

VIA FACSIMILE

November 17, 2000

Steven J. Junior

Senior Insurance Examiner

Bureau of Financial Analysis & Examinations

State of Wisconsin Office of the Commissioner of Insurance

121 East Wilson Street

Madison, Wisconsin 53707-7873

Re: Application for the Formation and Subsequent Merger
of a Mutual Holding Company (Case No. DO-C26776)

In connection with your November 8, 2000 letter ("Letter"), please find the responses of Employers Insurance of Wausau A Mutual Company ("EIOW"), a Wisconsin mutual insurance company, LMIC ("LMIC"), a Massachusetts mutual insurance company and/or LMFIC ("LMFIC") a Massachusetts mutual insurance company, as applicable, to the questions raised in your Letter, as they relate to the above-referenced transactions.

Development of the Restructuring Plan and Proposed Global Transaction

- 1. Please describe the process and time frame of deliberation that was undertaken by EIOW's management and board of directors in arriving at the current restructuring plan and Global Transaction.**

Periodically and over many years, and prior to the affiliation with EIOW, management of LMIC and LMFIC have in the ordinary course of business, considered the possibility of merging LMIC and LMFIC. Because the corporate existence, brand and licenses of one of the companies would have been merged out of existence, the merger was not pursued. After passage of the Massachusetts mutual holding company law and beginning in 1999, management began examining a

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reorganization under such law as one of the possible strategic alternatives.

Management initiated discussions with the LMIC Board of Directors about a mutual holding company conversion and a merger of mutual holding companies in February, 2000, prior to initiating parallel discussions with the EIOW Board of Directors. Because EIOW is affiliated with the larger Liberty Mutual Group and because a coordinated restructuring of the entire Liberty Mutual Group was necessary if a restructuring were to take place at all, discussions were first held with the LMIC Board of Directors. If the LMIC Board of Directors was not inclined toward such a reorganization, piecemeal reorganization of other members of the Liberty Mutual Group was not feasible and there was no reason to request the EIOW Board of Directors to consider a similar restructuring.

At the close of the EIOW Board of Directors meeting on May 24, 2000 held in Wausau, Wisconsin, EIOW Board Chairman Edmund F. Kelly explained to the Board of Directors that it would be asked to consider a significant restructuring proposal at its August meeting

At the LMIC Board of Directors meeting held on June 14, 2000, in Boston, Massachusetts, various reorganization alternatives were presented to and reviewed by the LMIC Board of Directors. The Board concluded that a mutual holding company reorganization, and a subsequent merger of newly created mutual holding companies of Liberty and EIOW into a single mutual holding company structure, should be further considered.

On August 3, 2000, in Boston, Massachusetts, at the EIOW Board of Directors' first regularly scheduled meeting after the Liberty Mutual

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June 14, 2000 board meeting, the same reorganization alternatives considered by the LMIC Board of Directors were presented to and reviewed by the EIOW Board of Directors. The EIOW Board of Directors also concluded that a mutual holding company conversion of EIOW, and a subsequent merger of newly created mutual holding companies of Liberty and EIOW into a single mutual holding company structure, should be further considered.

The EIOW Board of Directors was informed at the August 3 meeting that all Board members would receive for review, prior to their next meeting, drafts of policyholder information statements and other agreements and plans detailing a mutual holding company conversion and subsequent merger. The Board of Directors also was informed that a fairness opinion regarding the EIOW policyholders and the proposed transaction had been requested from an independent investment banking firm and that such firm would report to the Board of Directors at its next meeting.

On September 1, 2000, drafts of the policyholder information statement and other agreements and plans necessary to accomplish a mutual holding company conversion and merger of mutual holding companies were sent to each member of the EIOW Board of Directors, and also to each member of the LMIC Board of Directors.

On September 14, 2000, a Special Meeting of the EIOW Board of Directors was held in Boston, Massachusetts. The proposed mutual holding company conversion and merger, were again reviewed and discussed. The policyholder information statement and attendant documents provided prior to the meeting to each director also were reviewed and discussed. In four separate roll call votes, the restructuring and merger were unanimously approved. Pursuant to

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such resolutions, the Board of Directors directed management to proceed with the plans for conversion and merger.

