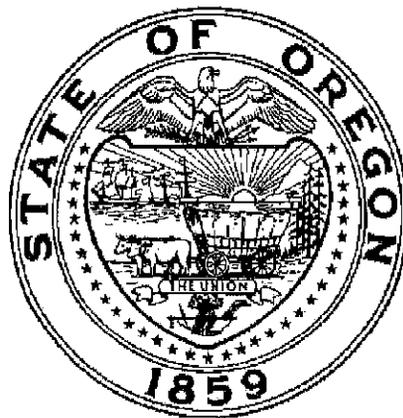


**STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS SERVICES**

INSURANCE DIVISION



REPORT OF FINANCIAL EXAMINATION

OF

**LIBERTY NORTHWEST INSURANCE CORPORATION
PORTLAND, OREGON**

AS OF

DECEMBER 31, 2013

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**LIBERTY NORTHWEST INSURANCE CORPORATION
PORTLAND, OREGON**

NAIC COMPANY CODE 41939

AS OF

DECEMBER 31, 2013

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SALUTATION

April 6, 2015

Honorable Laura N. Cali, Commissioner
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Commissioner:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

LIBERTY NORTHWEST INSURANCE CORPORATION
One Liberty Centre
650 NE Holladay Street
Portland, Oregon 97232

NAIC Company Code 41939

hereinafter referred to as the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed a multi-state full-scope coordinated group examination of Liberty Northwest Insurance Corporation (LNW), together with its affiliate Safeco Insurance Company of Oregon (SICO), and LNW's wholly owned insurance subsidiaries, North Pacific Insurance Company (NPIC) and Oregon Automobile Insurance Company (OAIC). There will be a separate report of financial examination prepared for each company. The last examination of this property and casualty insurer was completed as of December 31, 2012. This is a full-scope examination covering the period January 1, 2013, to December 31, 2013. All accounts and activities of the Company were considered in accordance with the risk-focused examination approach.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1) which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook*. The handbook 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, annual statement instructions, and Oregon statutes and administrative rules.

The examination was performed on a group that pools 100% of its business through the use of a pooling arrangement. A coordinated examination was performed to coordinate efficiencies for those companies with similar systems, management, and/or control processes across legal entities, business units or lines of business within a group.

COMPANY HISTORY

The Company was incorporated in Oregon on January 21, 1983, and received a Certificate of Authority on February 18, 1983, to transact property, casualty (including workers' compensation), marine & transportation, surety, and health lines of business. The Company was part of the Liberty Mutual Agency Corporation strategic business unit (LMAC SBU) within the Liberty Mutual Group. LMAC merged into the Commercial Insurance SBU. The business written by the statutory entities that comprise the Liberty Mutual Insurance Company (LMIC) Pool includes the following internal business units (SBU's): Personal Insurance, Commercial Insurance, Global Specialty (Domestic Exposure only) and International. As described in the Reinsurance section below, effective January 1, 2013, the Company ceded all of its risks to the lead insurer, Liberty Mutual Insurance Company (LMIC) and was retroceded (0%) zero percent of the pooled business.

Capitalization

Under Article III of the Article of Incorporation, the Company is authorized to issue 10,000,000 shares of common stock of \$3 par value common stock. The Company has issued 1,000,000 shares to its direct parent, Peerless Insurance Company, representing 100% of the shares outstanding. No additional capital had been contributed to the Company during the period under examination.

Dividends to Stockholders and Other Distributions

During the period under examination, the Company declared and paid the following dividend to its stockholder:

<u>Declared Date</u>	<u>Paid Date</u>	<u>Amount</u>	<u>Description</u>
11/5/2013	12/9/2013	\$55,000,000	Extraordinary

The distribution was approved on November 25, 2013, by the Oregon Insurance Division pursuant to ORS 732.554. The \$55,000,000 dividend is reflected in the following Reconciliation of Surplus Statement as Dividends to Shareholders and a reduction of Paid in Surplus totaling \$51,781,544 and \$3,218,456, respectively.

CORPORATE RECORDS

Board of Director Minutes

In general, the review of the 2013 Board meeting minutes indicated that the minutes support the transactions of the Company and the actions taken by its directors and officers. A quorum, as defined by the Company's Bylaws, met at all of the meetings held during the period under review.

