

MUTUAL HOLDING COMPANY PLAN

(the "Mutual Holding Company Plan")

of

EMPLOYERS INSURANCE OF WAUSAU A Mutual Company,

a Wisconsin Property and Casualty Insurer,

Under Chapter 644

of the Wisconsin Insurance Code

dated September 14, 2000

PREAMBLE

WHEREAS, EMPLOYERS INSURANCE OF WAUSAU A Mutual Company, a Wisconsin mutual property and casualty insurance company ("EIOW"), intends to restructure into a mutual holding company structure pursuant to Chapter 644 of the Wisconsin Insurance Code (the "Restructuring");

WHEREAS, pursuant to the Mutual Holding Company Plan, (i) EIOW will form Employers Insurance of Wausau Mutual Holding Company, a Wisconsin mutual holding company ("EIOW MHC"); (ii) EIOW will convert to "Employers Insurance Company of Wausau", a Wisconsin stock property and casualty insurance company ("Converted EIOW"); (iii) EIOW MHC will be issued 100% of the initial shares of voting stock of Converted EIOW; (iv) Policyholders with Membership Interests in EIOW on the Effective Date of the Restructuring will become Members of EIOW MHC; and (v) all Equity Rights in EIOW will be extinguished and replaced with Equity Rights in EIOW MHC;

WHEREAS, for United States federal income tax purposes, it is intended that the transactions consummated pursuant to the Restructuring will qualify as non-recognition transactions under section 368(a) and 351(a) of the Code, respectively, and that this MHC Plan will be, and is hereby, adopted as a plan of reorganization for purposes of the Code;

WHEREAS, it is anticipated that the Restructuring will be one of a series of transactions that will result in EIOW and one or both of its affiliates, specifically, Liberty Mutual Insurance Company, a Massachusetts mutual property and casualty insurance company ("LMIC"), and Liberty Mutual Fire Insurance Company, a Massachusetts mutual property and casualty insurance company ("LMFIC", and together with EIOW and LMIC, the "Liberty Companies"), all reorganizing to stock insurance companies under the common ownership of Liberty Mutual Holding Company, a mutual holding company to be formed by LMIC ("Liberty Mutual Holding Company"), thereby resulting in the policyholders of Converted EIOW, Reorganized LMIC and Reorganized LMFIC becoming members of and having equity rights in Liberty Mutual Holding Company (such transactions collectively, the "Global Transaction");

WHEREAS, for United States federal income tax purposes, it is intended that the transactions consummated pursuant to the Global Transaction will qualify as non-recognition transactions under sections 368(a) or 351(a) of the Code;

WHEREAS, in light of recent financial services deregulation and changes in the competitive environment, the Board of Directors of EIOW believes the most successful insurance companies in this changing environment will be those with the necessary scale, capital and financial strength to provide competitive products and services that are responsive to the needs of their policyholders. The Restructuring, and more importantly,

the Global Transaction, by achieving legal alignment of the operational and economic structures of the Liberty Companies, will help to position EIOW competitively for the future;

WHEREAS, at a meeting duly called and held on September 14, 2000, the Board of Directors of EIOW unanimously passed a resolution finding that the Restructuring is fair and equitable to Policyholders and expected to benefit Policyholders for the following reasons and purposes: (i) it is the initial step in a series of transactions to align the legal structure of the Liberty Companies, including EIOW, with their existing operating and economic structures; (ii) it provides for capital flexibility while at the same time preserving mutuality, which the Board of Directors has concluded is important for EIOW in order to preserve EIOW's ability to maintain its long-term business focus for the benefit of both current and future policyholders; and (iii) it will allow EIOW, as part of a single, integrated insurance enterprise, to respond rapidly and more effectively to changes in the insurance and financial services industries by providing greater strategic, operating and financial flexibility;

WHEREAS, the Board of Directors of EIOW has adopted this Mutual Holding Company Plan and directed that this Mutual Holding Company Plan be submitted to the Commissioner of Insurance for the State of Wisconsin for approval as provided by Chapter 644.07(7) of the Wisconsin Insurance Code; and

WHEREAS, the Board of Directors of EIOW has directed that this Mutual Holding Company Plan be submitted to the Policyholders of EIOW for approval by Eligible Members as provided by Chapter 644.07(8) of the Wisconsin Insurance Code.

