

**EMPLOYERS INSURANCE OF WAUSAU A MUTUAL COMPANY
2000 WESTWOOD DRIVE
WAUSAU, WISCONSIN 54401**

**NOTICE OF A SPECIAL MEETING
OF MEMBERS OF EIOW TO VOTE ON THE
PROPOSED MUTUAL HOLDING COMPANY PLAN**

A special meeting ("Special Meeting") of EMPLOYERS INSURANCE OF WAUSAU A Mutual Company, a Wisconsin mutual property and casualty insurance company ("EIOW"), will be held on November 20, 2001 at 10:00 a.m. Central Time, at the offices of EIOW located at 1800 West Bridge Street, Wausau, Wisconsin 54401. At the Special Meeting, Eligible Members will be asked to consider and vote upon a proposal to approve the Mutual Holding Company Plan and the transactions contemplated thereby, including the amendment and restatement of the articles of incorporation and bylaws of EIOW. Capitalized terms used herein are defined in the Glossary appearing on page 3 of the Policyholder Information Statement.

The Mutual Holding Company Plan contemplates the formation of a parent mutual holding company and the conversion of EIOW to a stock insurance company. The Mutual Holding Company Plan will not go into effect unless approved by the requisite number of votes from Eligible Members voting at the Special Meeting. An Eligible Member is an individual or an entity who meets **either** one of the following eligibility requirements:

- In accordance with the Wisconsin Statutes, Persons who were Policyholders of EIOW on the Resolution Date (i.e. September 14, 2000) and who remain Policyholders on the Record Date (i.e. October 31, 2001); or
- In accordance with EIOW's bylaws, Policyholders who are Members on the Record Date.

The affirmative vote of at least a majority of the Eligible Members voting at the Special Meeting (in person or by proxy) for each category is required to approve the Mutual Holding Company Plan. Members meeting both eligibility requirements need to cast their votes just once in order to have them counted under both categories. **Approval or disapproval of the Mutual Holding Company Plan will not reduce the benefits under EIOW's Policies or result in increased insurance premiums.**

Eligible Members may cast their votes in person at the Special Meeting or by using the proxy enclosed along with the Policyholder Information Statement. The proxy allows Eligible Members to authorize designated officers of EIOW to cast the Eligible Member's vote or designate any other person as proxy agent, by crossing out the proxy agents named on the proxy form and substituting the name of another person. If an Eligible Member elects to vote by proxy, the proxy must be returned by mail to EMPLOYERS INSURANCE OF WAUSAU A Mutual Company, P.O. Box 8245, Edison, New Jersey 08818-9085 and received by EIOW by 5 p.m., Central Time, October 20, 2001 in order to be valid. Only proxies specifically that are in a form approved by the Wisconsin Commissioner may be used to vote. A postage pre-paid envelope is enclosed for your use.

The proxy must be marked with a vote either FOR adoption of the Mutual Holding Company Plan or AGAINST adoption of the Mutual Holding Company Plan. If the proxy contains a vote both FOR and AGAINST the Mutual Holding Company Plan, such proxy will not be counted. If the proxy is executed but no choice is indicated, the proxy will be voted FOR the approval of the Mutual Holding Company Plan.

The Board of Directors has voted to approve the Mutual Holding Company Plan and recommends that Eligible Members vote FOR the adoption of the Mutual Holding Company Plan.

August 21, 2001



EMPLOYERS INSURANCE OF WAUSAU A Mutual Company

**Policyholder Information Statement Relating to the
Proposed Mutual Holding Company Plan**

August 21, 2001

No persons have been authorized to give any information or to make any representations other than those contained in this Policyholder Information Statement and, if given or made, such information or representations should not be relied upon as having been authorized by EIOW, or any other person, firm or entity representing EIOW. The delivery of this Policyholder Information Statement shall not under any circumstances create an implication that there have not been any changes in the affairs of EIOW since the date hereof or that the information herein is correct as of any time subsequent to its date.

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- A. Mutual Holding Company Plan, including the following Schedules
 - i. Amended and Restated Articles of Incorporation of Converted EIW
 - ii. Amended and Restated Bylaws of Converted EIW
 - iii. Articles of Incorporation of EIW MHC
 - iv. Bylaws of EIW MHC
 - v. Directors and Officers of EIW MHC and Converted EIW
- B. Form of MHC Merger Agreement
- C. Form of Reorganization and Combination Agreement
- D. Proposed Articles of Organization and Bylaws of Liberty Mutual Holding Company, LMHC Massachusetts Holdings and LMGI
- E. Proposed Board of Directors and Officers of Liberty Mutual Holding Company, LMHC Massachusetts Holdings and LMGI
- F. Credit Suisse First Boston Corporation Fairness Opinion
- G. Audited Statutory Financial Statements of EIW
- H. Audited GAAP Combined Financial Statements of the Liberty Mutual Group



EMPLOYERS INSURANCE OF WAUSAU A Mutual Company

INTRODUCTION

This Policyholder Information Statement is being furnished to Eligible Members of EMPLOYERS INSURANCE OF WAUSAU A Mutual Company ("EIOW"), a Wisconsin mutual property and casualty insurance company, in connection with the special meeting to be held at 10:00 a.m., Central Time, on November 20, 2001 at the offices of EIOW located at 1800 West Bridge Street, Wausau, Wisconsin 54401 (the "Special Meeting") on EIOW's Mutual Holding Company Plan, which is attached hereto as Annex A (the "Mutual Holding Company Plan"). Certain capitalized terms used in this Policyholder Information Statement are defined in the Glossary appearing on page 3.

This information is being provided to you and the actions described in this Policyholder Information Statement are being proposed in accordance with and pursuant to the Wisconsin Statutes.

This Policyholder Information Statement relates to the proposed restructuring of EIOW, whereby EIOW will form, as its parent, a Wisconsin mutual holding company and will restructure from a Wisconsin mutual insurance company to a Wisconsin stock insurance company. The Restructuring will be effectuated pursuant to the Mutual Holding Company Plan, originally adopted by EIOW's Board of Directors on September 14, 2000 and subsequently amended with the unanimous approval of EIOW's Board of Directors on August 21, 2001.

The Board of Directors of EIOW has unanimously approved and adopted the Mutual Holding Company Plan and recommends that Eligible Members vote FOR approval of the Mutual Holding Company Plan.

This Policyholder Information Statement provides specific information about the Mutual Holding Company Plan, pursuant to which:

- EIOW will form Employers Insurance of Wausau Mutual Holding Company ("EIOW MHC"), a Wisconsin mutual holding company;
- EIOW will convert to "Employers Insurance Company of Wausau," a Wisconsin stock property and casualty insurance company ("Converted EIOW");
- EIOW MHC will be issued 100% of the initial voting stock of Converted EIOW; and
- All Equity Rights of Members in EIOW will be extinguished and replaced with Equity Rights in EIOW MHC.

It is anticipated that EIOW's Mutual Holding Company Plan will be part of a series of transactions (the "Global Transaction") that will result in EIOW and one or both of its affiliates, specifically, Liberty Mutual Insurance Company ("LMIC"), a Massachusetts mutual property and casualty insurance company, and Liberty Mutual Fire Insurance Company ("LMFIC"), a Massachusetts mutual property and casualty insurance company, all reorganizing to stock insurance companies under the common ownership of Liberty Mutual Holding Company, a Massachusetts mutual holding company to be formed by LMIC. Upon the consummation of the Global Transaction, policyholders of EIOW, LMIC and LMFIC will become members of, and have Equity Rights in, a single mutual holding company.

This Policyholder Information Statement and the accompanying form of proxy are being mailed on or about August 31, 2001 to Policyholders who are Eligible Members as of May 31, 2001.

THE CONSUMMATION OF THE MUTUAL HOLDING COMPANY PLAN IS SUBJECT TO, AMONG OTHER THINGS, THE AFFIRMATIVE VOTE OF ELIGIBLE MEMBERS AND THE APPROVAL OF THE WISCONSIN COMMISSIONER OF INSURANCE.

The date of this Policyholder Information Statement is August 21, 2001.

THIS POLICYHOLDER INFORMATION STATEMENT HAS BEEN APPROVED FOR MAILING TO APPROPRIATE POLICYHOLDERS BY THE WISCONSIN COMMISSIONER OF INSURANCE IN ACCORDANCE WITH SECTION 644.07(6)(b) OF THE WISCONSIN STATUTES. THE ONLY FUNCTION OF THE WISCONSIN COMMISSIONER IS TO CONFIRM THAT THE MUTUAL HOLDING COMPANY PLAN MEETS STATUTORY AND REGULATORY REQUIREMENTS. THE REPRESENTATIONS MADE IN THIS POLICYHOLDER INFORMATION STATEMENT ARE THE RESPONSIBILITY OF EIOW. THE WISCONSIN COMMISSIONER DOES NOT MAKE A RECOMMENDATION FOR OR AGAINST THE PROPOSAL SET FORTH IN THIS POLICYHOLDER INFORMATION STATEMENT OR THE MUTUAL HOLDING COMPANY PLAN.

AVAILABLE INFORMATION

EIOW is a mutual property and casualty insurer which is domiciled in Wisconsin and licensed to do business in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Canada. As such, it is subject in part to the laws and regulations of the State of Wisconsin, as well as other states and jurisdictions in which it does business, applicable to property and casualty insurance companies and, accordingly, files financial reports and other information with the Office of the Commissioner of Insurance for the State of Wisconsin (the "OCI") and such other state and foreign insurance departments. See "*Regulation*," page 53.

EIOW has filed this Policyholder Information Statement with the OCI pursuant to Chapter 644 of the Wisconsin Statutes. Policyholders and officers of EIOW may inspect and obtain copies of this Policyholder Information Statement during normal business hours at the offices of EIOW located at 2000 Westwood Drive, Wausau, Wisconsin 54401.

This Policyholder Information Statement, along with required information and correspondence with respect to the proposed Mutual Holding Company Plan, are also available on the OCI's website at <http://badger.state.wi.us/agencies/oci/coconv.htm>. Any Policyholder who has questions about this Policyholder Information Statement may call the EIOW MHC Information Line toll-free at (800) 442-4295 between the hours of 7 a.m. and 7 p.m., Central Time, Monday through Friday. EIOW may also be contacted using a TDD (telephone device for the deaf) toll free at (888) 789-7703.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

EIOW's Annual Statements for the years ended December 31, 2000, 1999, 1998, 1997 and 1996 and its Quarterly Statutory Financial Statement for the quarter ended March 31, 2001, which have been previously filed with the OCI, are incorporated by reference in this Policyholder Information Statement. Any EIOW Quarterly Statement filed by EIOW with the OCI after the date hereof and prior to the Special Meeting is also incorporated by reference in this Policyholder Information Statement.

Statements contained in this Policyholder Information Statement or in any document incorporated in this Policyholder Information Statement by reference, or other documents referred to herein or therein, are not necessarily complete and in each instance where reference is made to the copy of such document or other document filed as an exhibit to the Mutual Holding Company Plan or such other document, each such statement is qualified in all aspects by such reference. For the purposes of this Policyholder Information Statement, each of the documents referred to herein including the Annexes and the other financial reports, are deemed incorporated by reference herein in their entirety.

GLOSSARY

The following are explanations of certain terms used in this Policyholder Information Statement. The explanations of terms set forth herein are qualified in their entirety by the definitions of such terms in the Mutual Holding Company Plan, a copy of which is included as Annex A to this Policyholder Information Statement. Section references are to sections of the Mutual Holding Company Plan.

Applicable Law	Any applicable order, law, statute, regulation, rule, ordinance, writ, injunction, directive, judgment, decree, principal of common law, constitution or treaty enacted, promulgated, issued, enforced or entered by any Governmental Entity.
Board or Board of Directors	The board of directors of EIOW.
Canadian Member	Members who, for purposes of the Canadian Tax Act, and at all relevant times, reside in Canada, receive Equity Rights in EIOW, deal at arm's length with EIOW, EIOW MHC and Liberty Mutual Holding Company and hold their Equity Rights as capital property.
Canadian Tax Act	The Income Tax Act (Canada).
Canadian Tax Regulations	The regulations promulgated under the Canadian Tax Act.
Code	The Internal Revenue Code of 1986, as amended.
Contract Rights	The right of insureds to receive (i) the insurance coverage specified in their Policy in accordance with the terms and provisions thereof and (ii) policyholder dividends, credits or other premium refunds as, if and when declared by the Board of Directors (or, after the Effective Date, the board of directors of Converted EIOW) in accordance with the terms and provisions of such Policy.
Converted EIOW	Employers Insurance Company of Wausau, a Wisconsin domestic property and casualty stock insurer into which EIOW will convert pursuant to the provisions of the Mutual Holding Company Plan.
Dividends	The distribution described in Section 631.51(2) of the Wisconsin Statutes as a payment made to Policyholders as determined by the Board.
Effective Date	The date upon which the Restructuring becomes effective, which shall be the date upon which the Wisconsin Commissioner issues the certificate of authority to Converted EIOW unless a later time is designated in the Mutual Holding Company Plan.
EIOW	EMPLOYERS INSURANCE OF WAUSAU A Mutual Company, a Wisconsin mutual property and casualty insurance company.
EIOW MHC	Employers Insurance of Wausau Mutual Holding Company, a Wisconsin mutual holding company that will be formed as part of EIOW's Mutual Holding Company Plan to reorganize to a mutual holding company structure under the laws of the State of Wisconsin.
Eligible Member	Based on EIOW's records, (i) a Person who was a Member on the Resolution Date and remains a Member on the Record Date and/or (ii) a Person who is a Member on the Record Date.
Equity Rights	Uncertificated rights in the equity of EIOW MHC or EIOW, as applicable, conferred by law, including (i) Membership Interests in EIOW MHC or EIOW, as applicable, and (ii) Rights in Surplus of EIOW MHC or EIOW, as applicable. After the consummation of the Global Transaction, Equity Rights shall refer to the uncertificated rights in the equity of Liberty Mutual Holding Company, conferred by law.
GAAP	Accounting principles generally accepted in the United States of America.
Global Transaction	The consummation of the MHC Merger Agreement and the Reorganization and Combination Agreement and the contribution of the shares of Converted EIOW and Reorganized LMFIC to LMGI, collectively.

Governmental Entity	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	A Policy is in force on a given day if it has been issued by EIOW and has not been cancelled or otherwise terminated. Whether or not a Policy is in force is determined based upon EIOW's records.
IRS	The United States Internal Revenue Service.
Liberty Companies	EIOW, LMIC and LMFIC, collectively.
Liberty Insurance Acquisition Corp.	Liberty Insurance Acquisition Corporation, a Massachusetts stock property and casualty insurance company which will be formed by Liberty Mutual Holding Company for the sole purpose of merging with and into Reorganized LMFIC, with Reorganized LMFIC as the surviving entity.
Liberty Mutual Group	Prior to the Restructuring, EIOW and its subsidiaries, LMIC and its subsidiaries, LMFIC and other affiliated companies, collectively. Upon consummation of the Global Transaction, the Liberty Mutual Group shall mean Liberty Mutual Holding Company and its subsidiaries.
Liberty Mutual Holding Company	Liberty Mutual Holding Company, a Massachusetts mutual holding company which LMIC will form pursuant to Sections 19F to 19W of Chapter 175 of the Massachusetts General Laws.
Liberty Pool	An intercompany reinsurance pool led by LMIC.
LMFIC	Liberty Mutual Fire Insurance Company, a Massachusetts mutual property and casualty company.
LMFIC Merger	The proposed merger between Liberty Insurance Acquisition Corp. and Reorganized LMFIC, with Reorganized LMFIC as the surviving entity of the merger.
LMFIC Reorganization	The proposed reorganization of LMFIC to a stock property and casualty insurance company and, immediately thereafter, the merger of Liberty Insurance Acquisition Corp. with and into Reorganized LMFIC, with Reorganized LMFIC as the surviving entity of the merger.
LMGI	Liberty Mutual Group Inc., a Massachusetts stock holding company which LMIC will form as part of LMIC's reorganization and which will be a direct, wholly-owned subsidiary of LMHC Massachusetts Holdings.
LMHC Massachusetts Holdings	LMHC Massachusetts Holdings Inc., a Massachusetts stock holding company which LMIC will form as part of LMIC's reorganization and which will be a direct, wholly-owned subsidiary of Liberty Mutual Holding Company.
LMIC	Liberty Mutual Insurance Company, a Massachusetts mutual property and casualty insurance company.
Massachusetts Commissioner	The Commissioner of Insurance of the Commonwealth of Massachusetts.
Massachusetts General Laws	The general laws of the Commonwealth of Massachusetts.
Member	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	The voting rights of a Member arising under the Wisconsin Statutes 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 Statutes 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.

MHC Merger	The merger of EIOW MHC and Liberty Mutual Holding Company, with Liberty Mutual Holding Company as the surviving mutual entity, in accordance with Section 19S of Chapter 175 of the Massachusetts General Laws and Section 611.73 of the Wisconsin Statutes, and the merger of Wausau Insurance Acquisition Corp. and Converted EIOW, with Converted EIOW as the surviving entity, in accordance with Section 611.72 of the Wisconsin Statutes, collectively.
MHC Merger Agreement	The agreement among EIOW MHC, Liberty Mutual Holding Company, Converted EIOW and Wausau Insurance Acquisition Corp., pursuant to which EIOW MHC will merge with and into Liberty Mutual Holding Company, with Liberty Mutual Holding Company as the surviving mutual entity.
Mutual Holding Company Plan	The Mutual Holding Company Plan, attached hereto as Annex A, including all exhibits attached thereto, as it may be amended from time to time in accordance with Section 7.7 thereof.
Net Written Premiums	Total premiums written by an insurer minus premiums ceded to reinsurers.
OCI.....	The Office of the Commissioner of Insurance for the State of Wisconsin.
Person	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, association, estate, trustee, or fiduciary, or any similar entity.
Policy.....	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.....	The Person identified in the records of EIOW or converted EIOW as the named insured in a Policy.
Policyholder Information Statement	This Policyholder Information Statement, including all annexes thereto.
Public Hearings	The public hearings conducted by the Wisconsin Commissioner or a hearing examiner designated by the Wisconsin Commissioner pursuant to the provisions of Section 644.07(6) of the Wisconsin Statutes which are scheduled for 1:00 p.m. Central Time, October 16, 2001, to be held at The Hilton Madison Monona Terrace, 9 E. Wilson Street, Madison, Wisconsin 53703.
Record Date.....	October 31, 2001, the date established by the Board as the record date for the vote by Eligible Members for approval of the Mutual Holding Company Plan.
Reorganization and Combination Agreement	The agreement by and among Liberty Mutual Holding Company, LMFIC and Liberty Insurance Acquisition Corp., pursuant to which LMFIC will reorganize to a stock insurance company and merge with Liberty Insurance Acquisition Corp., with Reorganized LMFIC as the surviving entity.
Reorganized LMFIC	Liberty Mutual Fire Insurance Company, a Massachusetts stock property and casualty insurer into which LMFIC will reorganize pursuant to Section 19T of Chapter 175 of the Massachusetts General Laws.
Reorganized LMIC	Liberty Mutual Insurance Company, a Massachusetts stock property and casualty insurer into which LMIC will reorganize pursuant to Sections 19F to 19W of Chapter 175 of the Massachusetts General Laws.

