Report

of the

Examination of

Employers Insurance Company of Wausau

Wausau, Wisconsin

As of December 31, 2013

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

May 21, 2015

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

EMPLOYERS INSURANCE COMPANY OF WAUSAU
Wausau, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Employers Insurance Company of Wausau (Employers or the company) was conducted in 2010 as of December 31, 2009. The current examination covered the intervening period ending December 31, 2013, and included a review of such 2014 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination of the company was conducted concurrently with the examination of Liberty Mutual Insurance Company (LMIC) and the Liberty Mutual Insurance Company Reinsurance Pool (Liberty Pool). The Commonwealth of Massachusetts Division of Insurance acted in the capacity as the lead state for the coordinated exams. Work performed by the Massachusetts Division of Insurance was reviewed and relied on where deemed appropriate.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report. The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

In addition to auditing, the public accounting firm performs non-auditing services for the Liberty Mutual Group including actuarial services, advisory services, agreed-upon procedures, employee benefit plan audits, peer reviews, iXBRL tagging, service organization control reports, and tax services. These services were preapproved by the Liberty Mutual Holding Company Inc. (LMHC) Audit Committee in compliance with s. Ins 50.08 (7), Wis. Adm. Code.

Independent Actuary's Review

Since January 1, 1999, the company has been a participant in a reinsurance pooling agreement with LMIC and certain of its property and casualty insurance subsidiaries. The company's net loss and loss adjustment expense reserves are the product of the reserves of the Liberty Pool and the company's participation percentage in the pool.

PricewaterhouseCoopers LLP, under contract with the Massachusetts Division of Insurance, reviewed the adequacy of the company's loss reserves and loss adjustment expense reserves, as a function of its participation in the pool. The results of the firm's work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuarial firm's conclusion.

II. HISTORY AND PLAN OF OPERATION

Employers Insurance Company of Wausau, a stock property and casualty company operating under ch. 611, Wis. Stat., was originally incorporated as a mutual company in the state of Wisconsin on August 21, 1911, under the name Employers Mutual Liability Insurance Company of Wisconsin. In 1911, the Wisconsin Legislature approved the first worker's compensation law in the United States, which required employers to carry such insurance as protection for employees injured on the job. A group of Wausau area industrialists decided to sponsor the incorporation of this mutual insurance company in order to give the law a chance to work as envisioned. The company commenced business on September 1, 1911, with the effective date of Wisconsin's worker's compensation law.

Then-existing state law restricted worker's compensation insurers to monoline status. A companion carrier, Employers Mutual Indemnity Corporation, was established on August 9, 1923, to write casualty lines other than worker's compensation. A companion property carrier, Employers Mutual Fire Insurance Company, was organized on September 14, 1935, due to then-existing state licensing restrictions that did not permit a single company to write both property risks and casualty risks. Employers Mutual Liability Insurance Company of Wisconsin merged with Employers Mutual Indemnity Corporation and Employers Mutual Fire Insurance Company on June 30, 1937, and December 22, 1975, respectively. The name of the company was changed on September 1, 1979, to EMPLOYERS INSURANCE OF WAUSAU A Mutual Company (Employers).

On November 23, 1985, Employers consummated an affiliation agreement with Nationwide Mutual Insurance Company (NMIC) dated November 6, 1985. NMIC's sister company, Nationwide Mutual Fire Insurance Company, was not party to the affiliation agreement. Within the context of this agreement, and certain subsequent agreements, NMIC exercised control of Employers and its subsidiaries through nomination of the various boards of directors, common executive management, and control of the reinsurance pool to which all direct premiums written by Employers were then ceded and from which all net premiums written were then assumed. The directors of Employers continued to be elected by the policyholders of Employers, as required by s. 611.53 (2), Wis. Stat., but election and reelection of nominees associated with NMIC on the Employers' board preserved the affiliation.

Pursuant to its 1985 affiliation agreement with NMIC, NMIC invested $250,000,000 in Employers through the purchase of surplus notes. Additional surplus note contributions from NMIC ultimately brought the balance of surplus notes to $400,000,000.

The years of affiliation with NMIC resulted in considerable integration of the operations of Employers and NMIC, together with their respective subsidiaries and affiliates. The two insurers and many of their respective insurance subsidiaries pooled their risks and shared a program of external reinsurance on the pooled risks. The same persons held many of the senior executive positions of NMIC and Employers. Employers and its subsidiaries and NMIC and its subsidiaries provided numerous services to one another. The employees of Wausau Service Corporation, then a wholly owned subsidiary of Employers that provided services to Employers, received pension, medical, and other benefits from plans sponsored by NMIC.

In 1998, NMIC decided to end its affiliation with Employers in order to focus greater attention on personal lines, particularly on promotion and service to its "First of America" brand of life insurance and investment products. The management of Employers searched for an affiliation in replacement that would provide the company with a means of severing its ties with NMIC in an orderly manner that preserved the continuity of quality service to policyholders and claimants.

On October 5, 1998, Employers entered into an Affiliation and Contribution Note Purchase Agreement with LMIC and a De-Affiliation Master Agreement with NMIC. The affiliation with LMIC was approved by this office, following a public hearing on December 16, 1998, and under the terms of the agreement became effective January 1, 1999. The disaffiliation with NMIC was approved in writing on December 16, 1998, and under the terms of that agreement became effective December 31, 1998.

Effective on November 21, 2001, EMPLOYERS INSURANCE OF WAUSAU A Mutual Company was restructured into a mutual holding company pursuant to the provisions of ch. 644, Wis. Stat. This restructuring was approved by the Office of the Commissioner of Insurance (OCI) on November 19, 2001, following a public hearing, and was approved by vote of the policyholder members of Employers on November 20, 2001. Pursuant to the mutual holding company restructuring, Employers became a stock company, and the company was also renamed Employers Insurance Company of Wausau, effective November 21, 2001. Thereafter, 100% of the stock of Employers was owned by the newly formed Employers Insurance of Wausau Mutual Holding Company. Effective on March 19, 2002, Employers Insurance of Wausau Mutual Holding Company was merged into LMHC. Since that time, policyholders of Employers have been members of LMHC. Additional information concerning the holding company system is contained in the section of this report titled "Affiliated Companies."

As of December 31, 2013, the company's capitalization included $5,000,000 in the form of 5,000,000 common shares (of 5,000,000 authorized) with a par value of $1.00 per share, and $340,000,000 of paid-in and contributed surplus. The company has 5,000,000 preferred shares authorized with a stated par value of $0.01 per share, but no preferred shares were issued and outstanding as of December 31, 2013. The following schedule reflects the activity in capital stock and paid-in surplus since the mutual holding company conversion of the company:

Year	Authorized Common Shares	Issued and Outstanding	Par Value Per Share	Gross Capital Paid Up	Gross Paid-In and Contributed Surplus
11/21/2001	5,000,000	5,000,000	$1.00	$5,000,000	$
2004					120,000,000
2005					220,000,000
12/31/2013	5,000,000	5,000,000	$1.00	$5,000,000	$340,000,000

The company has no employees of its own. All day-to-day operations are conducted with staff provided by Liberty Mutual Group Inc. (LMGI) and LMIC in accordance with the business practices and internal controls of those organizations. Expenses are paid by LMIC on behalf of the company, or, in some cases, directly by the company for itself. Expenses other than federal income taxes are allocated through a general expense allocation agreement. Tax allocations are established in accordance with a written consolidated federal income tax sharing agreement applicable to LMHC and certain of its direct and indirect subsidiaries. Intercompany balances with affiliates are created in the ordinary course of business with settlements generally made on a quarterly basis. Written agreements with affiliates are further described in the section of this report titled “Affiliated Companies.”

Employers maintains its home office in Wausau, Wisconsin. The company owns its office building in Wausau which is used principally for the transaction of its own business. Employers’ operations are coordinated from its principal place of business in Boston, Massachusetts, as well as through a network of leased office facilities in 88 leased locations throughout the United States.

As of the examination date, the company is licensed in all 50 states of the United States, the District of Columbia, Puerto Rico, U.S. Virgin Islands, Canada and various other foreign countries.

In 2013, the company wrote business in every jurisdiction in which it is licensed in the United States, as well as in foreign countries and territories. The distribution of direct premiums written in 2013 by state or other jurisdiction was as follows:

Wisconsin	$ 24,211,875	9.36%
California	22,676,854	8.77
New York	21,959,862	8.49
Illinois	20,541,160	7.94
Texas	15,468,723	5.98
Pennsylvania	11,325,945	4.38
Florida	10,718,508	4.14
All others	131,698,251	50.94
Total	$258,601,178	100.00%

Employers also has a Canadian Branch (Canadian Branch) operating under the Insurance Companies Act that is licensed to transact property and casualty insurance in Canada. The Canadian Branch is not a separate legal entity from Employers but is rather an extension of Employers. The Canadian Branch is fully consolidated within the statutory financial statements of Employers and its business is reinsured by and through the Liberty Pool. The Canadian Branch currently is not writing any new or renewal business in Canada. On a stand-alone basis as of December 31, 2013, the Canadian Branch reported assets of $30.3 million, liabilities of $5.9 million, policyholders’ surplus of $24.4 million, and net income of $0.8 million.

In the state of Wisconsin, the company is licensed to transact the following lines of business as defined by s. Ins 6.75 (2), Wis. Adm. Code:

(a) Fire, Inland Marine, and Other Property
(b) Ocean Marine
(c) Disability
(d) Liability and Incidental Medical Expense
(e) Automobile
(f) Fidelity
(g) Surety
(j) Credit
(k) Worker's Compensation
(l) Legal Expense
(n) Miscellaneous
(o) Aircraft

As of December 31, 2013, business was written primarily by independent agents and brokers. Independent agents are compensated according to the following commission schedule. Some rates are on a sliding scale that declines with the volume of premium or service revenue related to a specific policy.

Product Line	Commission Rates
Worker's Compensation	5%
General Liability	15
Auto	15
Umbrella	15
Packages	15
Other Liability	15
Other Property	15
Highly Protected Risks/Property Special Risks	15
Fidelity, Burglary & Other Crime	15
Plate Glass	10
Contract Surety Bonds	5 to 30
Other Surety and Individual and Schedule Public Official Bonds	25

Independent agents are also eligible to earn contingent commissions based on written premium growth performance and loss performance during a calendar year.

