

THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION

Division of Insurance

Report on the Examination of the
Liberty Mutual Insurance Company

Boston, Massachusetts

As of December 31, 2009

NAIC GROUP CODE: 0111

NAIC COMPANY CODE: 23043

EMPLOYER'S ID NUMBER: 04-1543470

TABLE OF CONTENTS

	<u>Page</u>
SALUTATION	1
SCOPE OF EXAMINATION	2
COMPANY HISTORY	3
General	3
Capital Stock	4
Dividends to Stockholders	4
TERRITORY AND PLAN OF OPERATION	4
Growth of Company	5
MANAGEMENT, CONTROL AND CORPORATE GOVERNANCE	5
Annual Meeting of the Stockholders	5
Board of Directors	5
Committees of the Board of Directors	6
Officers	7
Conflict of Interest Procedures	7
Management Continuity and National Emergency	8
Corporate Records	8
AFFILIATED COMPANIES	9
Transactions and Agreements with Subsidiaries and Affiliates	12
FIDELITY BONDS AND OTHER INSURANCE	13
PENSION AND INSURANCE PLANS	13
SPECIAL DEPOSITS	15
TREATMENT OF POLICYHOLDERS AND CLAIMANTS - MARKET CONDUCT	16
Dividends to Policyholders	16
REINSURANCE	16
Liberty Mutual Inter-Company Reinsurance Agreement	16
Ceding Agreements	18
Assumed Agreements	19
SUBSEQUENT EVENTS	19
ACCOUNTS AND RECORDS	20
FINANCIAL STATEMENTS	21
Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2009	22
Statement of Income December 31, 2009	24
Capital and Surplus For the Year Ended December 31, 2009	25
Reconciliation of Capital and Surplus For the Five Year Period Ended December 31, 2009	26
NOTES TO FINANCIAL STATEMENTS	27
ACKNOWLEDGMENT	29



COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE

1000 Washington Street, Suite 810 • Boston, MA 02118-6200
(617) 521-7794 • <http://www.mass.gov/doi>

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

GREGORY BIALECKI
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

BARBARA ANTHONY
UNDERSECRETARY OF CONSUMER AFFAIRS
AND BUSINESS REGULATION

JOSEPH P. MURPHY
COMMISSIONER OF INSURANCE

May 31, 2011

The Honorable Joseph Torti, III, Chairman
Financial Condition (E) Committee, NAIC
Superintendent of Insurance
State of Rhode Island
Department of Business Regulation
Division of Insurance
1511 Pontiac Avenue, Building 69-2
Cranston, Rhode Island 02920

The Honorable Sharon P. Clark
Secretary, Southeastern Zone, NAIC
Commissioner of Insurance
Kentucky Department of Insurance
215 West Main Street
Frankfort, Kentucky 40601

The Honorable Joseph G. Murphy
Secretary, Northeast Zone, NAIC
Commissioner of Insurance
Commonwealth of Massachusetts
Office of Consumer Affairs and Business
Regulation
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

The Honorable Stephen W. Robertson
Secretary, Midwestern Zone, NAIC
Commissioner of Insurance
Indiana Department of Insurance
311 West Washington Street
Suite 300
Indianapolis, Indiana 46204-2787

The Honorable Monica J. Lindeen
Secretary, Western Zone, NAIC
Commissioner of Securities and Insurance
Montana Office of Securities and Insurance
840 Helena Avenue
Helena, Montana 59601

Honorable Commissioners and Superintendents:

Pursuant to your instructions and in accordance with Massachusetts General Law, Chapter 175, Section 4, an examination has been made of the financial condition and affairs as of December 31, 2009 of the

LIBERTY MUTUAL INSURANCE COMPANY
Boston, Massachusetts

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", "LMIC" or the "Company") was last examined as of December 31, 2004 for the period from January 1, 2000 thereto. The current association examination covers the intervening period from January 1, 2005 through December 31, 2009, 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 (the "Division") in accordance with standards established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee, the requirements of the 2010 Edition of the *NAIC Financial Condition Examiner's 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 adjustments expense reserves of the Inter-affiliate Reinsurance Pool (the "Liberty 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 principal focus of the examination was 2009 activity however; transactions both prior and subsequent thereto were reviewed as deemed appropriate. The examination was conducted following the NAIC Risk Focused Examination Model. 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, treatment of policyholders 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 23.00. The firm expressed an unqualified opinion 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.

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 on July 1 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 "Acquisitions, Affiliations, Transactions" 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 LMHC, 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 LMHC, 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".