Resolution Date	September 14, 2000, the date the Board of Directors of ELOW initially approved the Mutual Holding Company Plan.
Restructuring	The conversion of ELOW from a mutual insurance company to a stock insurance company, the formation of ELOW MHC, and such other transactions as are contemplated by the Mutual Holding Company Plan, collectively.
Rights in Surplus	Any rights of a Member arising under ELOW's articles of incorporation or Chapters 181, 611 or 645 of the Wisconsin Statutes, to a return of the surplus in respect of Policies of ELOW that may exist with regard to the surplus not apportioned or declared by the Board as Dividends, including rights of Members to a distribution of such surplus in dissolution or conversion proceedings under Chapter 611 of the Wisconsin Statutes. On and after the Effective Date, Rights in Surplus means any right of a Member of ELOW MHC arising under its articles of incorporation or Chapters 181, 611, 644 or 645 of the Wisconsin Statutes to the net worth of ELOW MHC, including rights of Members of ELOW MHC to a distribution of any portion of the net worth of ELOW MHC in dissolution or conversion proceedings under such sections of the Wisconsin Statutes.
SAP	The statutory accounting principles and practices prescribed or permitted by the insurance regulatory authority of the domiciliary state of a particular insurer.
SEC	United States Securities and Exchange Commission.
Special Meeting	The special meeting of Eligible Members of ELOW to vote on the Mutual Holding Company Plan, to be held on November 20, 2001, and any adjournments, postponements or continuations thereof.
Tax Proposals	All specific proposals to amend the Canadian Tax Act.
Wausau Insurance Acquisition Corp.	Wausau Insurance Acquisition Corporation, a Wisconsin stock insurance company which Liberty Mutual Holding Company will form for the sole purpose of merging with and into Converted ELOW, with Converted ELOW as the surviving entity.
Wisconsin Commissioner	The Commissioner of Insurance of the State of Wisconsin or any governmental officer, body, or authority that succeeds the Wisconsin Commissioner as the domiciliary insurance regulator of Converted ELOW.
Wisconsin Statutes	The general laws of the State of Wisconsin.

SUMMARY

The following summary is not complete and is qualified in all respects by the more detailed information appearing elsewhere in this Policyholder Information Statement. You are urged to read this Policyholder Information Statement in its entirety.

Introduction

This Policyholder Information Statement relates to the proposed restructuring of ELOW, whereby ELOW will form, as its parent, a Wisconsin mutual holding company and convert from a Wisconsin mutual insurance company to a Wisconsin stock insurance company. The Restructuring will be effectuated pursuant to the Mutual Holding Company Plan, originally adopted by ELOW's Board of Directors on September 14, 2000 and subsequently amended with the unanimous approval of ELOW's Board of Directors on August 21, 2001. It is anticipated that ELOW's Mutual Holding Company Plan will be an integral part of a series of transactions that will result in ELOW and one or both of its principal affiliates, specifically, LMIC and LMFIC, all reorganizing to stock insurance companies under the common ownership of Liberty Mutual Holding Company. Upon the consummation of the Global Transaction, policyholders of ELOW, LMIC and LMFIC will become members of, and have Equity Rights in, a single mutual holding company.

Background on EMPLOYERS INSURANCE OF WAUSAU A Mutual Company and the Liberty Mutual Group

ELOW was organized under the laws of the State of Wisconsin in 1911. ELOW is licensed to write property and casualty insurance in all fifty states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Canada. As measured in terms of net premiums written, ELOW is the forty-fourth largest property and casualty insurance company in the United States, with \$1.2 billion of Net Written Premiums in 2000.

On December 31, 1998, ELOW consummated an affiliation agreement with LMIC, pursuant to which LMIC purchased \$220 million of ELOW surplus notes and appointed a majority of the members on the Board of Directors of ELOW. On January 1, 1999, ELOW became a member of the Liberty Pool, an intercompany reinsurance pool led by LMIC. ELOW has no employees of its own and purchases all operational services from LMIC and its subsidiaries, including Wausau Service Corporation, a wholly-owned subsidiary of LMIC.

Today, ELOW is part of a larger organization that includes LMIC, LMFIC and other legal entities. The Liberty Mutual Group is a diversified international financial services group of businesses employing more than 37,000 people in over 900 offices worldwide. It is the leading provider of workers' compensation products and services in the United States. Further, the Liberty Mutual Group ranks among the largest property and casualty insurance groups in the world and ranks 121st on the Fortune 500 list of the largest U.S. corporations.

See "Background on Employers Insurance of Wausau A Mutual Company," page 23. See also "Description of the Global Transaction — Operation of the Liberty Companies," page 34.

Special Meeting of Members Concerning the Mutual Holding Company Plan

ELOW will hold the Special Meeting on November 20, 2001, at 10 a.m., Central Time, at its offices located at 1800 West Bridge Street, Wausau, Wisconsin. At this meeting, Eligible Members will be asked to consider and vote upon a proposal to approve and adopt the Mutual Holding Company Plan and the transactions contemplated thereby, including the amendment and restatement of the articles of incorporation of ELOW.

Voting at the Special Meeting

Eligible Members may vote in one of the following two ways:

- by casting their vote in person at the Special Meeting; or
- by mailing in the proxy enclosed with this Policyholder Information Statement so that it is received by EIOW by 5 p.m., Central Time, October 20, 2001.

Member Approval Requirements

In order to approve and adopt the Mutual Holding Company Plan and to consummate the transactions contemplated thereby, including the amendment and restatement of the articles of incorporation of EIOW, the following statutory and bylaw approval requirements must be met:

- In accordance with the Wisconsin Statutes, at least a majority of Persons who were Policyholders of EIOW on the *Resolution Date* (i.e. September 14, 2000) and who remain Policyholders on the *Record Date* (i.e. October 31, 2001) and who vote at the Special Meeting (in person or by proxy), must vote FOR such proposal; *and*
- In accordance with EIOW's bylaws, at least a majority of Policyholders who are Members on the *Record Date* and who vote at the Special Meeting (in person or by proxy), must vote FOR such proposal. See "*Special Meeting of Members — How to Vote*," page 24

The Restructuring, including the amendment and restatement of EIOW's articles of incorporation, will be approved by Eligible Members only if *both* of the approval requirements are met. Further, in accordance with the bylaws of EIOW, the presence, in person, of at least ten Members is necessary to constitute a quorum at the Special Meeting. See "*Special Meeting of Members — Voting at the Special Meeting*," page 23, "*— Eligibility to Vote*," page 24.

How to Vote

Eligible Members may vote in one of the following two ways:

In Person. Eligible Members may vote in person at the Special Meeting.

By Proxy. Enclosed along with this Policyholder Information Statement is a proxy. The proxy allows Eligible Members to authorize designated officers of EIOW to cast the Eligible Member's vote or designate any other person as proxy agent, by crossing out the proxy agents named on the proxy form and substituting the name of another person. If an Eligible Member elects to vote by proxy, the proxy must be returned by mail to EMPLOYERS INSURANCE OF WAUSAU A Mutual Company, P.O. Box 8245, Edison, New Jersey 08818-9085 and received by EIOW by 5 p.m., Central Time, October 20, 2001 in order to be valid. Only proxies that are in a form approved by the Wisconsin Commissioner may be used to vote. A postage pre-paid envelope is enclosed for your use.

The proxy must be marked with a vote either FOR adoption of the Mutual Holding Company Plan or AGAINST adoption of the Mutual Holding Company Plan. If the proxy contains a vote both FOR and AGAINST the Mutual Holding Company Plan, such proxy will not be counted. If the proxy is executed but no choice is indicated, the proxy will be voted FOR the approval of the Mutual Holding Company Plan.

Eligible Members may also use their own proxy form authorizing individuals other than designated officers of EIOW to cast their votes by proxy; however, only proxies that are in a form approved by the Wisconsin Commissioner will be counted. The proxy form must require the Eligible Member to choose whether to vote FOR or AGAINST the Mutual Holding Company Plan, and the proxy agent

must vote the proxy according to the choice made by the Eligible Member. Eligible Members may designate any person as such Eligible Member's proxy agent, including by the crossing out of the proxy agents named on the proxy form sent to the Eligible Member by ELOW and substituting on the form the name of another person as the proxy for the Eligible Member.

See "*Special Meeting of Members — How to Vote,*" page 24.

Mutual Holding Company Plan

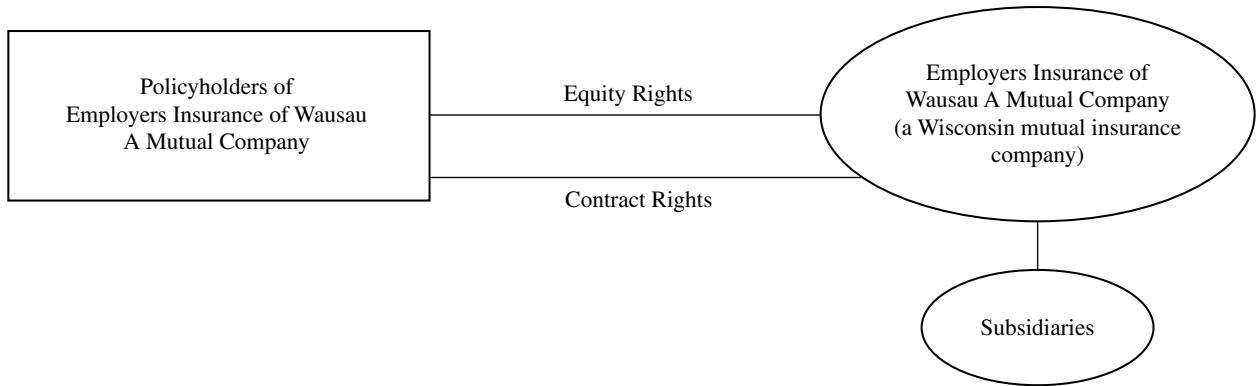
The Mutual Holding Company Plan provides for the following:

- the formation by ELOW of ELOW MHC, a Wisconsin mutual holding company;
- the restructuring of ELOW from a Wisconsin mutual insurance company to a Wisconsin stock insurance company; and
- the extinguishment of Members' Equity Rights in ELOW and the replacement of such Equity Rights with Equity Rights in ELOW MHC.

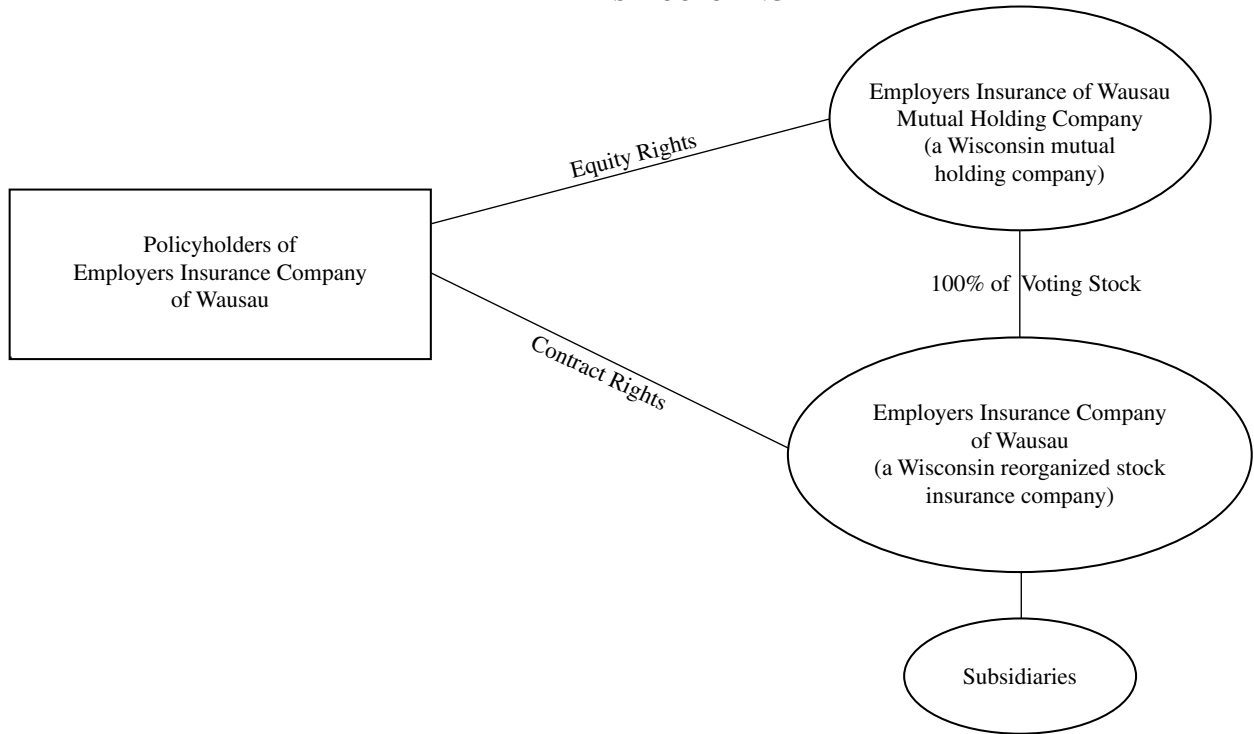
As a result of the Restructuring, ELOW will continue in existence as Converted ELOW, a stock property and casualty insurance company organized under the laws of Wisconsin. Converted ELOW will continue to conduct its business and operations in substantially the same manner as before the Restructuring.

The following diagrams illustrate EIOW's organizational structure before and after consummation of the Mutual Holding Company Plan:

BEFORE RESTRUCTURING



AFTER RESTRUCTURING



The Mutual Holding Company Plan is a necessary step in a series of transactions involving EIOW, LMIC and LMFIC which comprise the Global Transaction. See "Description of the Global Transaction," page 34. While the Mutual Holding Company Plan, if approved and consummated, would provide significant benefits to EIOW and its Policyholders, additional and enhanced benefits would be realized upon consummation of the Global Transaction.

What Your Board Recommends

On September 14, 2000, EIOW's Board of Directors unanimously adopted the Mutual Holding Company Plan, which was subsequently amended with the unanimous approval of EIOW's Board of Directors on August 21, 2001. The Board of Directors recommends that Eligible Members vote FOR the proposal to approve

and adopt the Mutual Holding Company Plan and the transactions contemplated thereby, including the amendment and the restatement of the articles of incorporation of EIOW.

Why Your Board is Recommending the Restructuring

The Liberty Mutual Group's mission is to help people live safer, more secure lives. In the pursuit of that mission, EIOW is committed to providing high quality products and services at competitive prices. EIOW is operating in one of today's most competitive industry segments: property and casualty insurance. Global consolidation, low levels of growth in the domestic insurance market, as well as excess industry capital have created an environment which has increased competitive pressures and reduced profitability. EIOW has not been immune to these forces.

Thus, EIOW's Board of Directors unanimously adopted EIOW's Mutual Holding Company Plan because it believes the Restructuring will provide EIOW with greater capital, strategic and structural flexibility, preserve EIOW's mutuality and provide the groundwork for the Global Transaction. See "*Reasons for and Potential Benefits of the Restructuring — The Restructuring will Provide EIOW with Greater Operating Flexibility,*" page 30 and "*— The Restructuring will Preserve Mutuality,*" page 31 and "*— The Restructuring Provides the Foundation for the Global Transaction,*" page 32.

The Restructuring Will Provide EIOW with Greater Operating Flexibility

The flexibility that the mutual holding company structure will provide EIOW is one of the most important reasons for the Restructuring. The benefits of flexibility for Converted EIOW and its newly formed parent company take several forms:

- Capital flexibility – the flexibility to access capital markets in ways currently not available to mutual insurance companies.
- Strategic and structural flexibility – the flexibility to pursue growth through consolidations, mergers, business combinations, acquisitions and strategic alliances with other unaffiliated mutual insurers and benefit from a more favorable accounting treatment.

These benefits are closely interrelated. Capital flexibility, such as the ability to use stock (as opposed to cash) to consummate acquisitions, often means strategic flexibility because the ability to use stock is generally more tax efficient and will increase such growth opportunities. Strategic flexibility and structural flexibility go hand in hand because the mutual holding company structure will enable two or more mutual insurers to combine under a single holding company, while continuing to allow each insurer to maintain its separate brand identity, marketing strategy and distribution channels. As of the first half of 2001, twenty-seven states and the District of Columbia had enacted legislation allowing their domestic mutual insurance companies to reorganize by forming a mutual holding company and converting the mutual insurer into a stock corporation.

The Restructuring will Preserve Mutuality

EIOW was founded in 1911 on the fundamental belief that having common goals with EIOW's Policyholders was the best way to prevent workplace accidents and injuries and minimize losses when accidents occur. Mutuality entails a better alignment of owners' collective interests and customers' individual interests. As owners by virtue of their Equity Rights in EIOW, Policyholders collectively have an interest in minimizing losses and creating surplus for the future needs of the organization. Further, under a mutual enterprise, management has the benefit of being able to focus on long-term business objectives. The rapidly increasing attention on quarterly earnings of stock companies can lead to such companies making decisions which although having short-term earnings benefits, fail to

position the company for the longer term. The mutual holding company structure will allow management to preserve the mutual culture that the Board of Directors believes has been a key factor in the past, and will continue to be important in the future to EIOW and its Policyholders.

The Restructuring Provides the Foundation for the Global Transaction

One important reason for the Restructuring is that it is the first step in a series of transactions designed to combine all three Liberty Companies under a single holding company, making them affiliates with a common parent. These transactions are collectively referred to as the "Global Transaction." Under the Global Transaction, each of EIOW, LMIC and LMFIC will reorganize to mutual holding company structures under the laws of Wisconsin and Massachusetts, as applicable, and subject to receipt of all necessary regulatory and policyholder approvals.

The Global Transaction and the benefits of the Global Transaction are described in more detail later in this Policyholder Information Statement. See "*Description of the Global Transaction*," page 34, "*Elements of the Global Transaction*," page 35 and "*Benefits of the Global Transaction*," page 38.