The following table is a summary of the net insurance premiums written by the company in 2013. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 307,432	$ 59,531,793	$ 422,937	$ 59,416,288
Allied lines	280,813	37,113,733	420,768	36,973,778
Farmowners multiple peril	0	11,018,763	0	11,018,763
Homeowner's multiple peril	615,180	455,886,359	622,875	455,878,664
Commercial multiple peril	8,665,256	278,656,003	43,679,939	243,641,320
Ocean marine	0	7,058,166	0	7,058,166
Inland marine	41,719	62,497,446	155,907	62,383,258
Medical professional liability – occurrence	0	3,793,249	0	3,793,249
Medical professional liability – claims made	0	805,607	0	805,607
Earthquake	29,993	9,375,522	261,784	9,143,731
Group accident and health	2,100	82,843	2,100	82,843
Other accident and health	0	432,129	0	432,129
Worker's compensation	199,233,562	507,606,121	438,177,003	268,662,680
Other liability – occurrence	22,135,820	208,107,385	73,932,841	156,310,364
Other liability – claims made	383,729	37,476,869	383,729	37,476,869
Excess worker's compensation	0	4,132,526	0	4,132,526
Products liability – occurrence	1,722,103	20,011,776	9,475,167	12,258,712
Products liability – claims made	0	1,084,276	0	1,084,276
Private passenger auto liability	0	507,433,701	0	507,433,701
Commercial auto liability	19,011,684	160,908,416	58,565,355	121,354,745
Auto physical damage	5,659,435	314,206,657	14,503,377	305,362,715
Aircraft (all perils)	0	3,417,121	0	3,417,121
Fidelity	216,203	2,811,519	736,826	2,290,896
Surety	136,874	92,992,287	136,964	92,992,197
Burglary and theft	147,750	527,465	565,799	109,416
Boiler and machinery	11,525	2,856,656	21,763	2,846,418
Credit	0	175,457	0	175,457
Warranty	0	102,724	0	102,724
Reinsurance – non-proportional assumed property	0	18,722,220	0	18,722,220
Reinsurance – non-proportional assumed liability	0	1,704,611	(74,149)	1,778,760
Reinsurance – non-proportional assumed financial lines	0	13,952	0	13,952
Total All Lines	$258,601,178	$2,810,543,352	$641,990,985	$2,427,153,545

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. All directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. All board members have executive management positions within the holding company structure and they receive no distinct and separate compensation for service as directors.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Kristen M. Bessette Boxford, Massachusetts	Vice President and Chief Actuary of Commercial Insurance Liberty Mutual Group	2015
J. Paul Condrin, III Dover, Massachusetts	Executive Vice President and President, Commercial Insurance Liberty Mutual Group	2015
John D. Doyle Southborough, Massachusetts	Vice President and Comptroller Liberty Mutual Group	2015
Michael J. Fallon Bedford, Massachusetts	Senior Vice President and Chief Financial Officer, Commercial Insurance Liberty Mutual Group	2015
Michael H. Hughes Boston, Massachusetts	President of Business Insurance Segment of Commercial Insurance Liberty Mutual Group	2015
Dexter R. Legg Portsmouth, New Hampshire	Vice President and Secretary Liberty Mutual Group	2015
Elizabeth J. Morahan Newtonville, Massachusetts	Vice President and General Counsel Liberty Mutual Group	2015

Officers of the Company

The senior officers elected by the board of directors or appointed by the elected officers and serving at the time of fieldwork for this examination are listed below.

Name	Office	2013 Compensation*
A. Alexander Fontanes	Executive Vice President and Chief Investment Officer	$319,999
J. Paul Condrin, III	President and Chief Executive Officer	298,926
Michael J. Fallon	Vice President and Chief Financial Officer	83,280
Laurance H. Yahia	Vice President and Treasurer	67,354
John D. Doyle	Vice President and Comptroller	63,996
Dexter R. Legg	Vice President and Secretary	41,819
Kathryn M. Winn	Fmr. Vice President and General Counsel	40,697
Elizabeth J. Morahan**	Vice President and General Counsel	0

* The 2013 compensation for the executive officers only includes the allocated amount of incurred salary expenses to the company based on its pool participation percentage, which is 8.0%. This includes only the allocated amount of incurred expenses relating to LMIC's "Executive Partnership Plan" and not its associated liability.

** New officer elected June 16, 2014.

Committees of the Board

The company's bylaws permit the appointment of committees to exercise the powers of the board and the management of the business affairs of the company to the extent authorized by law and by board resolution, with certain named exclusions; however, the board did not appoint any committees during the examination period. Board committees appointed by the LMHC board are the following:

Audit Committee
Francis A. Doyle, Chair
Nicholas M. Donofrio
Martin P. Slark
Eric A. Spiegel
William C. Van Faasen
Annette M. Verschuren

Risk Committee
Annette M. Verschuren, Chair
Charles I. Clough, Jr.
David H. Long
Myrtle S. Potter
Ellen A. Rudnick
Martin P. Slark

Investment Committee
David H. Long, Chair
Charles I. Clough, Jr.
Francis A. Doyle
John P. Manning
Thomas J. May
Martin P. Slark
Eric A. Spiegel
Annette M. Verschuren

Compensation Committee
Thomas J. May, Chair
Charles I. Clough, Jr.
John P. Manning
Myrtle S. Potter
William C. Van Faasen

Contributions Committee
Ellen A. Rudnick, Chair
David H. Long
John P. Manning
William C. Van Faasen

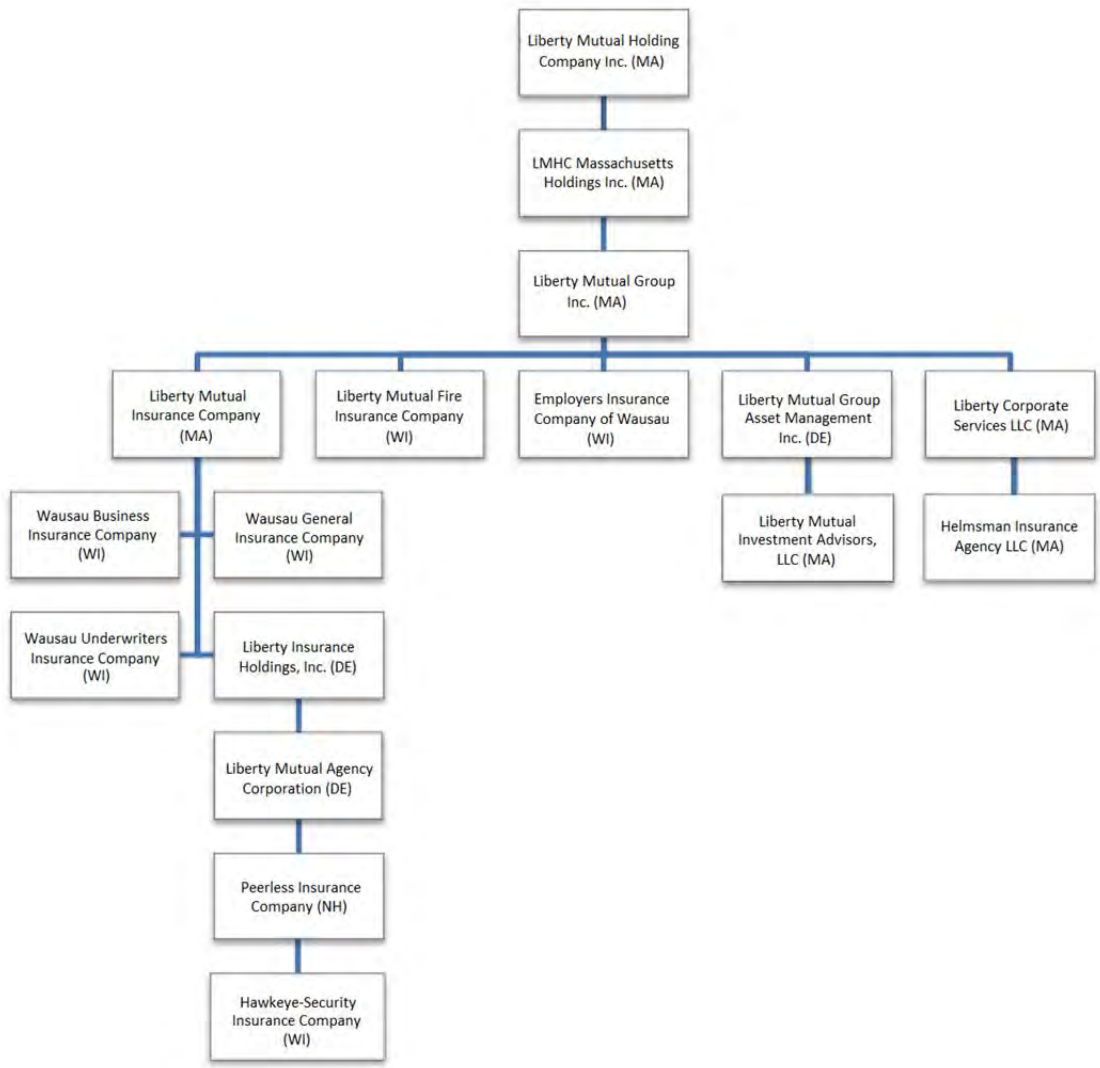
Nominating and Governance Committee
William C. Van Faasen, Chair
Nicolas M. Donofrio
Francis A. Doyle
Ellen A. Rudnick

Executive Committee
David H. Long, Chair
Francis A. Doyle
Thomas J. May
Ellen A. Rudnick
William C. Van Faasen
Annette M. Verschuren

IV. AFFILIATED COMPANIES

Employers is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2013



Note that the above organizational chart is a simplified version of the complete organizational chart due to the size and complexity of the holding company system. The chart includes only significant affiliates and ones that directly affect the operations of Employers.

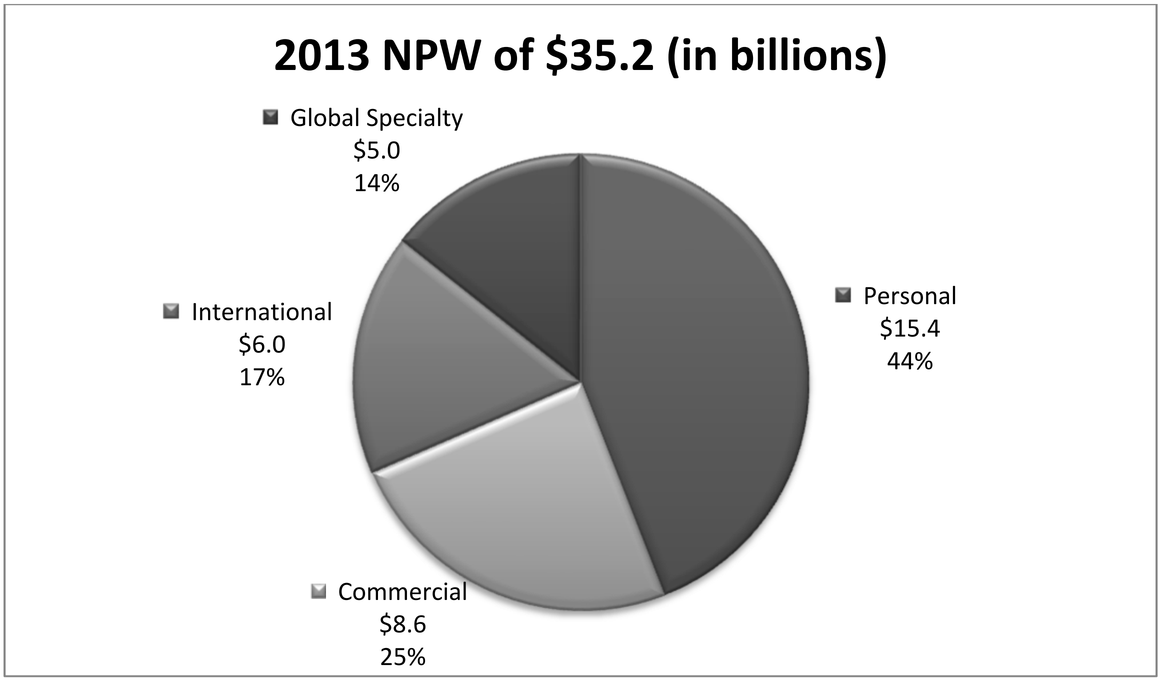
Employers is a member of the Liberty Mutual Group, a multinational holding company system under the control of LMHC. As of December 31, 2013, LMHC exercised direct or indirect control of 247 legal entities, including 163 stock corporations, 68 limited liability companies, 3 mutual insurance companies, 4 Lloyds insurance companies, 1 reciprocal insurance company, 5 limited partnerships and 3 “other” entities. LMGI is a diversified international group of insurance companies offering a wide range of insurance products and services to businesses and individuals operating in 27 countries, with 57 property and casualty insurers, 1 life insurer, 7 insurance brokerages and agencies, and 9 providers of ancillary insurance-related services. Its international unit operates local companies to provide insurance products and services to small businesses and individuals in Argentina, Brazil, Chile, China (including Hong Kong), Colombia, Ecuador, Ireland, India, Poland, Portugal, Russia, Singapore, Spain, Thailand, Turkey, the United Kingdom, Venezuela and Vietnam. The other 173 entities are other insurance or reinsurance companies outside the United States, holding companies, inactive or conducting miscellaneous activities such as investment management or investment advisory services.