Articles of Incorporation

There were no changes made to the Articles of Incorporation during the period under examination. The Articles of Incorporation conformed to Oregon statutes.

Bylaws

There were no changes made to the Bylaws during the period under examination. The Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

Management and control of the Company is vested in a Board of Directors. Article III of the Company's Bylaws designates that the Board shall be comprised of not less than five members, the exact number thereof to be fixed by resolution. As of December 31, 2013, the Company was governed by an eight member Board of Directors as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Kristen M. Bessette Boxford, MA	SVP Chief Actuary Liberty Mutual Insurance Company	2012
James P. Condrin III Dover, MA	Executive President Liberty Mutual Insurance Company	2011
John D. Doyle Southborough, MA	VP and Controller Liberty Mutual Insurance Company	2006
Michael J. Fallon Bedford, MA	Senior Vice President and CFO, Liberty Mutual Insurance Company	2008
Paul K. Koehler West Linn, OR	Regional Vice President Liberty Northwest Insurance Corporation	2012
Dexter R. Legg Portsmouth, NH	Vice President and Corporate Secretary Liberty Mutual Insurance Company	2012
Debra B. Pooley Portland, OR	Vice President, Regional Manager, Business Insurance Liberty Mutual Insurance Company	2013
Kathryn M. Winn Milton, MA	Sr. VP and Corporate Legal Counsel Liberty Mutual Insurance Company	2012

The Company's Board of Directors complied with ORS 732.305.

Officers

Principal Officers serving at December 31, 2013, were as follows:

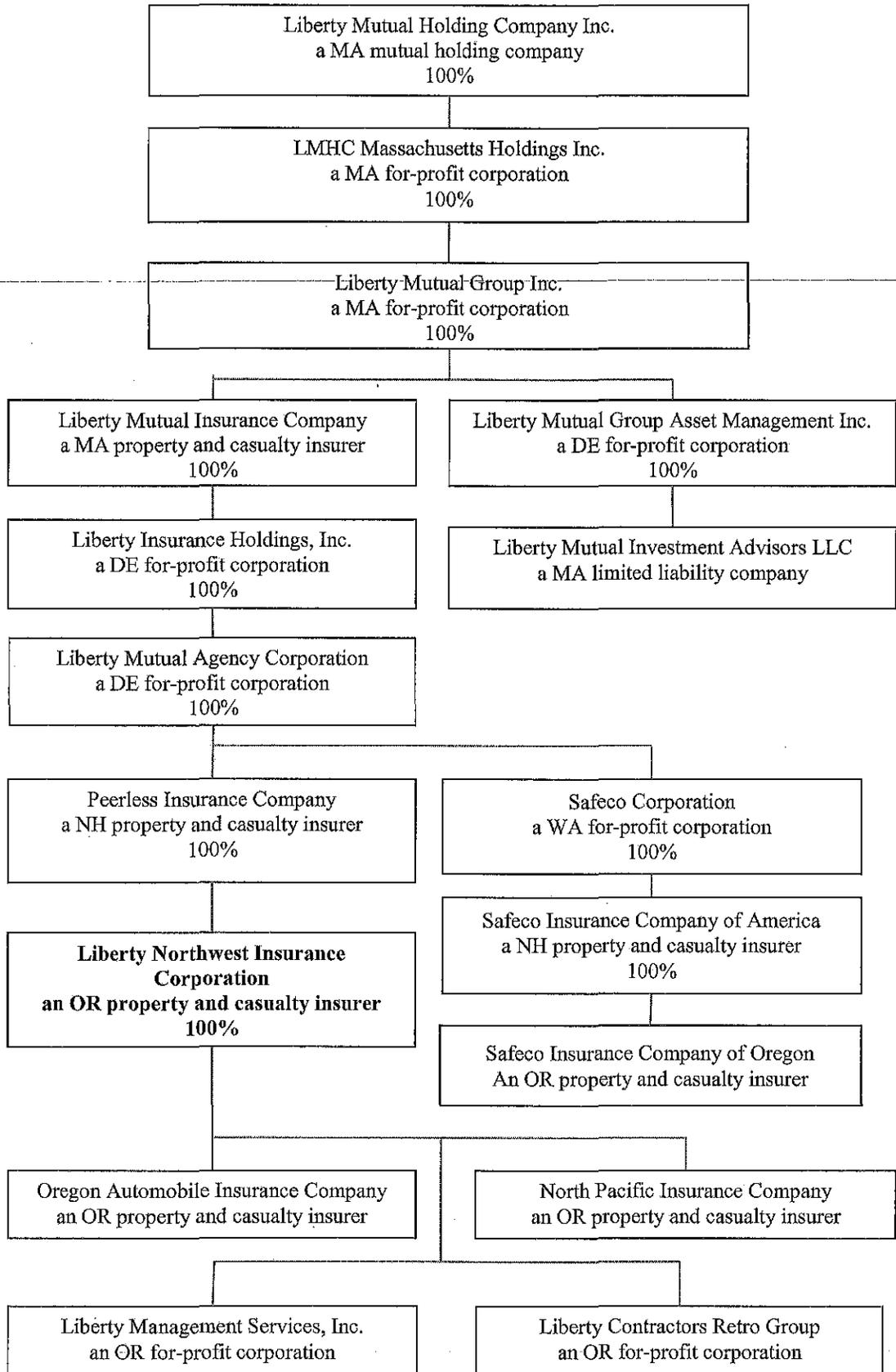
<u>Officer</u>	<u>Office</u>
James P. Condrin, III	President and Chief Executive Officer
Dexter R. Legg	Vice President and Secretary
Laurance H. S. Yahia	Vice President and Treasurer
John D. Doyle	Vice President and Comptroller
Anthony A. Fontanes	Vice President and Chief Investment Officer
Michael J. Fallon	Vice President and CFO
Kathryn M. Winn	Vice President and General Counsel