Your Rights as a Policyholder

Each EIOW Policyholder has both Contract Rights under the Policy and Equity Rights in EIOW. Upon consummation of the Mutual Holding Company Plan, a Policyholder's Contract Rights will remain with Converted EIOW. If you are a Policyholder of a Policy issued by EIOW that is In Force on the Effective Date of the Restructuring, you will automatically become a Member of EIOW MHC. Policyholders of Policies issued by Converted EIOW after the Effective Date of the Restructuring also will automatically become Members of EIOW MHC.

On the Effective Date, the Equity Rights of Members in EIOW will be replaced with Equity Rights in EIOW MHC, thereby extinguishing such Member's Equity Rights in EIOW. Equity Rights in EIOW MHC will include the right to vote at annual and special meetings of EIOW MHC, the right to receive distributions of assets of EIOW MHC in the unlikely event of its dissolution or liquidation, the right to receive dividends if and when declared by the board of directors of EIOW MHC, and the right to participate in a demutualization of EIOW MHC. Members' Equity Rights will continue only for as long as the Policy from which such rights are derived remains In Force, except in the event of a demutualization as provided under Section 611.76 of the Wisconsin Statutes. Equity Rights are not transferable.

The Mutual Holding Company Plan will not result in any changes in services provided to Policyholders or to existing businesses of EIOW. After the consummation of the Mutual Holding Company Plan, the entire organization, including Converted EIOW and EIOW MHC, will continue to be regulated by the Wisconsin Commissioner under the Wisconsin Statutes to assure that Policyholders' interests are protected. See "*Regulation*," page 53.

Every Policy issued by EIOW that is In Force on the Effective Date will continue In Force as a Policy of Converted EIOW. The Mutual Holding Company Plan will not increase premiums or diminish Policy benefits or other Policy obligations to Policyholders. EIOW's current policies with respect to dividends to Policyholders will not be affected by the Restructuring. See "*Effects of the Restructuring*," page 32.

The Global Transaction

It is anticipated that EIOW's Restructuring will be part of a series of transactions that will result in EIOW and one or both of its affiliates, specifically, LMIC and LMFIC, coming under the common ownership of Liberty Mutual Holding Company. The policyholders of each of EIOW, LMIC and LMFIC will become members of and have Equity Rights in a single mutual holding company.

The successful consummation of the Global Transaction will result in a streamlined organizational structure which positions Liberty Mutual Holding Company at the top of the organizational chart. The new organizational structure will not only align the legal structure of the Liberty Companies with their current operating and economic structures, it will also afford the Liberty Mutual Group greater capital flexibility, lead to a focus on GAAP results, increase goodwill capacity and enable the Liberty Mutual Group to continue competing effectively in a changing insurance and financial services landscape. Above all, it will potentially enable the Liberty Mutual Group to enjoy the advantages of increased scale and at the same time allow each of the Liberty Companies to retain their separate identities and brands as subsidiaries of Liberty Mutual Holding Company. Policyholders will benefit from their association with a much larger and potentially more financially stable organization. See “Description of the Global Transaction,” page 34.

Elements of the Global Transaction

LMIC Reorganization

The Global Transaction consists of the following transactions, in addition to the Restructuring:

Prior to or concurrently with the Restructuring of EIOW, and assuming that all necessary regulatory and policyholder approvals are obtained and all other conditions necessary to consummation are met, LMIC will reorganize into a stock insurance company subsidiary of a Massachusetts mutual holding company under the laws of the Commonwealth of Massachusetts. As part of its overall reorganization, LMIC will form Liberty Mutual Holding Company, which will initially own all of the voting stock of Reorganized LMIC. Liberty Mutual Holding Company will contribute to LMHC Massachusetts Holdings all of the voting stock of Reorganized LMIC. LMHC Massachusetts Holdings, in turn, will contribute all of the voting stock of Reorganized LMIC to LMGI. Upon consummation of the LMIC reorganization, policyholders of LMIC will receive Equity Rights in Liberty Mutual Holding Company, while their equity rights in LMIC will be extinguished. The contract rights of LMIC policyholders will remain with Reorganized LMIC.

MHC Merger

Assuming consummation of EIOW’s and LMIC’s reorganizations to mutual holding company structures, EIOW MHC will merge with and into Liberty Mutual Holding Company, with Liberty Mutual Holding Company as the surviving mutual entity and, simultaneously therewith, Converted EIOW will merge with Wausau Insurance Acquisition Corp., a Wisconsin stock insurance company that Liberty Mutual Holding Company will form for the sole purpose of merging with and into Converted EIOW, with Converted EIOW as the surviving entity (the merger of EIOW MHC and Liberty Mutual Holding Company and the merger of Converted EIOW and Wausau Insurance Acquisition Corp., collectively, the “MHC Merger”). The MHC Merger will occur pursuant to the terms and conditions of an agreement among the parties to the MHC Merger, namely, EIOW MHC, Converted EIOW, Liberty Mutual Holding Company and Wausau Insurance Acquisition Corp. (the “MHC Merger Agreement”). In addition to requiring the approval of the board of directors of EIOW MHC and the Wisconsin Commissioner, the MHC Merger Agreement will need to be approved by the board of directors of Liberty Mutual Holding Company, at least two-thirds of Liberty Mutual Holding Company’s members voting at a special meeting called for such purpose and the Massachusetts Commissioner of Insurance. If the MHC Merger Agreement is consummated, Converted EIOW will become a wholly-owned subsidiary of Liberty Mutual Holding Company. A copy of the MHC Merger Agreement in the form in which it will be presented for approval to the boards of directors of EIOW MHC and Liberty Mutual Holding Company, once those mutual holding companies are formed, is attached as Annex B to this Policyholder Information Statement.

LMFIC Restructuring

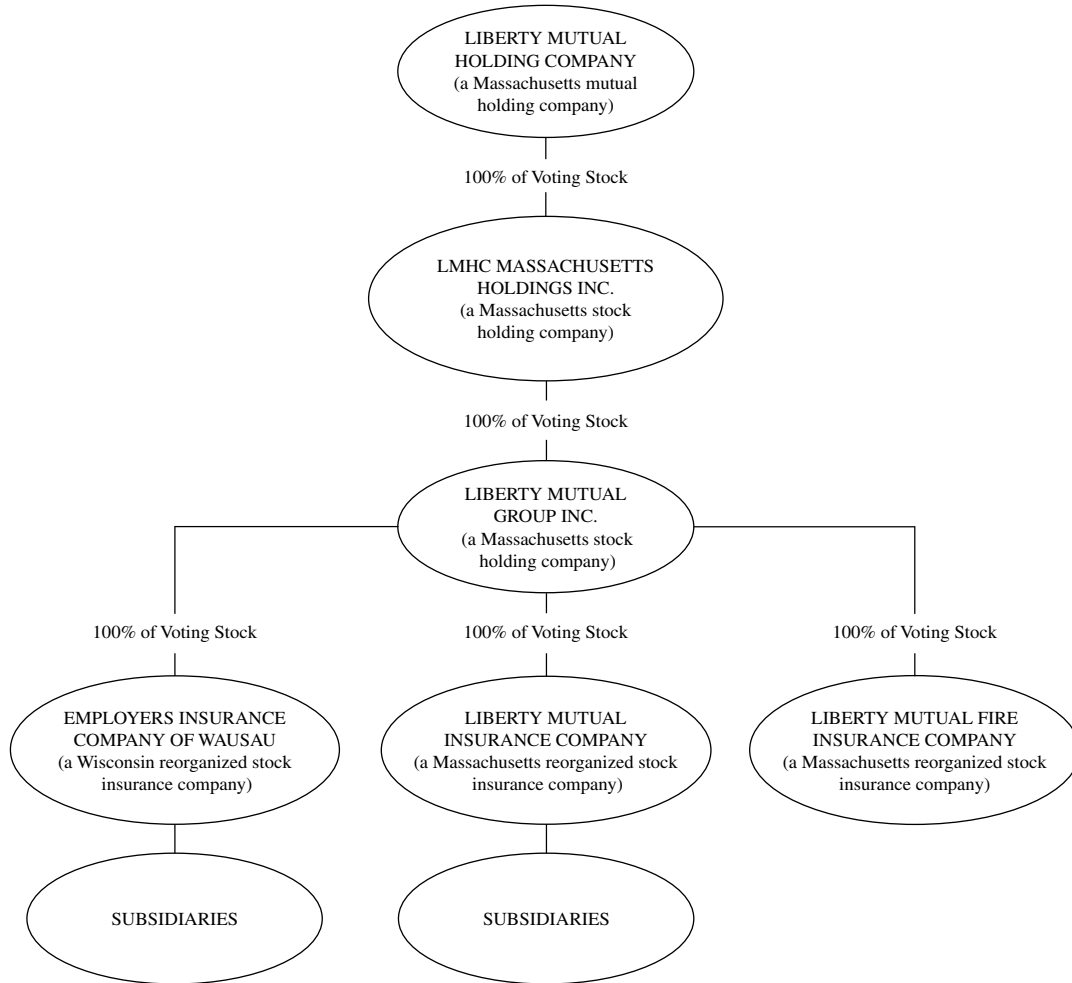
Pursuant to the terms and conditions of the Reorganization and Combination Agreement by and among Liberty Mutual Holding Company, LMFIC and Liberty Insurance Acquisition Corp. (the "Reorganization and Combination Agreement"). LMFIC will reorganize from a Massachusetts mutual insurance company to a Massachusetts stock insurance company and merge with Liberty Insurance Acquisition Corp. (the "LMFIC Merger"). Reorganized LMFIC will be the surviving entity of the merger and will become a wholly-owned subsidiary of Liberty Mutual Holding Company. A copy of the Reorganization and Combination Agreement in the form in which it will be presented for approval to the boards of directors of Liberty Mutual Holding Company and Liberty Insurance Acquisition Corp., once those companies are formed, and LMFIC, is attached as Annex C to this Policyholder Information Statement.

Contribution of Shares of Converted EIOW and Reorganized LMFIC

Assuming consummation of the MHC Merger Agreement and the Reorganization and Combination Agreement, Liberty Mutual Holding Company will contribute the shares of Converted EIOW and Reorganized LMFIC to LMHC Massachusetts Holdings, which, in turn, will contribute such shares to LMGI. As a direct result, LMGI will become the direct parent of Converted EIOW and Reorganized LMFIC, in addition to remaining the direct parent of Reorganized LMIC. *See "Elements of the Global Transaction,"* page 35.

The diagram below illustrates the organizational structure of Liberty Mutual Holding Company and its subsidiaries upon consummation of all of the transactions comprising the Global Transaction.

AFTER GLOBAL TRANSACTION



**Benefits of Global Transaction:
Combining the Liberty Companies
Under a Single Holding Company
Structure**

Today, the Liberty Mutual Group operates under a unique structure consisting of an affiliation of three large mutual companies — EIOW, LMIC and LMFIC, as well as a number of other affiliates. Each of the Liberty Companies is a distinct legal entity that functions as part of a single insurance enterprise. Each shares common management and participates in each other’s underwriting and operating results through the Liberty Pool. Each of the Liberty Companies shares the same strong ratings from financial rating agencies with respect to their claims paying ability. In addition, LMIC and its subsidiaries provide operational support and investment and administrative services to LMFIC and EIOW, including employees, operating processes and technology platforms and systems.

The current structure, although advantageous in many ways, has significant drawbacks. It has sometimes proven cumbersome and sub-optimal in structural efficiency and tax planning. The current structure creates inefficiencies and redundancies in governance and administrative processes. Perhaps most importantly, the current structure prevents the Liberty Mutual Group from realizing the

full economic value of the affiliation by placing restrictions on capital and strategic flexibility.

Changes in the U.S. financial services industry and the globalization of the marketplace have affected property and casualty insurers as well as life and health companies. The passage of the Gramm-Leach-Bliley Act eliminated many of the legal barriers to combinations of insurance, banking and financial services companies. Foreign competitors with substantial capital resources have begun acquiring U.S. insurers. The heightened competition resulting from greater consolidation has caused stock and mutual insurers to reconsider virtually every aspect of their operations.

In recent years, the industry trend is towards consolidation. EIOW's Board of Directors strongly believes that participation in this trend is not optional but required, and that EIOW's failure to do so may permanently limit its operating flexibility and place it at a significant competitive disadvantage. By bringing EIOW, LMIC and LMFIC — currently separate mutual insurance companies — under the common ownership of Liberty Mutual Holding Company, the Global Transaction achieves an alignment of the legal structure with existing operating and economic reality, which in turn, positions the Liberty Mutual Group to enjoy the benefits arising from greater scale, diversity and financial flexibility. See "Description of the Global Transaction," page 34 and "Benefits of the Global Transaction," page 38.

Eligible Members are being asked to vote only on the Mutual Holding Company Plan. Until the Restructuring is consummated and EIOW MHC comes into existence, no vote on the MHC Merger Agreement by the board of directors, as the board of directors of EIOW MHC, may be taken, and further, unless the Wisconsin Commissioner determines otherwise, no Member vote is required under the Wisconsin Statutes or the proposed bylaws of EIOW MHC. See "Special Considerations and Risks Regarding the Global Transaction," page 42.

Impact of the Restructuring and Global Transaction on Contract Rights and Equity Rights of Policyholders

The following table provides a brief comparison of the Contract Rights and Equity Rights of Policyholders (i) before the Restructuring; (ii) after the Restructuring and (iii) after the Global Transaction.

	Before Restructuring	After Restructuring	After Global Transaction
Contract Rights	<p>A. Policy benefits are obligations of EIOW.</p> <p>B. Some Policies pay dividends or provide other refunds of premiums, which amounts may increase or decrease as determined by the Board of Directors of EIOW.</p>	<p>All Policy obligations remain obligations of Converted EIOW. Converted EIOW is the same company except it is restructured as a stock insurance company. The Mutual Holding Company Plan will not in any way increase premiums, diminish Policy benefits or alter other Policy obligations.</p> <p>EIOW's current practices with respect to dividends or other refunds of premiums to Policyholders will not be affected by the Restructuring.</p>	<p>Same as "After Restructuring."</p> <p>Same as "After Restructuring."</p>

	Before Restructuring	After Restructuring	After Global Transaction
Equity Rights	<p>A. One vote per Member.</p> <p>B. Policyholders, as Members of EIOW, share in EIOW's net worth in the event of liquidation, dissolution or conversion proceedings.</p> <p>C. Policyholders, as Members of EIOW, have the right to dividends as, if and when declared by the Board of Directors of EIOW.</p> <p>D. Policyholders, as Members of EIOW, have the right to participate in a demutualization of EIOW, if and when the board of directors determines a conversion is in the best interests of EIOW and all necessary Member and regulatory approvals are obtained.</p>	<p>One vote per Member.</p> <p>Policyholders, as Members of EIOW MHC, share in EIOW MHC's net worth in liquidation, dissolution proceedings or conversion proceedings.</p> <p>Policyholders, as Members of EIOW MHC, have the right to dividends as, if and when declared by the board of directors of EIOW MHC and approved by the Wisconsin Commissioner.</p> <p>Policyholders, as Members of EIOW MHC, have the right to participate in a demutualization of EIOW MHC, if and when the board of directors determines a conversion is in the best interests of EIOW MHC and all necessary Member and regulatory approvals are obtained.</p>	<p>Same as "After Restructuring," except that policyholders of Converted EIOW, Reorganized LMIC and Reorganized LMFIC will have equity rights in Liberty Mutual Holding Company.</p> <p>Policyholders of Converted EIOW, Reorganized LMIC and Reorganized LMFIC, as members of Liberty Mutual Holding Company, will share in any assets left after payment of all liabilities in the event Liberty Mutual Holding Company ceases to exist.</p> <p>Policyholders of Converted EIOW, Reorganized LMIC and Reorganized LMFIC, as members of Liberty Mutual Holding Company, will have the right to dividends as, if and when declared by the board of directors of Liberty Mutual Holding Company.</p> <p>Same as "After Restructuring," except that policyholders of Reorganized LMIC and Reorganized LMFIC, in addition to Policyholders of Converted EIOW, will have the right to participate in a demutualization of Liberty Mutual Holding Company, if and when the board of directors determines a conversion is in the best interests of Liberty Mutual Holding Company and all necessary member and regulatory approvals are obtained.</p>

Special Considerations and Risks Regarding the Mutual Holding Company Plan

The Board of Directors of EIOW believes that the Mutual Holding Company Plan is fair and equitable to the Policyholders and expected to benefit the Policyholders. Prior to voting, however, Policyholders should carefully consider the implications of the Restructuring, including the ones listed below:

- (a) No consideration will be distributed to Policyholders upon the Restructuring of EIOW.
- (b) Potential conflicts of interest between Members and potential future shareholders of Converted EIOW may arise when stock is issued to outside investors whose interests may conflict with those of Members of EIOW MHC.

- (c) Members of EIOW MHC will have voting rights only with respect to the initial sale of voting stock of Converted EIOW or any intermediate holding company.
- (d) The fact that public investors are prohibited by law from acquiring a controlling interest in any stock issued in Converted EIOW could adversely affect the value and/or marketability of such stock.
- (e) No assurance can be made that future efforts, if any, to raise capital under a mutual holding company structure will be successful.
- (f) There are regulatory limitations on declaration of shareholder dividends and asset transfers from Converted EIOW, and EIOW MHC's success in utilizing the new structure will depend in part on Converted EIOW's ability to provide it with sufficient funds in the form of stockholder dividends and asset transfers.
- (g) The mutual holding company may be subject to different regulatory standards, as promulgated by the Wisconsin Commissioner, from mutual insurance companies.

For a fuller discussion of these and other considerations that Policyholders should carefully consider before voting at the Special Meeting, see *"Special Considerations and Risks Regarding the Mutual Holding Company Plan"* page 39.

Special Considerations and Risks Regarding the Global Transaction

Eligible Members are being asked to vote only on the Mutual Holding Company Plan. However, since the Restructuring is one of a series of transactions comprising the Global Transaction, Policyholders should be mindful of the following considerations relating to the Global Transaction:

- (a) Consummation of the Global Transaction is predicated on the consummation of the MHC Merger Agreement and the Reorganization and Combination Agreement, of which either one or both may not be consummated.
- (b) Including policyholders of Reorganized LMIC and Reorganized LMFIC as members of Liberty Mutual Holding Company will dilute the proportional voting power of Policyholders of Converted EIOW as Members of Liberty Mutual Holding Company. The voting power of Policyholders of Converted EIOW as Members of Liberty Mutual Holding Company may be further diluted by potential future mergers of Liberty Mutual Holding Company with other mutual holding companies.
- (c) Members of Liberty Mutual Holding Company will not receive any consideration upon the consummation of the Global Transaction.