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. During the period covered by this examination, the Company received a total of \$4,431,200,326 additional paid-in and contributed surplus as illustrated in the following table:

<u>Year</u>	<u>Paid-in and Contributed Surplus</u>
2009	\$ 100,000,000
2008	1,986,321,107
2007	1,200,791,071
2006	878,363,148
2005	<u>265,725,000</u>
Total	<u>\$4,431,200,326</u>

Dividends to Stockholders

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

<u>Year</u>	<u>Stockholder Dividends</u>
2009	\$224,766,000
2008	10,720,080
2007	4,373,207
2006	2,163,559
2005	<u>100,000,000</u>
Total	<u>\$342,022,846</u>

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 2009, is the 5th largest property and casualty insurer in the United States, based on direct premiums written. The property and casualty operations of the Group are engaged in the underwriting of virtually all lines of business through the Commercial Markets, Personal Markets, International Markets, and Agency Markets strategic business units. For 2009, the business mix was approximately 15%, 22%, 25%, and 38% respectively. The Group ranks as the number one provider of workers' compensation insurance in the United States and such premiums represent approximately 14% of the Group's total direct premium writings. The Company distributes products and services through direct sales representatives, independent agents and brokers, direct sales representatives and office

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.

Growth of Company

The growth of the Company for the years 2005 through 2009 is shown in the following schedule, which was prepared from the Company's statutory annual statements:

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Capital and Surplus</u>
2009	\$ 34,830,436,535	\$ 7,463,632,724	\$ 12,491,552,915
2008	32,549,788,186	8,126,264,461	10,344,702,418
2007	34,829,204,572	9,589,191,341	11,823,297,954
2006	29,920,012,089	7,889,647,135	8,352,129,029
2005	26,011,608,289	7,046,397,371	4,246,696,832

MANAGEMENT, CONTROL AND CORPORATE GOVERNANCE

Annual Meeting of the Stockholders

In accordance with the Bylaws, the annual meeting of the stockholders 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 come before that meeting. Minutes of stockholders' 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 of the Board 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 five-year period covered by this examination. During the examination period, the Board met at least four times during each calendar year.

At December 31, 2009, all Directors of the Company were inside Directors, and their names, together with their titles, were as follows:

<u>Director</u>	<u>Title</u>
Edmund F. Kelly	Chairman of the Board, President and Chief Executive Officer
J. Paul Condrin, III	Executive Vice President
Dennis J. Langwell	Senior Vice President and Chief Financial Officer
A. Alexander Fontanes	Executive Vice President and Chief Investment Officer
David H. Long	Executive Vice President
Christopher C. Mansfield	Senior Vice President and General Counsel
Timothy M. Sweeney	Executive Vice President

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, the Company has Executive, Investment, Audit and Compensation Committees, but many aspects of corporate governance for the Group as a whole are handled by committees of the Liberty Mutual Holding Company Inc., including designated Executive, Investment, Audit and Compensation Committees. This is in addition to the Board of Directors at the Liberty Mutual Insurance 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. The following is a list of members serving on the Company's Committees noted above as of December 31, 2009.

Executive Committee

Edmund F. Kelly
Dennis J. Langwell
Christopher C. Mansfield

Investment Committee

Edmund F. Kelly
A. Alexander Fontanes
Dennis J. Langwell

Audit Committee

Edmund F. Kelly

Dennis J. Langwell
Christopher C. Mansfield

Compensation Committee

Edmund F. Kelly
Dennis J. Langwell
Christopher C. Mansfield

Officers

Corporate officers are elected by the Board of Directors at their first meeting following the Annual Stockholder Meeting, and serve for one year in accordance with the Company's Bylaws. The elected principal senior officers and their respective titles at December 31, 2009 were as follows:

<u>Officer</u>	<u>Title</u>
Edmund F. Kelly	Chairman, President and Chief Executive Officer
Dexter R. Legg	Vice President & Secretary
Laurance H. Yahia	Senior Vice President & Treasurer
Paul G. Alexander	Senior Vice President
James P. Condryn	Executive Vice President
John D. Doyle	Vice President and Comptroller
A. Alexander Fontanes	Executive Vice President and Chief Investment Officer
Gary R. Gregg	Executive Vice President
David H. Long	Executive Vice President
Dennis J. Langwell	Senior Vice President and Chief Financial Officer
Christopher C. Mansfield	Senior Vice President and General Counsel
James M. McFlennon	Senior Vice President and Chief Information Officer
Robert J. Muleski	Senior Vice President and Corporate Actuary
Timothy E. R. Sayles	Senior Vice President
Timothy M. Sweeney	Executive Vice President

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 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, key employees and Directors during the 2009 annual disclosure process.

Management Continuity and National Emergency

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 17C of the Massachusetts General Laws.

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 of the period ended December 31, 2009.

Board of Directors and Committee Minutes

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

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.

LIBERTY MUTUAL HOLDING COMPANY ANNUAL STATEMENT- SCHEDULE Y LISTING

Liberty Mutual Holding Company Inc.
LMHC Massachusetts Holding Inc.
Liberty Mutual Group Inc.