NOW, THEREFORE, this Mutual Holding Company Plan is entered into by EIOW.

ARTICLE I

DEFINITIONS

As used in this Mutual Holding Company Plan and in the Preamble, the following words or phrases have the following meanings. The following definitions shall be equally applicable to both the singular and plural forms of any of the terms herein defined:

"Board of Directors" means the board of directors of EIOW.

"Commissioner" means the Commissioner of Insurance for the State of Wisconsin.

"Contract Rights" means the Policyholder's right to receive (i) the insurance coverage specified in the Policyholder's Policy in accordance with the terms and provisions thereof and (ii) Dividends, if and when declared by the Board of Directors in accordance with the terms and provisions of the Policyholder's Policy.

"Converted EIOW" has the meaning set forth in the preamble.

"Dividends" means the distribution described in §631.51(2) of the Wisconsin Insurance Code as a payment made to Policyholders as determined by the Board of Directors.

"Effective Date" means the date upon which the Restructuring becomes effective, which will be the date upon which the Commissioner issues the certificate of authority to Converted EIOW unless a later time is designated in this Mutual Holding Company Plan.

"EIOW" has the meaning set forth in the preamble.

"EIOW MHC" has the meaning set forth in the preamble.

"Eligible Member" means a Member on the Resolution Date and Record Date, based on EIOW's records and who therefore is entitled to vote at the Special Meeting.

"Equity Rights" means the uncertificated rights in the equity of EIOW MHC or EIOW, as applicable, conferred by Wisconsin law, including (i) Membership Interests in EIOW MHC or EIOW, as applicable, and (ii) Rights in Surplus of EIOW MHC or EIOW, as applicable.

"Global Transaction" has the meaning set forth in the preamble.

"Governmental Entity" means any domestic, foreign, federal, state or local governmental authority, quasi-governmental authority, instrumentality, court or government, commission, body or organization or any regulatory, administrative or other agency, or any political or other subdivision, department or branch of any of the foregoing.

"In Force" means with respect to a Policy, issued and not canceled or otherwise terminated. Whether or not a Policy is in force is determined upon EIOW's records.

"IRS" means the United States Internal Revenue Service.

"Liberty Companies" has the meaning set forth in the preamble.

"Liberty Mutual Group" means prior to the Restructuring, EIOW and its subsidiaries, LMIC and its subsidiaries and LMFIC, collectively. Upon consummation of the Global Transaction, Liberty Mutual Group shall mean Liberty Mutual Holding Company and its subsidiaries.

"Liberty Mutual Holding Company" has the meaning set forth in the preamble.

"LMFIC" has the meaning set forth in the preamble.

"LMFIC Reorganization" means the proposed reorganization of LMFIC to a Massachusetts stock property and casualty insurance company that is a subsidiary of Liberty Mutual Holding Company and such other transactions as are contemplated by LMFIC's plan of reorganization.

"LMIC" has the meaning set forth in the preamble.

"LMIC Reorganization" means the proposed reorganization of LMIC to a Massachusetts stock property and casualty insurance company under a mutual holding company structure and such other transactions as are contemplated by LMIC's plan of reorganization.

"Member" means a Policyholder who, by the records of EIOW or Converted EIOW and by their respective articles of incorporation and bylaws, is a holder of a Membership Interest in EIOW or EIOW MHC, as applicable.

"Membership Interests" means the voting rights of a Member arising under the Wisconsin Insurance Code and the articles of incorporation and bylaws of EIOW, including the right to vote for the board of directors and the right to vote on any plan of conversion, voluntary dissolution or amendment of the articles of incorporation. On and after the Effective Date of the Restructuring, Membership Interests means the voting rights of a Member arising under the Wisconsin Insurance Code and the articles of incorporation and bylaws of the EIOW MHC, including the right to vote for the board of directors and the right to vote on any plan of conversion, voluntary dissolution or amendment of the articles of incorporation. Membership Interests does not include any Members' Rights in Surplus, if any.