The size and complexity of the Liberty Mutual Group makes the description of each legal entity within the holding company system impractical in the context of this examination report. Therefore, this report will confine its discussion of specific entities to the ultimate parent of the holding company system, LMHC, and other affiliates with whom Employers has a significant contractual or operational relationship. Written agreements with affiliates will be described following the summary of companies.

Liberty Mutual Holding Company Inc.

LMHC was incorporated under the laws of the Commonwealth of Massachusetts on November 28, 2001. LMHC serves as the ultimate holding company for the Liberty Mutual Group. It directly holds the stock of LMHC Massachusetts Holdings Inc. (LMHC-MA) and maintains headquarters in Boston, Massachusetts. LMHC employs more than 50,000 people in approximately 900 offices worldwide, and operates primarily through four independent strategic business units (SBUs): Personal Insurance, Commercial Insurance, Liberty International, and Global Specialty. The holding company group also has a segment devoted to investment management of the insurers.

The following chart displays LMHC 2013 net premium written (NPW) by SBU.



Personal Insurance
This SBU includes all domestic personal lines of business including automobile, homeowner's and other types of property and casualty coverage to individuals in the United States. Personal Insurance is composed of two segments: Personal Lines and Safeco products. Personal Lines are distributed primarily by licensed captive sales representatives. The largest source of new business is through affinity groups such as employers, professional and alumni associations, credit unions, and other partnerships. Safeco personal insurance products are distributed nationally through a network of independent agents.

Commercial Insurance
This SBU offers a wide array of property and casualty, group benefits, and life insurance coverages through independent agents, brokers, benefit consultants, captive agents, and bank partners throughout the United States. Commercial Insurance is organized into four segments: Business Insurance; National Insurance; Liberty Mutual Benefits; and Other Commercial Insurance.

Liberty International
This SBU sells property, casualty, health, and life insurance products to individuals and businesses in four market segments: Latin America and

Iberia; Emerging Europe; Asia; and Large Emerging Markets. Private passenger automobile is the single largest line of business.

Global Specialty
Global Specialty is composed of commercial, specialty, surety, and reinsurance lines offered through three market segments: Liberty International Underwriters; Liberty Specialty Markets; and Liberty Mutual Surety.

As of December 31, 2013, Liberty Mutual Holding Company Inc. reported assets of $121.3 billion, liabilities of $102.3 billion, policyholders' equity of $19.0 billion, and a net income of $1.7 billion.

LMHC Massachusetts Holdings Inc.

LMHC-MA was incorporated under the laws of the Commonwealth of Massachusetts on November 28, 2001. LMHC-MA serves as an intermediate stock holding company within the mutual holding company system and directly holds the stock of LMGI. Headquarters are maintained in Boston, Massachusetts. As of December 31, 2013, LMHC-MA reported assets of $121.3 billion, liabilities of $102.3 billion, policyholders' equity of $19.0 billion, and a net income of $1.7 billion.

Liberty Mutual Group Inc.

LMGI was incorporated under the laws of the Commonwealth of Massachusetts on November 28, 2001. The company serves as an intermediate stock holding company within the mutual holding company system. It directly holds the stock of LMIC, Liberty Mutual Fire Insurance Company (LMFIC), Employers, and other insurance and non-insurance entities. It is the primary entity used to raise funds for the Liberty Mutual Group, primarily through the issuance of short-term and long-term debt instruments to unrelated third parties. Headquarters are maintained in Boston, Massachusetts. As of December 31, 2013, Liberty Mutual Group Inc. reported assets of $121.3 billion, liabilities of $102.3 billion, policyholders' equity of $19.0 billion, and a net income of $1.7 billion.

Significant Affiliates

Liberty Mutual Insurance Company

LMIC was incorporated under the laws of the Commonwealth of Massachusetts on January 1, 1912, and commenced business on July 1, 1912. LMIC is a diversified property and casualty insurer of commercial and personal lines, with distribution through captive sales representatives, telesales counselors, third-party producers and the Internet. The company is licensed in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and in various other foreign countries. Headquarters are maintained in Boston, Massachusetts. LMIC has a 50% net participation in the Liberty Pool.

As of December 31, 2013, LMIC reported admitted assets of $44.5 billion, liabilities of $29.4 billion, policyholders' surplus of $15.1 billion, and a net income of $507.4 million. LMIC was examined concurrently with Employers as of December 31, 2013, and the results of that examination were expressed in a separate report issued by the Massachusetts Division of Insurance.

Liberty Mutual Fire Insurance Company

LMFIC was incorporated under the laws of the Commonwealth of Massachusetts on October 31, 1908, and commenced business on November 5, 1908. LMFIC was redomiciled from the Commonwealth of Massachusetts to the state of Wisconsin effective December 22, 2005.

LMFIC's current business emphasis is on personal home and automobile lines, with distribution by personal lines captive sales representatives and independent agents. Commercial lines distribution is by independent agents. The company is licensed in all 50 states, the District of Columbia, and Puerto Rico. Headquarters are maintained in Boston, Massachusetts. The homeowner's multiple peril and personal automobile liability lines of business each provided approximately 25% of direct premiums written in 2013. LMFIC has an 8% net participation in the Liberty Pool.

As of December 31, 2013, LMFIC reported assets of $5.6 billion, liabilities of $4.4 billion, policyholders' surplus of $1.2 billion, and a net income of $87.5 million. LMFIC was examined concurrently with Employers as of December 31, 2013, and the results of that examination were expressed in a separate report.

Hawkeye-Security Insurance Company

Hawkeye-Security Insurance Company (HSIC) became affiliated with LMIC on May 10, 1999, as a result of LMIC’s purchase of the company’s parent, Guardian Royal Exchange Holdings, Inc. LMIC also acquired the rights to the Hawkeye-Security name which was changed from Tower Insurance Company, Inc., to the current name on March 4, 2002. On August 15, 2003, the company was contributed to Peerless Insurance Company and became part of the Peerless Intercompany Reinsurance Pool (Peerless Pool). Effective January 1, 2013, the Peerless Pool was terminated and the Liberty Pool was amended to adjust pooling percentages and add a number of affiliates, including HSIC.

HSIC is a multiline property and casualty company licensed in 13 states.. The worker’s compensation line of business provided approximately 39% of direct premiums written in 2013. HSIC has a 0% net participation in the Liberty Pool. The corporation is a wholly owned subsidiary of Peerless Insurance Company.

As of December 31, 2013, HSIC reported admitted assets of $14.2 million, liabilities of $1.4 million, policyholders' surplus of $12.8 million, and a net income of $0.1 million. HSIC was examined concurrently with Employers as of December 31, 2013, and the results of that examination were expressed in a separate report.

Wausau Business Insurance Company

Wausau Business Insurance Company (WBIC) was incorporated on June 30, 1987, as Westwood Insurance Company, under the laws of the state of Illinois to effect a conversion of Canners Exchange Subscribers, an Illinois reciprocal organized in 1907, to a stock company on July 1, 1987. Canners Exchange Subscribers, the predecessor to WBIC, became affiliated with Employers on January 1, 1983, when all of the outstanding shares of its attorney-in-fact corporation, Lansing B. Warner, Inc., were purchased by Wausau Service Corporation. On September 1, 1990, the company redomiciled to Wisconsin and changed its name to that presently used.

WBIC is a multiline property and casualty company licensed in all 50 states and the District of Columbia. The worker's compensation line of business provided approximately 58% of direct premiums written in 2013. WBIC has a 0% net participation in the Liberty Pool. The corporation is a wholly owned subsidiary of LMIC.

As of December 31, 2013, WBIC reported admitted assets of $43.6 million, liabilities of $18.5 million, policyholders' surplus of $25.1 million, and a net income of $6.2 million. WBIC was examined concurrently with Employers as of December 31, 2013, and the results of that examination were expressed in a separate report.

Wausau General Insurance Company

Wausau General Insurance Company (WGIC) was incorporated under the laws of the state of Illinois on October 10, 1972, as Illinois Employers Insurance Company of Wausau, and commenced business on November 29, 1972. On April 30, 1991, the name was changed to that presently used. WGIC redomiciled from Illinois to Wisconsin effective August 1, 1999.

WGIC is a multiline property and casualty company licensed in 9 states. The worker's compensation line of business provided 100% of direct premiums written in 2013. WGIC has a 0% net participation in the Liberty Pool. The corporation is a wholly owned subsidiary of LMIC.

As of December 31, 2013, WGIC reported admitted assets of $12.2 million, liabilities of $0.7 million, policyholders' surplus of $11.5 million, and a net income of $0.6 million. WGIC was examined concurrently with Employers as of December 31, 2013, and the results of that examination were expressed in a separate report.

Wausau Underwriters Insurance Company

Wausau Underwriters Insurance Company (WUIC) was incorporated on September 27, 1979, as Wausau Insurance Company, under the laws of the state of Wisconsin, to effect a change in the corporate domicile from Arkansas to Wisconsin which was consummated on January 1, 1980.

The company had its origins in the Select Risk Insurance Company, an Arkansas-domiciled insurer formed in 1959 to become successor to the Select Risk Mutual

Insurance Company, which had itself been organized in August 1954. Conversion from the mutual plan to a stock corporation was completed on July 1, 1959. The corporate title underwent many changes over the years. The corporate title was changed on October 1, 1959, to Southern Grange Insurance Company; on February 11, 1963, to VICO Insurance Company; on November 17, 1964, to Volkswagen Insurance Company; and on March 15, 1978, to Wausau Underwriters Insurance Company. Administrative offices were moved from St. Louis, Missouri, to Wausau, Wisconsin, in late 1980. WUIC became affiliated with Employers when it was purchased from VICO Corporation of Englewood Cliffs, New Jersey, on December 30, 1977.

WUIC is a multiline property and casualty company licensed in all 50 states, Puerto Rico, the U.S. Virgin Islands, and the District of Columbia. A small amount of business is also conducted in various foreign jurisdictions. The worker's compensation line of business provided approximately 60% of direct premiums written in 2013. WUIC has a 0% net participation in the Liberty Pool.

As of December 31, 2013, WUIC reported admitted assets of $99.7 million, liabilities of $38.6 million, policyholders' surplus of $61.1 million, and a net income of $9.0 million. WUIC was examined concurrently with Employers as of December 31, 2013, and the results of that examination were expressed in a separate report.

Liberty Mutual Group Asset Management Inc.

Liberty Mutual Group Asset Management Inc. (LMGAM) was organized under the laws of the state of Delaware on April 25, 2011. LMGAM provides centralized investment management services to LMGI and its four SBUs with the primary objective of contributing to the capital growth of LMGI using a risk-controlled approach to investments in domestic and international fixed income, corporate debt, real estate, natural resources, and both private and public equities.

