and information technology general controls ("ITGC's"), investments, and actuarially determined loss and loss adjustment expense reserves of the Liberty Mutual Intercompany Reinsurance Pooling Agreement (the "LMIC Pool") as of December 31, 2018.

RRC 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.

This coordinated group financial examination of 58 licensed domestics was conducted in compliance with the *Coordination of Holding Company Group Exams* framework of the Handbook. The following participating states coordinated with the Division to conduct its examination:

- Arizona Department of Insurance (1 licensed domestic)
- California Department of Insurance (1 licensed domestic)
- Illinois Department of Insurance (8 licensed domestics)
- Indiana Department of Insurance (9 licensed domestics)
- Minnesota Department of Commerce (1 licensed domestic)
- State of New Hampshire Insurance Department (18 licensed domestics)
- Oregon Department of Consumer & Business Services, Division of Financial Regulation (4 licensed domestics)
- Texas Department of Insurance (6 licensed domestics)
- Wisconsin Office of the Commissioner of Insurance (6 licensed domestics)

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were two significant observations and recommendations related to reinsurance and related party transactions noted by the examination team for improvements in process, activities and/or controls that were noted in this report. See the Summary of Recommendations section herein for additional details. There were no significant recommendations noted by the examination team in the previous report of examination.

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 "Territory and Plan of Operations" 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, 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 (LMFIC, Peerless Insurance Company ("PIC"), and EICOW 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 Company's affiliates acquired the remaining 22%.

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 and EICOW's 4.048% holdings of shares of LIH.

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. The entities, state of domicile and net retained activity (relative pool participation ratio) are shown below:

Entity Name	**State of Domicile**	**Pooling Percentage**
Liberty Mutual Insurance Company	MA	50%
Peerless Insurance Company	NH	20%
Employers Insurance Company of Wausau	WI	8%
Liberty Mutual Fire Insurance Company	WI	8%
The Ohio Casualty Insurance Company	NH	8%
Safeco Insurance Company of America	NH	6%

On April 1, 2014, the Company, with regulatory approval, sold its wholly owned non-insurance subsidiary, Summit Holdings Southeast Inc., and Summit Holdings Southeast Inc.'s two wholly owned insurance subsidiaries: Bridgefield Employers Insurance Company and Bridgefield Casualty Insurance Company, to American Financial Group. Also, effective on April 1, 2014, the Company commuted its intercompany 100% quota share reinsurance agreements with Bridgefield Employers Insurance Company and Bridgefield Casualty Insurance Company.

On May 1, 2017, the Company directly acquired 100% ownership and all of the issued and outstanding voting shares of Ironshore, Inc. ("Ironshore"), a holding company, which is the upstream parent of two property and casualty insurance companies and various subsidiaries that engage in insurance and non-insurance activity. Effective July 1, 2017, Ironshore Indemnity Inc. and Ironshore Specialty Insurance Company became members of the LMIC Pool.

On May 1, 2018, the Company sold Liberty Life Assurance Company of Boston, which provides group disability, group life, individual life and annuity products, to Lincoln Financial Group.

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.

LMIC also has 100,000 shares of Series A Preferred Stock authorized, of which 7,468 shares were issued, outstanding and held by its parent, LMGI. All shares have a stated par value of $0.01.

Dividends to Stockholders

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

Stockholder Dividend

2018	$	64,766,000
2017		69,727,700
2016		67,859,641
2015		64,766,000
2014		64,766,000
	$	**331,885,341**

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 2014 through 2018 are shown in the following schedule:

Policyholder Dividend

2018	$	8,220,582
2017		6,796,773
2016		8,884,883
2015		9,677,688
2014		11,783,650
	$	**45,363,576**

MANAGEMENT AND CONTROL

Articles of Organization and Bylaws

The Company's Articles of Organization ("Articles") and bylaws were reviewed and there were no amendments to the Articles or bylaws during the examination period.

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 Company's bylaws.

LMHC Board of Directors

LMHC's Board of Directors is responsible for providing oversight of the entire organization, including the Company. According to the LMHC bylaws, the Group's business shall be managed by the Board of Directors ("Board") which may exercise all of the powers of the Company, except as otherwise provided by the Articles or bylaws. The LMHC Board shall consist of not less than ten nor more than twenty-two persons as determined by vote of a majority of the Board. Directors are elected for a period of one, two or three years, as designated by the Board or members nominating candidates.

As of December 31, 2018, the LMHC's Board was comprised of thirteen Directors, twelve of whom are independent, as follows:

Name of Director	Title
David H. Long	Chairman of the Board, President and Chief Executive Officer, LMHC & LMIC
Francis A. Doyle	President and Chief Executive Officer, Connell Limited Partnership
Joseph L. Hooley	Chairman of the Board, State Street Corporation
John P. Manning	President and Chief Executive Officer, Boston Capital Corporation
Thomas J. May	Retired Chairman, President and Chief Executive Officer, Eversource Energy
Nancy W. Quan	SVP and Chief Technical Officer, Coca-Cola company
Myrtle S. Potter	Vant Operating Chair, Roivant Pharma
Ellen A. Rudnick	Senior Advisor, Polsky Center for Entrepreneurship at the University of Chicago Booth School of Business
Angel A. Ruiz	Chief Executive Officer, Mediakind Inc.
Martin P. Slark	Former Vice Chairman and Chief Executive Officer, Molex LLC

Name of Director	Title
Eric A. Spiegel	Retired President and Chief Executive Officer, Siemens Corporation
William C. Van Faasen	Chairman Emeritus, Blue Cross and Blue Shield of Massachusetts
Annette M. Verschuren	Chair and Chief Executive Officer, NRStor Incorporated

Committees of the LMHC Board of Directors

During the period covered by this examination and in accordance with the LMHC bylaws, the LMHC Board of Directors may create an Executive Committee and Investment Committee and delegate any or all of the powers granted to the LMHC Board by law and LMHC bylaws. Many aspects of corporate governance for the Group as a whole are handled by Committees of LMHC.