On September 13, 2000, the day prior to the EIOW Board of Directors Special Meeting, the LMIC Board of Directors held a regularly scheduled board meeting in Boston, Massachusetts and, as part of the business conducted at that meeting, also reviewed and considered the proposed mutual holding company conversion and merger. At the conclusion of its deliberations, the LMIC Board of Directors unanimously approved such reorganization.

At the November 1, 2000, meeting of the EIOW Board of Directors, Chris Mansfield, General Counsel of the Liberty Mutual Group, reported on the current status of the conversion process, focusing on the filings that have been made with the Massachusetts Department of Insurance and the Wisconsin Office of Commissioner of Insurance.

- 2. This Office will need copies of the portions of the EIOW board minutes, whether in draft or final form, as the case may be, that relate to deliberations on the mutual holding company plan or related transactions.**

Attached as Exhibit A, please find copies of the portions of the EIOW board minutes that relate to deliberations on the mutual holding company plan and related transactions. Please note that the original, certified copies of the above-mentioned documents will be sent under separate cover to the Wisconsin Insurance Department.

3. **Please provide copies of the fairness opinions issued by Credit Suisse First Boston to the boards of directors of LMIC and LMFIC, respectively.**

Attached as Exhibit B, please find copies of the fairness opinions issued by Credit Suisse First Boston to the boards of directors of LMIC and LMFIC, respectively.

Effect of EIOW and the Holding Company System

4. **Will the names of LMIC and LMFIC be changed after their conversion to reflect the change in their forms of organization?**

No. LMIC and LMFIC intend to keep the word "mutual" in their names after their reorganizations. Chapter 175:19N of the Massachusetts General Laws specifically provides, in relevant part, that "the new stock insurer may continue to use the word mutual in its name unless the [Massachusetts] [C]ommissioner [of Insurance] finds that the continued use of the word mutual in its name is likely to mislead or deceive the public." Neither LMIC nor LMFIC anticipates that the Massachusetts Commissioner of Insurance will object to the continued use of the word "mutual" in their corporate names.

5. **Why is LMIC proposing to form LMG Massachusetts Holdings Inc. as part of the Global Transaction? What is the intended business purpose of LMG Massachusetts Holdings Inc.?**

LMIC is proposing to form LMG Massachusetts Holdings Inc. ("LMG Massachusetts Holdings") and Liberty Mutual Group Inc. ("LMGI") as part of its reorganization to a Massachusetts mutual holding company, and not as part of the Global Transaction. LMIC intends to

form LMG Massachusetts Holdings and LMGI as part of its reorganization in order to implement a stock holding company structure. The presence of intervening stock holding companies will provide greater flexibility in the future with respect to corporate organizational matters and facilitate future diversification, business expansion, capital raising initiatives and strategic tax flexibilities. Shares of LMG Massachusetts Holdings or LMGI may be sold at some future date to the public or other third parties should the board of directors of Liberty Mutual Holding Company determine that doing so is necessary or appropriate.

- 6. Why is LMIC proposing to form Liberty Mutual Group, Inc. as part of the Global Transaction? What is the intended business purposes of Liberty Mutual Group, Inc.?**

Please see response to question 5 above.

- 7. Various exhibits within the application indicate EIOW or Converted EIOW as having subsidiaries. What subsidiaries does EIOW have, or is it anticipated that Converted EIOW will have?**

EIOW currently has two subsidiary companies. These are Wausau Holdings, Inc., a Delaware-domiciled corporation, and Wausau (Bermuda) Ltd., a Bermuda-domiciled corporation. These two companies shall remain subsidiaries of EIOW after its conversion to a stock company. At this time, there are no plans to add any other companies as subsidiaries of the converted EIOW.