As of December 31, 2013, LMGAM reported assets of $90.9 million, liabilities of $53.0 million, equity of $37.9 million, and a net income of $6.8 million.

Liberty Mutual Investment Advisors LLC

Liberty Mutual Investment Advisors LLC (LMIA) was organized under the laws of the Commonwealth of Massachusetts on June 23, 1999. LMIA provides centralized investment and cash management services to LMGI. The company currently manages a few legacy, traditional private equity investments and some real estate private equity investments. As of December 31, 2013, LMIA reported assets of $10,000, no liabilities, member equity of $10,000 and no net income.

Agreements with Affiliates

In addition to common staffing and management control, the company's relationship to its affiliates is affected by various written agreements and undertakings. Reinsurance Agreements are described in section V of the report titled "Reinsurance." A brief summary of the other agreements and undertakings follows, arranged by counterparty and effective date. Unless otherwise specified, amounts owing between the parties are to be settled within 45 days after the end of the calendar quarter.

Liberty Mutual Holding Company Inc.

<u>Federal Tax Sharing Agreement</u>

Effective January 1, 2002, the company entered into a Federal Tax Sharing Agreement with LMHC and all of the parties of LMGI. Under this agreement, LMHC files a consolidated U.S. federal income tax return that includes the company and other affiliates of the holding company system.

The agreement sets forth the rights and obligations of the parties to the agreement with respect to the determination and settlement of federal income tax liabilities as well as the allocation of LMGI's consolidated U.S. federal income tax liability in accordance with a rational systematic formula. The agreement provides for computation of tax, settlement of balances between affiliates, tax sharing, filing the return, audits and other adjustments, dispute resolution and other administrative requirements.

The agreement calls for the settling of estimated federal tax payments on the 12th day of April, June, September, December and March. Final settlement is due within 30 days of the receipt of invoice. The agreement has provisions for members entering or departing the group and provides for successors and assigns.

Liberty Mutual Group Inc.

Revolving Loan Agreements

Effective May 8, 2012, the company entered into a Revolving Loan Agreement with LMGI. Under the agreement, LMGI may make loans to the company with a minimum principal amount of $25,000, up to, but not exceeding in aggregate, $150,000,000. The loan shall bear interest on the outstanding principal amount at a rate of interest based on LMGI's cost of funds at that time, but shall not exceed the 3-month LIBOR + 1.4% per annum. Loans may be borrowed, repaid and reborrowed until the contract is terminated. Interest is payable on the last day of the applicable interest period defined as the termination date or mutually agreed period of lesser duration. The agreement may be terminated by LMGI with six months' prior notice unless an earlier date is mutually agreed by the parties.

Also effective May 8, 2012, the company entered into another revolving loan agreement with LMGI including the same terms as the above agreement with LMGI as the lender. However, this agreement makes Employers the lender and LMGI the borrower.

Liberty Mutual Insurance Company

Data Center Services Agreement

Effective November 1, 2002, the company entered into a Data Center Services Agreement with LMIC. Under this agreement, LMIC agrees to provide certain data center services to Employers' Canadian Branch. This agreement states that it shall not apply to any operations outside of Canada. Under this agreement LMIC is to perform information processing for all lines of business with regard to business operations in Canada such as financial, accounting, banking systems and claims processing. Services provided by LMIC through this agreement shall include, but are not limited to, financial, accounting and banking reconciliation systems as well as loss payment, other financial transactions and data editing, accounting and balance controls. LMIC is to provide reasonable support and allow access to software systems and information technology resources. Employers' Canadian Branch retains full rights of ownership of all of its data. The agreement is governed by and construed in accordance with the laws of the Province of Ontario. Employers' Canadian Branch retains the right to grant third parties access to data jointly held or otherwise as deemed necessary by the company.

For services provided, the company and LMIC shall agree from time to time on the fees to be charged to and paid by the company, if any. The company shall be responsible for all taxes, penalties and interest payable with respect to the services, except taxes based upon the net income of LMIC. The agreement may be canceled by either party with not less than 90 days' written notice to the other party.

Revolving Loan Agreements

Effective May 23, 2011, the company entered into a Revolving Loan Agreement with LMIC. Under this agreement, LMIC may make loans to the company with a minimum principal amount of $25,000, up to, but not exceeding in aggregate, $150,000,000. The loan shall bear interest on the outstanding principal amount at a rate of interest based on LMIC's cost of funds at that time, but shall not exceed the 3-month LIBOR + 2.5% per annum. Loans may be borrowed, repaid and reborrowed until the contract is terminated. Interest is payable on the last day of the applicable interest period defined as the termination date or mutually agreed period of lesser duration. The termination date for this agreement is May 23, 2016.

Effective March 5, 2012, the company entered into another agreement with LMIC including similar terms to the prior revolving loan agreement. However, this agreement makes the company the lender and LMIC the borrower, and the rate of interest is not to exceed the 3-month LIBOR + 1.4% per annum. This agreement may be terminated by the company with six months' prior notice unless an earlier date is mutually agreed by the parties.

Management Services Agreement

Effective January 1, 2013, the company entered into a Management Services Agreement with LMIC. Under this agreement, LMIC is to provide all services essential to the day-to-day operation of Employers and any additional services required by the company as negotiated between the parties.

For services provided, the company shall reimburse LMIC for the reasonable cost of performing any of the services provided pursuant to this agreement. Charges for such services shall include direct and directly allocable expenses to the company by LMIC in conformity with customary insurance accounting practices. Either party may terminate this agreement at any time by providing 90 days' written notice. The agreement may be terminated immediately by either company if (a) LMIC fails to perform services in accordance with this agreement and such failure is not cured within 30 days, (b) there is nonpayment of costs by one party to the other, (c) either company's insurance license is suspended, revoked, or otherwise restricted, or (d) a change in control where LMIC loses a majority control of Employers' board of directors. In the event of termination, LMIC shall continue to provide such services for up to 90 days as reasonably necessary to transfer service responsibilities to a new party.

Liberty Mutual Group Asset Management Inc.

Investment Management Agreement

Effective January 1, 2013, the company entered into an Amended and Restated Investment Management Agreement with LMGAM which supersedes the prior agreement between the parties dated July 1, 2011. Under this agreement, LMGAM acts as the company's agent and attorney-in-fact with respect to its investment portfolio. Subject to the terms and conditions of the investment policy and guidelines (included as appendices to the agreement), LMGAM has complete day-to-day discretionary control, including the power to make acquisitions and disposals of investments and issue instructions to brokers and custodians.

For services provided, LMGAM receives a monthly fee based on a percentage of the average market value under U.S. GAAP of all cash and securities in the account for that month. Amounts owing between the parties are billed on a monthly basis and settled within 45 days after the end of month. This agreement may be terminated by LMGAM upon 180 days' written notice to the company, and terminated by the company at any time upon written notice to LMGAM. Upon termination, LMGAM shall have no further investment responsibility for assets in the company's account but shall have a reasonable time, not to exceed 90 days, to transfer assets to a custodian of the company's selection.

Cash Management Agreement

Effective January 1, 2013, the company entered into an Amended and Restated Cash Management Agreement with LMGAM which supersedes the prior agreement between the parties dated April 1, 2012. Under this agreement, LMGAM manages an investment pool on behalf of participating members of LMGI, investing and reinvesting funds contributed by the members in short-term obligations of banks, corporations, and the U.S. and Canadian federal governments maturing in 365 days or less from the date of purchase. The agreement allows LMGAM to jointly acquire short-term investments for the pool participants and each participant maintains a proportionate share ownership of the investments based on contributions to the account. LMGAM has the authority to hold the investments on behalf of participants; sell, purchase, transfer or otherwise acquire or dispose of investments; reinvest dividends or interest earned; and collect and credit to the account all proceeds on behalf of the company and the other participants.

For services provided, LMGAM receives a monthly fee based on a percentage of the average market value under U.S. GAAP of all cash and securities in the account for that month. Amounts owing between the parties are billed on a monthly basis and settled within 45 days after the end of month. The agreement may be terminated: (i) at the end of any business day by the company upon prior written notice to LMGAM; or (ii) at any time by LMGAM upon 180 days' written notice to the company.

Investment Management Agreement (Canadian Branch)

Effective January 1, 2013, Employers' Canadian Branch entered into an Investment Management Agreement with LMGAM. Under this agreement, LMGAM acts as the company's agent and attorney-in-fact with respect to its investment portfolio. Subject to the terms and conditions of the investment policy and guidelines (included as appendices to the agreement), LMGAM has complete day-to-day discretionary control, including the power to make acquisitions and disposals of investments and issue instructions to brokers and custodians.

For services provided, LMGAM receives a monthly fee based on a percentage of the average market value under U.S. GAAP of all cash and securities in the account for that month.

Amounts owing between the parties are billed on a monthly basis and settled within 45 days after the end of month. This agreement may be terminated by LMGAM upon 180 days' written notice to the company, and terminated by the company at any time upon written notice to LMGAM. Upon termination, LMGAM shall have no further investment responsibility for assets in the company's account but shall have a reasonable time, not to exceed 90 days, to transfer assets to a custodian of the company's selection.

Liberty Mutual Investment Advisors LLC

Investment Management Agreement

Effective January 1, 2010, the company entered into an Amended and Restated Investment Management Agreement with LMIA which supersedes the prior agreement between the parties dated May 1, 2000. This agreement covers the management of the company's investments that are not being managed by LMGAM (i.e., venture capital investments). Under this agreement, LMIA acts as the company's agent and attorney-in-fact with respect to the investment portfolio. Subject to the terms and conditions of the investment policy and guidelines (included as appendices to the agreement), LMIA has complete day-to-day discretionary control, including the power to make acquisitions and disposals of investments and issue instructions to brokers and custodians.

For services provided, LMIA shall receive a quarterly fee based on a percentage of the average market value under U.S. GAAP of all cash and securities in the company's account for that quarter. The agreement may be terminated by LMIA upon 180 days' written notice to the company, and terminated by the company at any time upon written notice to LMIA. Upon termination, LMIA shall have no further investment management responsibility for assets in the company's account but shall have a reasonable time, not to exceed 90 days, to transfer assets to a custodian of the company's selection.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. All contracts reviewed contained proper insolvency provisions. Significant treaties and other risk transfer arrangements are summarized as follows.

Affiliated Pooling Agreement – Liberty Pool

Employers participates in a pooling arrangement with certain of its affiliates (the Liberty Pool). Effective January 1, 2013, the prior Peerless Pool was terminated. The Peerless Pool participants were added into the Liberty Pool which resulted in the addition of many affiliates and changes to the net pooling percentages for some of the participants. Employers was 8% of the net Liberty Pool before and after these changes. After external reinsurance, the pool participants cede 100% of their net premiums written, losses, loss adjustment expenses, underwriting expenses and related balance sheet categories to LMIC. As the lead company and pool manager, LMIC administers all aspects of the pooled business, including placement of reinsurance with nonaffiliated insurers. After external reinsurance, LMIC distributes the net pooled business according to the participations listed below. Income and expenses related to investment operations and corporate taxes, including federal income taxes, are excluded from the pooled business. The table below shows the companies participating in the Pool.