Conflict of Interest

The Company is party to the Liberty Mutual Code of Business Ethics and Conduct, which requires officers, directors, and selected responsible employees to report annually any conflicts of interest or violations of ethical business practices to the Company. From a review of the completed conflict of interest statements, it appeared that the affected personnel performed due diligence in completing the statements. No material conflicts of interest were noted.

Insurance Company Holding System

The Company is part of an insurance company holding system in which Liberty Mutual Holding Company Inc. is the ultimate controlling entity. The holding company contained numerous separate entities, but the following condensed organizational chart depicts the relationships relevant to the Company within the holding company system:



A brief description of the entities listed in the above chart is as follows:

Liberty Mutual Group Inc. (LMG) is a Massachusetts holding company formed as part of the reorganization of Liberty Mutual Insurance Company in 2001 under a mutual holding company system. As part of the transaction, it formed Liberty Mutual Holding Company Inc. (LMHC) as a mutual holding company and the ultimate controlling entity. LMHC Massachusetts Holdings Inc. was formed as a stock holding company 100% owned by LMHC, and is the direct parent of LMG. Significant subsidiaries of LMG include:

- Liberty Mutual Insurance Company (LMIC), a Massachusetts domiciled property and casualty insurer, was formed in 1912 and is the flagship insurance company of the group, 100% owned by LMG.
- Liberty Mutual Group Asset Management Inc. (LMGAM), a Delaware stock company and an indirect subsidiary of LMG. It was formed for the purpose of making, holding, and administering investments in designated asset sectors for the insurance companies within LMG.
- Liberty Insurance Holdings, Inc. (LIH), a Delaware stock holding company 100% owned by LMIC.
- Liberty Mutual Agency Corporation. (LMAC), a Delaware stock for-profit corporation 100% owned by LIH.
- Safeco Corporation (SC), a Washington for-profit corporation 100% owned by LMAC.
- Safeco Insurance Company of America (SICA), a New Hampshire property and casualty insurance company 100% owned by SC.
- Safeco Insurance Company of Oregon (SICO), an Oregon property and casualty insurance company 100% owned by SICA.
- Peerless Insurance Company (PIC), a New Hampshire stock property and casualty insurance company 100% owned by LMAC. PIC owns 100% of the outstanding shares of the Company's common stock and is the direct parent.
- Liberty Northwest Insurance Corporation (LNW), an Oregon stock property and casualty insurance company 100% owned by PIC. LNW owns the following for-profit stock subsidiaries, all 100% owned:

- Oregon Automobile Insurance Company (OAIC), an Oregon-domiciled stock property and casualty insurer.
 - North Pacific Insurance Company (NPIC), an Oregon-domiciled stock property and casualty insurer.
 - Liberty Management Services, Inc. (LMS), an Oregon corporation formed in 1987 as a non-insurance claims servicing company, providing operational support for employers that are self-insured for workers' compensation.
-
- Liberty Contractors Retro Group, an Oregon corporation formed in 1991 to perform ancillary services for the property and casualty company.