For a fuller discussion of these and other considerations that Policyholders should carefully consider before voting at the Special Meeting, see *"Special Considerations and Risks Regarding the Global Transaction,"* page 42.

Structural Alternatives to Mutual Holding Company Plan

The principal structural alternatives to the Mutual Holding Company Plan considered by management and the Board of Directors and available under the Wisconsin Statutes are for EIOW to: (1) remain a mutual insurance company; (2) merge with one or both of the other Liberty Companies; (3) establish a downstream holding company; or (4) undergo a demutualization. See *"Structural Alternatives to Mutual Holding Company Plan,"* page 46.

Board Recommendation on Structural Alternatives

The Board of Directors has considered the various structural alternatives and believes that the Restructuring is the most appropriate and desirable option for EIOW. The Board of Directors believes that the Restructuring is fair and equitable to Policyholders and expected to benefit the Policyholders and should be undertaken as authorized by the Wisconsin Statutes.

Fairness Opinion

In its deliberations regarding the Mutual Holding Company Plan, the Board of Directors considered the opinion of Credit Suisse First Boston Corporation (“CSFB”), dated September 14, 2000, which was subsequently updated to August 21, 2001, that, in CSFB’s opinion, as of the date of the opinion, (i) the extinguishment of Members’ Equity Rights in EIOW and the replacement of such Equity Rights with Equity Rights in EIOW MHC and the continuance of Members’ Contract Rights in Converted EIOW pursuant to the Mutual Holding Company Plan and the MHC Merger Agreement is fair to Policyholders who are Members of EIOW, taken as a group, from a financial point of view; and (ii) assuming that the MHC Merger Agreement was consummated as of the date of the opinion in accordance with its terms, the MHC Merger Agreement is fair to Members of EIOW MHC, taken as a group, from a financial point of view. *See “Board of Directors Recommendation for Approval — CSFB Fairness Opinion,”* page 28.

Certain U.S. Federal Income Tax Considerations

It is a condition to the consummation of the Restructuring that EIOW obtain a private letter ruling from the IRS that is in force on the Effective Date providing that, for U.S. federal income tax purposes, the conversion of EIOW into Converted EIOW will qualify as a reorganization within the meaning of section 368(a) of the Internal Revenue Code of 1986, as amended (the “Code”). It is a condition to the consummation of the MHC Merger that EIOW obtain (i) a private letter ruling from the IRS that is in force on the effective date of the MHC Merger providing that, for U.S. federal income tax purposes, the conversion of EIOW into Converted EIOW will qualify as a reorganization within the meaning of section 368(a) of the Code and (ii) an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, special tax counsel to EIOW, or another nationally-recognized independent tax counsel to EIOW, that, for U.S. federal income tax purposes, (a) the extinguishment of the Equity Rights of the Members of EIOW in EIOW and the replacement of such Equity Rights with Equity Rights in Liberty Mutual Holding Company pursuant to the Restructuring and the MHC Merger will be pursuant to transactions qualifying under section 368(a) or section 351(a) of the Code and (b) the Members of EIOW whose Equity Rights in EIOW are extinguished and replaced with Equity Rights in Liberty Mutual Holding Company in the Restructuring and the MHC Merger will not recognize gain or loss in the Restructuring and the MHC Merger. EIOW has received a private letter ruling from the IRS providing that, for U.S. federal income tax purposes, the conversion of EIOW into Converted EIOW will qualify as a reorganization within the meaning of section 368(a) of the Code. *See “Certain U.S. Federal Income Tax Consequences of the Restructuring and the MHC Merger,”* page 51.

Certain Canadian Income Tax Considerations

EIOW will not realize a gain or loss on its shares or Equity Rights for Canadian federal income tax purposes as a result of the Restructuring and the MHC Merger. Canadian members of EIOW, however, will have a capital gain equal to the fair market value of the Liberty Mutual Holding Company Equity Rights received by them in the MHC Merger; the amount of such gain is expected to be de minimis. *See “Certain Canadian Income Tax Consequences of the Restructuring and the MHC Merger,”* page 52.

Dissolution or Liquidation

Liquidation is a legal concept that refers to the distribution of corporate assets after the termination of the corporate existence of a company. In the event of the voluntary or involuntary dissolution or liquidation of EIOW MHC, any surplus

remaining after payment of all liabilities of ELOW MHC will be distributed to the Members on a pro-rata basis up to a maximum amount equal to the total premium paid, with interest, and any surplus remaining thereafter will be paid to the Wisconsin state treasury to the credit of the common school fund in accordance with Sections 644.28(5) and 645.72(4) of the Wisconsin Statutes. Stockholders of Converted ELOW will have no liquidation or other rights with respect to ELOW MHC in their capacities as such. See *“Dissolution or Liquidation,”* page 56.

Conditions to Effectiveness of the Mutual Holding Company Plan

In order for the Mutual Holding Company Plan to become effective:

- (a) the Mutual Holding Company Plan, the articles of incorporation of ELOW MHC and the amended and restated articles of incorporation of Converted ELOW must be approved by Eligible Members;
- (b) the Mutual Holding Company Plan must be approved by the Wisconsin Commissioner;
- (c) ELOW must receive certain rulings, opinions or letters on tax and securities matters;
- (d) the Wisconsin Commissioner must issue to ELOW a certificate of authority as Converted ELOW, a property and casualty stock insurer;
- (e) the articles of incorporation of ELOW MHC and amended articles of incorporation of ELOW must be filed with the Wisconsin Commissioner;
- (f) ELOW and its subsidiaries must make all necessary filings with Governmental Entities and obtain all requisite regulatory approvals that may be required from those states and jurisdictions where ELOW and its subsidiaries are domiciled or transact insurance business;
- (g) the plan of reorganization of LMIC to reorganize to a mutual holding company under the laws of Massachusetts must be approved in all respects, although this condition is subject to waiver by a majority vote of ELOW’s Board of Directors; and
- (h) the necessary LMFIC policyholder approval of LMFIC’s reorganization and the receipt by LMFIC of the Massachusetts Commissioner’s approval of LMFIC’s reorganization have been obtained, although this condition is subject to waiver by a majority vote of ELOW’s Board of Directors.

See *“Conditions to Consummation of the Mutual Holding Company Plan,”* page 56.

Litigation

On June 28, 2001, a purported nation-wide class action complaint was filed against LMIC in the Superior Court for Middlesex County, Commonwealth of Massachusetts relating to its plan of reorganization. For a description of the allegations set forth in the complaint and more information, see *“Litigation and Other Matters,”* page 58.

Selected Financial Information

The selected statutory financial information set out below for ELOW, as of and for each of the three years ended December 31, 1998 through 2000, is derived from the audited statutory financial statements of ELOW. The selected statutory financial information as of and for the three months ended March 31, 2001 and 2000 is derived from the unaudited quarterly statutory financial statements filed with the OCI. This financial information should be read in conjunction with the audited statutory financial statements attached as Annex G hereto.

Because the GAAP financial statements of ELOW MHC and its subsidiaries after the consummation of the Restructuring will not differ materially from the GAAP financial statements of ELOW, no pro forma financial information for ELOW MHC and its subsidiaries is presented in this Policyholder Information Statement.

Selected GAAP financial information is also set out below for the Liberty Mutual Group as of and for the years ended December 31, 1999 and 2000 and is based on the audited GAAP financial statements for the Liberty Mutual Group. The selected GAAP financial information for the Liberty Mutual Group as of and for the three months ended March 31, 2001 and 2000 is derived from interim unaudited GAAP financial information for the Liberty Mutual Group. This financial information should be read in conjunction with the audited GAAP financial statements attached as Annex H, hereto.

Because the GAAP financial statements of Liberty Mutual Holding Company, LMHC Massachusetts Holdings and LMGI after consummation of the Global Transaction will not differ materially from the GAAP financial statements of the Liberty Mutual Group, no pro forma financial information for such companies is presented in this Policyholder Information Statement.

**Employers Insurance of Wausau
SAP Financial Information
(\$ in millions)**

SAP Information

	Year Ended December 31,			Three Months Ended March 31,	
	1998	1999	2000	2000	2001
Premiums earned	\$1,094	\$ 898	\$1,143	\$ 263	\$ 289
Investment income, net	156	145	193	55	55
Realized investment gains	346	6	67	0	0
Other, net	(4)	74	64	(6)	2
Total Revenue	1,592	1,123	1,467	312	346
Losses and loss expenses	1,123	824	1,059	238	267
Other underwriting expenses	238	216	282	70	79
Policyholder dividends	12	15	15	4	4
Total Expenses	1,373	1,055	1,356	312	350
Pre-tax income	219	68	111	(0)	(4)
Income taxes	(24)	0	7	0	0
Net Income	<u>\$ 243</u>	<u>\$ 68</u>	<u>\$ 104</u>	<u>\$ (0)</u>	<u>\$ (4)</u>
Total Assets	\$2,837	\$3,207	\$4,025	\$3,793	\$4,082
Total Liabilities	2,262	2,538	3,280	3,142	3,398
Surplus	575	669	745	651	684

**Liberty Mutual Group
GAAP Financial Information
(\$ in millions)**

Combined GAAP information

	Year Ended December 31,		Three Months Ended March 31,	
	1999	2000	2000	2001
Premiums earned	\$9,483	\$10,016	\$ 2,332	\$ 2,621
Investment income, net	1,817	1,826	521	317
Realized investment gains	448	44	106	10
Other, net	395	361	95	118
Total Revenues	12,143	12,247	3,054	3,066
Losses and loss expenses	8,069	8,540	1,886	2,167
Benefits and expenses	3,418	3,619	891	987
Policyholder dividends	130	98	30	27
Total Expenses	11,617	12,257	2,807	3,181
Pre-tax income	526	(10)	247	(115)
Income taxes	157	(79)	33	(5)
Income from continuing operations before minority interest	369	69	214	(110)
Minority interest	(1)	2	—	—
Income from continuing operations	368	71	214	(110)
Discontinued operations	71	90	28	(34)
Net Income	<u>\$ 439</u>	<u>\$ 161</u>	<u>\$ 242</u>	<u>\$ (144)</u>
Total Assets	\$62,251	\$65,527	\$63,647	\$65,764
Total Liabilities	54,912	57,639	55,869	58,038
Surplus	7,339	7,888	7,778	7,726

POLICYHOLDER INFORMATION STATEMENT

Introduction

This Policyholder Information Statement relates to the proposed restructuring of EIOW, whereby EIOW will form, as its parent, a Wisconsin mutual holding company and convert from a Wisconsin mutual insurance company to a Wisconsin stock insurance company. The Restructuring will be effectuated pursuant to the Mutual Holding Company Plan, originally adopted by EIOW's Board of Directors on September 14, 2000 and subsequently amended with the unanimous approval of EIOW's Board of Directors on August 21, 2001. It is anticipated that EIOW's Mutual Holding Company Plan will be an integral part of a series of transactions that will result in EIOW and one or both of its principal affiliates, specifically, LMIC and LMFIC, all reorganizing to stock insurance companies under the common ownership of Liberty Mutual Holding Company. Upon the consummation of the Global Transaction, policyholders of EIOW, LMIC and LMFIC will become members of, and have Equity Rights in, a single mutual holding company.

BACKGROUND ON EMPLOYERS INSURANCE OF WAUSAU A MUTUAL COMPANY

EIOW and the Liberty Mutual Group

EIOW was organized under the laws of the State of Wisconsin in 1911. EIOW is licensed to write property and casualty insurance in all fifty states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Canada. As measured in terms of net premiums written, EIOW is the forty-fourth largest property and casualty insurance company in the United States, with \$1.2 billion of Net Written Premiums in 2000.

On December 31, 1998, EIOW consummated an affiliation agreement with LMIC, pursuant to which LMIC purchased \$220 million of EIOW surplus notes and appointed a majority of the members on the Board of Directors of EIOW. On January 1, 1999, EIOW became a member of the Liberty Pool, an intercompany reinsurance pool led by LMIC. EIOW has no employees of its own and purchases all operational services from LMIC and its subsidiaries, including Wausau Service Corporation, a wholly-owned subsidiary of LMIC.

Today, EIOW is part of a larger organization that includes LMIC, LMFIC and other legal entities. The Liberty Mutual Group is a diversified international financial services group of businesses employing more than 37,000 people in over 900 offices worldwide. It is the leading provider of workers' compensation products and services in the United States. Further, the Liberty Mutual Group ranks among the largest property and casualty insurance groups in the world and ranks 121st on the Fortune 500 list of the largest U.S. corporations.

EIOW had statutory surplus of approximately \$745 million as of December 31, 2000, comprised of unassigned and special surplus of \$525 million and surplus notes in a principal amount of \$220 million. As a member of the Liberty Pool, EIOW's claims paying ability is rated A+ (Superior) by A.M. Best Company, AA- (Very Strong) by Standard and Poor's Ratings Services and Aa3 (Excellent) by Moody's Investors Service. Insurance companies' strengths or weaknesses in claims-paying, financial credit worthiness and financial stability are regularly rated by independent rating agencies. Superior ratings allow a company to distinguish itself from its competitors and enhance the sale of its products and services.

SPECIAL MEETING OF MEMBERS

Matters to be Considered at the Special Meeting

The Special Meeting of Members will be held on November 20, 2001 at 10:00 a.m., Central Time, at EIOW's office located at 1800 West Bridge Street, Wausau, Wisconsin. At the Special Meeting, Eligible Members will be asked to consider and vote upon a proposal to approve and adopt the Mutual Holding Company Plan and the transactions contemplated thereby, including the amendment and restatement of the articles of incorporation of EIOW.

Voting at the Special Meeting

Eligible Members may vote in one of the following two ways:

- by casting their vote in person at the Special Meeting; or
- by mailing in the proxy enclosed with this Policyholder Information Statement so that it is received by EIOW on or before 5 p.m., Central Time, October 20, 2001.

Approval Requirements

In order to approve and adopt the Mutual Holding Company Plan and to consummate the transactions contemplated thereby, including the amendment and restatement of the articles of incorporation of EIOW, the following statutory and bylaw approval requirements must be met:

- In accordance with the Wisconsin Statutes, at least a majority of Persons who were Policyholders of EIOW on the *Resolution Date* (i.e. September 14, 2000) and who remain Policyholders on the *Record Date* (i.e. October 31, 2001) and who vote at the Special Meeting (in person or by proxy), must vote FOR such proposal; and
- In accordance with EIOW's bylaws, at least a majority of Policyholders who are Members on the *Record Date* and who vote at the Special Meeting (in person or by proxy), must vote FOR such proposal. See “— *How to Vote*,” below.

The Restructuring, including the amendment and restatement of EIOW's articles of incorporation, will be approved by Eligible Members only if *both* of the approval requirements are met. Further, in accordance with the bylaws of EIOW, the presence, in person, of at least ten Members is necessary to constitute a quorum at the Special Meeting.

Eligibility to Vote

A Person will be entitled to vote on the Mutual Holding Company Plan by virtue of having met one of the following eligibility requirements:

First Eligibility Category

- Such Person was listed on the records of EIOW as a Policyholder on the *Resolution Date* of one or more Policies (or as principal if the Policy is a surety bond or obligation); and
- One or more of these Policies was In Force on the *Record Date*.

Second Eligibility Category

- Such Person was listed on the records of EIOW as a Policyholder on the *Record Date* of one or more Policies (or as principal if the Policy is a surety bond or obligation); and
- One or more of these Policies was In Force on the *Record Date*.

Under this voting procedure, Policyholders are grouped into two categories depending on their having met one or both of the voting eligibility requirements. The two eligibility categories exist due to differences regarding Policyholders' right to vote under the Wisconsin Statutes and the EIOW bylaws. For the sake of clarity, the two eligibility categories do not cancel one another out; rather, the first eligibility category is a subset of the second eligibility category. **This voting procedure ensures that current Members of EIOW have the opportunity to vote on the Mutual Holding Company Plan and the transactions contemplated thereby.**

Each Eligible Member may only cast his vote once, regardless of whether he is qualified to vote under both eligibility categories.

How to Vote

Eligible Members may vote in one of the following two ways:

- by casting their vote in person at the Special Meeting.
- by mailing in the proxy enclosed with this Policyholder Information Statement.

In Person. Eligible Members may vote in person at the Special Meeting.

By Proxy. Enclosed along with this Policyholder Information Statement is a proxy. The proxy allows Eligible Members to authorize designated officers of EIOW to cast the Eligible Member's vote or designate any other person as proxy agent, by crossing out the proxy agents named on the proxy form and substituting the name of another person. If an Eligible Member elects to vote by proxy, the proxy must be returned by mail to EMPLOYERS INSURANCE OF WAUSAU A Mutual Company, P.O. Box 8245, Edison, New Jersey 08818-9085 and received by EIOW by 5 p.m., Central Time, October 20, 2001 in order to be valid. Only proxies that are in a form approved by the Wisconsin Commissioner may be used to vote. A postage pre-paid envelope is enclosed for your use.

The proxy must be marked with a vote either FOR adoption of the Mutual Holding Company Plan or AGAINST adoption of the Mutual Holding Company Plan. If the proxy contains a vote both FOR and AGAINST the Mutual Holding

Company Plan, such proxy will not be counted. If the proxy is executed but no choice is indicated, the proxy will be voted FOR the approval of the Mutual Holding Company Plan.

Eligible Members may also use their own proxy form authorizing individuals other than designated officers of EIOW to cast their votes by proxy; however, only proxies that are in a form approved by the Wisconsin Commissioner will be counted. The proxy form must require the Eligible Member to choose whether to vote FOR or AGAINST the Mutual Holding Company Plan, and the proxy agent must vote the proxy according to the choice made by the Eligible Member. Eligible Members may designate any person as such Eligible Member's proxy agent, including by the crossing out of the proxy agents named on the proxy form sent to the Eligible Member by EIOW and substituting on the form the name of another person as the proxy for the Eligible Member.

Certification of Votes

An officer of EIOW or its duly authorized representative will certify to the Wisconsin Commissioner the tabulation of votes of Members at the Special Meeting in order to demonstrate that the Member approval requirements have been met with respect to the Mutual Holding Company Plan, namely that at least a majority of Policyholders who (i) were Policyholders on the Resolution Date and who remain Policyholders on the Record Date and (ii) are Members on the Record Date voted FOR such proposal.

Solicitation of Votes

Votes FOR the approval of the Mutual Holding Company Plan may be solicited by representatives (including directors and officers) of EIOW in person or by mail, telephone, facsimile or other means of communication. Furthermore, EIOW may retain EquiServe as an information agent, for a fixed payment plus additional fees per solicitation or response to requests for information, to assist in the solicitation of votes and the provision of information in connection with the Mutual Holding Company Plan.