Liberty Pool Participations:

	Domicile	2013 Pool %
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
America First Insurance Company	NH	0
America First Lloyd's Insurance Company	TX	0
American Fire and Casualty Company	NH	0
American Economy Insurance Company	IN	0
American States Insurance Company	IN	0
American States Lloyd's Insurance Company	TX	0
American States Preferred Insurance Company	IN	0
Colorado Casualty Insurance Company	NH	0
Consolidated Insurance Company	IN	0
Excelsior Insurance Company	NH	0
The First Liberty Insurance Corporation	IL	0
First National Insurance Company of America	NH	0
General Insurance Company of America	NH	0

	Domicile	2013 Pool %
Golden Eagle Insurance Corporation	NH	0%
Hawkeye-Security Insurance Company	WI	0
Insurance Company of Illinois	IL	0
Indiana Insurance Company	IN	0
Liberty Insurance Corporation	IL	0
Liberty Insurance Underwriters, Inc.	IL	0
Liberty County Mutual Insurance Company	TX	0
Liberty Lloyd's of Texas Insurance Company	TX	0
Liberty Mutual Mid-Atlantic Insurance Company	MA	0
Liberty Northwest Insurance Corporation	OR	0
Liberty Personal Insurance Company	MA	0
Liberty Surplus Insurance Corporation	NH	0
LM General Insurance Company	IL	0
LM Insurance Corporation	IL	0
Mid-American Fire & Casualty Company	NH	0
Montgomery Mutual Insurance Company	MA	0
The Midwestern Indemnity Company	NH	0
National Insurance Association	IN	0
The Netherlands Insurance Company	NH	0
North Pacific Insurance Company	OR	0
Ohio Security Insurance Company	NH	0
Oregon Automobile Insurance Company	OR	0
Peerless Indemnity Insurance Company	IL	0
Safeco Insurance Company of Illinois	IL	0
Safeco Insurance Company of Indiana	IN	0
Safeco Insurance Company of Oregon	OR	0
Safeco Lloyds Insurance Company	TX	0
Safeco National Insurance Company	NH	0
Safeco Surplus Lines Insurance Company	NH	0
Wausau Business Insurance Company	WI	0
Wausau General Insurance Company	WI	0
Wausau Underwriters Insurance Company	WI	0
West American Insurance Company	IN	0

100% Quota Share Affiliated Companies:

Bridgefield Employers Insurance Company	FL	0
Bridgefield Casualty Insurance Company	FL	0
LM Property and Casualty Insurance Company	IN	0

Lines covered: All lines

Items included: Premiums written and earned, losses, loss adjustment expenses, underwriting expenses, salvage and subrogation recoveries, assessments, taxes and policyholder dividends.

Effective: January 1, 2013

Termination: At any time with 120 days' written notice by any party or otherwise by mutual agreement. Each participant shall remain liable with respect to all cessions in force on the effective date of termination.

WBIC, WGIC, and WUIC each cede 100% of their direct underwriting activity to Employers. Employers assumes and cedes premiums from certain other affiliated insurers and nonaffiliated insurers. Employers cedes its net underwriting activity to LMIC.[1]

Pre-Pool Reinsurance Program – Nonaffiliated Ceding Contracts

1. 100% Quota Share (Discontinued Operations)

Reinsurer:	Nationwide Indemnity Company (Nationwide)
Scope:	All liabilities arising out of, or relating to, discontinued operations of the company
Coverage:	100% of the liabilities arising out of, or relating to, the discontinued operations of the company (as defined in Exhibit A)
Premium:	The consideration paid for coverage will be computed as follows: (i) the total policy reserves on business ceded hereunder; plus (ii) a risk premium of $294,000,000; plus (iii) all premiums, salvage, subrogation and other amounts received by ceding company in respect of discontinued operations On December 31, 1998, the company will pay a deposit premium of not less than $365,000,000, or such greater amount as mutually agreed. A final settlement of the balance due the reinsurer will be made on March 1, 1999. This final settlement will bear and include simple interest at the 60-Day Commercial Paper Rate indicated in Federal Reserve Statistical Release H.15(519) on the date payment is made from December 31, 1998, until the date of payment.
Commissions:	None
Effective:	December 31, 1998, as amended April 3, 2006

[1] The separate pooling arrangement between the Wausau companies (Employers, WBIC, WGIC and WUIC) arises out of the October 5, 1998, De-Affiliation Master Agreement with NMIC, which set forth the process for unwinding the discontinued operations of the Wausau companies from the Nationwide Pool. This process continues through the present under two separate agreements: (1) Discontinued Operations Reinsurance Agreement, effective January 1, 2002, whereby WBIC, WGIC and WUIC each cede 100% of their Discontinued Operations (pertaining to the Nationwide Pool business) to Employers; and (2) the 100% Quota Share Reinsurance Agreement between Employers and Nationwide Indemnity Company.

Termination:	Upon termination of all policy liabilities ceded hereunder; or by mutual written agreement of the parties; or at the option of the ceding company, upon the occurrence of the commencement of a rehabilitation, liquidation, conservation, or other delinquency proceeding against the reinsurer, or the existence of any condition that is not promptly cured upon notice that would provide reasonable grounds for such proceedings.
Additional comment:	Any and all obligations of the reinsurer under this Reinsurance Agreement shall be irrevocably and unconditionally guaranteed by Nationwide Mutual Insurance Company, pursuant to the Guarantee and Indemnification Agreement attached to this contract as Exhibit D

Pool Reinsurance Program

As previously discussed, the company participates in a pooling arrangement with certain affiliates, which is administered by LMIC. The following is a summary of the major reinsurance programs impacting the company, including reinsurance externally placed with various reinsurers by LMIC (on behalf of the Liberty Pool). The agreements can be categorized in two broad categories: Corporate Property Catastrophe and Other Corporate Reinsurance Programs.

Section 1 – Corporate Property Catastrophe Program

This program is comprised of several components, which are discussed in detail as follows:

1. 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 86% participation. This contract follows the form that any future homeowner's quota share will follow.

Participation:	14% of business across various reinsurers
Reinsurers:	Ace Property & Casualty Insurance Company Alterra Reinsurance USA Inc. Lloyd's Syndicate 2003 Odyssey Reinsurance Company Swiss Reinsurance America Corporation Transatlantic Reinsurance Company
Scope:	All policies classified by the company as property and liability coverages of homeowner's and earthquake written by the company's Personal Markets Strategic Business Unit
Limits:	**$**1,750,000,000 as respects any one occurrence for all perils except earthquake $900,000 as respects any one occurrence for the peril of earthquake

	$1,750,000,000 as respects all loss occurrences arising out of Acts of Terrorism during the term of this contract In addition, coverage is limited to no more than $20,000,000 in property loss from any one location and no more than $1,000,000 liability loss from any one policy. There are no aggregate limits on the treaty, other than on Acts of Terrorism.
Coverage:	The company shall cede to the reinsurer a 14% quota share of net loss of the underlying insurance as respects each policy ceded hereunder
Term:	December 31, 2012 – December 31, 2013

2. Catastrophe Bonds

The pool participates in two separate multi-year catastrophe bonds (effective March 6, 2012, to March 5, 2015) to provide an additional $275,000,000 of loss protection for hurricane- and earthquake-related events. The bonds are separated into Class A and Class B. Both bonds provide national coverage, although Class A bonds specifically exclude California Earthquake. Losses are fully collateralized by proceeds received by Mystic Re Ltd., a Cayman Islands-domiciled reinsurer, from the issuance of catastrophe bonds.

The bonds have an annual reset feature in which the reinsurance features adjust to updated exposure data. A third-party Reset Agent uses the updated data to create a new Attachment Point, Limit, and Placed Percentage amount. Listed below are the amounts effective in 2013.

Layer	Attachment Point	Limit (Excess of Attachment)	Accumulated Limit	Placed Percentage
Class A, Nationwide excluding CA EQ	$ 2,181,000,000	$ 249,000,000	$2,430,000,000	40.16%
Class B, Nationwide	1,332,000,000	849,000,000	2,181,000,000	20.61%

3. Subsequent Event Plus (SEP) Property Catastrophe Excess of Loss

This treaty is externally placed by LMIC as discussed below:

Reinsurer:	Swiss Reinsurance America Corporation
Scope:	Losses directly resulting from named hurricanes, tropical storms, or earthquakes
Attachment/limits:	This contract provides coverage for certain second or subsequent event catastrophic property losses in excess of $650,000,000 during the same annual treaty period. The contract also provides coverage for certain first event named windstorms. The contract is subject to an overall aggregate limit (all coverages combined) of $650,000,000.
Term:	January 1, 2013 – January 1, 2014
Intermediary:	TigerRisk Partners LLC is the recognized intermediary for this contract. Payments by the company to the intermediary shall be deemed to constitute payment to the subscribing reinsurer. Payments by the subscribing reinsurer to the intermediary shall be deemed only to

constitute payment to the company to the extent that such payments are actually received by the company.

4. Property Catastrophe Excess of Loss Treaty (multiple layers)

This treaty is externally placed by LMIC with various reinsurers as discussed below:

Reinsurers: Various (listed below)

Placed by Aon Benfield:

	Participation %			
Reinsurer:	**First Nationwide Layer**	**Second Nationwide Layer**	**Third Nationwide Layer, Excluding California**	**Northeast Only**
Various (see below)	22.450%	21.100%	15.675%	27.800%

Participating Reinsurers:

Alterra Bermuda Limited
Arch Reinsurance Ltd
Axis Specialty Limited
Catlin Insurance Company Ltd
Houston Casualty Company
Lloyds Underwriters (various)
Montpelier Reinsurance Ltd
Partner Reinsurance Company Ltd
Tokio Millenium Re Ltd

Placed by Guy Carpenter:

	Participation %			
Reinsurer:	**First Nationwide Layer**	**Second Nationwide Layer**	**Third Nationwide Layer, Excluding California**	**Northeast Only**
Various (see below)	13.525%	10.930%	8.975%	28.850%

Participating Reinsurers:

Lloyd's Underwriters (various)
Swiss Reinsurance America Corporation

Placed by TigerRisk Partners LLC:

	Participation %			
Reinsurer:	**First Nationwide Layer**	**Second Layer**	**Third Nationwide Layer, Excluding California**	**Northeast Only**
Various (see below)	14.825%	14.620	8.200%	24.150%

Participating Reinsurers:

Ace Tempest Reinsurance Ltd	Lancashire Insurance Company Limited
Aspen Bermuda Limited	MS Frontier Reinsurance Ltd
Davinci Reinsurance Ltd	Renaissance Reinsurance Ltd
Hannover Re (Bermuda) Ltd	Sirius International Insurance Corporation (PUBL)
Hannover Ruckversicherung AG	Validus Reinsurance Ltd
Hiscox Insurance Company (Bermuda) Ltd	XL Re Ltd

Placed by Willis Re:

	Participation %			
Reinsurer:	**First Nationwide Layer**	**Second Nationwide Layer**	**Third Nationwide Layer, Excluding California**	**Northeast Only**
Various (see below)	19.200%	18.350%	12.150%	19.200%

Participating Reinsurers:

Everest Reinsurance Company	Munich Reinsurance America Inc.
Hannover Ruckversicherung AG	Odyssey Reinsurance Company
Mapfre Re Compania De Reaseguros Sa	SCOR Global P&C S.E.
Munchener Ruckversicherungs Gelsellschaft	Transatlantic Reinsurance Company

Scope: Policies classified by the company as the property coverages of fire and allied lines, inland marine, earthquake, multiple peril policies (personal and commercial), reinsurance-nonproportional assumed property, as well as business classified by the Liberty International Underwriters underwriting division of the Global Specialty Strategic Business Unit as energy, property, engineering, course of constructions, and excess and surplus property

Attachment/limits:

Layer	Attachment Point	Limit (Excess of Attachment)	Accumulated Limit	Placed Percentage
Northeast Only	$ 1,200,000,000	$ 400,000,000	$ 1,600,000,000	100%
Layer 1, Nationwide	1,300,000,000	400,000,000	1,700,000,000	70%
Layer 2, Nationwide	1,700,000,000	400,000,000	2,100,000,000	65%
Layer 3, Nationwide excl. CA	2,100,000,000	600,000,000	2,700,000,000	45%

Reinstatements: One full reinstatement is available for all layers, paid 100% as to time, pro rata as to amount

Term: January 1, 2013 – January 1, 2014

Intermediary: Aon Benfield, Guy Carpenter, TigerRisk Partners, and Willis Re are the recognized intermediaries for this contract. Payments by the company to the intermediary shall be deemed to constitute payment to the subscribing reinsurer. Payments by the subscribing reinsurer to the intermediary shall be deemed only to constitute payment to the company to the extent that such payments are actually received by the company.