Liberty Mutual Personal Insurance Company	MA
St. James Insurance Company Ltd. (Bermuda)	
Liberty Mutual Fire Insurance Company	WI
Employers Insurance Company of Wausau	WI

Liberty Mutual Insurance Company

Note 1

Liberty Life Assurance Company of Boston (90%)	MA
Liberty Personal Insurance Company	MA
Ohio Casualty Corporation (78%)	NH

Note 2

The Ohio Casualty Insurance Company	OH
Ohio Security Insurance Company	OH
Avomark Insurance Company	IN
American Fire and Casualty Company	OH
West American Insurance Company	IN

Note 3

Liberty Insurance Holdings, Inc. (93.06%)	
LIH-INS & C Corporation	
Indiana Insurance Company	IN
Consolidated Insurance Company	IN
Gulf States AIF, Inc.	TX
America First Lloyd's Insurance Company	TX
Peerless Insurance Company	NH
America First Insurance Company	NH
The Netherlands Insurance Company	NH
Golden Eagle Insurance Corporation	NH
Colorado Casualty Insurance Company	NH
Hawkeye Security Insurance Company	WI
The Midwestern Indemnity Company	OH
Mid-American Fire and Casualty Company	OH
Liberty USA Corporation	
The National Corporation	
National Insurance Association	IN
LIH-RE of America Corporation	
Peerless Indemnity Insurance Company	IL
Summit Holding Southeast, Inc.	
Bridgefield Employers Insurance Company	FL

Bridgefield Casualty Insurance Company	FL
Excelsior Insurance Company	NH
Liberty Northwest Insurance Corporation	OR
Oregon Automobile Insurance Company	OR
North Pacific Insurance Company	OR
Safeco Corporation	WA
First National Insurance Company of America	WA
American Economy Insurance Company	IN
American States Insurance Company of Texas	TX
General America Corporation	
General America Corporation of Texas	
Safeco Lloyds Insurance Company	TX
American States Lloyds Insurance Company	
Safeco Insurance Company of America	TX
Safeco Insurance Company of Oregon	WA
Safeco National Insurance Company	OR
Safeco Surplus Lines Insurance Company	NH
General Insurance Company of America	WA
Safeco Insurance Company of Indiana	WA
Safeco Insurance Company of Illinois	IN
American States Insurance Company	IL
American States Preferred Insurance Company	IN
Liberty Sponsored Insurance (Vermont), Inc	IN
Wausau Insurance Company (UK) Limited	VT
Liberty Re Bermuda Ltd.	
San Diego Insurance Company	CA
LM General Insurance Company	IL
LM Property and Casualty Insurance Company	IN
Liberty Insurance Company Limited (China)	
Wausau Business Insurance Company	WI
Wausau General Insurance Company	WI
Wausau Underwriters Insurance Company	WI
Liberty Mutual Captive Holdings LLC	
Lexco Limited (Bermuda)	
Liberty Mutual Holdings (Bermuda) Ltd.	
Arlington Insurance Company, Ltd. (Bermuda)	
The Stuart Insurance Group Ltd. (Bermuda)	
Liberty Insurance Corporation	
The First Liberty Insurance Corporation	
Berkeley Management Corporation	
Liberty Lloyds of Texas Insurance Company	TX
LM Personal Insurance Company	IL
Liberty Surplus Insurance Corporation	NH
Insurance Company of Illinois	IL
LM Insurance Corporation	IL

Note 4

Liberty Insurance Underwriters Inc.

NY

Liberty International Holdings LLC

Liberty Spain Insurance Group LLC and Subsidiaries

Liberty International Chile S.A. and Subsidiaries

Liberty International Latin America Holdings, LLC and Subsidiaries

Liberty International (Spain) Holdings LLC and Subsidiaries

Liberty International Asia Pacific Holdings, LLC and Subsidiaries

Liberty Insurance Limited (Vietnam)

Note 1: The Company owns 90% of Liberty Life Assurance Company of Boston. The remaining 10% is owned by Liberty Mutual Fire Insurance Company.

Note 2: The Company owned 78% of Ohio Casualty Corporation. 8% is owned by Employers Insurance Company of Wausau; 8% by Peerless Insurance Company, and 6% is owned by Liberty Mutual Fire Insurance Company.

Note 3: The Company owns 93.06% of Liberty Insurance Holdings, Inc. 4.048% is owned by Employers Insurance Company of Wausau, and 2.892% is owned by Liberty Mutual Fire Insurance Company.

Note 4: The subsidiaries listed under Liberty International Holdings LLC are the principal subsidiaries and do not include all subsidiary companies in the international family of companies.

Companies listed above with a corresponding state abbreviation to the far right are insurers with NAIC Company Code designations domiciled in that respective state. It should also be noted that only insurance companies or holding companies with insurance subsidiaries are included in the listing above. Non-insurance entities, such as management companies and non-insurance holding companies have been omitted. Refer to the Company's Annual Statement Schedule Y for the complete Organizational Chart illustration.

In addition to the above, the Company has in place various management agreements with LMMAIC, LMAIC, and Liberty County Mutual Insurance Company. As these entities are mutual insurers and 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, Affiliations, Transactions

- During 2009, Liberty Insurance Company of America (LICA), a participant in the Liberty Mutual Inter-company Reinsurance Agreement, merged with an affiliate, Insurance Company of Illinois (ICIL). ICIL became the surviving entity. Concurrent with the merger, ICIL entered into a Quota Share Reinsurance

Agreement with LMIC, covering the business written by LICA. ICIL continued as a participant in the Peerless Amended and Restated Reinsurance Agreement.