Any questions regarding voting issues should be directed to the EIOW MHC Information Line toll-free at (800) 442-4295 between the hours of 7 a.m. and 7 p.m., Central Time, Monday through Friday. EIOW may also be contacted using a TDD (telephone device for the deaf) toll-free at (888) 789-7703.

THE RESTRUCTURING

The following description of certain aspects of the Restructuring is qualified in its entirety by reference to the other information contained in this Policyholder Information Statement, including the Annexes and the documents incorporated by reference herein. A full text of the Mutual Holding Company Plan is attached to this Policyholder Information Statement as Annex A. Policyholders are encouraged to read the Mutual Holding Company Plan in its entirety.

THE BOARD OF DIRECTORS OF EIOW HAS ADOPTED THE MUTUAL HOLDING COMPANY PLAN AUTHORIZING THE RESTRUCTURING SUBJECT TO APPROVAL OF THE WISCONSIN COMMISSIONER AND THE ELIGIBLE MEMBERS OF EIOW AND THE SATISFACTION OF CERTAIN OTHER CONDITIONS.

General

The Mutual Holding Company Plan provides that EIOW will form, as its parent company, a Wisconsin mutual holding company and will change its current legal structure from a Wisconsin mutual insurance company to a Wisconsin stock insurance company. A copy of the Mutual Holding Company Plan is attached to this Policyholder Information Statement as Annex A. The Restructuring will be accomplished in accordance with the procedures set forth in the Mutual Holding Company Plan and the requirements of Applicable Law, including in accordance with Chapter 644 of the Wisconsin Statutes.

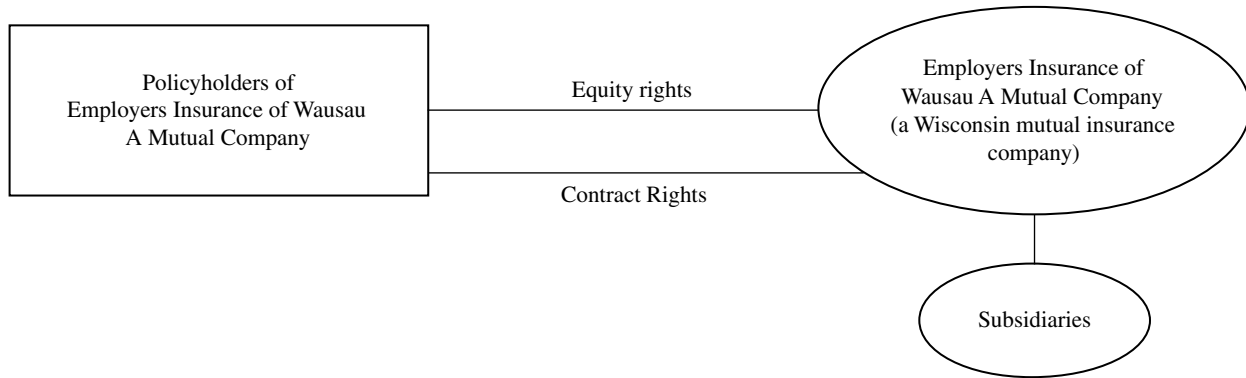
Following the receipt of all required regulatory approvals, including the approval of the Mutual Holding Company Plan by the Eligible Members, and satisfaction of all other conditions precedent to the consummation of the Restructuring and pursuant to the Mutual Holding Company Plan:

- EIOW will form EIOW MHC, a Wisconsin mutual holding company which will be capitalized with approximately \$500,000 in order to fund operating and other expenses;
- EIOW will reorganize into Converted EIOW, a Wisconsin stock property and casualty insurance company;
- EIOW MHC will be issued 100% of the initial voting stock of Converted EIOW; and
- All the Equity Rights of Members in EIOW will be extinguished and replaced with Equity Rights in EIOW MHC.

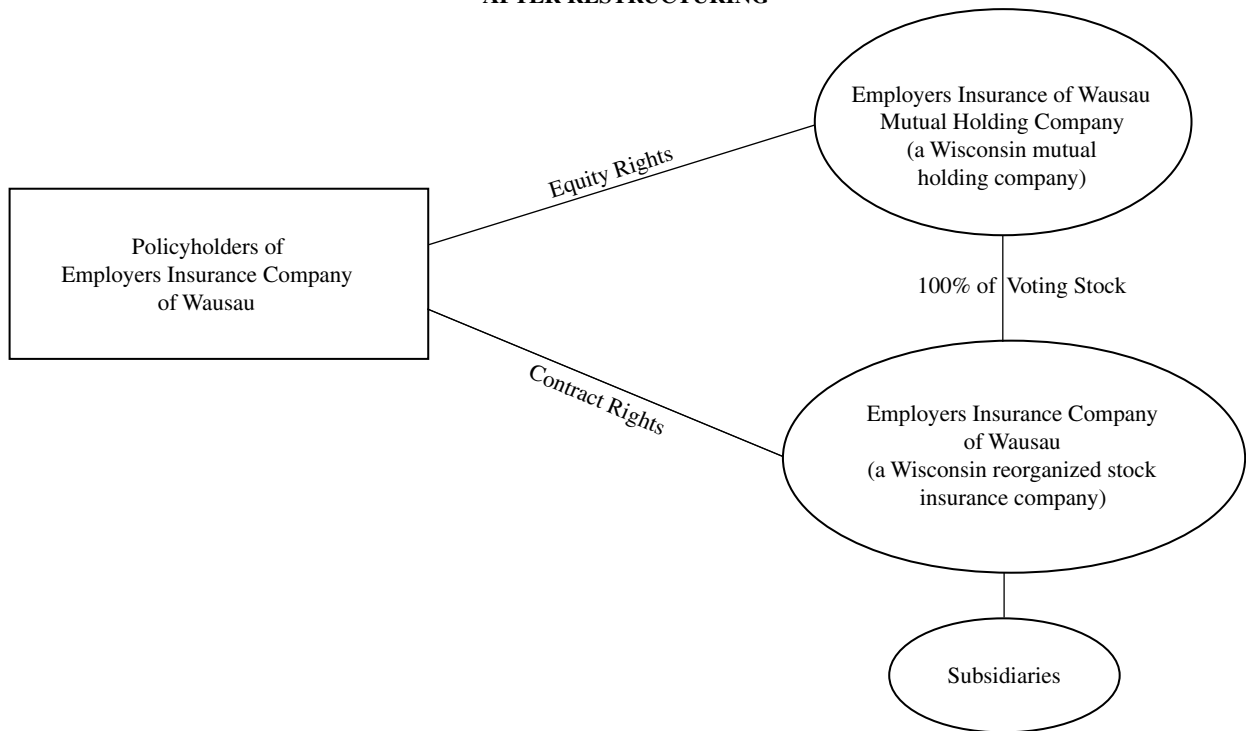
As a result of the Restructuring, EIOW will continue in existence as Converted EIOW, a stock property and casualty insurance company organized under the laws of Wisconsin. Converted EIOW will continue to conduct its business and operations in substantially the same manner as before the Restructuring.

The following diagrams illustrate EIOW's organizational structure before and after consummation of the Mutual Holding Company Plan:

BEFORE RESTRUCTURING



AFTER RESTRUCTURING



EIOW'S RESTRUCTURING IS CONDITIONED UPON, AMONG OTHER THINGS, THE APPROVAL OF LMIC'S PLAN OF REORGANIZATION IN ALL RESPECTS, AND THE RECEIPT OF LMFC POLICYHOLDER AND MASSACHUSETTS COMMISSIONER APPROVALS OF LMFC'S PLAN OF REORGANIZATION, ALTHOUGH BOTH CONDITIONS ARE SUBJECT TO WAIVER BY A MAJORITY VOTE OF EIOW'S BOARD OF DIRECTORS. See "Conditions to Consummation of the Mutual Holding Company Plan," page 56.

BOARD OF DIRECTORS RECOMMENDATION FOR APPROVAL

General

The Board of Directors of EIOW unanimously adopted the Mutual Holding Company Plan on September 14, 2000. On August 21, 2001, EIOW's Board of Directors unanimously adopted certain amendments to EIOW's Mutual Holding Company Plan. The Board of Directors of EIOW believes that the Mutual Holding Company Plan satisfies the statutory requirements for the Wisconsin Commissioner's approval. The Board of Directors of EIOW believes that the Mutual Holding Company Plan is fair and equitable to EIOW's Policyholders and expected to benefit EIOW's Policyholders.

The Restructuring is an integral part of a Global Transaction that, assuming all necessary regulatory approvals and filings have been obtained or made and all other conditions necessary to consummation are met, will bring all of the Liberty Companies, including LMIC and LMFIC, under the common ownership of Liberty Mutual Holding Company. Policyholders of EIOW, LMIC and LMFIC will become members of and have Equity Rights in a single mutual holding company.

CSFB Fairness Opinion

To assist in the deliberative process regarding the Mutual Holding Company Plan, management retained CSFB as financial advisor.

In its deliberations regarding the Mutual Holding Company Plan, the Board of Directors considered the opinion of CSFB, dated September 14, 2000, which was subsequently updated to August 21, 2001, that, in CSFB's opinion, as of the date of the opinion, (i) the extinguishment of Members' Equity Rights in EIOW and the replacement of such Equity Rights with Equity Rights in EIOW MHC and the continuance of Members' Contract Rights in Converted EIOW pursuant to the Mutual Holding Company Plan and the MHC Merger Agreement is fair to Policyholders who are Members of EIOW, taken as a group, from a financial point of view; and (ii) assuming that the MHC Merger Agreement was consummated as of the date of the opinion in accordance with its terms, the MHC Merger Agreement is fair to Members of EIOW MHC, taken as a group, from a financial point of view.

CSFB was not asked to and did not express an opinion as to (i) which of the Policyholders are considered Members; and (ii) the fairness of the Restructuring or the MHC Merger Agreement with respect to any individual Policyholder or class of Policyholders of EIOW. In its review, CSFB relied without independent verification upon the accuracy and completeness in all material respects of all information reviewed by it for purposes of rendering its opinion. In reviewing financial forecasts, CSFB assumed that such information had been reasonably prepared on bases reflecting the best available estimates and judgments of EIOW's management team as of the date of its opinion as to the future financial performance of EIOW. In addition, CSFB was not asked to make, and did not make, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of EIOW or conduct an actuarial review of EIOW. Furthermore, CSFB's opinion was necessarily based upon financial, economic, market and other conditions and the legal, tax and regulatory environments as they existed and could be evaluated on the date of its opinion. As compensation for its investment banking services in connection with the Restructuring, EIOW agreed to pay CSFB a fee of \$300,000.

Although CSFB's opinion was provided to the Board of Directors in connection with its consideration of the Mutual Holding Company Plan, it is not a recommendation to any Member as to how such Member should vote at the Special Meeting on the proposed Mutual Holding Company Plan. **A COPY OF CSFB'S FAIRNESS OPINION IS INCLUDED AS ANNEX F TO THIS POLICYHOLDER INFORMATION STATEMENT AND POLICYHOLDERS ARE URGED TO READ THE OPINION IN ITS ENTIRETY IN CONNECTION WITH THEIR CONSIDERATION OF THE PROPOSED RESTRUCTURING.**

CSFB is also acting as financial advisor to the boards of directors of LMIC and LMFIC in connection with their reorganizations. It is also contemplated that CSFB will act as financial advisor to the board of directors of Liberty Mutual Holding Company in connection with the transactions which comprise the Global Transaction, and to the board of directors of EIOW MHC in connection with the MHC Merger. CSFB will render, in the aggregate, five fairness opinions, including the opinion to EIOW attached as Annex F, in connection with its role as financial advisor to the boards of EIOW, LMIC, LMFIC, EIOW MHC and Liberty Mutual Holding Company. CSFB will be paid \$300,000 for each such fairness opinion. Payment of such fee is not contingent on the successful consummation of the reorganizations or mergers referenced in each such opinion. CSFB has provided certain investment banking services to affiliates of EIOW in the past and on an ongoing basis, for which services CSFB has been and will be compensated. CSFB is serving as the financial advisor to Liberty Financial Companies, Inc. ("Liberty Financial"), of which LMIC indirectly owns approximately 70%, in connection with Liberty Financial's pending sale of its annuity and bank marketing businesses, and the pending sale of its asset management business. The aggregate fees to be paid to CSFB in connection with those transactions are approximately \$17.5 million, subject to closing adjustments.

EIOW's Board of Directors and management did not ask EIOW's financial advisor, CSFB, to evaluate any transactions (including demutualizations) other than the Restructuring or the Global Transaction. As a result, CSFB was not asked to, and did not, estimate the aggregate amount of the consideration payable upon a demutualization of EIOW or how such consideration could be allocated among Policyholders.

REASONS FOR AND POTENTIAL BENEFITS OF THE RESTRUCTURING

General

The insurance industry is highly regulated and capital intensive due to a combination of minimum regulatory capital thresholds and a solvency-based model of insurance regulation and accounting. Stock insurance companies are better able to manage capital requirements since their capital structure provides more options for raising new capital for insurance businesses. Until recently, mutual insurance companies did not have the same capital-raising options as stock companies. Mutual insurance companies generally raise capital either incrementally, through retention of net earnings, or by issuing debt in the form of surplus notes.

Insurers face increased competition from holding company systems directed by banks, mutual fund management companies and retail brokerage firms as part of a trend of deregulation and consolidation of the insurance and financial services industries. The enactment of mutual holding company laws in many states across the country, including Wisconsin, can be viewed as an integral part of this trend. State legislatures as well as the federal government have recognized that it is desirable for mutual insurance companies to have additional options to diversify and compete in global financial services, while preserving their mutual form of organization. The Wisconsin Statutes establish a procedure whereby a mutual insurance company may convert into a stock company owned by a non-insurance mutual holding company, after approval by the mutual insurance company's board of directors, the OCI and the mutual insurance company's policyholders. This procedure for restructuring under a mutual holding company plan provides an additional means for mutual insurance companies to achieve a more flexible capital structure, while preserving a mutual form of organization.

EIOW is faced with significant challenges in the insurance and financial services marketplace that have affected and will continue to affect its ability to be a leader. Rapid technological change forces many insurers to invest in new products and technologies in order to meet changing insurance and investment needs and customer service expectations. Strong financial and claims paying ratings, which are important to an insurer's future success, are predicated on the insurer's ability to achieve high levels of profitable growth. For many years EIOW has provided quality insurance and quality service to its policyholders at a reasonable cost. However, the current environment gives insurance companies larger than EIOW a competitive advantage because they are able to spread product development, distribution and technology costs across all books of business.

Challenges Facing EIOW and the Liberty Mutual Group Today

The Liberty Mutual Group's mission is to help people live safer, more secure lives. In the pursuit of that mission, EIOW is committed to providing high quality products and services at competitive prices.

EIOW is operating in one of today's most competitive industry segments: property and casualty insurance. Global consolidation, low levels of growth in the domestic insurance market, as well as excess industry capital have created an environment which has increased competitive pressures and reduced profitability.

EIOW has not been immune to these forces. As a mutual insurance company, EIOW has limited access to the equity market and currently has limited ability to issue debt. Thus, for example, acquisitions must be made on a cash basis only. Furthermore, the Liberty Mutual Group's current structure whereby EIOW, LMIC and LMFIC are each owned by their respective policyholders, limits efficient allocation of excess capital and reduces goodwill capacity.

On September 14, 2000, the Board of Directors of EIOW unanimously adopted the Mutual Holding Company Plan to reorganize from a mutual property and casualty insurance company to a stock property and casualty insurance company under a mutual holding company structure. Subsequently, on August 21, 2001, the Board unanimously adopted certain amendments to the Mutual Holding Company Plan. The Board of Directors determined that the Restructuring will enhance the financial strength and strategic flexibility of EIOW by creating a corporate structure that will provide access to capital

from sources currently unavailable to EIOW and enable EIOW to continue competing effectively. The potential benefits of the Restructuring to EIOW, and derivatively, to the Policyholders, include the following:

(1) The Restructuring Will Provide EIOW with Greater Operating Flexibility

The flexibility that the mutual holding company structure will provide EIOW is one of the most important reasons for the Restructuring. The benefits of flexibility for Converted EIOW and its newly formed parent company take several forms:

- Capital flexibility — the flexibility to access capital markets in ways currently not available to mutual insurance companies.
- Strategic and structural flexibility — the flexibility to pursue growth through consolidations, mergers, business combinations, acquisitions and strategic alliances with other unaffiliated mutual insurers and benefit from a more favorable accounting treatment.

These benefits are closely interrelated. Capital flexibility, such as the ability to use stock (as opposed to cash) to consummate acquisitions, often means strategic flexibility because the ability to use stock is generally more tax efficient and will increase such growth opportunities. Strategic flexibility and structural flexibility go hand in hand because the mutual holding company structure will enable two or more mutual insurers to combine under a single holding company, while continuing to allow each insurer to maintain its separate brand identity, marketing strategy and distribution channels. As of the first half of 2001, twenty-seven states and the District of Columbia had enacted legislation allowing their domestic mutual insurance companies to reorganize by forming a mutual holding company and converting the mutual insurer into a stock corporation.

Capital Flexibility — Access to Capital Markets

As a mutual insurance company, EIOW does not have shares of stock to sell into capital markets. The mutual holding company structure will allow any new intermediate holding companies formed as parent companies of Converted EIOW, as well as Converted EIOW itself, to sell shares of their stock to the public or other third parties subject to the limitation that EIOW MHC, the ultimate parent, will be required to control Converted EIOW through direct or indirect ownership of not less than 51% of the voting stock of Converted EIOW. EIOW has no immediate pressing need for external capital, and no issuance and sale of stock to the public is currently contemplated for the near future. The Board of Directors has determined, however, that it is desirable that EIOW be positioned to raise equity capital for the benefit of Converted EIOW and other subsidiaries of EIOW MHC.