The LMHC Board may elect, or by vote, authorize the Chief Executive Officer to appoint members of an Executive Committee and Investment Committee, and such other committees as may be required from time to time. As of December 31, 2018, standing committees of the LMHC Board include a Compensation Committee, Contributions Committee, Executive Committee, Investment Committee, Nominating and Governance Committee, and Risk Committee. In addition, the LMHC Audit Committee is the designated Audit Committee for the Company. 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 as of December 31, 2018 is as follows:

Audit Committee
Francis A. Doyle
Thomas J. May
Nancy W. Quan
Eric A. Spiegel*
William C. Van Faasen

Executive Committee
David H. Long*
John P. Manning
Myrtle S. Potter
Martin P. Slark
Eric A. Spiegel
William C. Van Faasen

Risk Committee
David H. Long
Myrtle S. Potter
Ellen A. Rudnick
Angel A. Ruiz
Martin P. Slark*
Annette M. Verschuren

Compensation Committee
John P. Manning
Thomas J. May
Myrtle S. Potter*
William C. Van Faasen

Investment Committee
Francis A. Doyle
David H. Long*
John P. Manning
Thomas J. May
Martin P. Slark
Eric A. Spiegel
Annette M. Verschuren

Community Investment Committee	**Nominating & Governance Committee**
David H. Long	Francis A. Doyle
John P. Manning*	Myrtle S. Potter
Ellen A. Rudnick	Ellen A. Rudnick
William C. Van Faasen	Angel A. Ruiz
	William C. Van Faasen*

* Committee Chair

LMIC Board of Directors

According to the LMIC bylaws, the Company's business and affairs shall be managed by the LMIC Board which may exercise all of the powers of the Company, except as otherwise provided by the Articles or bylaws. The LMIC Board, a Management Board by nature, shall consist of not less than seven nor more than twenty-four persons as determined by vote of a majority of the LMIC Board or by vote of the stockholders. Directors are elected for a period of one year, with all LMIC Board members' terms expiring annually.

As of December 31, 2018, the Company's Board was comprised of ten affiliated Directors as follows:

Name of Director	Title
David H. Long	Chairman of the Board, President and Chief Executive Officer, LMHC & LMIC
James F. Kelleher	EVP and Chief Legal Officer, LMHC & LMIC
Christopher L. Peirce	EVP and Chief Financial Officer, LMHC & LMIC
James M. McGlennon	EVP and Chief Information Officer, LMHC & LMIC
Neeti Bhalla Johnson	EVP and Chief Investment Officer, LMHC & LMIC
Melanie M. Foley	EVP and Chief Talent and Enterprise Services Officer, LMHC & LMIC
Mark C. Touhey	SVP and Secretary, LMHC & LMIC
Dennis J. Langwell	EVP and President, Global Risk Solutions, LMGI
Timothy M. Sweeney	EVP and President, Global Retail Markets, LMGI
Kevin H. Kelley	EVP and Vice Chairman, Global Risk Solutions, LMGI

LMHC & LMIC Board of Directors and LMHC Subcommittee Minutes

The minutes of meetings of the LMHC and LMIC Board of Directors, or consent actions in lieu of meetings, and minutes of the LMHC Subcommittee meetings for the period under examination were read, and they indicated that all actions were taken in accordance with the Company's bylaws, committee's charters and/or the Laws of the Commonwealth of Massachusetts.

Officers

Corporate officers are elected by the LMIC 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, 2018 were as follows:

Name of Officer	Title
David H. Long	Chairman of the Board, President and Chief Executive Officer
Mark C. Touhey	SVP and Secretary
Laurance H. S. Yahia	SVP and Treasurer
James F. Kelleher	EVP and Chief Legal Officer
Christopher L. Peirce	EVP and Chief Financial Officer
James M. McGlennon	EVP and Chief Information Officer
Neeti B. Johnson	EVP and Chief Investment Officer
Melanie M. Foley	EVP, Chief Talent & Enterprise Services Officer
Kevin H. Kelley	EVP
Dennis J. Langwell	EVP
Timothy M. Sweeney	EVP
Alison B. Erbig	SVP and Comptroller

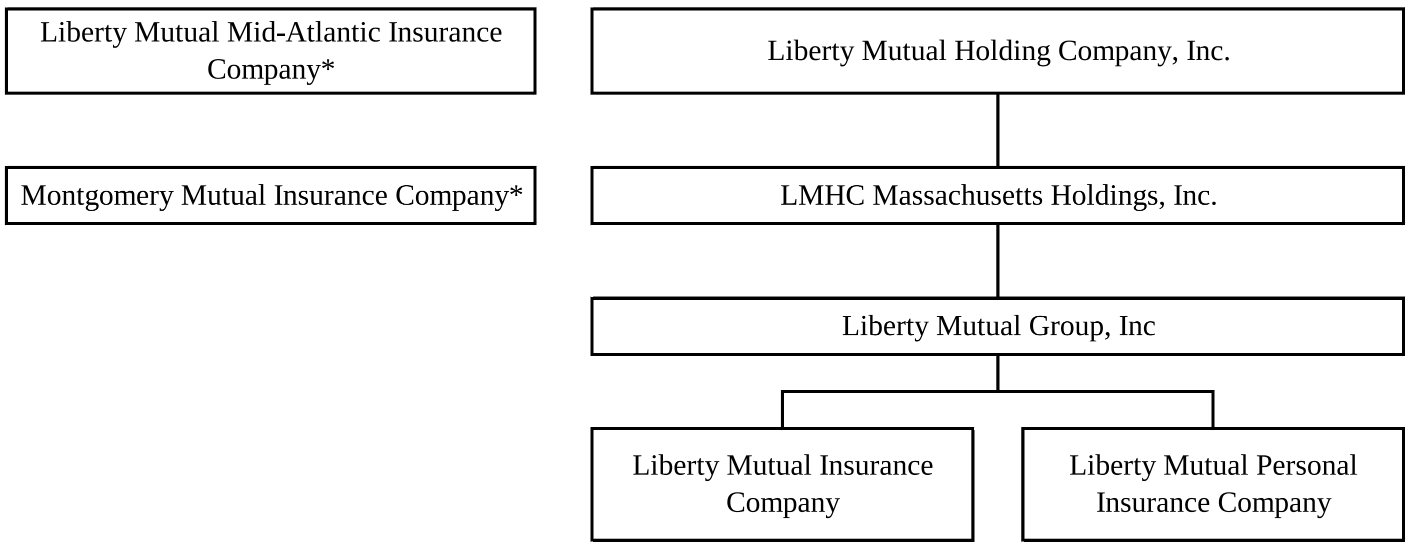
Affiliated Companies

As stated in the Insurance Holding Company System Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of the Massachusetts General Laws, Chapter 175, Section 206C and 211 CMR 7.00. LMHC is the "ultimate controlling person" of the Group per the Form B, as filed with the Division.