"Mutual Holding Company Plan" means this mutual holding company plan, including all Schedules attached hereto.

"OCI" means the Office of the Commissioner of Insurance for the State of Wisconsin.

"Person" means an individual, partnership, firm, association, corporation, joint-stock company, limited liability company, limited liability partnership, trust, government agency, state or political subdivision of a state, public or private corporation, board of directors, association, estate, trustee, or fiduciary, or any similar entity.

"Policy" means each insurance policy or contract (other than a reinsurance contract), including any fidelity bond or any surety bond, or any binder or a renewal certificate issued by EIOW (or Converted EIOW on and after the Effective Date) in the course of business and not cancelled or terminated.

"Policyholder" means the Person identified in the records of EIOW or Converted EIOW as the holder of a Policy.

"Public Hearing" means the public hearing conducted by the Commissioner or a hearing examiner designated by the Commissioner pursuant to the provisions of §644.07(6) of the Wisconsin Insurance Code which is to be held on [date] at [place].

"Record Date" means the date established by the Board of Directors for the vote by Eligible Members for approval of this Mutual Holding Company Plan.

"Reorganized LMFIC" means LMFIC on and after the effective date of its reorganization to a Massachusetts stock property and casualty insurance company with Liberty Mutual Holding Company pursuant to Section 175:19T of the Massachusetts General Laws.

"Reorganized LMIC" means LMIC on and after the effective date of its reorganization to a Massachusetts stock property and casualty insurance company under a mutual holding company structure pursuant to Sections 175:19F to 19W, inclusive, of the Massachusetts General Laws.

"Resolution Date" means September 14, 2000, the date the Board of Directors passed a resolution to the effect that the Restructuring is fair and equitable to Policyholders and expected to benefit Policyholders.

"Restructuring" has the meaning set forth in the preamble.

"Rights in Surplus" means any rights of a Member arising under EIOW's articles of incorporation or Chapter 611 of the Wisconsin Insurance Code, to a return of the surplus in respect of Policies of EIOW that may exist with regard to the surplus not apportioned or declared by the Board of Directors as Dividends, including rights of Members to a distribution of such surplus in dissolution or conversion proceedings under Chapter 611 of the Wisconsin Insurance Code. On and after the Effective Date, Rights in Surplus means any right of a Member of EIOW MHC arising under its articles of incorporation or Chapter 644 of the Wisconsin Insurance Code to the net worth of EIOW MHC, including rights of Members of EIOW MHC to a distribution of any portion of the net worth of EIOW MHC in dissolution or conversion proceedings under Chapter 611 of the Wisconsin Insurance Code.

"Special Meeting" means the special meeting of Eligible Members of EIOW to vote on this Mutual Holding Company Plan, and at any adjournments, postponements or continuations thereof.

"Wisconsin Insurance Code" means the insurance laws of Wisconsin.

ARTICLE II

THE RESTRUCTURING

2.1 *The Restructuring.* As of the Effective Date and in accordance with the terms of this Mutual Holding Company Plan and Chapter 644 of the Wisconsin Insurance Code, (i) EIOW will form EIOW MHC; (ii) EIOW will convert to a Wisconsin stock property and casualty insurance company; (iii) EIOW MHC will be issued 100% of the initial shares of voting stock of Converted EIOW; (iv) Policyholders with Membership Interests in EIOW on the Effective Date of the Restructuring will become Members of EIOW MHC; and (v) all Equity Rights in EIOW will be extinguished and replaced with Equity Rights in EIOW MHC.

2.2 *Formation of Mutual Holding Company.* On or before the Effective Date, EIOW MHC shall be incorporated as a Wisconsin mutual holding company. On the Effective Date, the Policyholders of EIOW shall immediately become Members of EIOW MHC.

2.3 *Corporate Existence.* On the Effective Date, EIOW shall change its name to "Employers Insurance Company of Wausau". The corporate existence of EIOW before, on and after the Effective Date shall continue without interruption and shall remain unaffected by the Restructuring.