Although no issuance and sale of stock to the public is currently contemplated, easier access to capital markets, whether for issuance of equity or debt securities, has the following potential benefits for Converted EIOW and its Policyholders:

- Capital raised by an intermediate holding company may be used to either contribute capital to, or acquire stock or other securities issued by, Converted EIOW, thereby increasing Converted EIOW statutory capital and surplus. Additional capital infusion to Converted EIOW would increase the company's surplus, producing a financially stronger insurance company.
- Capital raised by an intermediate holding company may be used to invest in or acquire other complementary businesses benefiting the operations of Converted EIOW, without enduring the costs and delays associated with proprietary development of new lines, products and services.
- New capital contributed to Converted EIOW could enable Converted EIOW to expand the distribution channels for its current products and services, and/or develop new products and services. Higher volumes of sales could benefit Policyholders by reducing the unit costs attributable to fixed expenses.
- New capital contributed to Converted EIOW could be used for investment in infrastructure improvements, such as information system enhancements, which would allow for more efficient operations (the ability to spread operating costs over a larger number of policies) and for the provision of improved services to Policyholders.
- EIOW MHC and its subsidiaries will have greater ability and newly acquired flexibility to take advantage of opportunities to acquire other companies or to use newly acquired capital to acquire additional blocks of business to be managed by Converted EIOW, thereby gaining economies of scale which could allow for more cost-efficient operations.
- Generally, rating agencies favorably view the financial flexibility of companies that can raise both debt and equity. The Restructuring provides Converted EIOW with better prospects either to maintain, or possibly to increase, its ratings from various rating agencies.

Strategic and Structural Flexibility — Increased Growth and Greater Flexibility in Organizing Future Business Opportunities

The mutual insurance structure is a somewhat inflexible corporate and operational structure. In comparison to stock companies, most mutual insurers have limited ability to invest in non-insurance affiliates due to regulatory limitations on investments in subsidiaries. Mutual insurers, such as EIOW, are left at a competitive disadvantage.

By providing Converted EIOW with many of the competitive advantages that its stock insurance competitors enjoy, the mutual holding company structure will afford Converted EIOW greater strategic flexibility to pursue growth through consolidations, mergers, business combinations, acquisitions and strategic alliances. Through the Restructuring, EIOW MHC will become the parent holding company of Converted EIOW. EIOW MHC may diversify into other insurance and non-insurance businesses. The ability to use stock of an intermediate holding company and/or Converted EIOW, as opposed to cash, to consummate acquisitions will increase such opportunities. In addition, the mutual holding company structure, unlike EIOW's current structure, enables two or more mutual insurers to combine under a single holding company while allowing each insurer to maintain its separate brand identity, marketing strategy and distribution channels, thereby facilitating mutual-to-mutual transactions.

The strategic and structural flexibility afforded by the Restructuring is most evident in the fact that by successfully consummating the Restructuring, Converted EIOW and EIOW MHC will be positioned to undergo the Global Transaction. The Global Transaction refers to a series of transactions designed to combine all three Liberty Companies under a single holding company structure, making them affiliates with a common mutual parent. See *"Description of the Global Transaction;"* page 34; see also *"Elements of the Global Transaction,"* page 35.

In addition, the mutual holding company structure affords a more favorable accounting treatment. Acquisitions typically generate goodwill, which generally would be amortized by most stock insurance companies over an extended period of years. EIOW is currently subject to SAP, which provides that goodwill may not be carried at an amount in excess of 10% of adjusted surplus (surplus after reduction for goodwill and certain other admitted assets). Goodwill recorded within the aforementioned limitation must be amortized over a period not to exceed ten years. Any goodwill incurred in excess of this maximum allowable amount must be immediately charged against surplus.

This reduction of surplus resulting from write-offs of goodwill associated with acquisitions would be minimized in a mutual holding company structure. The mutual holding company, unlike EIOW, will not be subject to SAP but to GAAP, which are more favorable because they do not impose the same restrictions on goodwill as SAP. As an insurance company within a holding company structure, EIOW has the flexibility to enjoy the more favorable accounting treatment.

(2) The Restructuring will Preserve Mutuality

Stock insurers have easier access to capital markets and greater flexibility in pursuing growth and acquisition opportunities compared to mutual insurers. Mutuality, however, has several important benefits not available to stock insurers.

EIOW was founded in 1911 on the fundamental belief that having common goals with EIOW's Policyholders was the best way to prevent workplace accidents and injuries and minimize losses when accidents occur. Mutuality entails a better alignment of owners' collective interests and customers' individual interests. As owners by virtue of their Equity Rights in EIOW, policyholders collectively have an interest in minimizing losses and creating surplus for the future needs of the organization. The Board of Directors believes the preservation of the mutual nature of the organization through the mutual holding company structure is important. The mutual holding company structure will allow management to preserve the mutual culture that the Board of Directors believes has been a key factor in the past, and will continue to be important in the future in the generation of significant value for Policyholders.

The Restructuring will maintain various advantages that EIOW and its Policyholders have historically enjoyed from operating as a mutual company. Under the Restructuring, EIOW will change its corporate form from a mutual insurer to a stock insurer but Policyholders will continue to maintain a controlling ownership interest in Converted EIOW — by virtue of their Equity Rights in Converted EIOW's ultimate mutual corporate parent, EIOW MHC. The Restructuring will thus help preserve some of the key features of mutuality — the corporate culture derived from the ownership interest held by customers in a business enterprise structured in mutual, rather than stock, company form.

Under a mutual enterprise, management has the benefit of being able to focus on long-term business objectives. The rapidly increasing attention on quarterly earnings of stock companies can lead to such companies making decisions which although having short-term earnings benefits, fail to position the company for the longer term. Vesting ultimate control over a business enterprise such as Converted EIOW in the hands of its policyholders permits management to focus on

policyholder concerns and objectives, as opposed to short-term profit margins, shareholder dividends and strong market valuations.

Even in the event of an initial public offering or the sale of shares of Converted EIOW or any of its intermediate stock holding companies to third parties, the mutual holding company structure contemplated by the Restructuring helps ensure that policyholder interests will remain paramount. Under the Wisconsin Statutes, EIOW MHC is required at all times to hold, either directly or indirectly, at least 51% of the voting stock of Converted EIOW. Therefore, Policyholders of Converted EIOW, as Members of EIOW MHC, will at all times own a controlling voting stake in Converted EIOW and its subsidiaries.

(3) The Restructuring Provides the Foundation for the Global Transaction

One important reason for the Restructuring is that it is the first step in a series of transactions designed to combine all three Liberty Companies under a single holding company, making them affiliates with a common parent. These transactions are collectively referred to as the “Global Transaction.” Under the Global Transaction, each of EIOW, LMIC and LMFIC will reorganize to mutual holding company structures under the laws of Wisconsin and Massachusetts, as applicable, and subject to receipt of all necessary regulatory and policyholder approvals. The Global Transaction consists of the following steps:

First, EIOW will reorganize, forming as its corporate parent EIOW MHC and itself converting to a stock insurer. Prior to or concurrently with EIOW’s Restructuring, LMIC will reorganize, forming as its corporate parent Liberty Mutual Holding Company, a Massachusetts mutual holding company, and LMIC itself will convert to a stock insurer. Liberty Mutual Holding Company will contribute the shares of Reorganized LMIC down to LMGI.

Second, EIOW MHC will merge with and into Liberty Mutual Holding Company, with Liberty Mutual Holding Company being the surviving entity. Concurrently with the mutual holding company merger, Wausau Insurance Acquisition Corporation (“Wausau Insurance Acquisition Corp.”), a Wisconsin stock insurance company subsidiary of Liberty Mutual Holding Company, will merge with and into Converted EIOW, with Converted EIOW being the surviving entity. As a result of the merger between EIOW MHC and Liberty Mutual Holding Company and the merger of Wausau Insurance Acquisition Corp. and Converted EIOW, Converted EIOW will become a wholly-owned stock subsidiary of Liberty Mutual Holding Company.

Third, concurrently with Converted EIOW becoming a wholly-owned stock subsidiary of Liberty Mutual Holding Company, LMFIC will undergo its mutual holding company reorganization. LMFIC will convert into a stock insurance company and immediately thereafter merge with Liberty Insurance Acquisition Corporation (“Liberty Insurance Acquisition Corp.”), a Massachusetts wholly-owned stock insurance company subsidiary of Liberty Mutual Holding Company, with Reorganized LMFIC being the surviving entity. As a result, Reorganized LMFIC, like Converted EIOW, will become a wholly-owned stock subsidiary of Liberty Mutual Holding Company.

Lastly, immediately upon Converted EIOW and Reorganized LMFIC becoming wholly-owned subsidiaries of Liberty Mutual Holding Company, Liberty Mutual Holding Company will contribute the shares of Converted EIOW and Reorganized LMFIC down to its stock holding company subsidiaries. Upon consummation of the Global Transaction, each of Converted EIOW, Reorganized LMIC and Reorganized LMFIC will become indirect, wholly-owned stock subsidiaries of Liberty Mutual Holding Company.

The Global Transaction and the benefits of the Global Transaction are described in more detail later in this Policyholder Information Statement. See “*Description of the Global Transaction*,” page 34, “*Elements of the Global Transaction*,” page 35 and “*Benefits of the Global Transaction*,” page 38.

EFFECTS OF THE RESTRUCTURING

General

The Restructuring will have no immediate material effect on Converted EIOW’s current financial condition, management or operations. The Restructuring will not result in any change in existing coverages or services provided to Policyholders, or in existing offices, management, staff or distribution systems. After the Restructuring, Converted EIOW will continue to be subject to the insurance and applicable corporate laws of Wisconsin, as well as to regulation and examination by the OCI and those states and foreign jurisdictions where it is authorized to transact business. See “*Regulation*,” page 53.

Members of EIOW have both Contract Rights and Equity Rights by virtue of being Policyholders. The Contract Rights of Members, as insureds, consist of the right to receive the type and amount of insurance coverage specified in their

Policies in accordance with the terms and provisions thereof, including policyholder dividends or refunds of premiums as, if and when declared by the Board of Directors of EIOW. The principal Equity Rights of Members, are (i) the voting rights of a Member arising under the Wisconsin Statutes 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 and (ii) the right to share in any distribution of, or to receive consideration based upon, the net worth of EIOW in liquidation, dissolution or conversion proceedings. Equity Rights continue only so long as the Policy which gives rise to such Equity Rights is not cancelled or terminated and remains In Force, except in the event of a demutualization as provided under Section 611.76 of the Wisconsin Statutes. Certificates evidencing the Equity Rights in EIOW are not issued but instead, a list of Members is maintained on the books and records of EIOW.

On the Effective Date of the proposed Restructuring, the Equity Rights and the Contract Rights of Members will be separated. By operation of law, the Equity Rights held by EIOW's Policyholders in EIOW will be extinguished and replaced with Equity Rights in EIOW MHC. The rights of Members to share in the distribution, if any, of the profits and earnings of EIOW will be extinguished as one aspect of the extinguishment of their Equity Rights in EIOW. Existing Contract Rights will remain with Converted EIOW. Each Person who becomes a Policyholder of a Policy issued by Converted EIOW on and after the Effective Date will automatically become a Member of EIOW MHC and have Equity Rights in EIOW MHC, just as such Person would have become a Member of EIOW before the Restructuring. Equity Rights in EIOW MHC continue so long as the Policy which gives rise to such Equity Rights remains In Force, except in the event of a demutualization as provided under Section 611.76 of the Wisconsin Statutes. Certificates evidencing the Equity Rights in EIOW MHC will not be issued but instead, a list of Members will be maintained on the books and records of EIOW MHC.

Contract Rights

Every Policy that has been issued by EIOW which is In Force on the Effective Date shall be and will remain as it exists at the Effective Date. EIOW's current policies with respect to dividends or refunds of premiums to Policyholders will not be affected by the Restructuring.

Equity Rights

Members of EIOW MHC will be entitled to vote at annual and special meetings, to vote in the election of directors of EIOW MHC and to vote on such other matters as may be presented to them from time to time by the board of directors of EIOW MHC in accordance with the articles of incorporation and bylaws of EIOW MHC (copies of which are attached as Schedules C and D, respectively, to the Mutual Holding Company Plan, which, in turn, is attached as Annex A to this Policyholder Information Statement) or as otherwise provided by law. The voting rights of Members of EIOW MHC will be equal and each Member will be entitled to only one vote regardless of the number of Policies one holds.

Equity Rights in EIOW MHC will not be transferable by Members. Pursuant to the Restructuring, each Member of EIOW MHC will be prohibited from transferring such Equity Rights in EIOW MHC (and any right arising from such Equity Rights). A Member's Equity Rights in EIOW MHC will automatically terminate upon cancellation, termination or expiration of the Converted EIOW Policy from which such Equity Rights are derived. No Member of EIOW MHC, in his or her capacity as a Member, will be personally liable for the debts, liabilities or obligations of EIOW MHC or any of its subsidiaries nor subject to assessments of any kind.

EIOW MHC has no plans to pay dividends or make any other type of distributions to its Members following the Restructuring. Furthermore, the Mutual Holding Company Plan and the articles of incorporation of EIOW MHC state that any payment of equity dividends shall be made to Members only with the approval of the Wisconsin Commissioner.

Dividend Policies

There are two different types of dividends which EIOW is permitted to pay its Policyholders: (1) "policyholder dividends" which arise out of a Policyholder's Contract Rights under his or her Policy and (2) "equity dividends" which arise out of the Policyholder's Equity Rights as a Member of EIOW. Equity dividends are also sometimes referred to as "member dividends." Policyholder dividends, which arise out of a Policyholder's Contract Rights, typically are paid to Policyholders based upon the loss experience of the individual Policyholder or the dividend classification to which such Policyholder belongs. Equity dividends arise solely from a Policyholder's Equity Rights. Equity dividends, if paid, would be paid to all Policyholders regardless of the loss experience of an individual Policyholder or the dividend classification to which such Policyholder belongs.

Since EIOW MHC will not be an insurer, it will not pay policyholder dividends. **However, Converted EIOW expects to continue EIOW's current practice of paying policyholder dividends after the Restructuring.**

DESCRIPTION OF THE GLOBAL TRANSACTION

General

It is anticipated that EIOW's Restructuring will be part of a series of transactions that will result in EIOW and one or both of its affiliates, specifically, LMIC and LMFIC, coming under the common ownership of Liberty Mutual Holding Company. Furthermore, policyholders of each of EIOW, LMIC and LMFIC will become members of and have Equity Rights in a single mutual holding company.

The successful consummation of the Global Transaction will result in a streamlined organizational structure which positions Liberty Mutual Holding Company at the top of the organizational chart. The new organizational structure will not only align the legal structure of the Liberty Companies with their current operating and economic structures, it will also afford the Liberty Mutual Group greater capital flexibility, lead to a focus on GAAP results, increase goodwill capacity and enable the Liberty Mutual Group to continue competing effectively in a changing insurance and financial services landscape. Above all, it will potentially enable the Liberty Mutual Group to enjoy the advantages of increased scale and at the same time allow each of the Liberty Companies to retain their separate identities and brands as subsidiaries of Liberty Mutual Holding Company. Policyholders will benefit from their association with a much larger and potentially more financially stable organization.

The Liberty Mutual Group Today

Operation of the Liberty Companies

LMIC and LMFIC were organized under the laws of Massachusetts in 1912 and 1908, respectively. EIOW, which was organized under the laws of the State of Wisconsin in 1911, became affiliated with LMIC and LMFIC on December 31, 1998, upon the signing of an affiliation agreement which enabled EIOW to participate in the Liberty Pool. At December 31, 2000, LMIC had surplus of approximately \$5.5 billion (inclusive of surplus notes in the principal amount of \$1.1 billion). At December 31, 2000, LMFIC and EIOW had surplus of approximately \$894 million and approximately \$745 million (inclusive of an EIOW surplus note in the principal amount of \$220 million held by LMIC), respectively. As of September 14, 2000, LMIC, LMFIC and EIOW had approximately 750,000, 1,900,000 and 16,600 policyholders, respectively. EIOW's management believes that there has been no material change in the number of policyholders of LMIC, LMFIC and EIOW as of December 31, 2000.

EIOW, LMIC and LMFIC are under common "control" — meaning, under applicable insurance laws, that one company has the power to direct the management and policies of another company through voting securities, contract or otherwise. In the case of the Liberty Companies, the same individuals serve on the boards of directors of LMIC and LMFIC, and seven of the ten EIOW board members are members of LMIC's senior management. From a management and operational perspective, the Liberty Companies are highly integrated, functioning under common management and sharing in the risks and rewards of their property and casualty insurance underwriting operations by virtue of their participation in the Liberty Pool.

Intercompany Reinsurance Pool

EIOW and the other Liberty Companies enhance the geographic and product risk diversity of their property and casualty businesses by participating in the Liberty Pool. An intercompany reinsurance pool, such as the Liberty Pool, is an arrangement under which affiliated insurance companies pool their policy liabilities and related premiums. Here, the insurance written by the pool participants is reinsured by LMIC, the lead company of the Liberty Pool, and each participating company assumes an agreed-upon percentage of the Liberty Pool's combined underwriting results. As a direct result of their participation in the Liberty Pool, the Liberty Companies share underwriting profits and losses in proportion to their percentage interests in the Liberty Pool. LMIC and LMFIC have been pooling their underwriting results for approximately 44 years. EIOW joined the Liberty Pool in 1999, following its affiliation with LMIC.

Insurance and Investment Operations

The various insurance operation support functions of EIOW and the other Liberty Companies are performed by LMIC and its subsidiaries. For more than 50 years, LMIC has provided all operational support for LMFIC, including underwriting, claims, policyholder services, investment and administration activities. Effective December 31, 1998, all employees of the EIOW organization became employees of LMIC or its subsidiaries. All underwriting, claims, policyholder services, investment and administration services are provided to EIOW by LMIC and its subsidiaries. Accordingly, neither EIOW nor LMFIC has any employees or insurance support operations. The costs of services provided by LMIC are shared through the Liberty Pool and various management services and investment management agreements.

Investment Portfolio

Although the investment portfolios of the Liberty Companies are separate and distinct, without any pooling of investment income, gains or losses, the individual investment portfolios of the Liberty Companies are centrally managed by LMIC.

ELEMENTS OF THE GLOBAL TRANSACTION

The Global Transaction, of which the Restructuring is intended to be an integral part and which is designed to bring the Liberty Companies under the common ownership of Liberty Mutual Holding Company, consists of the following transactions:

LMIC Reorganization

Prior to or concurrently with the Restructuring of EIOW, and assuming that all necessary regulatory and policyholder approvals are obtained and all other conditions necessary to consummation are met, LMIC will reorganize into a stock insurance company subsidiary of a Massachusetts mutual holding company under the laws of the Commonwealth of Massachusetts. As part of its overall reorganization, LMIC will form Liberty Mutual Holding Company, which will initially own all of the voting stock of Reorganized LMIC. Liberty Mutual Holding Company will contribute to LMHC Massachusetts Holdings all of the voting stock of Reorganized LMIC. LMHC Massachusetts Holdings, in turn, will contribute all of the voting stock of Reorganized LMIC to LMGI. Upon consummation of the LMIC reorganization, policyholders of LMIC will receive Equity Rights in Liberty Mutual Holding Company, while their Equity Rights in LMIC will be extinguished. The contract rights of LMIC policyholders will remain with Reorganized LMIC.