A holding company registration statement was filed by the Company for each year of this examination in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1).

INTERCOMPANY AGREEMENTS

The Company was party to the following agreements with its parent and affiliates as of December 31, 2013:

Revolving Loan Agreement

Effective May 23, 2011, the Company entered into a revolving loan agreement with LMIC. Under this agreement, the Company may borrow up to \$50,000,000 from LMIC. Interest will not exceed the three month LIBOR at time of loan plus 2.5%. The purpose of the agreement is to provide operating liquidity to accommodate fluctuations in daily cash flow and to promote efficient management of investments. The termination date is May 22, 2016. During the period under examination, the Company did not borrow any funds from LMIC under this agreement.

Management Services Agreement

Effective January 1, 2013, the Company and LMIC entered into an agreement whereby LMIC will provide; A) insurance; B) accounting, actuarial, risk management, financial, tax and auditing services; C) purchasing, payroll, human resources and employee benefits; D) marketing and strategic support; E) information technology and support; F) policy administration and production; G) real estate management; H) legal and compliance; I) general administration; J) miscellaneous; K) reinsurance negotiations; and L) maintenance of and access to records. Pursuant to the agreement, the Company shall reimburse LMIC for the reasonable cost of services provided and shall include direct expenses and direct allocable expenses, consistent with the principles of SSAP No. 70. Settlement shall be quarterly and amounts owing shall be made within 45 days.

Cash Management Agreement

Effective April 1, 2012, the Company entered into an agreement with Liberty Mutual Group Asset Management Inc. (LMGAM) to make, hold, and administer certain positions in short-term investments. Monthly fees charged will be based on an average of the market value of cash and securities times .00015 plus its proportionate share of all reasonable cost and expenses incurred by the LMGAM in performing its obligations under this agreement, including but not limited to reimbursement of direct commissions, transaction fees, and custodial fees incurred. Exhibit A of the agreement described the permitted assets allowed for purchase. The agreement has no expiration date, but may be terminated immediately upon written notice by the Company or with 30 days written notice by LMGAM.

Investment Management Agreement

Effective July 1, 2011, the Company entered into an agreement with LMGAM to act as discretionary investment manager of all the invested assets held by the Company, subject to

the guidelines, limitations, and objectives set by the Company's Board of Directors. The agreement has no expiration date, but may be terminated immediately upon written notice by the Company or with 180 days written notice by LMGAM. Monthly fees charged will be based on an average of the market value of cash and securities times .00015.

Tax Sharing Agreement

On January 1, 2002, the company joined Liberty Mutual Holding Company, Inc., (LMHC) in a tax-sharing agreement. Under the agreement, including four amendments, the taxes payable shall be based on the separate tax return liability of each tax reporting segment, adjusted for any carryover, carryback, credit, or other attribute. Estimated tax payments are due no later than the 12th day of April, June, September and December of each tax year.

FIDELITY BOND AND OTHER INSURANCE

The Company was covered against losses through a fidelity bond with a single loss limit of \$15,000,000 with a single loss limit deductible of \$50,000,000. This coverage exceeded the minimum amount based on the limits recommended by the NAIC. The Company is insured under a commercial umbrella excess policy with increments of \$25,000,000 up to \$100,000,000 in coverage. Other major insurance coverages in force included company D&O, commercial general liability, financial institution bond, and workers' compensation. All coverages appeared adequate as of December 31, 2013.