- On September 9, 2008, the Company and certain affiliates acquired common stock issued by Liberty Insurance Holdings, Inc., formerly a wholly owned downstream non-insurance holding company of the Company. The Company paid \$5,590,472,596 for its share of the common stock issued by Liberty Insurance Holdings, Inc. The Company acquired additional shares of common stock of Liberty Insurance Holdings, Inc. for \$384,748,953 through the transfer of subsidiaries, at a statutory book value. At December 31, 2008, the Company owned 93.1% of Liberty Insurance Holdings, Inc.
- Liberty Insurance Holdings, Inc. contributed the proceeds from the September 9, 2008 sale of its common stock to its downstream non-insurance holding company, LIH US P&C Corporation. On September 22, 2008, LIH US P&C Corporation acquired all of the common stock of Safeco Corporation, a non-insurance holding company and parent to 15 property and casualty insurance companies, at a cost of \$6,243,969,619. Liberty Insurance Holdings, Inc. contributed the subsidiaries received from the December 31, 2008 sale of its common stock, at statutory book value, through its non-insurance downstream holding company, LIH US P&C Corporation, to Peerless Insurance Corporation. The Company recognized an unrealized loss of \$2,963,837,230, due to its 93.1% share of non-admitted goodwill held by LIH US P&C Corporation.
- On December 31, 2008, the Company purchased preferred stock from Liberty Insurance Holdings, Inc. at a cost of \$435,577,567. On December 31, 2008, the Company purchased preferred stock from Ohio Casualty Corporation, directly owned by LIH US P&C Corporation at a cost of \$140,087,220.

Transactions and Agreements with Subsidiaries and Affiliates

Management and Service 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 collection, 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 a number of other subsidiaries and affiliates whereby the Company provides investment management services.

Revolving Credit Agreements

As of December 31, 2009, the Company is a party to revolving credit agreements under which the Company may lend funds to seventeen different subsidiaries and affiliates.

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.

FIDELITY BOND 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 named 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 coverage's were with licensed and or authorized carriers in Massachusetts and were in force at December 31, 2009.

PENSION AND INSURANCE PLANS / EMPLOYEE WELFARE

The Company's sponsorship of the Retirement Benefit Plan, the Employees' Thrift-Incentive Plan, the Supplemental Income at Retirement Plan (SIRP), covering all U.S. employees who met certain eligibility requirements, was transferred to LMGI in 2003. Also, the Company's U.S. postretirement healthcare and life benefit obligations, except for Death Benefit Only (DOB) plan, were transferred to LMGI. LMIC does not have any direct obligations for the plans transferred to LMGI. The Company continues to sponsor a Deferred Compensation Plan (non-qualified defined benefit and defined contribution) for U.S. employees not eligible for SIRP. Also, the Company continues to sponsor the Retirement Benefit Plan for Canadian employees, the Savings Plus Plan, and postretirement healthcare and life benefit plans covering all Canadian employees that meet certain eligibility requirements.

Pursuant to an Employee Benefit Plans Cost-Sharing Agreement, the Company has agreed to reimburse LMGI for certain cost related to one or more employee benefit or welfare plans covering current or past employees of the Company or its affiliates which have been transferred to LMGI or which may be transferred to LMGI in the future. The reimbursement is based on the required contributions to the pension plans and with respect to other plans, the benefits incurred on the Company's behalf.

For Informational Purposes Only

SPECIAL DEPOSITS

The following identifies the special deposits maintained by the Company with numerous jurisdictions as of December 31, 2009:

<u>State</u>	<u>Purpose</u>	<u>Book Value</u>	<u>Fair Value</u>
Alaska	Benefit of All Policyholders	\$ 50,149	\$ 51,666
Arizona	Workers Compensation	80,763,026	83,997,577
Arkansas	Benefit of AR Policyholders	130,135	130,135
California	Workers Compensation	1,287,526,579	1,311,306,121
Connecticut	Benefit of All Policyholders	50,812	51,666
Delaware	Benefit of DE Policyholders	143,294	151,228
Florida	Benefit of All Policyholders	139,422	146,212
Georgia	Benefit of All Policyholders	154,899	163,902
Idaho	Workers Compensation	150,229	157,529
Illinois	Workers Compensation	60,002	60,647
Indiana	Benefit of All Policyholders & Creditors	60,028	60,647
Kansas	Benefit of KS Policyholders	69,135	72,701
Maine	Escrow	8,840	10,236
Maryland	Benefit of All Policyholders & Creditors	59,920	61,163
Massachusetts	Benefit of All Policyholders, General	6,666,672	7,323,246
Montana	Workers Compensation	82,597	84,889
Nebraska	Benefit of All Policyholders	52,263	52,839
New Hampshire	Benefit of NH Policyholders	59,109	63,012
New Mexico	Benefit of NM policyholders & Creditors	332,973	340,996
New York	Workers Compensation	60,087	63,012
North Carolina	Benefit of All Policyholders	316,111	324,883
Oregon	Benefit of All Policyholders & Creditors, Workers Compensation, Surety	106,463,978	108,681,625
Texas	Benefit of All Policyholders & Creditors	121,562	132,872
Virginia	Benefit of VA Policyholders	75,000	77,308
Wisconsin	Benefit of All Policyholders & Creditors	9,340,387	9,532,047
Puerto Rico	Benefit of PR Policyholders	1,051,892	1,120,545
Canada	Benefit of All Policyholders	510,145,388	523,170,712
Aggregate Other Alien and Other	Workers Compensation	189,809,117	186,987,443
	TOTAL	\$2,193,941,534	\$2,235,387,538