2.4 *Continuation of Policies.* On and after the Effective Date, every Policy which is In Force shall continue as a Policy of Converted EIOW, and all Contract Rights of all such Policies shall be and remain as they existed immediately prior to the Effective Date as Contract Rights of Policies of Converted EIOW.

2.5 *Extinguishing of Equity Rights in EIOW.* On the Effective Date, all Equity Rights of any Member shall be extinguished.

2.6 *Equity Rights in EIOW MHC.* Holders of Policies issued by EIOW that are In Force on the Effective Date shall receive Equity Rights in EIOW MHC as of the Effective Date. Furthermore, holders of Policies issued by Converted EIOW on and after the Effective Date will automatically become a Member of EIOW MHC; provided, however, that the rights of a Person as a holder of Equity Rights shall continue only so long as the related Policy remains In Force.

2.7 *Articles of Incorporation and Bylaws of Converted EIOW.* On the Effective Date, the articles of incorporation of EIOW shall, without further act or deed, but subject to the approval of the Commissioner, be restated as set forth in the amended and restated articles of incorporation attached hereto as Schedule A. On the Effective Date, the bylaws of EIOW shall, without further act or deed, be restated as set forth in the amended and restated bylaws attached hereto as Schedule B.

2.8 *Articles of Incorporation and Bylaws of EIOW MHC.* The articles of incorporation of EIOW MHC shall be as set forth in the articles of incorporation attached hereto as Schedule C subject to the approval of the Commissioner. The bylaws of EIOW MHC shall be as set forth in the bylaws attached hereto as Schedule D.

2.9 *Preservation of Mutuality.* On and after the Effective Date, EIOW MHC will own 100% of the shares of voting stock of Converted EIOW. Thereafter, in the event that shares of voting stock in Converted EIOW are sold to third parties, EIOW MHC will be required to at all times to own, directly or indirectly, at least 51% of the shares of voting stock of Converted EIOW. As a consequence, the mutuality of EIOW is preserved.

2.10 *Sale of Voting Stock.* The Board of Directors has no current plans for the sale of voting stock of EIOW after its conversion to a stock insurance company.

ARTICLE III

APPROVAL BY THE COMMISSIONER

3.1 *Application.* EIOW has submitted to the Commissioner for her consent an application executed by an authorized officer of EIOW accompanied by the following documents, or true and correct copies of such documents:

- (i) the proposed Mutual Holding Company Plan;
- (ii) the proposed articles of incorporation of EIOW MHC and the proposed amended and restated articles of incorporation of Converted EIOW;
- (iii) the proposed bylaws of EIOW MHC and the proposed amended and restated bylaws of Converted EIOW;
- (iv) the following information pertaining to EIOW MHC: (a) the names and, for the preceding ten years, all addresses and all occupations of all proposed directors and officers of EIOW MHC; (b) all agreements relating to EIOW MHC to which any proposed director or officer is a party; (c) the amount and sources of the funds available for organization expenses and initial operating expenses; (d) the proposed compensation of directors and officers; (e) the proposed capital; and (f) a business plan of EIOW MHC for the first five years of operation; and
- (v) the materials to be mailed to Eligible Members voting on this Mutual Holding Company Plan.

3.2 *Public Hearing.* This Mutual Holding Company Plan is subject to the approval of the Commissioner after a Public Hearing has been held on this Mutual Holding Company Plan in accordance with Chapter 644.07(6) of the Wisconsin Insurance Code.

3.3 *Notice of Public Hearing.* (a) Notice of the Public Hearing shall be mailed by EIOW to each of its Policyholders on or about [date] at the last-known address of each Policyholder who was a Policyholder on the Resolution Date, as it appears on the records of EIOW. Such notice shall be mailed not more than sixty (60) days and not less than ten (10) days prior to the date of the Public Hearing. The notice of the Public Hearing shall be accompanied by a copy of this Mutual Holding Company Plan, or a copy of a summary of this Mutual Holding Company Plan if the Commissioner approves the summary, and any comment that the Commissioner considers necessary for the adequate information of Policyholders.

(b) The notice, this Mutual Holding Company Plan or a summary of this Mutual Holding Company Plan, and any comment that the Commissioner considers necessary for the adequate information of Policyholders shall also be mailed not more than sixty (60) and not less than ten (10) days prior to the date of the Public Hearing to the insurance commissioner of every jurisdiction in which EIOW is authorized to do any business.