Organizational Chart

The Company's ultimate parent is LMHC, which operates in 30 countries and key markets around the globe which include the United States, Canada, 11 countries in Europe, nine countries throughout Asia and the Pacific and eight countries in Latin America. In the United States there are 58 licensed insurance companies domiciled in ten different states. Additionally, there are a number of non-insurance entities within the LMHC organizational structure.

The following is an abbreviated organizational chart as of December 31, 2018 depicting the Company's relationship to its ultimate controlling parent and other Massachusetts domiciled insurers:



*The Company is a mutual company and therefore not owned by any business entity, although, LMHC controls the Company's Board of Directors.

Please refer to the Company's December 31, 2018 Annual Statement filing, Schedule Y for a complete organizational chart.

Transactions and Agreements with Affiliates

In addition to the legal entities noted 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. There was a significant observation and recommendation related to related party transactions noted by the examination team. See the Summary of Recommendations section herein for additional details.

Management Services Agreements
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 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 and cash management agreement with Liberty Mutual Group Asset Management Inc. (“LMGAMI”).

Revolving Credit Agreements
As of December 31, 2018, the Company is a party to revolving loan agreements under which the Company may lend funds for a term of six months or less to subsidiaries and affiliates for the purpose of accommodating fluctuations in daily cash flow and to promote efficient management of investments. Credit lines available under these arrangements range from $20 million to $1.15 billion from each party. There were no outstanding loans as of December 31, 2018.

Affiliate Company	**Credit Line**
American States Insurance Company	50,000,000
Colorado Casualty Insurance Company	50,000,000
Employers Insurance Company of Wausau	150,000,000
General Insurance Company of America	50,000,000
Golden Eagle Insurance Corporation	50,000,000
Indiana Insurance Company	50,000,000
Liberty Corporate Capital Limited	100,000,000
Liberty Insurance Corporation	100,000,000
Liberty Insurance Underwriters Inc.	50,000,000
Liberty International Holdings, Inc.	20,000,000
Liberty Mutual Fire Insurance Company	150,000,000
Liberty Mutual Group Inc.	1,150,000,000
Liberty Mutual Mid-Atlantic Insurance Company	50,000,000
Liberty Northwest Insurance Corporation	50,000,000
Liberty Surplus Insurance Corporation	50,000,000
Peerless Indemnity Insurance Company	100,000,000
Peerless Insurance Company	650,000,000
Safeco Insurance Company of America	100,000,000
The Netherlands Insurance Company	50,000,000
The Ohio Casualty Insurance Company	130,000,000

Under similar arrangements, LMIC is able to borrow funds for a term of six months or less from subsidiaries and affiliates for the purpose of accommodating fluctuations in daily cash flow and to promote efficient management of investments. Credit lines available under these agreements range from $50 million to $1 billion from each party. There were no outstanding borrowings as of December 31, 2018.

Affiliate Company	**Credit Line**
American Economy Insurance Company	100,000,000
American States Insurance Company	100,000,000
Employers Insurance Company of Wausau	150,000,000
General Insurance Company of America	50,000,000
Golden Eagle Insurance Corporation	50,000,000
Indiana Insurance Company	50,000,000
Liberty Insurance Corporation	100,000,000
Liberty Mutual Fire Insurance Company	450,000,000
Liberty Mutual Group Inc.	1,000,000,000
Peerless Insurance Company	650,000,000
Safeco Insurance Company of America	100,000,000
The Ohio Casualty Insurance Company	140,000,000

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.

Guarantees with Affiliates

The Company has made guarantees on behalf of the following affiliates:

Affiliate Company	**Maximum Future Payments**	**Guarantee Description**
Liberty Citystate Holdings Pte. Ltd.	15,039,749	Guarantee of all obligations to Citigroup Inc., its subsidiaries and affiliates
American First Insurance Company	5,000,000	Reduction in fair value of “qualifying Louisiana investments”
Liberty Personal Insurance Company	7,000,000	Reduction in fair value of “qualifying Louisiana investments”
Safeco Insurance Company of Oregon	15,000,000	Reduction in fair value of “qualifying Louisiana investments”
Liberty Information Technology Limited	20,718,972	Future noncancellable lease obligation
Liberty Mutual Insurance Europe SE	Unlimited	Guarantee of obligations until LMIE achieves spec. S&P rating
Liberty International Underwriters Pte. Limited	Unlimited	Guarantee of any undisputed obligations
Liberty International Underwriters Limited	20,290,317	Guarantee of all obligations to Citigroup Inc., its subsidiaries and affiliates
Liberty International Underwriters Limited (Hong Kong)	Unlimited	Guarantee of any undisputed obligations
San Diego Insurance Company	30,000,000	Guarantee of reinsurance agreement obligations
Liberty Re (Bermuda) Limited	146,300,137	Guarantee of reinsurance agreement obligations

Liberty Surplus Insurance Corporation	1,000,000	Minimum capital and surplus levels of at least $500,000 each

Affiliate Company	**Maximum Future Payments**	**Guarantee Description**
Any Liberty Mutual Group company with JPMorgan Chase Bank	500,000,000	Guarantee to cover any overdraft of funds in the custodial accounts
Liberty Specialty Markets Bermuda Limited (f/k/a Ironshore Insurance Ltd.)	Unlimited	Guarantee of any undisputed obligations
Ironshore Europe DAC	Unlimited	Guarantee of any undisputed obligations

In addition, LMIC guarantees and pledges assets up to $1 billion to Lloyds of London on behalf of Liberty Corporate Capital Limited ("LCCL") and Ironshore CC (Two) Limited ("ICCL2"), which are both affiliates. LCCL, as the sole provider of capacity to all years of account of Syndicate 4472 and the 2018 year of account of Syndicate 1980 ("the Syndicates'), is the capital provider to the Syndicates. The Syndicates, each members of the Lloyds marketplace, are required to provide capital as security to support their total Lloyds underwriting business.