TREATMENT OF POLICYHOLDERS AND CLAIMANTS - MARKET CONDUCT

The Division's Market Conduct Department has initiated a comprehensive market conduct examination of the Company effective for the 2010 year period. The exam has been called pursuant to the authority in Massachusetts General Laws Chapter 175, Section 4. The market conduct examination will be conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Guidance and standards of the *NAIC Market Conduct Examiner's Handbook*, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins will be followed. The basic business areas that are being reviewed under this market conduct examination are Company Operations/Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; Underwriting and Rating; and, Claims. Once this market conduct examination is completed a Report on the Comprehensive Market Conduct Examination of the Company for the period January 1, 2010 through December 31, 2010 will be issued and become available as a public document.

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 2005 through 2009 are shown in the following schedule, which was prepared from the Company's statutory annual statements.

<u>Year</u>	<u>Dividends</u>
2009	\$ 7,353,693
2008	20,334,167
2007	52,957,399
2006	33,933,356
2005	<u>24,011,749</u>
Total	<u>\$148,590,364</u>

REINSURANCE

Liberty Mutual Inter-Company Reinsurance 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 Inter-Company Reinsurance Pool (the "Pool") and as such is the principal administrator of all pooling operations. 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. The following are the

member companies of the Pool and their respective pro-rata pooling percentages as of December 31, 2009:

		<u>NAIC</u> <u>Co. #</u>	<u>Pooling</u> <u>%</u>	<u>Lines of</u> <u>Business</u>
Lead Company:	Liberty Mutual Insurance Company (LMIC)	23043	75.00%	All Lines
Affiliated Pool Companies:	Employers Insurance Company of Wausau (EICOW)	21458	8.00%	All Lines
	Liberty Mutual Fire Insurance Company (LMFIC)	23035	12.90%	All Lines
	Liberty Insurance Corporation (LIC)	42404	0.00%	All Lines
	Wausau Business Insurance Company (WBIC)	26069	0.40%	All Lines
	Wausau Underwriters Insurance Company (WUIC)	26012	0.40%	All Lines
	LM Insurance Corporation (LMC)	3600	0.20%	All Lines
	The First Liberty Insurance Corporation (FST)	33588	0.10%	All Lines
	Liberty Personal Insurance Company (LPIC)	11746	0.00%	All Lines
	Liberty Surplus Insurance Corporation (LSI)	10725	0.00%	All Lines
	Wausau General Insurance Company (WGIC)	26425	0.00%	All Lines
100% Quota Share Affiliated Companies:	Liberty Commercial Mutual Insurance Company (LCMB)	19544	0.00%	All Lines
	Liberty Insurance Underwriters, Inc. (LIU)	19917	0.00%	All Lines
	Liberty Lloyd's of Texas Insurance Company (LLOT)	11041	0.00%	All Lines
	Liberty Mutual Mid-Atlantic Insurance Company (LMMAIC)	14486	0.00%	Personal Lines Only
	Liberty Mutual Personal Insurance Company (LMPIC)	12484	0.00%	All Lines
	LM General Insurance Company (LMGIC)	36447	0.00%	All Lines
	LM Personal Insurance Company (LMPICO)	36439	0.00%	All Lines
	LM Property and Casualty Insurance Company (LMPAC)	32352	0.00%	All Lines

Under the terms of the Reinsurance Agreements, the sequence of transactions is as follows:

- (a) Except for WBIC, WGIC and WUIC, each Affiliated Pool Company cedes its underwriting activity to the Lead Company. WBIC, WGIC and WUIC cede 100% of its direct underwriting activity to EICOW.
- (b) With the exception of LMGIC and LMPICO, each 100% Quota Share Affiliated Company cedes its net underwriting activity to the Lead Company. LMGIC and LMPICO cede its net underwriting activity to LMPAC.
- (c) After recording the assumed affiliate transactions noted above, the Lead Company (LMIC) records 100% of its external assumed and ceded reinsurance activity.
- (d) The Lead Company's remaining underwriting activity, after processing all internal and external reinsurance, is retroceded to the pool members in accordance with each company's pool participation percentage, as noted above.
- (e) The write-off of uncollectible reinsurance is pooled and the provision for reinsurance is recognized by the entity placing the outbound external reinsurance.
- (f) Amounts due to affiliated entities participating in the Liberty Mutual Inter-Company Reinsurance Pool at December 31, 2009 is as follows:

Affiliate:	Amount:
Liberty Mutual Fire Insurance Company	(\$13,159,172)
Liberty Insurance Corporation	(\$3,060,273)
LM Insurance Corporation	(\$204,018)
The First Liberty Insurance Corporation	(\$102,009)
Employers Insurance Company of Wausau	(\$31,113,857)
Wausau Underwriters Insurance Company	(\$408,036)
Wausau Business Insurance Corporation	(\$408,036)

Ceded Reinsurance

Four of the seven Pool participants (LMIC, EICOW, LPIC and LSI) cede to the Pool subsequent to their own cessions to third party reinsurers. The remaining five companies' cessions to third party reinsurers are ceded and reported through the Company. Additionally, the Company has 100% Quota Share agreements with an additional eight affiliated companies (LCMIC, LIU, LLOT, LMMAIC, LMPICO, LMGIC, LMPIC and LMPAC).

In addition to the Liberty Mutual Inter-Company Reinsurance Agreement described above, the company has unsecured reinsurance recoverable that exceed 3% of the Company's policyholder's surplus with the National Workers' Compensation Reinsurance Pool (\$1,405,203,000) and Swiss Re Group (\$1,093,724,000). There are no reinsurance recoverable in dispute from an individual reinsurer that exceed 5% of the Company's policyholder's surplus.

The Company also has nineteen ceded and three assumed retroactive contracts that transferred liabilities for losses that had already occurred. These amounts are included in the balance sheet presentation.

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.

SUBSEQUENT EVENTS

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

- Effective January 1, 2010, Insurance Company of Illinois terminated the Quota Share reinsurance Agreement with LMIC and became a participant in the Liberty Mutual Inter-Company Reinsurance Agreement, with 0.00% participation in the pool.
- Effective January 1, 2010, LM General Insurance Company and LM Personal Insurance Company cancelled their 100% Quota Share Agreements with LM Property and Casualty Insurance Company and became participants in the Liberty Mutual Inter-Company Reinsurance Agreement each with a 0.10% Pool Participation Percentage.
- Effective January 1, 2010, Bridgefield Employers Insurance Company and Bridgefield Casualty Insurance Company novated their 100% Quota Share Reinsurance Agreements with Peerless Insurance Company to substitute LMIC as the reinsurer. Effective January 1, 2010, LMIC's pooling percentage in the Liberty Mutual Insurance Company Pool changed from 75.0 % to 73.80%.
- Effective June 8, 2010, Liberty Mutual Mid-Atlantic Insurance Company transferred its state of domicile from Pennsylvania to Massachusetts. Also effective June 8, 2010, Montgomery Mutual Insurance Company transferred its state of domicile from Maryland to Massachusetts. As such, agreement was reached between the Commissioners of the respective states to authorize the Massachusetts Division of Insurance to conduct the NAIC Association Examination of both entities as the state of domicile.
- On May 10, 2010, Liberty Mutual Agency Corporation, which comprises Liberty's Agency Markets Strategic Business Unit, filed a registration statement with the U.S. Securities and Exchange Commission for an initial public offering of shares of its common stock. On September 29, 2010, Liberty announced the postponement of the

initial public offering of stock in Liberty Mutual Agency Corporation due to the current economic environment.

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. The Company utilizes "Infor" for its general ledger and financial reporting.

All accounting entries have specific elements for company 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 then to allocate those expenses to various reporting entities by ratios determined by line of business and function.

The core financial application systems including general ledger, accounts payable and cash disbursements run on an IBM Mainframe (z/OS) infrastructure. The core insurance administration systems run on IBM Mainframe and various Unix and Windows distributed infrastructure.

In addition to the mainframe, the Company operates a multi-vendor distributed environment including Hewlett Packard UNIX, IBM AIX and Sun Solaris for various applications including investment management and pension and 401(K) administration. Local area network systems are used widely throughout the organization at the home office, field services, and for real estate processing.

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 ("E&Y"), 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, the Company's independent certified public accountants; discussions with management based on the use of the NAIC's Exhibit C Questionnaire, and re-performance testing to the extent necessary and deemed appropriate.

FINANCIAL STATEMENTS

The financial statements section includes the following, as determined by this examination: Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2009; Statement of Income for the year ended December 31, 2009; Summary of Capital and Surplus for the year ended December 31, 2009; and Reconciliation of Capital and Surplus for the Five Year Period Ended December 31, 2009, 2008, 2007, 2006 and 2005. The financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and by the NAIC, as of December 31, 2009.