(c) In accordance with such hearing procedures as the Commissioner or the designated hearing examiner may prescribe, any Eligible Member or insurance commissioner of any jurisdiction in which EIOW is authorized to do any business may present written or oral statements at the Public Hearing and may present written statements within a period after the Public Hearing specified by the Commissioner or the hearing examiner. The Commissioner shall take the statements presented into consideration in making the determination to approve this Mutual Holding Company Plan.

3.4 *Approval by the Commissioner.* The Commissioner shall approve this Mutual Holding Company Plan unless she finds that this Mutual Holding Company Plan violates the law, is not fair and equitable to Policyholders or is contrary to the interests of the Policyholders or the public.

ARTICLE IV

APPROVAL BY ELIGIBLE MEMBERS

4.1 *Policyholder Vote.* After this Mutual Holding Company Plan has been approved by the Commissioner, this Mutual Holding Company Plan shall be submitted at the Special Meeting of Policyholders to a vote of the Persons who were Policyholders of EIOW on the Resolution Date, and who are Policyholders on the Record Date. Voting shall be in accordance with the articles and bylaws of EIOW, which require a majority of those Eligible Members voting. Only proxies specifically related to this Mutual Holding Company Plan may be used for a vote on approval under this Section.

4.2 *Notice of Special Meeting.* There shall be no fewer than twenty (20) days advance notice of the Special Meeting. Notice of the Special Meeting shall be sent to the last-known address of each Eligible Member and may be included with materials containing the notice of Public Hearing.

ARTICLE V

CONDITIONS TO CONSUMMATION OF THE RESTRUCTURING

5.1 *General.* The consummation of the Restructuring is subject to the satisfaction of the following conditions: (i) approval of this Mutual Holding Company Plan, including the proposed amended and restated articles of incorporation and bylaws of Converted EIOW and the proposed articles of incorporation and bylaws of EIOW MHC, by the Commissioner as set forth in Article III; (ii) approval of this Mutual Holding Company Plan, including the proposed amended and restated articles of incorporation and bylaws of Converted EIOW and the proposed articles of incorporation and bylaws of EIOW MHC, by the majority vote of the Eligible Members at the Special Meeting as set forth in Article IV; (iii) receipt of either (a) a private letter ruling from the IRS that is in force on the Effective Date or (b) an opinion of special tax counsel to EIOW, in either case substantially to the effect that, for U.S. federal income tax purposes, the formation of EIOW MHC and the conversion of EIOW from a mutual company into a stock company will qualify under sections 368(a) or 351(a) of the Code; (iv) receipt of either (a) a "no-action" letter from the staff of the Securities and Exchange Commission relating to matters pertaining to the Securities Act of 1933 and the Securities Exchange Act of 1934, each as amended or (b) an opinion of independent legal counsel in form and substance satisfactory to the Board of Directors with respect to federal and state securities law matters; (v) receipt of all other reasonably necessary regulatory approvals; (vi) the satisfaction of all of the conditions to the consummation of the LMIC Reorganization; and (vii) the receipt of commissioner and policyholder approvals with respect to the LMFIC Reorganization; provided, however, the conditions set forth in subsections (vi) and (vii) may be waived at the discretion of the Board of Directors of EIOW.

ARTICLE VI

ADDITIONAL PROVISIONS

6.1 *Continuation of Rights and Obligations.* The Restructuring of EIOW into a stock insurance company subsidiary of EIOW MHC shall in no way annul, modify or change any of EIOW's existing suits, rights, contracts or liabilities, except with respect to the Equity Rights, if any, in EIOW that are extinguished as provided in Section 2.5, and the corporate existence of EIOW shall be continued in all respects. The Converted EIOW, after Restructuring, shall exercise all of the rights and powers and perform all of the duties conferred or imposed by law upon insurers writing the classes of insurance written by EIOW before the Effective Date, and shall retain the rights and contracts existing prior to the Restructuring, except with respect to the Equity Rights that were extinguished.