- 8. Article VII of the Articles of Organization of Liberty Mutual Holding Company provide that the assets and liabilities of Liberty Mutual Holding Company are subject to inclusion in the estate of**

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LMIC, subject to the provisions of the Massachusetts General Laws. Would these provisions of the Massachusetts General Laws apply to the estate of Converted EIOW subsequent to the merger of Employers Insurance of Wausau Mutual Holding Company into Liberty Mutual Holding Company?

No. Pursuant to Section 175:19(j) of the Massachusetts General Laws, for a period of ten years from the effective date of LMIC's Plan of Reorganization, the assets of Liberty Mutual Holding Company shall be deemed assets of the estate of reorganized LMIC ("Reorganized LMIC"), the Massachusetts stock insurance company into which LMIC will be reorganized, to the extent necessary to satisfy certain claims of persons against Reorganized LMIC; Section 175:19(j) of the Massachusetts General Laws, however, provides that in no event shall Liberty Mutual Holding Company's contribution to the estate of Reorganized LMIC exceed the value of assets, net of liabilities, which Reorganized LMIC transferred to Liberty Mutual Holding Company or to one or more persons owned or controlled by Liberty Mutual Insurance Company. The provisions of 175:19(j) of the Massachusetts General Laws would not apply to the estate of converted EIOW ("Converted EIOW"), the Wisconsin stock insurance company into which EIOW will be converted, subsequent to the merger of EIOW MHC and Liberty Mutual Holding Company. The reason for this is that Wisconsin does not have under its mutual holding company laws any provisions similar to Massachusetts' 175:19(j) provision, and the terms of 175:19(j) do not extend to Converted EIOW.

- 9. Will the restructuring of EIOW and LMIC or subsequent merger of the mutual holding companies trigger any change in control provisions under the terms of any executive employment agreement?**

To the best of our knowledge, the restructuring of EIOW and LMIC or subsequent merger of the mutual holding companies will not trigger any change of control provisions under the terms of any executive employment agreements in which EIOW, LMIC or LMFIC are parties.

- 10. With respect to the transactions described in the mutual holding company plan, have any executive employment agreements, side agreements, written plans, or assurances been made or placed under development concerning staff retention, salaries and benefits, or severance packages, for the officers or employees that provide services to EIOW, LMIC, or LMFIC?**

No. Further, there are no plans to change any existing executive compensation plans or adopt any new compensation plans as they relate to LMIC, LMFIC and EIOW as a result of any of their reorganizations or as a result of the Global Transaction.

Other Regulatory Influences

- 11. Are there any regulatory actions or approvals by any federal, state, or non-U.S. jurisdictions required for completion of the Global Transaction, as that term is described in the Application, other than that of the Massachusetts Department of Insurance and Wisconsin's Office of the Commissioner of Insurance? If so, please identify**

these required regulatory actions and approvals.

At the federal level, we anticipate currently that two Hart-Scott-Rodino filings will be required to be filed with the Federal Trade Commission, the first with respect to the merger of EIOW MHC with and into Liberty Mutual Holding Company and the second in connection with the reorganization of LMFIC.

At the state level, the following filings/notifications will likely have to be submitted in connection with the Global Transaction: (i) pre-acquisition of control notification filings in Arizona with respect to: (A) the merger of EIOW MHC with and into Liberty Mutual Holding Company and (B) the reorganization of LMFIC; (ii) merger approval statutory filings in Nebraska and Texas; (iii) filing under 1011(c) of California's Insurance Code (rehabilitation, conservation and liquidation statute) in connection with the merger of reorganized LMFIC ("Reorganized LMFIC"), the Massachusetts stock insurance company into which LMFIC will be converted, and Liberty Insurance Acquisition Corporation ("Liberty Insurance Acquisition Corp."), the Massachusetts insurance company Liberty Mutual Holding Company will form for the sole purpose of merging with and into Reorganized LMFIC; and (iv) an exemption from acquisition of control filing in Texas and in possibly some of the other jurisdictions where Liberty Mutual Insurance Company's insurance subsidiaries are domiciled.

LMIC does not anticipate having to take any regulatory actions in any foreign countries in connection with the Global Transaction.