MHC Merger

Assuming the reorganizations of EIOW and LMIC are consummated, EIOW MHC's and Liberty Mutual Holding Company's respective boards of directors are expected to vote on the MHC Merger Agreement. Pursuant to the MHC Merger Agreement, EIOW MHC will merge with and into Liberty Mutual Holding Company, with Liberty Mutual Holding Company as the surviving mutual entity and, simultaneously therewith, Wausau Insurance Acquisition Corp. will merge with and into Converted EIOW, with Converted EIOW as the surviving entity of the merger. The MHC Merger Agreement is subject to the approval of the boards of directors of both EIOW MHC and Liberty Mutual Holding Company, at least two-thirds of Liberty Mutual Holding Company's members voting at a special meeting for such purpose, and the approval of regulatory authorities, including the approvals of the Wisconsin Commissioner and the Massachusetts Commissioner.

The MHC Merger Agreement sets forth the rights, duties and obligations of the parties to the agreement, namely, Liberty Mutual Holding Company, EIOW MHC, Converted EIOW and Wausau Insurance Acquisition Corp. Pursuant to the terms of the MHC Merger Agreement, the Equity Rights of Members in EIOW MHC will be extinguished and replaced with Equity Rights in Liberty Mutual Holding Company. The contract rights of EIOW policyholders will remain upon consummation of the merger with Converted EIOW. Upon consummation of the MHC Merger Agreement, Liberty Mutual Holding Company will own 100% of the voting stock of Converted EIOW. In the event that there is an initial public offering or a sale of the stock of LMHC Massachusetts Holdings, LMGI or of Converted EIOW, Liberty Mutual Holding Company will be required to own at all times, directly or indirectly, at least 51% of the voting stock of Converted EIOW.

The MHC Merger Agreement will be reviewed by the board of directors of EIOW MHC and approved only upon a determination by such board that the transactions contemplated by the MHC Merger Agreement are not contrary to the law or to the interests of the Members of EIOW MHC. Until the Restructuring is consummated and EIOW MHC comes into existence, no vote on the MHC Merger Agreement by the board of directors, as the board of directors of EIOW MHC, may be taken, and further, unless the Wisconsin Commissioner determines otherwise, no Member approval is required under the Wisconsin Statutes or the proposed bylaws of EIOW MHC for the consummation of the MHC Merger Agreement. A vote FOR the Mutual Holding Company Plan positions EIOW, as well as the other Liberty Companies, for the Global Transaction. See "Reasons for and Potential Benefits of the Restructuring — The Restructuring Provides the Foundation for the Global Transaction," page 32, "Benefits of the Global Transaction," page 38 and "Special Considerations and Risks Regarding the Global Transaction," page 42.

LMFIC Reorganization

Assuming that LMIC's reorganization is consummated and that all necessary regulatory approvals have been obtained and that all other conditions necessary to consummation of the reorganization are met or waived, as applicable, Liberty Mutual Holding Company, LMFIC and Liberty Insurance Acquisition Corp. will enter into the Reorganization and Combination Agreement, subject to, among other things, the approval of the boards of directors of the parties to the agreement and of the regulatory authorities, including the approval of the Massachusetts Commissioner. The Reorganiza-

tion and Combination Agreement sets forth the rights, duties and obligations of the parties to the agreement. Pursuant to the terms of the Reorganization and Combination Agreement, LMFIC will reorganize from a Massachusetts mutual property and casualty insurer to a Massachusetts stock property and casualty insurer pursuant to Section 19T of Chapter 175 of the Massachusetts General Laws and, immediately thereafter, will merge with Liberty Insurance Acquisition Corp., with Reorganized LMFIC as the surviving entity.

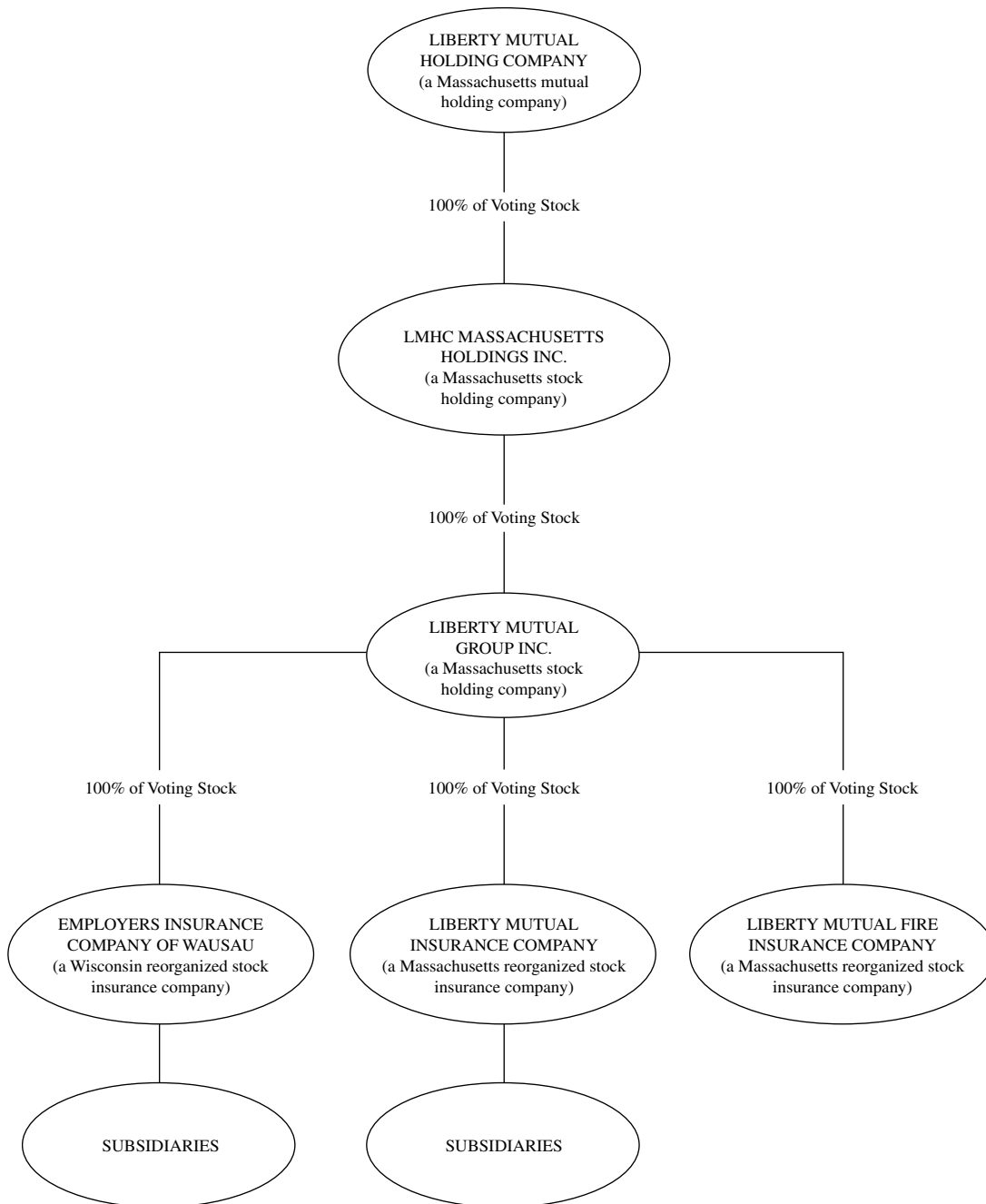
Upon consummation of the Reorganization and Combination Agreement, the equity rights of members in LMFIC will be extinguished and replaced with Equity Rights in Liberty Mutual Holding Company. The contract rights of LMFIC policyholders will continue to exist with Reorganized LMFIC after consummation of the Reorganization and Combination Agreement. Liberty Mutual Holding Company will own 100% of the voting stock of Reorganized LMFIC. Upon consummation of the Reorganization and Combination Agreement, and in the event that there is an initial public offering or a sale of stock of LMHC Massachusetts Holdings, LMGI or Reorganized LMFIC, Liberty Mutual Holding Company will be required to own at all times, directly or indirectly, at least 51% of the voting stock of Reorganized LMFIC.

Contribution of Shares of Converted EIOW and Reorganized LMFIC

Assuming consummation of the MHC Merger Agreement and the Reorganization and Combination Agreement, Liberty Mutual Holding Company will contribute the shares of stock of Converted EIOW and Reorganized LMFIC to LMHC Massachusetts Holdings which, in turn, will contribute such shares to LMGI. As a result, Converted EIOW and Reorganized LMFIC will become, indirect, wholly-owned subsidiaries of Liberty Mutual Holding Company and affiliates of Converted EIOW. The policyholders of each of Converted EIOW, Reorganized LMIC and Reorganized LMFIC will become members of and have Equity Rights in Liberty Mutual Holding Company.

Set forth below is a diagram that illustrates the proposed structure of Liberty Mutual Holding Company and its subsidiaries upon consummation of the transactions comprising the Global Transaction:

AFTER GLOBAL TRANSACTION



BENEFITS OF THE GLOBAL TRANSACTION

Combining the Liberty Companies Under a Single Holding Company Structure

Today, the Liberty Mutual Group operates under a unique structure consisting of an affiliation of three large mutual companies — EIOW, LMIC and LMFIC, as well as a number of other affiliates. Each of the Liberty Companies is a distinct legal entity that functions as part of a single insurance enterprise. Each shares common management and participates in each other's underwriting and operating results through the Liberty Pool. Each of the Liberty Companies shares the same strong ratings from financial rating agencies with respect to their claims paying ability. In addition, LMIC and its subsidiaries provide operational support and investment and administrative services to LMFIC and EIOW, including employees, operating processes and technology platforms and systems.

The current structure, although advantageous in many ways, has significant drawbacks. It has sometimes proven cumbersome and sub-optimal in structural efficiency and tax planning. The current structure creates inefficiencies and redundancies in governance and administrative processes. Perhaps most importantly, the current structure prevents the Liberty Mutual Group from realizing the full economic value of the affiliation by placing restrictions on capital and strategic flexibility.

Changes in the U.S. financial services industry and the globalization of the marketplace have affected property and casualty insurers as well as life and health companies. The passage of the Gramm-Leach-Bliley Act eliminated many of the legal barriers to combinations of insurance, banking and financial services companies. Foreign competitors with substantial capital resources have begun acquiring U.S. insurers. The heightened competition resulting from greater consolidation has caused stock and mutual insurers to reconsider virtually every aspect of their operations.

In recent years, the industry trend is towards consolidation. EIOW's Board of Directors strongly believes that participation in this trend is not optional but required, and that EIOW's failure to do so may permanently limit its operating flexibility and place it at a significant competitive disadvantage. By bringing EIOW, LMIC and LMFIC — currently separate mutual insurance companies — under the common ownership of Liberty Mutual Holding Company, the Global Transaction achieves an alignment of the legal structure with existing operating and economic reality, which, in turn, positions the Liberty Mutual Group to enjoy the following potential benefits arising from greater scale, diversity and financial flexibility:

Single Holding Company Structure: The Global Transaction will combine three large and separate mutual insurance companies under a single holding company structure. Through the consolidation of the Liberty Companies, the Global Transaction offers the Liberty Mutual Group a way to attain greater scale.

Enhanced Access to Capital Markets: Through the mutual holding company structure, the Liberty Mutual Group will be able to enjoy enhanced access to capital markets, potentially through issuance of either equity or debt securities. All the potential benefits relating to enhanced access to capital markets discussed in the context of the Restructuring will be amplified in the Global Transaction.

Simpler and Cleaner Organizational Structure: The Global Transaction will allow the Liberty Mutual Group to streamline and simplify its organizational structure. Governance and administrative processes will become more efficient. Product development, administrative and technology costs will be spread across all blocks of business.

Rating Agency Views: Rating agencies generally have a “bigger is better” point-of-view when evaluating insurance companies. Looking beyond the standard financial ratios, the agencies include a number of subjective areas in their analysis such as market presence. Rating agencies also favorably view the financial flexibility of companies that can raise both debt and equity. There can be no assurance, however, that the consummation of the Global Transaction will translate into higher ratings for Converted EIOW or the other companies within the Liberty Mutual Group, or that any of them will be able to maintain its current ratings.

Improved Capital Management: The mutual holding company structure will allow the Liberty Mutual Group to shift capital from one company to another with relative ease. Subject to legal and regulatory limitations concerning shareholder dividends and transactions among affiliates, subsidiary insurance companies will be able to transfer capital and other assets to Liberty Mutual Holding Company and any of its subsidiary stock holding companies through dividends and asset transfers. Capital and assets will be allocated among the subsidiaries as the management of Liberty Mutual Holding Company, subject to the direction of its board of directors, deems the most efficient and effective utilization of such resources. No plans to reallocate capital and/or assets are currently being contemplated by EIOW.

More Favorable Accounting Treatment: Under the current structure, the mutual insurance companies at the top of the organizational chart are de facto holding companies. Since the Liberty Mutual Group files financial reports only on a statutory accounting basis, any acquisition by the Liberty Mutual Group requires the Liberty Mutual Group to report the financial results of the acquired company on a U.S. statutory basis, regardless of whether the acquired company is a U.S.

insurance company. In foreign acquisitions, for example, the Liberty Mutual Group must make statutory adjustments to assets to determine which are non-admitted. Since certain of the companies within the Liberty Mutual Group currently carry goodwill at the maximum allowable 10% of adjusted surplus, any additional goodwill incurred must be charged against surplus. Under the mutual holding company structure, the parent company will be accounted for under GAAP and these limitations will not apply since the acquisition could be made by an upstream non-insurance holding company.

MEMBERS ARE BEING ASKED TO VOTE ONLY ON THE MUTUAL HOLDING COMPANY PLAN. THE BOARDS OF DIRECTORS OF EIOW MHC AND LIBERTY MUTUAL HOLDING COMPANY HAVE NOT YET BEEN ESTABLISHED AND THEREFORE NO ACTION ON THE MHC MERGER AGREEMENT AND THE REORGANIZATION AND COMBINATION AGREEMENT WILL BE TAKEN UNTIL SUCH TIME AS SUCH BOARDS ARE ESTABLISHED.

MOREOVER, EVEN IF THE BOARDS OF DIRECTORS OF EIOW MHC AND LIBERTY MUTUAL HOLDING COMPANY ARE ESTABLISHED, THERE CAN BE NO ASSURANCE THAT THE TERMS AND CONDITIONS OF THE MHC MERGER AGREEMENT AND OF THE REORGANIZATION AND COMBINATION AGREEMENT, IF AND WHEN FINALIZED, WILL BE IDENTICAL TO THE FORMS OF MHC MERGER AGREEMENT AND REORGANIZATION AND COMBINATION AGREEMENT ATTACHED TO THIS POLICYHOLDER INFORMATION STATEMENT.

FINALLY, THERE CAN BE NO ASSURANCE THAT EVEN IF THE MHC MERGER AGREEMENT AND THE REORGANIZATION AND COMBINATION AGREEMENT ARE CONSUMMATED, THE POTENTIAL BENEFITS OF THE GLOBAL TRANSACTION, DESCRIBED ABOVE, WILL BE REALIZED.

SPECIAL CONSIDERATIONS AND RISKS REGARDING THE MUTUAL HOLDING COMPANY PLAN

The Board of Directors of EIOW believes that the Mutual Holding Company Plan is fair and equitable to the Policyholders and expected to benefit the Policyholders. Prior to voting, however, Policyholders should carefully consider all of the implications of the Restructuring, including the following:

No Consideration will be Distributed to Policyholders Upon the Restructuring of EIOW

The Mutual Holding Company Plan contemplates the replacement of Members' Equity Rights in EIOW with Equity Rights in EIOW MHC, thereby extinguishing Members' Equity Rights in EIOW. Other than Equity Rights being received in EIOW MHC, Members will receive no consideration in the form of cash, stock or other forms of consideration for their Equity Rights in EIOW. In the event the Restructuring is not consummated, Members will continue to retain their Equity Rights in EIOW. If EIOW were to undergo a demutualization, the process would be subject to receiving all required regulatory and Member approvals, and Members of EIOW would receive consideration pursuant to Section 611.76 of the Wisconsin Statutes.

Potential Conflicts of Interest Between Members and Potential Future Shareholders of Converted EIOW — Stock May Be Issued to Outside Investors Whose Interests May at Times Conflict with Those of Members of EIOW MHC

Various conflicts of interest may arise between Policyholders of Converted EIOW and shareholders of Converted EIOW, when and if stock in Converted EIOW is sold to outside investors. These types of potential conflicts exist in any corporation where there are majority and minority shareholders. Similar conflicts of interests regularly arise for the directors of stock insurance holding companies outside of the mutual holding company context, as well as for the directors of demutualized insurers. The board of directors of EIOW MHC will strive to reconcile any such potential conflicts of interests. The directors of EIOW MHC will attempt to resolve any conflicts of interest which may develop based on the relevant facts and circumstances of each situation at the appropriate time in accordance with their fiduciary duties. Management of EIOW MHC will act in accordance with the directions of the board of directors in seeking to appropriately reconcile any such conflicts of interest.

Examples of conflicts of interest that potentially could arise include the following:

- If stock of Converted EIOW is ever sold, the directors of Converted EIOW would owe fiduciary duties to shareholders. This is in contrast to today where EIOW's board of directors has a duty only to EIOW's Policyholders and need only consider their interests exclusively.
- Upon consummation of the Restructuring, EIOW's Policyholders will no longer have the right to vote on matters involving Converted EIOW, including the election of Converted EIOW's directors and the sale of stock to third parties.
- In considering whether to declare policyholder dividends, directors of Converted EIOW will need to assess whether declaring a policyholder dividend and the amount of that dividend is likely to have an adverse effect on the value of

the stock held by shareholders. More specifically, the payment of policyholder dividends would have the effect of reducing the surplus of Converted EIOW and thereby potentially could have an adverse effect on the market value of stock held by shareholders.

- If officers or directors are awarded stock or stock options in Converted EIOW, the economic interests of such individuals could, at least in part, become aligned with those of the shareholders. For example, this could have the effect of potentially influencing such officers and directors to favor corporate actions that might increase the value of their shares or options in contrast to corporate actions that might reduce the cost of insurance to policyholders.

See also "Special Considerations and Risks Regarding the Global Transaction — Potential Conflicts of Interest Between Members and Potential Future Shareholders," page 45.

Members of EIOW MHC Will Have Approval Rights Only With Respect to the Initial Sale of Voting Stock of Converted EIOW or Any Intermediate Stock Holding Company.