Historically, Letters of Credit with collateralization guaranteed by LMIC were used as capital security, so that the Syndicates can write business in the market. In 2018, the Company moved to a direct funding approach whereby LMIC now pledges assets directly to Lloyds on behalf of LCCL (and ultimately, the Syndicates) and ICCL2. The pledged assets (also referred to as "Funds at Lloyds" or "FAL") support the guarantee to Lloyds for any potential future losses that the Syndicates and/or ICCL2 are unable to cover. As of December 31, 2018 the assets that LMIC pledged on behalf of LCCL and ICCL2 were $707M and $47M, respectively.

TERRITORY AND PLAN OF OPERATION

The Company is the largest member of the Group. The Group is a diversified international group of insurance and non-insurance companies that underwrites virtually all lines of personal and commercial property and casualty business with Private passenger automobile, homeowners and auto physical damage being the Group's largest lines of business, followed by specialty insurance, commercial multiperil, and workers' compensation. In 2018, the Group ranks as the third largest property and casualty insurance group in the United States, and the fifth-largest global property and casualty insurance group based on direct premiums written.

The Company had two reorganizations during the examination period and as of December 31, 2018, it currently conducts its business through two Strategic Business Units ("SBU"): Global Retail Markets ("GRM") and Global Risk Solution ("GRS"). The most recent reorganization was effective on January 19, 2018 and the Company reorganized Personal Insurance, Commercial Insurance, Global Specialty and International SBUs into two SBUs: GRM & GRS. Each operates independently in sales, underwriting, and claims, but uses shared services in other operational areas. GRM includes U.S. personal lines, U.S. business lines and small accounts, as well as operations in East and West, and includes mostly automobile, homeowners, small business insurance for 17 countries. GRS includes Liberty Specialty Markets for large commercial risks outside of North America; National Insurance for U.S. admitted business over $150,000 premium;

North America Specialty for non-admitted lines; Global Surety for commercial surety bonds, and Other Global Risk Solutions for LMHC's reinsurance program.

Below is a summary of the organizational structures during the exam period including the 2 reorganizations that took place during the examination period:

At the start of the exam period, for the period January 1, 2014 through March 2016, LMHC conducted substantially all of its business through four strategic business units ("SBU") consisting of:

- Personal Insurance (includes Personal Lines and Safeco operating segments)
- Commercial Insurance (includes Business Insurance and National Insurance operating segments)
- Liberty International
- Global Specialty (includes Liberty International Underwriters, Specialty Markets and Surety operating segments)

The first reorganization occurred on March 31, 2016 and was effective for the period March 31, 2016 through January 18, 2018, LMHC realigned the Personal Insurance and International to Global Consumer Markets and Global Consumer Markets East/West. This resulted in condensing the prior four SBUs into three SBUs consisting of:

- Global Consumer Markets
- Commercial Insurance
- Global Specialty

The second reorganization occurred on January 19, 2018. LMHC realigned and condensed the prior three SBUs down into two three SBUs consisting of:

1) <u>Global Retail Markets ("GRM")</u>
    1. GRM consists of three market segments:
        A. **<u>U.S.</u>**: Consists of Personal Lines (formerly Consumer Markets) and Business Lines (formerly Business Insurance). U.S. Personal Lines sells automobile, homeowners and other types of property and casualty insurance coverage to individuals in the United States. The four Massachusetts domestics are included within this segment. U.S. Business Lines serves small commercial customers through an operating model that combines local underwriting, market knowledge and service with the scale advantages of a national company. These products are distributed through approximately 1,900 licensed employee sales representatives, 900 licensed telesales counselors, independent agents, third-party producers, the Internet, and sponsored affinity groups, which are a significant source of new business.
        B. **<u>West</u>**: Sells property and casualty, life and health insurance products to individuals and businesses in Brazil, Columbia, Chile, Ecuador, Spain, Portugal and Ireland. Private passenger automobile insurance is the single largest line of business for the West segment.
        C. **<u>East</u>**: Sells property and casualty, life and health insurance products to individuals and businesses in Thailand, Singapore, Hong Kong,

Vietnam, Malaysia, India, China and Russia. Private passenger automobile insurance is the single largest line of business for the East segment.

2) Global Risk Solutions <u>(“GRS”)</u>
   1. GRS offers a wide array of property, casualty, specialty and reinsurance coverage distributed through brokers and independent agents globally and is organized into the following five market segments:
      A. **<u>National Insurance:</u>** Formerly under Commercial Insurance. Sells U.S. admitted P&C business to the middle and large markets ($150,000+ in premium), their focus is on construction, energy, healthcare and public entities.
      B. **<u>North America Specialty:</u>** Sells specialty lines and non-admitted property and casualty business in US and Canada.
      C. **<u>Liberty Specialty Markets:</u>** consists of GRS business outside of North America
      D. **<u>Global Surety:</u>** Sells global contract and commercial surety bonds to businesses of all sizes.
      E. **<u>Other GRS:</u>** Primarily consists of internal affiliated reinsurance programs across the Liberty Mutual enterprise.

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.

<u>Treatment of Policyholders</u>

During the financial examination of the Company, the Division’s Market Conduct Department completed a 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. The Market Conduct Examination is the subject of a separate Report dated December 18, 2019.

REINSURANCE

The Company's reinsurance program primarily consists of ceded and assumed business in the form of excess of loss contracts, catastrophe contracts, facultative treaties, adverse development covers and intercompany treaties. These contracts are primarily prospective in nature, however, the Company is party to a few large retroactive contracts in which the Company transferred liabilities for losses that had already occurred. These amounts are included in the balance sheet presentation.

The Global Reinsurance underwriting team, in conjunction with the Reinsurance Operations financial team are responsible for designing and administering effective ceded and assumed reinsurance programs. Global Reinsurance 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 SBUs 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.

There was a significant observation and recommendation related to reinsurance transactions noted by the examination team. See the Summary of Recommendations section herein for additional details.