- 12. When is it anticipated that EIOW might obtain a private letter ruling from the U.S. Internal Revenue Service to the effect that, for U.S. federal income tax purposes, the formation of Employers Insurance of Wausau Mutual Holding Company and the conversion of EIOU from a mutual company into a stock company will qualify under sections 368(a) or 351(a) of the Internal Revenue Code? What is the anticipated time frame in which EIOU could receive a comparable opinion from special tax counsel?**

It is anticipated that EIOU might obtain a private letter ruling from the Internal Revenue Service within approximately four to six months from the time of submission (assuming that the Internal Revenue Service does not delay the process, which we do not anticipate). Consummation of the transactions is conditioned upon obtaining either a private letter ruling from the Internal Revenue Service or an opinion from special tax counsel. It is anticipated that EIOU may obtain an opinion from special tax counsel, as necessary, within a similar time frame.

- 13. When is it anticipated that EIOU might obtain a "no-action" letter from the staff of the Securities and Exchange Commission relating to matter pertaining to the Securities Act of 1933 and the Securities Exchange Act of 1934, each as amended? What is the anticipated time frame in which EIOU could receive an opinion from independent counsel with respect to federal and state securities law matters?**

It is anticipated that EIOU might obtain a "no-action" letter in connection with its conversion to a Wisconsin mutual holding company structure from the staff of the Securities and Exchange Commission sometime in late December, 2000, since the Commission

will likely render a decision forty-five days after the date of the filing of the "no-action" letter, which was filed with the Securities and Exchange Commission on November 17, 2000. It is anticipated that EIOW MHC might obtain a "no-action" letter sometime in early January, 2001. It is anticipated that EIOW could receive a comparable opinion from independent counsel, as necessary, within a similar time frame.

- 14. Must EIOW receive approval from Canadian securities regulators to permit issuance of equity rights to members who reside in Canada and to Canadian policyholders who are issued policies by Converted EIOW after the restructuring?**

It is not anticipated that EIOW must receive approval from Canadian securities regulators to permit issuance of equity rights to members who reside in Canada and to Canadian policyholders who are issued policies by Converted EIOW after the restructuring.

Procedural and Miscellaneous

- 15. Please provide us with a copy of the application and its exhibits, together with the cover letter to the application, in electronic form suitable for posting on OCI's website.**

The above-mentioned requested documents in suitable electronic form were filed with the Wisconsin Department of Insurance under separate cover on November 17, 2000.

- 16. Please provide us with a comparison of the rights of policyholders who are members of a mutual holding company under Wisconsin and Massachusetts law.**

Section 644.02(j) of the Wisconsin Insurance Laws defines "membership interests" as "the voting rights of a member arising under the statutes and the articles of incorporation and bylaws of the converting insurance company, including the right to vote for the board 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 statutes and the articles of incorporation and bylaws of the mutual holding company, including the right to vote for the board and the right to vote on any plan of conversion, voluntary dissolution or amendment of the articles of incorporation. "Membership interests" does not include members' rights in surplus, if any."

Section 175:19G of the Massachusetts General Laws defines "equity rights" as "rights in the equity of a mutual holding company conferred by law or such company's articles of organization, including rights to participate in any distribution of equity or assets whether or not incident to a liquidation of the mutual holding company. Equity rights shall not include any right expressly conferred solely by the terms of a policy."

The principal difference between "membership interests" in Wisconsin and "equity rights" in Massachusetts is that in Wisconsin membership interests confer no right to dividends declared by the board of directors; whereas, with respect to equity rights in Massachusetts, policyholders in Massachusetts have the right to dividends as, if and when declared by the board of directors of the company.

- 17. When will EIOW's toll-free number for questions about the mutual**

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holding company plan be operative?

EIOW's toll-free number for questions about the mutual holding company plan will be operative immediately prior to the mailing of the Policyholder Information Statement to EIOW policyholders.

Please feel free to call me, at 715-842-6841, with any questions or comments.

Sincerely,

J. Stanley Hoffert
Attachments

cc: Laurance Yahia
Richard Quinlan
Noreen Parrett
Robert J. Sullivan