TERRITORY AND PLAN OF OPERATION

During the period under examination, the Company wrote primarily casualty business, including a comprehensive set of commercial coverages, through independent agents. The Company was part of the Commercial Insurance SBU. At December 31, 2013, the Company wrote direct premiums in six of the nine states in which it is licensed, as follows:

Alaska	\$ 23,728,012
California	3,694,726
Idaho	23,598,665
Massachusetts	0
Montana	19,614,558
Oregon	42,733,149
Utah	0
Washington	10,120,041
Wyoming	0
Total Direct Premium	<u>\$ 123,489,151</u>

At year-end 2013, the Company wrote the following lines of business:

	<u>Direct Premium</u>	<u>Percentage</u>
Fire	\$ 119,408	0.10
Allied Lines	67,448	0.05
Homeowners multiple peril	(411)	0.00
Commercial multiple peril	16,251,203	13.16
Inland marine	528,931	0.43
Earthquake	821	0.00
Workers' compensation	94,246,297	76.32
Other liability-occurrence	3,813,492	3.09
Products liability-occurrence	229,753	0.19
Commercial auto liability	6,606,957	5.35
Auto physical damage	1,620,784	1.31
Burglary and theft	<u>4,468</u>	<u>0.00</u>
Total	<u>\$123,489,151</u>	<u>100.00</u>

The Company is part of the Reinsurance Pooling Agreement where 100% of the business is ceded by 53 affiliated insurers to the lead company, Liberty Mutual Insurance Company. Liberty Mutual Insurance Company records 100% of its external assumed and ceded reinsurance activity after recording the assumed affiliate transactions, and then retrocedes to the pool members in accordance with each company's pooling percentage. The Company did not participate in any retrocession, and as a result, it reported no reserves or other policy-related liabilities.

The following is the retrocession reinsurance participants and their respective participation percentages (six companies):

Liberty Mutual Insurance Company	50.00%
Peerless Insurance Company	20.00%
Employers Insurance Company of Wausau	8.00%
The Ohio Casualty Insurance Company	8.00%
Liberty Mutual Fire Insurance Company	8.00%
Safeco Insurance Company of America	6.00%
Total	<u>100.00%</u>

GROWTH OF THE COMPANY

The growth of the Company since the last financial examination is reflected in the following schedule. The amounts were derived from the Company's filed annual statements, except in those years where a report of examination was prepared by the Oregon Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus and Other Funds</u>	<u>Net Income (Loss)</u>
2009	\$149,277,473	\$60,567,407	\$ 88,710,066	\$ 4,349,274
2010	126,095,168	33,519,608	92,575,560	4,389,860
2011	137,457,361	30,375,483	107,081,878	14,367,244
2012*	138,314,253	28,612,198	109,702,055	4,546,084
2013*	77,210,483	17,057,091	60,153,392	3,542,317

*Per examination

The changes in liabilities during the period are the result of reduced premium volume. Changes to assets and surplus are the result of a 2013 cash shareholder dividend, partially offset by a positive net income from investments and other income sources. All business was 100% ceded to Liberty Mutual Insurance Company, the lead insurer, pursuant to the second amended and restated intercompany reinsurance agreement which resulted in \$0 net underwriting gains for the entire examination period.

REINSURANCE

Assumed Business

The Company did not assume any business in 2013.

Ceded Business

Prior to 2013, all of the Company's reinsurance was transacted through a 100% intercompany quota share reinsurance agreement with Peerless Insurance Company (PIC). This agreement was terminated effective December 31, 2012. Business ceded under this agreement was reinsured under the Second Amended and Restated Intercompany Reinsurance Agreement below.

Effective January 1, 2013, the Company entered into a Second Amended and Restated Intercompany Reinsurance Agreement, a 100% quota-share pooling reinsurance agreement with its indirect parent, Liberty Mutual Insurance Company (LMIC), the lead insurer in the LMIC Pool. The agreement calls for LMIC to assume all risks from first dollar, both assumed and direct.

Although the LMIC Pool has various reinsurance agreements with outside reinsurers and with affiliates within the Liberty Mutual Group, the Company is not a party to any other reinsurance agreements on a direct basis.

Risk Retention and Transfer

The Company retains no risk on any one insured. As such, the Company was in compliance with the provisions of ORS 731.504.

Insolvency Clause

Each of the reinsurance agreements contained a proper insolvency clause that specified payments would be made to a statutory successor without diminution in the event of insolvency, as required by the provisions of ORS 731.508.