5. Catastrophe Swap

This structure swaps a portion of LMIC's US wind/hurricane risk in the Gulf for Tokio Marine & Nichido's Japanese Typhoon risk. The treaty provides reinsurance coverage for LMIC's risks in the following states: Alabama, Arkansas, Illinois, Indiana, Kentucky, Louisiana, Mississippi, Missouri, Ohio, Oklahoma, Tennessee, and Texas. As part of the contract, LMIC assumes a 6.2% share of Tokio's Typhoon risk layer of 172,000,000,000 yen excess of 300,000,000,000 yen.

Reinsurer and cedant: Tokio Marine and Nichido Fire Insurance Company, Limited

Scope: Property coverages of fire and allied lines, inland marine, multiple peril policies, and reinsurance-nonproportional assumed property, as well as business classified by the Liberty International Underwriters underwriting division of the Global Specialty Strategic Business Unit as energy, property, engineering, course of construction, and excess and surplus property

Attachment/limits:

Coverage	Attachment Per Occurrence	Limit (Excess of Attachment)	Accumulated Limit	Placed Percentage
Gulf Layer 1	$ 1,250,000,000	$ 50,000,000	$1,300,000,000	100%
Gulf Layer 2	2,430,000,000	100,000,000	2,530,000,000	100%

Term: April 1, 2013 – April 1, 2014

Intermediary: Aon Benfield, Inc., is recognized as the Intermediary for this contract. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

6. Property Catastrophe Excess of Loss Regional Wrap

This treaty is comprised of two sections: Section A provides Northeast Only Coverage (Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont). Section B provides Gulf Only Coverage (Alabama, Arkansas, Illinois, Indiana, Kentucky, Louisiana, Mississippi, Ohio, Oklahoma, Tennessee, and Texas). The two sections have a shared limit of $100,000,000, of which 70% has been placed.

Reinsurer: Poseidon Re Ltd.

Scope: Property coverages of fire and allied lines, inland marine, earthquake, multiple peril policies, and reinsurance nonproportional assumed property, as well as business classified by the Liberty International Underwriters underwriting division of the Global Specialty Strategic Business Unit as energy, property, engineering, course of construction, and excess and surplus property

Attachment/limits**:**

Coverage	Attachment Per Occurrence	Limit (Excess of Attachment)	Accumulated Limit
Northeast	$ 1,600,000,000	$ 100,000,000	$1,700,000,000
Gulf	1,300,000,000	100,000,000	1,400,000,000

Term: January 1, 2013 – January 1, 2014

Intermediary: Willis Re Inc. is recognized as the intermediary for this contract. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

7. Property Catastrophe Excess of Loss and Aggregate Loss

This treaty is externally placed by LMIC. The structure offers two components across three sections, utilizing a single shared limit of $70,000,000. Sections I and II provide Difference in Conditions (DIC) coverage, as well as extending coverage above that provided by the Mystic Catastrophe Bonds. Mystic Re inures to the benefit of these sections to ensure that this contract is only providing DIC coverage. Section III offers Aggregate Protection that sits below the SEP aggregate section (see contract no. 4 above). There are two contributing layers to the aggregate retention:

a) Named Storms/Earthquakes: $1,000,000,000 in excess of $300,000,000 <u>per occurrence</u> flow into the Cat Aggregate layer.

b) Other Catastrophic Losses: $1,900,000,000 in excess of $400,000,000 <u>in aggregate</u> flow into the Cat Aggregate layer. These losses are subject to a $35,000,000 per event deductible and a maximum loss contribution of $1,265,000,000 per event.

Reinsurers: Aeolus Re Ltd. and Pendulum Re II Ltd.

Scope: Property coverages of fire and allied lines, inland marine, earthquake, multiple peril policies, and reinsurance-nonproportional assumed property, as well as business classified by the Liberty International Underwriters underwriting division of the Global Specialty Strategic Business Unit as energy, property, engineering, course of construction, and excess and surplus property

Attachment/limits:

Section	Attachment	Limit (Excess of Attachment)	Accumulated Limit	Placed Percentage
I	$ 1,332,000,000	$849,000,000	$ 2,181,000,000	20.61%
II	2,181,000,000	519,000,000	2,700,000,000	40.16%
III	1,250,000,000	650,000,000	1,900,000,000	10.77%

Sections I and II offer Difference in Conditions coverage to complement the Mystic Catastrophe Bonds. Section III offers Aggregate Protection that sits below the SEP aggregate section. Regardless of the layer size, no more than $70,000,000 is recoverable.

Term: January 1, 2013 – January 1, 2014

Intermediary: TigerRisk Partners LLC is recognized as the intermediary for this contract. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

Section 2 – Other Corporate Reinsurance Programs

1. Commercial Insurance Umbrella, Lead Excess and Excess Liability

This treaty provides reinsurance for commercial umbrella and excess business written by the Commercial Insurance Strategic Business Unit. The term “supported” refers to umbrella or excess policy business produced by either the Business Insurance or National Insurance/Affinity segments of the Commercial SBU. Business is split into three sections:

Section I: Supported Lead Commercial Umbrella and Supported Lead Excess Policies
Section II: Supported and Unsupported Lead Commercial Umbrella and Supported and Unsupported Lead Excess Policies
Section III: Commercial Non-Lead Excess Liability Policies

Reinsurers: Various (see below)

Reinsurer:	Participation %
Various	30.00%

Participating Reinsurers:

General Reinsurance Company
Allied World Reinsurance Company
Munich Reinsurance America, Incorporated
Odyssey Reinsurance Company
Swiss Reinsurance America Company
Transatlantic Reinsurance Company

Scope: All policies classified by the company as commercial umbrella and excess business underwritten by the Commercial Insurance Strategic Business Unit

Attachment/limits:

Section	Attachment	Limit (Excess of Attachment)	Accumulated Limit	Placed Percentage
I	$ 5,000,000	$ 20,000,000	$ 25,000,000	30%
II	5,000,000	30,000,000	35,000,000	30%
III	Quota Share from first dollar for all policies with limits greater than $5,000,000. Max policy limit $50,000,000.			30%

Maximum combined policy limits for Sections I, II, and III business shall be $50,000,000 each risk, each occurrence, accident, claim or loss or in the aggregate where the policy(ies) provide(s) for an aggregate limit

Term: January 1, 2013 – January 1, 2014

Termination: The company shall have the sole option of terminating the contract in its entirety at any time but no earlier than May 1 2013, by providing the reinsurers with not less than 45 days' prior written notice

If one or more circumstances listed in Paragraph A of Article 27 (Special Conditions) occur (a "Trigger Event"), the subscribing reinsurer shall provide the company with written notice within 5 business days from the happening of the Trigger Event. Irrespective of the subscribing reinsurer's failure to provide the company with timely written notice of the happening of a Trigger Event, upon occurrence of a Trigger Event, the company may terminate this contract at any time, upon 30 days' written notice to the subscribing reinsurer.

Intermediary: Guy Carpenter is recognized as the intermediary for this contract. Payments by the company to the intermediary shall be deemed to constitute payment to the subscribing reinsurer. Payments by the subscribing reinsurer to the intermediary shall be deemed to constitute payment to the company to the extent that such payments are actually received by the company.

2. Corporate Property Per Risk Excess of Loss Contract

This treaty is externally placed by LMIC with various reinsurers as discussed below:

Reinsurers: Various (see below)

	Participation %			
Reinsurer:	First Layer	Second Layer	Third Layer	Fourth Layer
Various	100%	100%	100%	100%

Participating Reinsurers:

AXIS Specialty LTD
Amlin AG
Catlin Insurance Company LTD
Hannover Ruckversicherung AG
Hiscox Insurance Company (Bermuda) Ltd
Lloyd's Underwriters
Munich Reinsurance America, Incorporated
Odyssey America Reinsurance Corporation
SCOR Reinsurance Company
Swiss Reinsurance America Corporation
TOA Reinsurance Company of America
Transatlantic Reinsurance Company
XL Reinsurance America Inc

Scope: Property business, including, but not limited to, commercial property business, property sections of multiple peril policies, and inland marine

Attachment/limits:

Layer	Attachment Per Occurrence	Limit (Excess of Attachment)	Accumulated Limit	Annual Aggregate Deductible
Underlying	$ 15,000,000	$ 10,000,000	$ 25,000,000	$ 20,000,000
1	$ 25,000,000	$ 25,000,000	$ 50,000,000	$ 25,000,000
2	$ 50,000,000	$ 50,000,000	$ 100,000,000	N/A
3	$ 100,000,000	$ 100,000,000	$ 200,000,000	N/A

The Underlying Layer was placed in 2012 and expired on June 1, 2013.

Term: Underlying Layer: June 1, 2012 – June 1, 2013
Layers 1, 2, and 3: April 1, 2013 – April 1, 2014

Termination: If one or more circumstances listed in Paragraph A of Section 33 (Special Conditions) occur (a “Trigger Event”), the subscribing reinsurer shall provide the company with written notice within 5 business days from the happening of the Trigger Event. Irrespective of the subscribing reinsurer’s failure to provide the company with timely written notice of the happening of a Trigger Event, upon occurrence of the Trigger Event, the company may terminate this contract at any time upon 30 days' written notice to the subscribing reinsurer.

Intermediary: Towers Watson Pennsylvania Inc. is recognized as the intermediary for this contract. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

3. Property Automatic Facultative Treaty

This treaty provides coverage on ground up property risk losses written by Liberty Mutual Property on exposures up to $650,000,000. (Any risk with a total insured value greater than $650,000,000 is excluded under this contract, except as specially accepted by the subscribing reinsurer in accordance with the provisions set forth in Article II, Exclusions.) This treaty is externally placed by LMIC with various external reinsurers as discussed below:

Reinsurers: Various (see below)

Reinsurer:	**Participation %**
Various	100.000%

Participating Reinsurers:

Amlin Syndicate #2001	General Reinsurance Corp
Ascot Underwriting, Inc	Munich Reinsurance America
Aspen Re America	Swiss Re America Corp
Catlin Underwriting Inc	XL Re America

Scope: All policies with values in excess of $200,000,000 written by National Property, a subdivision of the National Insurance division of the company's Commercial Insurance Strategic Business Unit, and classified by the company as property insurance risks with a PML equal to or less than $25,000,000.