6.2 *Effective Date.* The date upon which the Commissioner issues the certificate of authority to Converted EIOW shall be the Effective Date of the Restructuring.

6.3 *Nontransferability of Membership Interests.* No Member of EIOW MHC may transfer such Member's Membership Interest in EIOW MHC or any right arising from such Membership Interest apart from the Policy that gives rise to the Membership Interest.

6.4 *Liability of Member.* A Member of EIOW MHC is not, by virtue of being a Member, personally liable for the acts, debts, liabilities or obligations of EIOW MHC.

6.5 *Expenses.* EIOW shall not pay compensation of any kind to any Person in connection with this Mutual Holding Company Plan other than regular salaries to the company's personnel. This Section does not prohibit the payment of reasonable fees and compensation to attorneys at law, accountants, financial advisers, actuaries or other consultants for services performed in the independent practice of their professions. All expenses of the Restructuring, including the expenses incurred by the Commissioner and the prorated salaries of any involved office staff members of the OCI, shall be borne by EIOW.

6.6 *Dividend Policies.* It is the intention of EIOW that its current policies regarding Dividends or other refunds of premiums to Policyholders will remain unchanged after the Restructuring.

6.7 *Directors and Officers.* (a) The initial board of directors of EIOW MHC and Converted EIOW, respectively, shall be comprised of those individuals who are directors of EIOW immediately prior to the Restructuring. The term of each director shall terminate at the annual meeting of EIOW MHC and Converted EIOW, respectively, in the year when the director's term, as a director of EIOW, was scheduled to terminate.

(b) The initial officers of EIOW MHC and Converted EIOW, respectively, shall be those individuals who are officers of EIOW immediately prior to the Restructuring. The term of each of such officers shall terminate at the first annual meeting of EIOW MHC and Converted EIOW, respectively.

(c) The individuals who shall comprise the initial board of directors and the initial officers of EIOW MHC and Converted EIOW, respectively, on and after the Effective Date, are listed on Schedule E to this Mutual Holding Company Plan.

6.8 *Agents and Employees.* The agents and any employees of EIOW prior to the Effective Date shall continue in like capacity with Converted EIOW.

6.9 *Amendment or Withdrawal of Mutual Holding Company Plan.* At any time before the Effective Date, EIOW may, by resolution of its Board of Directors, amend this Mutual Holding Company Plan or withdraw this Mutual Holding Company Plan. The Commissioner shall determine whether any amendment made after the Public Hearing changes this Mutual Holding Company Plan in a manner that is materially disadvantageous to any of the Policyholders of EIOW and, in such case, may require a further public hearing on this Mutual Holding Company Plan as amended. If an amendment that the Commissioner determines is materially disadvantageous to any of the Policyholders is made after this Mutual Holding Company Plan has been approved by the Policyholders, this Mutual Holding Company Plan as amended shall be submitted for reconsideration by the Policyholders.

6.10 *Governing Law.* The terms of this Mutual Holding Company Plan shall be governed by and construed in accordance with the laws of the State of Wisconsin, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.

6.11 *Headings.* Article and Section headings contained in this Mutual Holding Company Plan are for convenience only, and shall not be considered in construing or interpreting any of the provisions hereof.

IN WITNESS WHEREOF, EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company, by authority of its Board of Directors, has caused this Mutual Hold-
ing Company Plan to be signed by its Secretary and attested to by its Counsel and Assis-
tant Secretary on September 14, 2000.

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company

By /s/ J. Stanley Hoffert
Name: J. Stanley Hoffert
Title: Vice President, General Counsel and Secre-
tary

ATTEST:

By /s/ Craig Olafsson
Name: Craig Olafsson
Title: Counsel and Assistant Secretary

**SCHEDULES TO THE
MUTUAL HOLDING COMPANY PLAN**

- Schedule A – Amended and Restated Articles of Incorporation of Converted EIOW
- Schedule B – Amended and Restated Bylaws of Converted EIOW
- Schedule C – Articles of Incorporation of EIOW MHC
- Schedule D – Bylaws of EIOW MHC
- Schedule E – Directors and Officers of EIOW MHC and Converted EIOW