ACCOUNTS AND RECORDS

The Company's records and source documentation supported the amounts presented in the Company's December 31, 2013, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

STATUTORY DEPOSITS

The Company had deposits with the Oregon Insurance Division, Department of Consumer Business Services, pursuant to the provisions of ORS 731.604 and 731.628. The deposit consisted of US Political Subdivisions, US Special Revenue and US Treasury Notes with a par value of \$15,270,000. The Company also listed deposits with other states on Schedule E – Part 3, which were confirmed directly with those jurisdictions.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations in the 2012 report of examination.

SUBSEQUENT EVENTS

The following items were considered significant in operations of the Company subsequent to December 31, 2013.

1. NICO: LMIC has entered into an adverse development cover with National Indemnity Company (“NICO”) effective January 1, 2014, which provides coverage for LMIC’s US commercial workers’ compensation (“WC”) and asbestos and environmental (“A&E”) exposures. Specifically, the treaty provides \$6.5 billion of aggregate coverage on carried loss and allocated loss adjustment expense (“ALAE”) reserves of \$15.8 billion as of December 31, 2013, with an attachment point of \$12.5 billion on combined WC and A&E reserves. Sub-limits are also in place, consisting of \$3.1 billion on A&E and \$4.5 billion on WC large deductible policy (“LDD”) reserves. The cover excludes certain segments of WC business, such as UPS, CSO, and Summit. The treaty specifies that NICO will assume the claim handling

responsibility for A&E claims, while the settlement of WC claims remains with LMIC. LMIC is paying NICO total consideration of \$3.05 billion. Based on carried reserves as of December 31, 2013, the NICO cover will provide LMIC with \$3.3 billion of reimbursement, leaving \$3.2 billion of the \$6.5 billion overall limit available to cover adverse development of the carried reserves. This transaction will be recorded as retroactive reinsurance and reported as an Aggregate Write-in for Liabilities on LMIC's statutory balance sheet.

2. Liberty Mutual completed its rollout of a new policy administration and quoting system for commercial insurance (eCLIQ). The project involves transitioning existing policyholders out of LNW to one of four eCLIQ underwriting companies.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of Liberty Northwest Insurance Corporation:

Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Reconciliation of Surplus for the Period Since the last Examination

The financial statements are presented on the basis of statutory accounting practices permitted or prescribed by the Oregon Insurance Division as of December 31, 2013.

LIBERTY NORTHWEST INSURANCE CORPORATION
ASSETS
December 31, 2013

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$40,050,979	\$ -	\$40,050,979	1
Common stock	15,700,344	-	15,700,344	1
Cash, cash equivalents and short-term investments	1,386,984	-	1,386,984	1
Other long-term invested assets	6,176,788	-	6,176,788	2
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>\$63,315,095</u>	<u>\$ -</u>	<u>\$63,315,095</u>	
Investment income due and accrued	359,503	-	359,503	
Reinsurance				
Amounts recoverable	10,412,505	-	10,412,505	
Receivable from parent, subsidiaries and affiliates	2,967,382	-	2,967,382	
Aggregate write-ins for other than invested assets	<u>155,998</u>	<u>-</u>	<u>155,998</u>	
Total Assets	<u>\$77,210,483</u>	<u>\$ -</u>	<u>\$77,210,483</u>	

LIBERTY NORTHWEST INSURANCE CORPORATION
LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2013

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Losses	\$ -	\$ -	\$ -	3
Reinsurance payable on losses and lae	-	-	-	
Loss adjustment expenses	-	-	-	3
Commissions payable	-	-	-	
Other expenses	-	-	-	
Current federal and foreign income taxes	93,514	-	93,514	
Net deferred tax liability	1,713,000	-	1,713,000	
Ceded reinsurance premium payable	6,717,120	-	6,717,120	
Payable to parent, subsidiaries and affiliates	8,533,457	-	8,533,457	
Payable for securities lending	-	-	-	
Aggregate write-ins for liabilities	-	-	-	
Total Liabilities	<u>\$17,057,091</u>	<u>\$ -</u>	<u>\$17,057,091</u>	
Common capital stock	\$ 3,000,000	\$ -	\$ 3,000,000	
Gross paid in and contributed surplus	55,181,544	-	55,181,544	
Unassigned funds (surplus)	<u>1,971,848</u>	<u>-</u>	<u>1,971,848</u>	
Surplus as regards policyholders	<u>60,153,392</u>	<u>-</u>	<u>60,153,392</u>	
Total Liabilities, Surplus and other Funds	<u>\$77,210,483</u>	<u>\$ -</u>	<u>\$77,210,483</u>	