Liberty Mutual Intercompany Reinsurance Pooling Agreement

The Company shares the results of its underwriting operations through the LMIC Pool with a number of subsidiaries and affiliates. The Company is the lead insurer of the LMIC Pool and as such is the principal administrator of most pooling operations. After recording all of the affiliate transactions, LMIC records 100% of its external assumed and ceded reinsurance and the net underwriting activity is retroceded to the LMIC Pool participants in accordance with each company's pro-rata pooling participation percentage as noted below, except for Wausau Business Insurance Company, Wausau General Insurance Company and Wausau Underwriters Insurance Company, which cede 100% of its underwriting activity to Employers Insurance Company of Wausau, which then 100% retrocedes to LMIC to be included in the LMIC Pool.

The LMIC Pool participants and their respective pro-rata pooling percentages as of December 31, 2018 are as follows:

	Legal Entity	**NAIC #**	**2018 Pooling Percentage**	**State of Domicile**
Lead Company	Liberty Mutual Insurance Company	23043	50%	MA
Affiliated Pool Companies	Peerless Insurance Company	24198	20%	NH
	Employers Insurance Company of Wausau	21458	8%	WI
	Liberty Mutual Fire Insurance Company	23035	8%	WI
	The Ohio Casualty Insurance Company	24074	8%	NH
	Safeco Insurance Company of America	24740	6%	NH
	American Economy Insurance Company	19690	0%	IN
	America First Insurance Company	12696	0%	NH
	American Fire and Casualty Company	24066	0%	NH
	America First Lloyd's Insurance Company	11526	0%	TX
	American States Insurance Company	19704	0%	IN
	American States Insurance Company of Texas	19712	0%	TX
	American States Lloyds Insurance Company	31933	0%	TX

	Legal Entity	NAIC #	2018 Pooling Percentage	State of Domicile
	American States Preferred Insurance Company	37214	0%	IN
	Colorado Casualty Insurance Company	41785	0%	NH
	Consolidated Insurance Company	22640	0%	IN
	Excelsior Insurance Company	11045	0%	NH
	First National Insurance Company of America	24724	0%	NH
	The First Liberty Insurance Corporation	33588	0%	IL
	General Insurance Company of America	24732	0%	NH
	Golden Eagle Insurance Corporation	10836	0%	NH
	Hawkeye-Security Insurance Company	36919	0%	WI
	Insurance Company of Illinois	26700	0%	IL
	Indiana Insurance Company	22659	0%	IN
	Ironshore Indemnity Inc.*	23647	0%	MN
	Ironshore Specialty Insurance Company*	25445	0%	AZ
	Liberty Insurance Corporation	42404	0%	IL
	Liberty Insurance Underwriters Inc.	19917	0%	IL
	Liberty County Mutual Insurance Company	19544	0%	TX
	LM General Insurance Company	36447	0%	IL
	Liberty Lloyds of Texas Insurance Company	11041	0%	TX
	LM Insurance Corporation	33600	0%	IL
	Liberty Mutual Mid-Atlantic Insurance Company	14486	0%	MA
	Liberty Mutual Personal Insurance Company	12484	0%	MA
	Liberty Northwest Insurance Corporation	41939	0%	OR
	Liberty Personal Insurance Company	11746	0%	NH
	Liberty Surplus Insurance Corporation	10725	0%	NH
	Mid-American Fire & Casualty Company	23507	0%	NH
	Montgomery Mutual Insurance Company	14613	0%	MA
	The Midwestern Indemnity Company	23515	0%	NH
	National Insurance Association	27944	0%	IN
	The Netherlands Insurance Company	24171	0%	NH
	North Pacific Insurance Company	23892	0%	OR
	Ohio Security Insurance Company	24082	0%	NH
	Oregon Automobile Insurance Company	23922	0%	OR
	Peerless Indemnity Insurance Company	18333	0%	IL
	Safeco Insurance Company of Illinois	39012	0%	IL
	Safeco Insurance Company of Indiana	11215	0%	IN
	Safeco Insurance Company of Oregon	11071	0%	OR
	Safeco Lloyds Insurance Company	11070	0%	TX
	Safeco National Insurance Company	24759	0%	NH
	Safeco Surplus Lines Insurance Company	11100	0%	NH
	Wausau Business Insurance Company **	26069	0%	WI
	Wausau General Insurance Company**	26425	0%	WI
	Wausau Underwriters Insurance Company**	26042	0%	WI
	West American Insurance Company	44393	0%	IN
100% Quota Share Affiliated	LM Property and Casualty Insurance Company	32352	0%	IN

* Effective July 1, 2017, Ironshore Indemnity Inc. (“III”) and Ironshore Specialty Insurance Company (“ISIC”) became members of the LMIC Pool. All III and ISIC underwriting assets and liabilities were ceded to LMIC and retroceded to the LMIC Pool participants in accordance with each company’s LMIC Pool participation percentage as noted above.

** Wausau Business Insurance Company, Wausau General Insurance Company and Wausau Underwriters Insurance Company, each cedes 100% of its direct underwriting activity to Employers Insurance Company of Wausau, who then retrocedes 100% to the LMIC Pool.

Assumed Reinsurance

The Company writes an external assumed reinsurance book of business in the US written on LMIC. The business written for insurance and reinsurance includes proportional and non-proportional treaty US Casualty and US Property business and US Property Catastrophe Excess of Loss business. In addition, the Company participated in two pool arrangements in 2018 with USAIG (United States Aviation Insurance) and ANI (American Nuclear Insurer). The relationship with USAIG has since ended (as of YE 2019) and moved to runoff. Business written in total for this book in 2018 was approximately $580M.

Business varies by program. As such, the Company writes different percentage shares of the business ceded by clients to the market and each is assessed on its own merits for appetite by the Company, profitability and for how it complements the overall portfolio of business.

The Casualty business covers mostly US exposures and ranges across lines of business including General Liability, Professional Lines Liability, Primary Casualty, Excess and Umbrella, Public Entity, Environmental and Auto. The Property business is also primarily US exposures. It includes business written in commercial and personal lines books and regional business, both catastrophic and non-catastrophic in nature. For this business, the Company records financial results aligned to bordereau and individual invoices received daily. For the pools, the Company records their respective share of the financial results from the pools as reported to them in monthly and annual statements.

In addition, the Company assumes risks via internal reinsurance agreements with various foreign affiliated entities. These agreements facilitate the purchase of global ceded reinsurance protection for the overall organization.

Involuntary Pools and Associations
Excluding the Company's LMIC 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.