Attachment/limits:

Layer	Attachment Per Occurrence	Limit (Excess of Attachment)	Accumulated Limit
Layer 1	$200,000,000	$250,000,000	$450,000,000

Term: This contract shall apply to losses resulting from insured events covered under the company's policies written or renewed on or after 12:01 a.m. EST, August 1, 2007, and shall continue in full force until cancelled

Termination: If one or more circumstances listed in Paragraph A of Article VI (Special Conditions) occur (a "Trigger Event"), the subscribing reinsurer shall provide the company with written notice within 5 business days from the happening of the Trigger Event. Irrespective of the subscribing reinsurer's failure to provide the company with timely written notice of the happening of a Trigger Event, upon occurrence of the Trigger Event, the company may terminate this contract at any time upon 30 days' written notice to the subscribing reinsurer.

4. Worker's Compensation Catastrophe Excess of Loss Treaty

This treaty is externally placed by LMIC with various reinsurers as discussed below:

Reinsurers: Various (see below)

Participating Reinsurers:

Ace Tempest Reinsurance Ltd	Arch Reinsurance Ltd.	IOA Re
Allied World Assurance Co. Ltd	Aspen Insurance UK Ltd	Lloyd's (various syndicates)
Alterra at Lloyd's - Zurich Branch	Axis Specialty Ltd	Munchener Ruckversicherungs Gelsellschaft
Alterra Bermuda Ltd	Catlin Underwriting Inc	Munich Reinsurance America Inc
Amlin Bermuda	Endurance Specialty Ins Ltd	Odyssey Reinsurance Company
Arch Reinsurance Company	Hannover Re (Bermuda) Ltd	Tokio Millenium Re Ltd

Scope: Worker's compensation business

Attachment/limits:

Layer	Attachment Per Occurrence	Per Occurrence	Aggregate Limit
Alternative 1			
Section A	$ 700,000,000	$ 500,000,000	$1,000,000,000
Section B	150,000,000	500,000,000	1,000,000,000
Alternative 2			
Section A	700,000,000	500,000,000	1,000,000,000
Section B	150,000,000	500,000,000	1,000,000,000

The coverage offers an option of Alterative 1 (without nuclear coverage and at a lower rate on line) or Alternative 2 (with nuclear coverage and a higher rate on line)

The maximum contribution to the company's ultimate net Loss shall be further limited to a maximum per life recovery of $10,000,000

If all or any portion of the coverage limit under Alternative 1 or Alternative 2 is reduced by a loss occurrence, the amount that coverage limit is reduced is automatically reinstated from the time of the loss occurrence. Reinstatement premium is calculated at 100% of deposit premium multiplied by the percentage of the original $500,000,000 limits being reinstated.

Term:	January 1, 2013 – January 1, 2014
Termination:	If one or more circumstances listed in Paragraph A of Article 36 (Special Conditions) occur (a "Trigger Event"), the subscribing reinsurer shall provide the company with written notice within 5 business days from the happening of the Trigger Event. Irrespective of the subscribing reinsurer's failure to provide the company with timely written notice of the happening of a Trigger Event, upon occurrence of a Trigger Event, the company may terminate this contract at any time, upon 30 days' written notice to the subscribing reinsurer, or immediately upon specific criteria.
Intermediary:	Holborn Corporation and Towers Watson Pennsylvania Inc. are recognized as the intermediaries for this contract. Payments by the company to the intermediary shall be deemed to constitute payment to the reinsurer. Payments by the reinsurer to the intermediary shall be deemed to constitute payment to the company only to the extent that such payments are actually received by the company.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2013, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Employers Insurance Company of Wausau
Assets
As of December 31, 2013

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$3,636,393,655	$	$3,636,393,655
Stocks:			
Preferred stocks	44,538,910		44,538,910
Common stocks	228,772,332		228,772,332
Mortgage loans on real estate:			
First liens	137,128,154		137,128,154
Real estate:			
Occupied by the company	15,517,950		15,517,950
Cash, cash equivalents, and short-term investments	62,244,774		62,244,774
Other invested assets	276,146,640		276,146,640
Receivables for securities	4,262,617		4,262,617
Securities lending reinvested collateral assets	34,352,944		34,352,944
Investment income due and accrued	35,368,015		35,368,015
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	157,180,569	6,553,441	150,627,128
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	621,035,199	511,373	620,523,826
Accrued retrospective premiums	41,835,834	4,176,781	37,659,053
Reinsurance:			
Amounts recoverable from reinsurers	68,548,397		68,548,397
Amounts receivable relating to uninsured plans	30,141	30,141	
Net deferred tax asset	170,208,000	27,249,017	142,958,983
Guaranty funds receivable or on deposit	1,717,902		1,717,902
Electronic data processing equipment and software	293,940		293,940
Furniture and equipment, including health care delivery assets	62,888	62,888	
Receivable from parent, subsidiaries, and affiliates	12,576,362		12,576,362
Write-ins for other than invested assets:			
Cash surrender value life insurance	60,940,182		60,940,182
Amounts receivable under high deductible policies	15,621,590	154	15,621,436
Equities and deposits in pools and associations	11,546,386		11,546,386
Other assets	3,973,439	1,935,695	2,037,744
Total Assets	$5,640,296,820	$40,519,490	$5,599,777,330

Employers Insurance Company of Wausau
Liabilities, Surplus, and Other Funds
As of December 31, 2013

Losses		$2,279,464,676
Reinsurance payable on paid loss and loss adjustment expenses		178,079,543
Loss adjustment expenses		489,340,086
Commissions payable, contingent commissions, and other similar charges		43,093,356
Other expenses (excluding taxes, licenses, and fees)		63,768,283
Taxes, licenses, and fees (excluding federal and foreign income taxes)		22,625,071
Current federal and foreign income taxes		30,590,675
Unearned premiums		950,468,970
Advance premium		7,057,581
Dividends declared and unpaid:		
Policyholders		196,198
Ceded reinsurance premiums payable (net of ceding commissions)		26,381,408
Funds held by company under reinsurance treaties		4,491,475
Amounts withheld or retained by company for account of others		7,898,449
Provision for reinsurance		1,782,423
Drafts outstanding		66,588,376
Payable to parent, subsidiaries, and affiliates		8,458,157
Payable for securities		2,713,056
Payable for securities lending		34,352,944
Write-ins for liabilities:		
Amounts held under uninsured plans		60,292,522
Other liabilities		41,543,806
Retroactive reinsurance reserves		(3,145,449)
Total liabilities		4,316,041,606
Write-ins for special surplus funds:		
Special surplus from retroactive reinsurance	$ 8,909,896	
Common capital stock	5,000,000	
Gross paid in and contributed surplus	340,000,000	
Unassigned funds (surplus)	929,825,828	
Surplus as regards policyholders		1,283,735,724
Total Liabilities and Surplus		$5,599,777,330

Employers Insurance Company of Wausau
Summary of Operations
For the Year 2013

Underwriting Income		
Premiums earned		$1,948,596,324
Deductions:		
Losses incurred	$1,152,772,781	
Loss adjustment expenses incurred	279,293,399	
Other underwriting expenses incurred	627,302,740	
Total underwriting deductions		2,059,368,920
Net underwriting gain (loss)		(110,772,596)
Investment Income		
Net investment income earned	194,706,458	
Net realized capital gains (losses)	5,759,307	
Net investment gain (loss)		200,465,765
Other Income		
Net gain (loss) from agents' or premium balances charged off	(6,424,920)	
Finance and service charges not included in premiums	10,709,824	
Write-ins for miscellaneous income:		
Retroactive reinsurance gain/(loss)	53,704	
Other income/(expense)	(3,777,992)	
Total other income		560,616
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		90,253,785
Dividends to policyholders		3,082,309
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		87,171,476
Federal and foreign income taxes incurred		38,279,835
Net Income		$ 48,891,641

Employers Insurance Company of Wausau
Cash Flow
For the Year 2013

Premiums collected net of reinsurance			$2,101,730,656
Net investment income			197,454,142
Miscellaneous income			(4,086,983)
Total			2,295,097,815
Benefit- and loss-related payments		$ 302,903,167	
Commissions, expenses paid, and aggregate write-ins for deductions		672,766,997	
Dividends paid to policyholders		3,152,280	
Federal and foreign income taxes paid (recovered)		(8,003,334)	
Total deductions			970,819,110
Net cash from operations			1,324,278,705
Proceeds from investments sold, matured, or repaid:			
Bonds	$ 446,883,082		
Stocks	31,238,366		
Mortgage loans	10,145,655		
Other invested assets	428,629,819		
Miscellaneous proceeds	5,141,652		
Total investment proceeds		922,038,574	
Cost of investments acquired (long-term only):			
Bonds	1,734,849,373		
Stocks	105,928,717		
Mortgage loans	52,316,158		
Real estate	446,985		
Other invested assets	428,746,617		
Miscellaneous applications	6,369,305		
Total investments acquired		2,328,657,155	
Net cash from investments			(1,406,618,581)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		49,625,140	
Net cash from financing and miscellaneous sources			49,625,140
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(32,714,736)
Cash, cash equivalents, and short-term investments:			
Beginning of year			94,959,510
End of Year			$ 62,244,774

Employers Insurance Company of Wausau
Compulsory and Security Surplus Calculation
December 31, 2013

Assets			$ 5,599,777,330
Less investments in insurance subsidiaries			(110,729,478)
Add security surplus excess of insurance subsidiaries			78,577,507
Less liabilities			(4,316,041,606)
Adjusted surplus			1,251,583,753
Annual premium:			
Individual accident and health	$ 432,129		
Factor	15%		
Total		$ 64,819	
Group accident and health	82,843		
Factor	10%		
Total		8,284	
Lines other than accident and health	2,423,556,266		
Factor	20%		
Total		484,711,253	
Compulsory surplus (subject to a minimum of $2 million)			484,784,356
Compulsory surplus excess (or deficit)			$ 766,799,397
Adjusted surplus (from above)			$ 1,251,583,753
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)			533,262,792
Security surplus excess (or deficit)			$ 718,320,961

The calculation above was re-performed as part of the examination and represents the corrected calculation. The assets, additions and subtractions regarding insurance subsidiaries, and reserve discounting each required modifications which were not material. These resulted in lowering of adjusted surplus excess and security surplus excess of approximately $0.7 million each. See the “Summary of Current Examination Results” for more information.

Employers Insurance Company of Wausau
Analysis of Surplus
For the Four-Year Period Ending December 31, 2013

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2013	**2012**	**2011**	**2010**
Surplus, beginning of year	$1,229,734,362	$1,228,804,949	$1,310,541,122	$1,075,286,002
Net income	48,891,641	(47,693,034)	(32,848,287)	109,278,026
Change in net unrealized capital gains/losses	(26,131,817)	16,457,016	(6,791,541)	119,152,800
Change in net unrealized foreign exchange capital gains/losses	(4,714,923)	2,932,520	(3,512,394)	578,177
Change in net deferred income tax	37,286,091	27,438,426	19,814,598	(12,749,889)
Change in non-admitted assets	(6,447,413)	38,635,640	(45,035,167)	30,106,027
Change in provision for reinsurance	(298,544)	(1,021,027)	17,634	(214,251)
Cumulative effect of changes in accounting principles			798,856	
Dividends to stockholders			(50,000,000)	
Write-ins for gains and (losses) in surplus:				
Other changes in surplus	5,416,327			486,419
SSAP 10R incremental change*		(35,820,128)	35,820,128	(11,382,189)
Surplus, End of Year	$1,283,735,724	$1,229,734,362	$1,228,804,949	$1,310,541,122

* SSAP 10R has been superseded by SSAP 101.