LIBERTY NORTHWEST INSURANCE CORPORATION
STATEMENT OF INCOME
For the Year Ended December 31, 2013

Underwriting Income	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Premium earned	\$ -	\$ -	\$ -	
Deductions				
Losses incurred	-	-	-	
Loss adjustment expenses incurred	-	-	-	
Other underwriting expenses incurred	-	-	-	
Aggregate write-ins for underwriting deductions	-	-	-	
Net underwriting gain (loss)	-	-	-	
Investment Income				
Net investment income earned	3,209,604	-	3,209,604	
Net realized capital gains (losses)	818,923	-	818,923	
Net investment gain (loss)	4,028,527	-	4,028,527	
Other Income				
Net gain (loss) from agents' or premium balances charged off	-	-	-	
Finance and service charges not included in premiums	-	-	-	
Aggregate write-ins for miscellaneous income	4,831	-	4,831	
Total other income	4,831	-	4,831	
Net income before dividends to policyholders and FIT incurred	4,033,358	-	4,033,358	
Dividends to policyholders	-	-	-	
Federal income taxes incurred	491,041	-	491,041	
Net income	<u>\$3,542,317</u>	<u>\$ -</u>	<u>\$3,542,317</u>	

LIBERTY NORTHWEST INSURANCE CORPORATION
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE LAST
EXAMINATION
For the Year Ended December 31,

	2013	2012
Surplus as regards policyholders, December 31, previous year	<u>\$109,702,055</u>	<u>\$107,081,878</u>
Net income	3,542,317	4,546,084
Change in net unrealized capital gains or (losses)	690,459	546,797
Change in net unrealized foreign exchange capital gain or (loss)	-	-
Change in net deferred income tax	1,126,719	(3,225,455)
Change in nonadmitted assets	91,842	763,735
Change in provision for reinsurance	-	-
Change in surplus notes	-	-
Cumulative effects of changes in accounting principles	-	-
Capital changes:		
Paid in	-	-
Transferred from surplus (Stock Dividend)	-	-
Transferred to surplus	-	-
Surplus adjustments:		
Paid in	(3,218,456)	-
Transferred to capital (Stock Dividend)	-	-
Transferred from capital	-	-
Net remittances from or (to) Home Office	-	-
Dividends to stockholders	(51,781,544)	-
Change in treasury stock	-	-
Examination adjustments	-	-
Aggregate write-ins for gains and losses in surplus	-	(10,984)
Change in surplus as regards policyholders for the year	<u>(49,548,663)</u>	<u>2,620,177</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 60,153,392</u>	<u>\$109,702,055</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Investments

Most of the Company's long-term bond investments were in US Treasury obligations, US Special revenue and special assessment obligations. All bonds were NAIC designation 1, the highest designation and represented 63.3% of invested assets. Cash and short-term deposits consisted of cash on deposit and one short-term money market fund. A comparison of the investments over the past five years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Cash and</u> <u>Short Term</u>	<u>Ratio A/</u> <u>Total Assets</u>	<u>Ratio B/</u> <u>Total Assets</u>
2009	\$69,422,470	\$3,264,635	46.5%	2.2%
2010	73,574,963	3,941,055	58.3%	3.1%
2011	91,579,077	2,615,412	66.6%	1.9%
2012	96,125,531	1,252,994	69.5%	0.9%
2013	40,050,979	1,386,984	51.9%	1.8%

The Board of Directors approved the investment transactions, pursuant to ORS 733.740. As of December 31, 2013, sufficient invested assets were invested in amply secured obligations of the United States or FDIC insured cash deposits, as required by ORS 733.580.