For Informational Purposes Only

Liberty Mutual Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2009

Assets	Per Company	Exam Changes	Notes	Per Examination
Bonds	\$11,425,766,895	\$0		\$11,425,766,895
Stocks:				
Preferred stocks	782,976,318			782,976,318
Common stocks	9,135,552,552			9,135,552,552
Mortgage loans on real estate	519,022,709			519,022,709
Real Estate:				
Properties occupied by the company	337,179,530			337,179,530
Properties held for the production of income	978,262			978,262
Cash and short-term investments	824,332,462			824,332,462
Other invested assets	5,770,944,419			5,770,944,419
Receivable for securities	12,271,548			12,271,548
Subtotals, cash and invested assets	28,809,024,695	0		28,809,024,695
Investment income due and accrued	133,129,777			133,129,777
Premium and considerations:				
Uncollected premiums and agents' balances in the course of collection	978,532,523			978,532,523
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,519,460,073			1,519,460,073
Accrued retrospective premium	329,800,811			329,800,811
Reinsurance:				
Amounts recoverable from reinsurers	593,195,507			593,195,507
Funds held or deposited with reinsurance companies	13,527,020			13,527,020
Amounts receivable relating to uninsured plans	9,677			9,677
Current federal and foreign income tax recoverable and interest thereon	313,172,066			313,172,066
Net deferred tax asset	1,023,325,600			1,023,325,600
Guaranty funds receivable or on deposit	33,248,467			33,248,467
Electronic data processing equipment and software	61,880,565			61,880,565
Receivable from parent, subsidiaries and affiliates	346,223,007			346,223,007
Aggregate write-ins for other than invested assets				
Cash surrender value life insurance	383,284,396			383,284,396
Amounts receivable under high deductible policies	172,204,146			172,204,146
Other miscellaneous assets	120,418,205			120,418,205
Total Assets	<u>\$34,830,436,535</u>	<u>\$0</u>		<u>\$34,830,436,535</u>

Liberty Mutual Insurance Company
Statement of Assets, Liabilities, Surplus and Other Funds
as of December 31, 2009

	Per Company	Exam Changes	Notes	Per Examination
Losses	\$12,580,697,955	\$0	1	\$12,580,697,955
Reinsurance payable on paid losses and loss adjustment expenses	76,374,442			76,374,442
Loss adjustment expenses	2,545,218,983		1	2,545,218,983
Commissions payable, contingent commissions and other similar charges	119,922,389			119,922,389
Other expenses (excluding taxes, licenses and fees)	234,522,784			234,522,784
Taxes, licenses and fees	168,208,453			168,208,453
Unearned premiums	3,293,042,806			3,293,042,806
Advance premium	43,887,917			43,887,917
Dividends declared and unpaid: policyholders	1,800,778			1,800,778
Ceded reinsurance premiums payable (net of ceding commission)	717,199,249			717,199,249
Funds held by company under reinsurance treaties	1,746,563,156			1,746,563,156
Amounts withheld or retained by company for account of others	555,667,197			555,667,197
Provision for reinsurance	69,876,166			69,876,166
Drafts outstanding	294,010,958			294,010,958
Payable to parent, subsidiaries and affiliates	35,060,360			35,060,360
Payable for securities	59,521,615			59,521,615
Aggregate write-ins for liabilities				
Amounts held under unsecured loans	651,634,174			651,634,174
Collateral held for securities loaned	279,831,199			279,831,199
Retroactive reinsurance reserves	(1,620,928,694)			(1,620,928,694)
Miscellaneous liabilities	486,771,733			486,771,733
Total Liabilities	22,338,883,620	0		22,338,883,620
Aggregate write-ins for special surplus funds	1,209,068,460			1,209,068,460
Common capital stock	10,000,000			10,000,000
Aggregate write-ins - other than special surplus funds	1,250,000			1,250,000
Surplus notes	795,347,694			795,347,694
Gross paid in and contributed surplus	6,435,272,283			6,435,272,283
Unassigned funds (surplus)	4,040,614,478			4,040,614,478
Surplus as regards policyholders	12,491,552,915	0		12,491,552,915
Total liabilities and policyholders surplus	\$34,830,436,535	\$0		\$34,830,436,535

Liberty Mutual Insurance Company
Statement of Income
For the Year Ended December 31, 2009

	Per Company	Exam Changes	Per Examination
Underwriting Income			
Premiums earned	\$7,469,660,471	\$0	\$7,469,660,471
Deductions:			
Losses incurred	4,916,329,697		4,916,329,697
Loss adjustment expenses incurred	1,455,364,797		1,455,364,797
Other underwriting expenses incurred	1,923,620,404		1,923,620,404
Aggregate write-ins for underwriting deductions	703,615		703,615
Total underwriting deductions	<u>8,296,018,513</u>	<u>0</u>	<u>8,296,018,513</u>
Net underwriting gain or (loss)	<u>(826,358,042)</u>	<u>0</u>	<u>(826,358,042)</u>
Net investment income earned	628,394,278		628,394,278
Net realized capital gains or (losses)	43,857,769		43,857,769
Net investment gain or (loss)	<u>672,252,047</u>	<u>0</u>	<u>672,252,047</u>
Net gain or (loss) from agents' or premium balances charged off	(58,922,960)		(58,922,960)
Finance and service charges not included in premium	37,249,963		37,249,963
Aggregate write-ins for miscellaneous income	(67,465,388)		(67,465,388)
Total other income	<u>(89,138,385)</u>	<u>0</u>	<u>(89,138,385)</u>
Net income before dividends to policyholders and before federal income taxes	(243,244,380)		(243,244,380)
Dividends to policyholders	17,353,693		17,353,693
Foreign and federal income taxes incurred	(195,500,454)		(195,500,454)
Net income	<u><u>(\$65,097,619)</u></u>	<u><u>0</u></u>	<u><u>(65,097,619)</u></u>