Ceded Reinsurance

Corporate Reinsurance Programs
In addition to the LMIC Pool Agreement described above, LMIC administers corporate reinsurance programs placed with various external reinsurers on behalf of the Liberty Pool. The following is a summary of the U.S. Corporate Property Catastrophe (with a portion of a global

aggregate agreement) and the Adverse Development Cover with National Indemnity Company ("NICO") in place as of December 31, 2018:

1) U.S. Corporate Property Catastrophe Program
The Company has property catastrophe reinsurance coverage for its domestic business and certain specialty operations including:1) hurricanes and earthquake reinsurance covering the United States. Canada and the Caribbean, excluding certain reinsurance exposures: 2) aggregate excess of loss programs: and 3) quota share reinsurance programs: and 4) regional catastrophe reinsurance programs. These programs are structured to meet the Company's established tolerances under its Enterprise Risk Management Program. This program is comprised of several contracts including:

A) Homeowners Quota Share
This treaty provides quota share reinsurance coverage on a losses-occurring basis for domestic homeowner's multiline policies, covering both property and liability. LMIC retains a 97.75% participation. This contract follows the form that any future homeowner's quota share will follow.

B) Property Catastrophe Excess of Loss
i) Florida and Gulf Property Catastrophe Excess of Loss
Covers business classified by the company as GRS's Property business, including all commercial lines with losses directly resulting from Named Storms (i.e. hurricanes) and earthquakes from Florida and Gulf only. Gulf is defined as Alabama, Arkansas, Illinois, Indiana, Kentucky, Louisiana, Mississippi, Missouri, Ohio, Oklahoma, Tennessee and Texas.
ii) Property Catastrophe Excess of Loss (Named Storms Only)
Covers business classified by the company as Property business including commercial lines automobile physical damage coverages and personal lines automobile physical damage with losses directly resulting from a Named Storm (i.e. hurricanes) occurring anywhere in the United States, Canada, the Caribbean and/or Bermuda.
iii) Property Catastrophe Excess of Loss (Externally Placed)
Covers business classified by the company as Property business including commercial lines automobile physical damage coverages and personal lines automobile physical damage with losses directly resulting from any one disaster, accident or loss or series of disasters, accidents or losses arising out of one event occurring anywhere in the United States, Canada, the Caribbean and/or Bermuda.
iv) Property Catastrophe Excess of Loss (Placed with Limestone Re)
Covers business classified by the company as Property business including commercial lines automobile physical damage coverages and personal lines automobile physical damage with losses directly resulting from any one disaster, accident or loss or series of disasters, accidents or losses arising out of one event occurring anywhere in the United States, Canada, the Caribbean and/or Bermuda.

C) Property Catastrophe Cascading First-Third Excess of Loss
This treaty is comprised of three layers and each layer has a reinstatement at 100% provision. It covers business classified by the Company as Property business including commercial lines automobile physical damage coverages and personal lines automobile physical damage with losses directly resulting from any one disaster, accident or loss or series of disasters, accidents or losses arising out of one event occurring anywhere in the United States, Canada, the Caribbean and/or Bermuda.

D) Multi-Year Property Catastrophe Excess of Loss Treaty (multiple layers)
This treaty is comprised of three layers and each layer has a reinstatement at 100% provision. It covers business classified by the Company as Property business including commercial lines automobile physical damage coverages and personal lines automobile physical damage with losses directly resulting from any one disaster, accident or loss or series of disasters, accidents or losses arising out of one event occurring anywhere in the United States, Canada, the Caribbean and/or Bermuda.

E) Shared First Event, US Other Catastrophe Loss Occurrence and Global Catastrophe Aggregate Excess of Loss Reinsurance
This contract is composed of three parts. Part I covers the ultimate Net Loss resulting from Loss Occurrences for the First Event North America CAT under the Company's policies classified as Property business. Part II covers US Other CAT Loss Occurrences policies classified by the company as Homeowners (Property and Liability), Specialty and Automobile Physical Damage. Part III covers the ultimate Net Loss resulting from CAT Loss Occurrence, Other Cat Loss Occurrences, Retrocessional Loss Occurrences or International Loss Occurrences under the Company's policies classified as Property Business and Retrocessional Business.

2) Adverse Development Cover - National Indemnity Company
LMIC entered into an adverse development cover with NICO, a subsidiary of Berkshire Hathaway Inc., effective January 1, 2014 which provides coverage for LMIC's U.S. commercial workers' compensation and asbestos and environmental ("A&E") exposures. Specifically, the treaty provides $6.5 billion of aggregate coverage on carried undiscounted loss and allocated loss adjustment expense reserves of $15.8 billion as of December 31, 2013, with an attachment point of $12.5 billion on combined undiscounted workers' compensation and A&E reserves. Sub-limits are also in place, consisting of $3.1 billion on A&E and $4.5 billion on workers' compensation large deductible policy reserves. In conjunction with the treaty, Resolute Management, an affiliate of NICO, assumed claim handling responsibility for A&E claims. Liberty Mutual retained the handling of workers' compensation claims.

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 Ironshore's reserves related to losses occurring prior to January 1, 2017. The first layer of the contract transfers $0.4 billion 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 $0.5 billion above a retention equal to approximately $3 billion, minus paid losses between January 1, 2017 and May 1, 2017, which retention approximates the total held reserves on the covered business on Ironshore’s opening balance sheet. The contract includes a sublimit of $0.277 billion for certain construction liability liabilities. The contract is accounted for on a retroactive basis.

Effective November 5, 2019, LMIC entered into an additional adverse development cover with NICO. This agreement is discussed in more detail in the Subsequent Events section of the report.

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 Michigan Catastrophic Claims Association, as shown below:

Reinsurer	**Balance**
National Workers' Compensation Reinsurance Pool	$ 1,191,323,000
Michigan Catastrophic Claims Association	624,592,000
Total	**$ 1,815,915,000**

There was no reinsurance recoverable in dispute from an individual reinsurer that exceeds 5% of the Company's policyholder's surplus. In addition, the aggregate reinsurance recoverable in dispute do not exceed 10% of the Company’s surplus.