Employers Insurance Company of Wausau
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2013

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2013	2012	2011	2010
#1	Gross Premium to Surplus	239%	180%	75%	165%
#2	Net Premium to Surplus	189	85	173	64
#3	Change in Net Premiums Written	132*	14	8	17
#4	Surplus Aid to Surplus	0	0	0	0
#5	Two-Year Overall Operating Ratio	96	107*	97	96
#6	Investment Yield	5.3	3.7	3.8	6.5*
#7	Gross Change in Surplus	4	0	-6	22
#8	Change in Adjusted Surplus	4	0	-6	22
#9	Liabilities to Liquid Assets	96	92	90	85
#10	Agents' Balances to Surplus	12	9	8	7
#11	One-Year Reserve Development to Surplus	5	4	3	-1
#12	Two-Year Reserve Development to Surplus	6	6	2	-1
#13	Estimated Current Reserve Deficiency to Surplus	87*	15	7	-8

Ratio No. 3 measures the change in net premiums written compared to the prior year. An exceptional result was noted in 2013 due to changes to the affiliated reinsurance agreement effective January 1, 2013, which resulted in additional participants to the Liberty Pool and increased net premium written for Employers.

Ratio No. 5 is a measure of the company's combined ratio less the investment income ratio over the past two years which provides a look at the company's ability to produce profitable operational results. The exceptional ratio in 2012 was primarily due to overall business growth and unfavorable development in prior year asbestos and environmental and worker's compensation loss reserves.

Ratio No. 6 measures the company's investment yield. The exceptional ratio in 2010 was primarily due to $77.6 million of dividends received primarily from Liberty Insurance Holdings, Inc. (LIH). The company's 4.048% holdings of LIH shares were sold to LMIC on June 9, 2010.

Ratio No. 13 measures the estimated current year deficiency compared to surplus. The exceptional ratio in 2013 was primarily due to changes to the affiliated reinsurance agreement effective January 1, 2013, which resulted in additional participants to the Liberty Pool and increased net loss and loss expense reserves.

Growth of Employers Insurance Company of Wausau

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2013	$5,599,777,330	$4,316,041,606	$1,283,735,724	$ 48,891,641
2012	3,940,708,266	2,710,973,904	1,229,734,362	(47,693,034)
2011	3,795,737,568	2,566,932,619	1,228,804,949	(32,848,287)
2010	3,682,403,162	2,371,862,040	1,310,541,122	109,278,026
2009	3,333,261,422	2,257,975,420	1,075,286,002	36,225,105

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2013	$3,069,144,530	$2,427,153,545	$1,948,596,324	73.5%	25.8%	99.3%
2012	2,212,687,665	1,044,484,494	986,338,044	90.3	30.3	120.6
2011	2,129,998,059	915,908,540	872,946,293	90.1	28.1	118.2
2010	2,165,200,726	844,188,600	828,459,347	83.0	25.6	108.6
2009	2,046,602,945	723,013,182	796,763,783	85.3	30.1	115.4

There were large increases to both admitted assets and liabilities in 2013 after changes to the affiliated reinsurance agreement effective January 1, 2013, which resulted in additional participants to the Liberty Pool. As admitted assets and liabilities have increased each of the past five years, surplus and net income have been mixed with, in general, net income in years when net investment gains are sufficient to offset net underwriting losses.

The change in affiliated reinsurance agreement also created large changes in gross premium written, net premium written, premium earned, and the associated ratios. Years in which the Loss and LAE Ratio was above 90% resulted in net losses (2011 and 2012) which were primarily due to overall business growth and unfavorable development in asbestos and environmental and worker’s compensation loss reserves.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2013, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control—It is again recommended that the company periodically review its affiliated agreements to verify whether they accurately reflect services being provided under its current operational environment and take the necessary measures to amend or terminate ones that are obsolete or ambiguous.

   Action—Compliance.

2. Management and Control—It is recommended that the company report changes and send biographical data relating to elected or appointed officers and directors in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

   Action—Compliance.

3. Report on Executive Compensation—It is recommended that the company include all the required officers and their compensation in the Report on Executive Compensation in accordance with ss. 601.42 and 611.63 (4), Wis. Stat.

   Action—Noncompliance; see comments in the “Summary of Current Examination Results.”

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Report on Executive Compensation

The company filed its Report on Executive Compensation (Form OCI 22-050) as required by ss. 601.42 and 611.63 (4), Wis. Stat. Part 1 of the report requires that the company report on the compensation of the chief executive officer and four most highly paid officers or employees along with all officers or employees whose total annual compensation is in excess of a threshold amount. Upon examination it was found that not all of the required officers and employees were included in the form. The company has the option to complete the report for all companies in the holding company system or on an allocated basis—the company chose to complete the report on an allocated basis. The reporting threshold amount, in this instance $250,000, should be applied before allocation of the total annual compensation for any officers or employees performing work on behalf of the company. The allocated portion of any officer or employee total compensation meeting or exceeding the threshold should be shown on the Report on Executive Compensation (Form OCI 22-050). The company applied their chosen allocation method (pooling percentage) to the total employee compensation and then reported only those individuals with compensation meeting or exceeding the threshold amount for the subject reporting company. By completing the form in this way without reference to employees of the holding company group, it appeared there were no employees performing work on behalf of the company who met the threshold amount, when in fact there are many above the reporting threshold.

It is again recommended that the company include all the required officers and their compensation in the Report on Executive Compensation in accordance with ss. 601.42 and 611.63 (4), Wis. Stat. It is further recommended that the company identify all officers and employees who perform work on behalf of the company and who make in excess of the reporting threshold for all companies in the holding company group as determined by the Report on Executive Compensation (Form OCI 22-050).

Report on Compulsory and Security Surplus

The company filed its Compulsory and Security Surplus Calculation (Form OCI 22-008) as required by s. Ins 51.80 (9), Wis. Adm. Code. The calculation was re-performed as part of the examination and errors were noted in the reporting of investments in an insurance subsidiary and the security surplus excess of this subsidiary. In the calculation, the company subtracted its ownership percentage (8%) in the security surplus of the insurance subsidiary on line 6b and reported no amount on line 6c. The company should have subtracted its ownership percentage in the insurance subsidiary's surplus on line 6b and added back its ownership percentage in the security surplus excess of the subsidiary on line 6c of the form. The amended calculation resulted in lower adjusted compulsory surplus excess and security surplus excess of approximately $0.7 million each.

It is recommended that the company establish procedures for the accurate completion and filing of the Wisconsin Compulsory and Security Surplus Calculation.

Derivative Use Policy

In Note No. 8 of the 2013 Annual Statement's Notes to Financial Statements, the company disclosed that it has a Derivative Use Policy pursuant to which it may enter into derivative transactions. This Derivative Use Policy, which is dated as of September 14, 2005, was not timely filed with this office as required by s. Ins 6.20 (8) (o), Wis. Adm. Code. This Derivative Use Policy was filed with this office on May 14, 2015. It is recommended that the company comply with s. Ins 6.20 (8) (o), Wis. Adm. Code, with respect to future Derivative Use Policies.

VIII. CONCLUSION

Employers Insurance Company of Wausau was originally incorporated as a mutual company in the state of Wisconsin on August 21, 1911. The company commenced business on September 1, 1911, on the effective date of Wisconsin's worker's compensation law. On March 19, 2002, Employers Insurance of Wausau Mutual Holding Company was merged into LMHC. Since that time, policyholders of Employers have been members of LMHC.

Employers is a multiline property and casualty company licensed in all 50 states of the United States, the District of Columbia, Puerto Rico, U.S. Virgin Islands, and Canada. The worker's compensation line of business provided over 77% of the $258.6 million of direct premiums written in 2013; direct premiums written in Wisconsin, California, New York and Illinois accounted for approximately 35% of the total. Employers has an 8% participation in the Liberty Pool. The 2013 annual statement reported assets of $5.6 billion, liabilities of $4.3 billion, policyholders' surplus of $1.3 billion, and net income of $48.9 million.

There were large increases to both admitted assets and liabilities in 2013 after changes to the affiliated reinsurance agreement effective January 1, 2013, which resulted in additional participants to the Liberty Pool. As admitted assets and liabilities have increased each of the past five years, surplus and net income have been mixed with, in general, net income in years when net investment gains are sufficient to offset net underwriting losses.

The change in affiliated reinsurance agreement also created large changes in gross premium written, net premium written, premium earned, and the associated ratios. Years in which the Loss and LAE Ratio was above 90% resulted in net losses (2011 and 2012) which were primarily due to overall business growth and unfavorable development in asbestos and environmental and worker's compensation lines of business.

The examination resulted in three recommendations, one of which was a repeat recommendation from the prior examination. The repeat recommendation pertained to reporting of executive compensation and the new recommendation concerned calculation of compulsory and security surplus.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 52 - Report on Executive Compensation—It is again recommended that the company include all the required officers and their compensation in the Report on Executive Compensation in accordance with ss. 601.42 and 611.63 (4), Wis. Stat. It is further recommended that the company identify all officers and employees who perform work on behalf of the company and who make in excess of the reporting threshold for all companies in the holding company group as determined by the Report on Executive Compensation (Form OCI 22-050).

2. Page 53 - Report on Compulsory and Security Surplus—It is recommended that the company establish procedures for the accurate completion and filing of the Wisconsin Compulsory and Security Surplus Calculation.

3. Page 53 - Derivative Use Policy—It is recommended that the company comply with s. Ins 6.20 (8) (o), Wis. Adm. Code, with respect to future Derivative Use Policies.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Thomas R. Houston	Insurance Financial Examiner – Advanced, Information Systems Audit Specialist
Jerry C. DeArmond	Insurance Financial Examiner – Advanced, Policy and Claim Reserve Specialist
Frederick H. Thornton	Insurance Financial Examiner – Advanced, Exam Planning & Quality Control Specialist
Stephanie A. Falck	Insurance Financial Examiner – Journey
Daniel L. Schroeder	Insurance Financial Examiner – Journey

Respectfully submitted,

Karl K. Albert, CFE
Examiner-in-Charge

XI. APPENDIX—SUBSEQUENT EVENT

On July 17, 2014, LMIC reached a definitive agreement with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc., on a combined aggregate adverse development cover for substantially all of LMIC's U.S. worker's compensation, asbestos and environmental liabilities, attaching at approximately $12.5 billion of combined aggregate reserves with an aggregate limit of $6.5 billion and sublimits of $3.1 billion for asbestos and environmental liabilities and $4.5 billion for certain worker's compensation liabilities.

Effective as of January 1, 2014, LMIC ceded approximately $3.3 billion of existing liabilities under this retroactive reinsurance agreement. NICO will provide approximately $3.2 billion of additional aggregate adverse development cover. LMIC paid NICO total consideration of approximately $3.0 billion.

The agreement covers LMIC's potentially volatile U.S. asbestos and environmental liabilities arising under policies of insurance and reinsurance with effective dates before January 1, 2005, as well as Commercial Insurance's worker's compensation liabilities as respects injuries or accidents occurring before January 1, 2014. NICO will assume responsibility for claims handling related to LMIC's asbestos and environmental claims, and LMIC will continue to handle all worker's compensation claims.

This transaction is accounted for as retroactive reinsurance in LMIC's GAAP consolidated financial statements and resulted in a pre-tax loss of approximately $128 million as of the effective date, which was included in LMIC's 2014 third quarter results. Subsequent to the effective date, LMIC recorded $85 million of worker's compensation, asbestos and environmental adverse development. As a result of the retroactive reinsurance agreement with NICO, LMIC was able to recognize this $85 million as a benefit to income.