Liberty Mutual Insurance Company
Capital and Surplus Account
For the Year Ended December 31, 2009

Capital and Surplus Account	Per Company	Exam Changes	Per Examination
Suplus as regards policyholder, Dec 31 prior year	\$10,334,732,418	0	\$10,334,732,418
Net income	(\$65,097,619)		(\$65,097,619)
Change in net unrealized capital gains (losses)	\$1,687,848,478		\$1,687,848,478
Change in net unrealized foreign exchange capital gains	174,430,911		174,430,911
Change in net deferred income tax	(238,702,090)		(238,702,090)
Change in nonadmitted assets	487,003,888		487,003,888
Change in provision for reinsurance	8,482,252		8,482,252
Change in surplus notes	(96,727,297)		(96,727,297)
Cumulative effect of changes in accounting principals	10,540,681		10,540,681
Suplus adjustments: Paid in	100,000,000		100,000,000
Dividends to stockholders	(224,766,000)		(224,766,000)
Aggregate writ-ins for gains and losses in surplus	313,807,293		313,807,293
Change in surplus	2,156,820,497		2,156,820,497
Surplus as regards policyholders, December 31 current year	\$12,491,552,915	0	\$12,491,552,915

Liberty Mutual Insurance Company
Reconciliation of Capital and Surplus
For Each Year in the Five Year Period Ended December 31, 2009

(in millions)

	2009	2008	2007	2006	2005
Surplus as regards policyholders, December 31 previous year	\$10,334,732	\$11,823,300	\$9,952,129	\$7,924,697	\$6,255,350
Net income (loss)	(65,098)	1,500,675	440,504	1,007,000	584,140
Change in net unrealized capital gains and (losses)	1,687,848	(4,579,005)	514,906	183,820	(253,468)
Change in net unrealized foreign exchange capital gains	174,431	(190,743)	15,000	15,697	(2,170)
Change in net deferred income taxes	(238,702)	182,373	58,534	46,815	(231,989)
Change in nonadmitted assets	487,004	(341,668)	515,401	(64,172)	251,015
Change in provision for reinsurance	8,482	34,056	8,533	30,873	(18,425)
Change in surplus notes	(96,727)	10,000	(121,243)	223	136
Cumulative effect of changes in accounting principals	10,541				156,763
Surplus adjustments: Paid in	100,000	1,986,321	1,200,792	878,363	265,725
Dividends to stockholders	(224,776)	(10,720)	(4,373)	(2,164)	(100,000)
Aggregate write-ins for gains and (losses) in surplus	313,807	(69,959)	73,188	7,967	17,620
Change in surplus	2,156,820	(1,488,568)	1,871,171	2,027,432	669,347
Surplus as regards policyholders, December 31 current year	\$12,491,553	\$10,334,732	\$11,823,300	\$9,952,129	\$7,924,697

NOTES TO FINANCIAL STATEMENTS

Note 1: Loss and Loss Adjustment Expense Reserves

The Division retained PwC to review the reasonableness of LMIC's loss and loss adjustment expense reserves as of December 31, 2009. In order to review the reasonableness of its reserves, PwC reviewed the reasonableness of the 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.

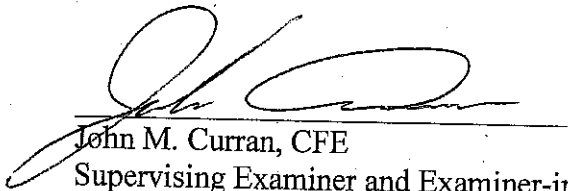
The review was conducted in a manner consistent with the Code of Professional Conduct and the Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board.

The results of PwC's actuarial review indicated that the Company's reserves at December 31, 2009 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 tables summarize a comparison of PwC's loss and loss adjustment expense reserve estimates, both including and excluding BNR and Retrospective Reinsurance, to those carried by the overall Liberty Mutual Insurance Company pool as well as the carried amount of the Liberty Mutual Insurance Company as of December 31, 2009. The Company is allocated 75% of the overall pool balance. All amounts shown are in millions, (\$000,000s omitted):

ACKNOWLEDGEMENT

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Company to all the examiners during the course of the examination.



John M. Curran, CFE
Supervising Examiner and Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance
Representing Northeastern Zone, NAIC

For Informational Purposes Only