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, 2018. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2018

Statement of Income, Capital and Surplus for the Year Ended December 31, 2018

Statement of Capital and Surplus for the Year Ended December 31, 2018

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2018

Liberty Mutual Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2018

	Per Annual Statement
Admitted Assets	
Bonds	$ 14,124,491,550
Preferred stock	25,853,271
Common stock	16,501,861,955
Mortgage loans on real estate – first liens	582,464,448
Properties occupied by the company	255,809,551
Cash, cash equivalents, and short-term investments	464,341,712
Derivatives	22,076,553
Other invested assets	7,125,768,411
Receivables for securities	85,513,904
Securities lending reinvested collateral assets	669,543,680
Subtotals, cash and invested assets	39,857,725,035
Investment income due and accrued	108,139,840
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	2,011,787,572
Premium and agents balances deferred and not yet due	3,632,858,640
Accrued retrospective premiums and contracts subject to redetermination	173,281,022
Reinsurance:	
Amounts recoverable from reinsurers	507,959,326
Funds held by or deposited with reinsured companies	28,835,109
Amounts receivable relating to uninsured plans	20,491
Current federal income tax recoverable	111,052,414
Net deferred tax assets	852,343,376
Guaranty funds receivable or on deposit	19,532,202
Electronic data processing equipment and software	81,943,981
Receivable from parent, subsidiaries and affiliates	724,381,457
Aggregate write-ins for other than invested assets	720,704,392
Total Admitted Assets	$ 48,830,564,857

Liberty Mutual Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
as of December 31, 2018

	Per Annual Statement
Liabilities	
Losses	$ 16,732,409,112
Reinsurance payable on paid losses and loss adjustment expenses	215,326,051
Loss adjustment expense	3,432,800,188
Commissions payable, contingent commissions and other similar charges	323,268,310
Other expenses	475,723,275
Taxes, licenses and fees (excluding federal and foreign income taxes)	136,262,263
Borrowed money	150,547,864
Unearned premiums	7,851,429,449
Advance premium	49,715,981
Dividends declared and unpaid:	
Policyholders	1,111,529
Ceded reinsurance premium payable	1,082,425,327
Funds held by company under reinsurance treaties	384,795,327
Amounts withheld or retained by company for account of others	741,888,364
Provision for reinsurance	62,866,000
Payable to parent, subsidiaries and affiliates	567,440,227
Derivatives	91,945
Payable for securities	194,208,037
Payable for securities lending	669,543,680
Aggregate write-ins for liabilities	(606,618,522)
Total Liabilities	32,465,234,407
Aggregate write-ins for special surplus funds	43,108,583
Common capital stock	10,000,000
Aggregate write-ins for other than special surplus funds	1,250,000
Surplus notes	623,690,310
Gross paid in and contributed surplus	9,419,972,417
Unassigned funds (surplus)	6,267,309,139
Surplus as regards policyholders	16,365,330,449
Total Liabilities and Policyholder Surplus	$ 48,830,564,856

Statement of Income
For the Year Ended December 31, 2018

	Per Annual Statement
Underwriting Income	
Premiums earned	$ 15,538,384,730
Deductions	
Losses incurred	8,975,311,462
Loss adjustment expenses incurred	1,901,308,199
Other underwriting expenses incurred	4,729,735,224
Total underwriting deductions	15,606,354,885
Net underwriting loss	(67,970,155)
Investment Income	
Net investment income earned	2,432,405,438
Net realized capital gains	425,411,436
Net investment gain	2,857,816,874
Other Income	
Net loss from agents' or premium balances charged off	(51,295,567)
Finance and service charges not included in premiums	100,891,550
Aggregate write-ins for miscellaneous income (deductions)	(339,778,918)
Total other income (loss)	(290,182,935)
Net income before dividends to policyholders and before federal income taxes	2,499,663,784
Dividends to policyholders	8,220,582
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	2,491,443,202
Foreign and federal income taxes incurred	(402,204,243)
Net income	$ 2,893,647,445

Liberty Mutual Insurance Company

Statement of Capital and Surplus
For the Year Ended December 31, 2018

Surplus as regards policyholders, December 31 prior year	$ 14,531,323,273
Net income	2,893,647,445
Change in net unrealized capital gains or (losses)	(1,035,176,416)
Change in net unrealized foreign exchange capital gain (loss)	(79,790,213)
Change in net deferred income tax	(354,419,692)
Change in nonadmitted assets	(99,357,800)
Change in provision for reinsurance	(10,374,973)
Change in surplus notes	66,281
Surplus adjustments: Paid in	560,530,061
Dividends to stockholders	(64,766,000)
Aggregate write-ins for gains and losses in surplus	23,648,483
Change in surplus	1,834,007,176
Surplus as regards policyholders, December 31 current year	$ 16,365,330,449

Liberty Mutual Insurance Company

Reconciliation of Capital and Surplus
For Each Year in the Five Year Period Ended December 31, 2018

	2018	2017	2016	2015	2014
Surplus as regards policyholders, December 31, prior year	$ 14,531,323,273	$ 16,528,205,493	$ 15,815,267,613	$ 16,569,299,988	$ 15,126,396,325
Net income/ (loss)	2,893,647,445	(908,421,315)	404,311,844	973,020,712	888,422,040
Change in net unrealized capital gains	(1,035,176,416)	(764,286,013)	4,902,750	(1,281,553,202)	106,890,174
Change in net unrealized foreign exchange capital gain (loss)	(79,790,213)	95,301,149	19,804,566	(121,753,036)	(69,359,792)
Change in net deferred income tax	(354,419,692)	(334,005,887)	(32,523,036)	63,891,375	(209,719,073)
Change in nonadmitted assets	(99,357,800)	(207,970,855)	11,400,282	(321,349,242)	(98,138,994)
Change in provision for reinsurance	(10,374,973)	(12,841,122)	(9,990,812)	11,218,494	22,471,393
Change in surplus notes	66,281	66,281	66,281	66,281	66,281
Paid in surplus	560,530,061	255,000,000	400,000,000	-	929,513,093
Dividends to stockholders	(64,766,000)	(69,727,700)	(67,859,641)	(64,766,000)	(64,766,000)
Aggregate write-ins for gains or (losses) in surplus	23,648,483	(49,996,758)	(17,174,354)	(12,807,757)	(62,475,459)
Net change in capital and surplus	1,834,007,176	(1,996,882,220)	712,937,880	(754,032,375)	1,442,903,663
Surplus as regards policyholders, December 31, current year	$ 16,365,330,449	$ 14,531,323,273	$ 16,528,205,493	$ 15,815,267,613	$ 16,569,299,988

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes in the financial statements resulting from the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

RRC was retained to assist in the analysis of various actuarially determined items in the 2018 Annual Statement. Given the "risk focused" examination approach of the overall examination, RRC's primary objective was to perform an assessment of reserve risk by performing a qualitative review of the work papers and documentation supporting the estimates of loss and loss adjustment expense liabilities in order to assess the reasonableness of the scope, data used, methodologies and assumptions applied. This review included the analysis prepared by the Company's appointed actuary and review and evaluation of the Company's reconciliation as of December 31, 2018 of the actuarial data to Schedule P. This evaluation was also intended to consider data integrity and the appropriateness of the data segmentation. RRC also performed a high level evaluation of the Group's actuarial process for development of pricing indications.