The Company reported investments of common stocks in the amount of \$15,700,344, which is the book value of three subsidiaries. Two of these are Oregon domiciled property and casualty insurers reported at statutory surplus in accordance with SSAP No. 97, paragraph 8(b)(i). The Company reported the book value of the other subsidiary as an insurance related subsidiary in accordance with the provisions of SSAP No. 97, paragraph 8(b)(ii).

The Company entered into a global custody agreement with JP Morgan Chase dated January 10, 2002. An Oregon rider was executed on January 20, 2009, to comply with the protections required under OAR 836-027-0200.

The Company participates in a Securities Lending Program to generate additional income. Borrowers of those securities provide collateral equal to or in excess of 102% of the market value of the loaned securities. Cash collateral is carried as an asset with an offsetting liability on the balance sheet. At December 31, 2013, the total fair value of securities on loan was \$1,218,221 with corresponding collateral value of \$1,258,097 of which \$0 represents cash collateral.

Note 2 – Other Invested Assets (Schedule BA)

The Company reported an ownership interest in a limited partnership that owns the Company's office headquarters building and parking lot. The audited GAAP report stated the proportionate share owned by the Company was valued at \$6,176,788, which differed by an immaterial amount from the amount reported by the Company as a result of an audit report completed as of December 31, 2013.

Note 3 – Actuarial Reserves

As described earlier in this report, the Company participated in an intercompany reinsurance pooling arrangement, whereby 100% of the direct business was ceded to the pool, with no business retroceded back to the Company. As a result, all loss reserves, LAE reserves, premiums and considerations, unearned premium reserves, and any other amount to be actuarially determined would be reported in the statements of the participating insurers.

David F. Dahl, FCAS, MAAA, Oregon Insurance Division property and casualty actuary, reviewed the work performed by the lead state, Massachusetts as well as the opening actuary over loss reserves and loss adjustment expenses reserves. Mark Littman, FCAS, MAAA, of PwC prepared the financial examination report for the Massachusetts DOI and Stephanie A. Neyenhouse, FCAS, MAAA, of Liberty Mutual prepared the company's actuarial report and opinion. The financial examination report indicates the Liberty Mutual pool has a deficiency of \$372 million. The actuarial report shows a deficiency of \$89 million. Both amounts are less than 1% of carried reserves of \$34.6 billion and statutory surplus of \$15.1 billion and neither is material.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examiner made no changes to surplus as a result of this examination and there were no recommendations.

CONCLUSION

During the period covered by this examination, the surplus of the Company has decreased from \$109,702,055, as presented in the December 31, 2012, report of examination, to \$60,153,392, as shown in this report of examination. There were no adjustments made to the financial statements as a result of this examination. The comparative assets and liabilities are shown below:

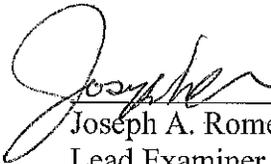
	<u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>Change</u>
Assets	\$77,210,483	\$138,314,253	\$(61,103,700)
Liabilities	<u>17,057,091</u>	<u>28,612,198</u>	<u>(11,555,107)</u>
Surplus	<u>\$60,153,392</u>	<u>\$109,702,055</u>	<u>\$(49,548,663)</u>

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, David F. Dahl, FCAS, MAAA, property and casualty actuary, and Heather L. DeShores, MPA, MAFM, insurance examiner, for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,



Joseph A. Rome, CFE, CIE
Lead Examiner
Department of Consumer and Business Services
State of Oregon

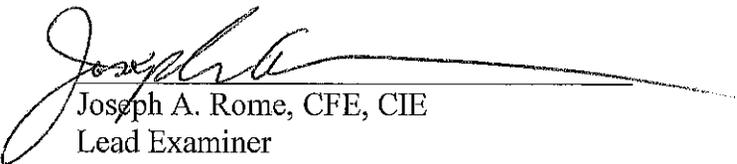
AFFIDAVIT

STATE OF OREGON)
)
County of Marion) ss

Joseph A. Rome, CFE, CIE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Liberty Northwest Insurance Corporation, Portland, Oregon.
2. The Insurance Division of the Department of Consumer and Business Services of the state of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report. The examination of Liberty Northwest Insurance Corporation was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.


Joseph A. Rome, CFE, CIE
Lead Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this 18 day of May, 2015.


Notary Public for the State of Oregon

My Commission Expires: 3/22/2017