Based on RRC's analysis and applied examination procedures, RRC determined that the LMIC Pool's carried Loss and LAE reserves are approximately $718,647 million dollars lower than RRC's central estimate, but still within RRC's range of reasonable estimates.

LMIC Pool
(000's omitted)

	RRC Estimates				
	Low	Indicated	High	Total Carried	(Deficiency) Vs. Indicated
Net Loss & LAE	$37,822,339	$41,066,600	$44,844,727	$40,347,953	$(718,647)
	Appointed Actuary Estimates				
	Low	Indicated	High	Total Carried	(Deficiency) Vs. Indicated
Net Loss & LAE	$37,904,891	$40,324,352	$42,421,281	$40,347,953	$23,601

Based on RRC's analysis and applied examination procedures, RRC determined that the LMIC's carried Loss and LAE reserves are approximately $359,324 million dollars lower than RRC's central estimate, but still within RRC's range of reasonable estimates. We note the below is after the inter-company pooling, as the Company retains 50% of all reserve liabilities of the LMIC Pool.

		Liberty Mutual Insurance Company (000's omitted)			
		RRC Estimates			
	Low	Indicated	High	Total Carried	(Deficiency) Vs. Indicated
Net Loss & LAE	$18,911,170	$20,533,300	$22,422,364	$20,173,977	$(359,324)
		Appointed Actuary Estimates			
	Low	Indicated	High	Total Carried	(Deficiency) Vs. Indicated
Net Loss & LAE	$18,952,446	$20,162,176	$21,210,641	$20,173,977	$11,801

SUBSEQUENT EVENTS

On April 15, 2019, the Company announced the acquisition of the global surety and credit reinsurance operations of AmTrust Financial Services, Inc.. Liberty Mutual will acquire four AmTrust businesses: AmTrust Surety which provides contract, commercial, and subdivision bonds primarily in the western U.S.; AmTrust Insurance Spain which offers surety bonds in Spain and Latin America; Nationale Borg which provides surety, worker disability, and home purchase bonds in the Netherlands and Belgium; and Nationale Borg Reinsurance, a global provider of surety, trade credit and political risk reinsurance. On May 31, 2019, the Company completed the acquisition of the business and operations of AmTrust Surety, the U.S. surety operations of AmTrust Financial Services, Inc. On October 2, 2019, the Company completed the AmTrust Insurance Spain, Nationale Borg, and Nationale Borg Reinsurance portion of the acquisition.

On November 5, 2019, the Company entered into a reinsurance transaction with NICO 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. The first layer of the contract attaches at $0.3 billion below applicable held reserves at inception of approximately $8.3 billion of combined aggregate reserves. The second layer of the contract provides adverse development coverage for $1 billion above a retention equal to approximately $8.7 billion. The contract includes a sublimit of $0.1 billion for certain general liability liabilities. The contract will be accounted for as retroactive reinsurance.

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there was significant uncertainty on the effect that the pandemic would have on the insurance industry, economy, and society at large. Any impact to the

Company will take time to assess and will be specific to the class and mix of business they underwrite. The Division will continue to monitor how the pandemic might impact the Company.

SUMMARY OF RECOMMENDATIONS

Reinsurance

The Company is not in compliance with SSAP No. 62R Revised Property and Casualty Reinsurance and SSAP No. 63 Underwriting Pools for recording reinsurance balances on a gross basis at the individual LMIC Pool member levels, other than LMIC. The Company is incorrectly recording nonaffiliated external assumed reinsurance contracts for certain LMIC Pool members, other than LMIC, directly to LMIC which is the lead company in the LMIC Pool. The Company's accounting practices also create an inaccurately reported Schedule F in the Annual Statement.

As a result, certain LMIC Pool participants (other than LMIC) are not correctly recording all of their assumed underwriting results on a gross basis whereby the participant's portion of premiums, losses, expenses (including intercompany related expenses), and other operations of the pools are recorded separately in each participant's financial statements rather than netted against each other within LMIC.

It is recommended that the Company correct its current reinsurance accounting practices to comply with SSAP No. 62R and SSAP No. 63 requirements for recording reinsurance balances on a gross basis for each affected individual pool member.

In addition, we recommend the Company:

- document its amended accounting practice in a formal reinsurance accounting policy memo.
- review its reinsurance process narratives / flowcharts and controls and update such, as necessary, for any changes in its reinsurance accounting practice and processes.
- evaluate and amend the Liberty Mutual Second Amended and Restated Reinsurance Agreement for any provisions that are not in compliance with SSAP No. 62R and SSAP No. 63.
- prospectively correct Schedule F for the revised gross reporting basis for each individual pool member as necessary.

Related Party Transactions

The Company's related party documentation supporting its internal controls, monthly calculations and recording of related party fees/expenses, settlement of intercompany receivables/payables, and evaluation of non-admitted intercompany receivables should be significantly enhanced.

It is recommended that the Company ensure that appropriate key controls and documentation are in place associated with the different agreement types, monthly calculations and recording of related party fees/expenses, settlement of intercompany receivables/payables, and evaluation of non-admitted intercompany receivables. In addition, the Company should revaluate all related party investment agreements and other related party contracts that are based on a method other than a cost-allocation to ensure compliance with SSAP No. 25 Affiliates and Other Related Parties.

SIGNATURE PAGE

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

The assistance rendered by Risk & Regulatory Consulting, LLC who participated in the examination is hereby acknowledged.

John m Curran

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