Members of EIOW MHC will have approval rights only with respect to any initial sale of voting stock of Converted EIOW or any intermediate stock holding company. The board of directors of Converted EIOW or any intermediate holding company and not the Members of EIOW MHC, will have the right to approve any stock offering following an initial sale of voting stock to third parties. However, Policyholders of Converted EIOW, as Members of EIOW MHC, control EIOW MHC and elect its board of directors. The board of directors of EIOW MHC, in turn, have ultimate control over the boards of directors of Converted EIOW and any intermediate holding company. In addition, certain stock issues require the approval of the Wisconsin Commissioner under Section 611.31 of the Wisconsin Statutes and all issues of the voting stock of Converted EIOW or any intermediate holding company require the approval of the Wisconsin Commissioner with respect to the price of voting stock or the procedure for setting and determining the price of such stock as fair and equitable to the company issuing the stock.

Marketability of Stock — The Fact That Public Investors Will Be Unable to Acquire a Controlling Interest in Any Stock Issued in Converted EIOW Could Adversely Affect the Value and/or Marketability of Such Stock

EIOW MHC will initially own 100% of the voting stock of Converted EIOW. In the event that shares of Converted EIOW are sold at a later date to third parties, EIOW MHC will be required at all times to own, directly or indirectly, at least 51% of the voting stock of Converted EIOW. Accordingly, only a minority voting interest in the company may be directly or indirectly available for sale to the public at such time. There is a risk that the inability of public investors to acquire a controlling interest at such time could potentially have an adverse effect on the value and/or marketability of the stock, as is the case in many situations when public shareholders form a minority.

Market Conditions — No Assurances Can Be Made That Future Efforts to Raise Capital Under a Mutual Holding Company Structure Will be Successful

Any future decision to issue capital stock or debt securities of Converted EIOW would depend upon, among other factors, the then-current needs of the organization for additional capital, prevailing investment market conditions, the financial performance and business prospects of Converted EIOW and the interests of Members of EIOW MHC. There can be no assurance as to when, or if, any such capital raising efforts would take place or, if they do, whether they would be on attractive terms or provide substantial benefits to EIOW MHC and its subsidiaries.

Regulatory Limitations on Declaration of Shareholder Dividends and Asset Transfers from Converted EIOW — EIOW MHC's Success in Utilizing the New Structure Will Depend In Part on Converted EIOW's Ability to Provide It With Sufficient Funds in the Form of Stockholder Dividends and Asset Transfers

After the Restructuring, EIOW MHC will be an insurance holding company whose assets consist, directly or indirectly, of all of the outstanding shares of common stock of Converted EIOW and EIOW's existing subsidiaries. The ability of EIOW MHC to engage in any meaningful business may depend in part upon the receipt of sufficient funds from Converted EIOW in the form of stockholder dividends or asset transfers from Converted EIOW. The payment of stockholder dividends or asset transfers from the Converted EIOW to its parent company will be regulated under the Wisconsin Statutes. Converted EIOW would need the Wisconsin Commissioner's prior approval to pay a stockholder dividend or complete an asset transfer if the dividend or asset transfer exceeds certain statutory levels.

Inability to Take Advantage of the Greater Flexibility Afforded by the Restructuring

There can be no assurance that the greater capital, strategic and structural flexibility that the Restructuring will provide EIOW MHC and its subsidiaries will enable them to successfully compete in the insurance and financial services marketplaces. There are several reasons that EIOW MHC and its subsidiaries would be unable to compete successfully in

the insurance and financial services marketplaces. These could include, among other things, their inability to successfully access the capital markets if EIOW MHC and/ or its subsidiaries required additional capital, or their inability to identify suitable strategic partners or acquisition candidates. Moreover, even if EIOW MHC and its subsidiaries were able to identify any suitable partners, there can be no assurances that any such transactions will be on terms favorable to EIOW MHC and its subsidiaries. An inability to successfully access the capital markets or to identify or merge successfully with suitable strategic partners could, among other things, limit the growth potential of EIOW MHC and its subsidiaries, thereby reducing their competitiveness.

EIOW MHC May Be Subject to Different Regulatory Standards, as Promulgated by the Wisconsin Commissioner, From Mutual Holding Companies

Certain activities of EIOW that are regulated by the Wisconsin Commissioner may not be regulated, or may be regulated differently, under the mutual holding company structure. To date, there has not been a Wisconsin mutual insurance company that has undergone a mutual holding company restructuring in Wisconsin. Furthermore, depending on its future business activities, EIOW MHC may become subject to various federal laws and come under the authority of federal regulators. See “Regulation,” page 53.

Like EIOW Today, EIOW MHC Will Not Be Subject to the SEC’s Reporting and Disclosure Requirements

Upon consummation of EIOW’s Restructuring, the equity interests of EIOW MHC, like EIOW today, will continue to be privately held by the Policyholders of Converted EIOW. As such, EIOW MHC, like EIOW today, will not be subject to the SEC’s reporting and disclosure requirements, as it otherwise would be if it were a publicly traded company. Since EIOW MHC will not be subject to the SEC’s reporting and disclosure requirements, it will not be covered by most research analysts. As a result, Members of EIOW MHC will continue to be provided with information or have access to information comparable in depth and type to what is being provided or available to Members of EIOW today; however, such information will likely be less than what would be required of or available for a publicly traded company.

Absence of Implementing Regulations

The Wisconsin Statutes provide that the Wisconsin Commissioner may issue regulations to implement the mutual holding company laws set forth in Chapter 644 of the Wisconsin Statutes and establish applicable procedures thereunder. Although no regulations or procedures have been promulgated to date, the Wisconsin Commissioner may at some future point promulgate regulations or procedures that may adversely affect EIOW MHC and its Members. Policyholders of Converted EIOW will receive Equity Rights in EIOW MHC that may be subject to different insurance regulatory oversight than an insurance company. There can be no assurance that any regulations adopted by the Wisconsin Commissioner will not affect the Mutual Holding Company Plan, including its conditions to effectiveness and the contemplated timing for consummation of the Mutual Holding Company Plan.

Reliance on Management — The Past Performance of EIOW’s Management Team Is No Guarantee of Their Future Success in Managing Converted EIOW

The success of Converted EIOW’s strategy will depend, in large part, upon the skill and judgment of Converted EIOW’s and/or its parent company’s management. While past performance does not assure future success, EIOW’s management believes that it has consistently demonstrated high levels of skill and judgment in managing the operations and affairs of EIOW for the benefit of Policyholders.

Movement of Subsidiaries — The Financial Condition of Converted EIOW May Be Adversely Affected if a Decision is Made After the Restructuring is Consummated to Pay Shareholder Dividends or Transfer any Assets or Subsidiaries from Converted EIOW

The Mutual Holding Company Plan does not contemplate any transfer of Converted EIOW’s subsidiaries or other assets or liabilities to any entity owned or controlled by EIOW MHC. However, Converted EIOW or EIOW MHC, at any time following the Restructuring, may transfer one or more of Converted EIOW’s existing subsidiaries, either by sale or as dividends pursuant to Section 617.21 of the Wisconsin Statutes. There can be no assurance that any future movement of Converted EIOW’s subsidiaries would not be detrimental to the financial condition of Converted EIOW.

Global Transaction May Not be Consummated — Other Mutual Holding Company Plans and Agreements Requiring Independent Approval For the Global Transaction to Be Consummated Are Not Approved

There can be no assurance that the plan of reorganization of LMIC, the Reorganization and Combination Agreement or the MHC Merger Agreement will be consummated. To the extent that LMIC’s plan of reorganization is consummated, but

the Reorganization and Combination Agreement is not, Liberty Mutual Holding Company and EIOW MHC would have the option of consummating the MHC Merger Agreement. If EIOW's Mutual Holding Company Plan and MHC Merger Agreement are not consummated, then EIOW will remain a Wisconsin mutual insurance company.

Litigation Concerning Mutual Holding Company Reorganizations — EIOW May Be Sued Over Its Mutual Holding Company Plan

Certain mutual insurance companies that have reorganized or proposed to reorganize to a mutual holding company structure have been sued by various individuals alleging, among other things, that this structure, although expressly authorized by statute, is unfair to policyholders. EIOW's Board of Directors has concluded that the Mutual Holding Company Plan complies with Applicable Law. Further, EIOW's Board of Directors believes that the Mutual Holding Company Plan is fair and equitable to Policyholders and is expected to benefit the Policyholders. There can be no assurance that litigation, if brought, relating to the Mutual Holding Company Plan would not delay or impede consummation of the Mutual Holding Company Plan.

On June 28, 2001, a purported nation-wide class action complaint was filed against LMIC in the Superior Court for Middlesex County, Commonwealth of Massachusetts by three LMIC policyholders on behalf of themselves and all other similarly situated LMIC policyholders seeking, among other things, that the court (1) enjoin the printing and dissemination of the LMIC policyholder information statement, (2) enjoin LMIC from disseminating any other notices or descriptions to the extent they contain information similar to that in the LMIC policyholder information statement, and (3) in the event that such injunctive relief is not obtained prior to dissemination of the LMIC policyholder information statement to eligible members of LMIC, enjoin counting of the LMIC member vote on LMIC's plan of reorganization and/or to obtain an order rendering the LMIC member vote on LMIC's plan of reorganization null and void. Although EIOW is not a named defendant in the complaint, there can be no assurance that this complaint filed against LMIC and any resulting litigation will not delay or impede consummation of the Global Transaction.

LMIC believes that the allegations set forth in the complaint are without merit and that certain of the allegations are based on factually incorrect information and/or assumptions. For more information concerning this complaint, see "*Litigation and Other Matters*," page 58.

Expenses Associated with the Restructuring

The costs associated with the Restructuring, like all other expenses of EIOW, will reduce EIOW's surplus.

**SPECIAL CONSIDERATIONS AND RISKS REGARDING
THE GLOBAL TRANSACTION**

In considering the Global Transaction, Policyholders should be mindful of the following considerations:

Dependence on Completion of All Transactions — Other Mutual Holding Company Plans and Agreements Need to be Independently Approved For the Global Transaction to Be Consummated

Consummation of the Global Transaction is predicated on the consummation of the MHC Merger Agreement and the Reorganization and Combination Agreement, of which either one or both may not be consummated. Set forth below are the different alternatives that may arise with respect to these agreements:

(i) The MHC Merger Agreement and the Reorganization and Combination Agreement are consummated. In this scenario, EIOW MHC, Wausau Insurance Acquisition Corp. and Liberty Insurance Acquisition Corp. would all merge out of existence and both Converted EIOW and Reorganized LMFIC, along with Reorganized LMIC, would become wholly-owned, reorganized stock subsidiaries of Liberty Mutual Holding Company;

(ii) The Reorganization and Combination Agreement is consummated but the MHC Merger Agreement is not. In this scenario, Reorganized LMFIC would become a wholly-owned stock subsidiary of Liberty Mutual Holding Company along with Reorganized LMIC. Assuming consummation of EIOW's reorganization, EIOW MHC would remain a Wisconsin mutual holding company and the parent of Converted EIOW. Liberty Mutual Holding Company would remain the direct parent of Wausau Insurance Acquisition Corp.;

(iii) The MHC Merger Agreement is consummated but the Reorganization and Combination Agreement is not. In this scenario, EIOW MHC and Wausau Insurance Acquisition Corp. would both merge out of existence and Converted EIOW would become a wholly-owned stock subsidiary of Liberty Mutual Holding Company along with Reorganized LMIC. LMFIC

would remain a Massachusetts mutual insurer and Liberty Mutual Holding Company would remain the direct parent of Liberty Insurance Acquisition Corp.; and

(iv) Neither the MHC Merger Agreement nor the Reorganization and Combination Agreement is consummated. In this scenario, Liberty Mutual Holding Company and EIOW MHC would remain individual mutual holding companies in Massachusetts and Wisconsin, respectively. Liberty Mutual Holding Company would remain the direct parent of Liberty Insurance Acquisition Corp. and Wausau Insurance Acquisition Corp. and indirectly of Reorganized LMIC. If neither the LMFIC nor the EIOW reorganization is consummated, then LMFIC would remain a Massachusetts mutual insurance property and casualty company, while EIOW would remain a Wisconsin mutual property and casualty insurance company.

Dilution of Voting Rights — The Votes that Members Currently Exercise with Respect to Matters Involving Converted EIOW May Be Diluted as a Result of Members of Converted EIOW, Reorganized LMIC and Reorganized LMFIC Acquiring Equity Rights in Liberty Mutual Holding Company. The Voting Rights of Policyholders of Converted EIOW as Members of Liberty Mutual Holding Company May Be Further Diluted by Potential Future Mergers of Liberty Mutual Holding Company with Other Mutual Holding Companies

Following the Restructuring and without giving effect to the Global Transaction, Policyholders of Converted EIOW will be Members of EIOW MHC and each will be entitled to one vote, regardless of the number of Policies held. Upon consummation of the Global Transaction Members of EIOW MHC will acquire Equity Rights in Liberty Mutual Holding Company in exchange for the extinguishment of their Equity Rights in EIOW MHC. Policyholders of Reorganized LMIC and Reorganized LMFIC will also be members of Liberty Mutual Holding Company and each will be entitled to one vote, regardless of the number of policies held. Thus, upon consummation of the Global Transaction, the votes that Members currently exercise with respect to matters involving Converted EIOW may be proportionately diluted as a result of members of Converted EIOW, Reorganized LMIC and Reorganized LMFIC acquiring Equity Rights in Liberty Mutual Holding Company.

After consummation of the Global Transaction, moreover, the vote that each Policyholder of Converted EIOW will exercise with respect to matters involving Liberty Mutual Holding Company may be further diluted in the event that Liberty Mutual Holding Company merges with other mutual holding companies or engages in transactions authorized by, or similar to those authorized by, Section 19T of Chapter 175 of the Massachusetts General Laws. Section 19T permits Massachusetts domestic and foreign mutual insurance companies to reorganize into stock insurance company subsidiaries of Liberty Mutual Holding Company without the need to first reorganize to mutual holding company structures.

Voting interests are part of a Member's Equity Rights. Voting interests become diluted as part of the normal course of business whenever more insurance policies are sold than are canceled or expire and more policyholders become members of a mutual insurance company than cease being members.

Upon consummation of the Global Transaction, policyholders of Converted EIOW, Reorganized LMIC and Reorganized LMFIC will all become members of Liberty Mutual Holding Company, and each member will be entitled to just one vote, regardless of the number of policies held by such member. As of September 13, 2000, LMIC, LMFIC and EIOW had approximately 750,000, 1,900,000 and 16,600 policyholders, respectively.

Currently, EIOW Policyholders own 100% of the voting interests in EIOW and therefore have 100% voting control over matters requiring approval by EIOW's Members, including the election of directors. Similarly, after consummation of the Restructuring but prior to consummation of the Global Transaction, Converted EIOW Policyholders will own 100% of the voting interests in EIOW MHC and therefore will have 100% voting control over matters requiring approval by EIOW MHC Members.

Upon consummation of the Global Transaction, however, Converted EIOW Policyholders will own only approximately 0.6% of voting interests in Liberty Mutual Holding Company and therefore will not have voting control over matters requiring approval by Liberty Mutual Holding Company's Members. By contrast, upon consummation of the Global Transaction, LMIC policyholders will own approximately 28.1%, and LMFIC policyholders will own approximately 71.3% of the voting interests in Liberty Mutual Holding Company. These percentages do not take account of the fact that some policyholders may hold more than one policy in one or more companies in the Liberty Mutual Group.

LMFIC policyholders will therefore control the overwhelming majority of votes in the Liberty Mutual Holding Company immediately upon consummation of the Global Transaction.

Upon consummation of the Global Transaction, and as a result of the normal business generation and other growth and development activities, the Equity Rights of Members of Liberty Mutual Holding Company (including, but not limited to, their financial interest in Liberty Mutual Holding Company in the event of a demutualization, liquidation or dissolution) may be further diluted as a result of current and future policyholders of Reorganized LMIC, Reorganized LMFIC and Reorganized EIOW acquiring Equity Rights in Liberty Mutual Holding Company.

No Consideration Distributed to Members — Members of Liberty Mutual Holding Company Will Not Receive Any Consideration Upon The Consummation of the Global Transaction

Other than Equity Rights in Liberty Mutual Holding Company, the Global Transaction, like the Mutual Holding Company Plan itself, will not result in any distribution of consideration of cash, stock or other forms of consideration to members of Liberty Mutual Holding Company. The Global Transaction serves to bring Converted EIOW, Reorganized LMIC and Reorganized LMFIC under the common ownership of Liberty Mutual Holding Company. The Global Transaction will, however, facilitate a subsequent demutualization of the mutual insurance holding company at some future date, if the board of Liberty Mutual Holding Company and its members then determine that such an alternative is appropriate and if the Massachusetts Commissioner of Insurance approves the conversion. No plans to demutualize Liberty Mutual Holding Company are currently being contemplated by EIOW or LMIC.

Inability to Take Advantage of the Greater Operating Flexibility Afforded by the Global Transaction

There can be no assurance that the greater capital, strategic and structural flexibility that the Global Transaction will likely provide Liberty Mutual Holding Company and its subsidiaries will enable them to successfully compete in the insurance and financial services marketplaces. There are several reasons why Liberty Mutual Holding Company and its subsidiaries could be unable to compete successfully in the insurance and financial services marketplaces. These include, among other things, their inability to successfully access the capital markets and their inability to identify suitable strategic partners or acquisition candidates. Moreover, even if Liberty Mutual Holding Company and its subsidiaries were able to identify suitable partners, there can be no assurance that any such transaction, if consummated, would be on terms favorable to Liberty Mutual Holding Company and its subsidiaries. An inability to successfully access the capital markets or to identify or merge successfully with suitable strategic partners could, among other things, limit the growth potential of Liberty Mutual Holding Company and its subsidiaries, thereby reducing their competitiveness.

Reliance on Management — Successful Implementation of the Global Transaction Will Depend Largely Upon the Skill and Judgment of Liberty Mutual Holding Company's and its Subsidiaries' Management

While the Global Transaction will result in a financially stronger and less complex organization, the future success of Liberty Mutual Holding Company's and its subsidiaries' business strategy will depend, in large part, upon the skill and judgment of management. While past performance does not assure future success, Liberty Mutual Group's management believes that it has consistently demonstrated high levels of skill and judgment in managing the operations and affairs of the company for the benefit of Policyholders.

Like EIOW Today and Subsequent to the Global Transaction, Liberty Mutual Holding Company Will Not Be Subject to the SEC's Reporting and Disclosure Requirements

Upon consummation of the Global Transaction, Liberty Mutual Holding Company will be privately held by the policyholders of Converted EIOW, Reorganized LMIC and Reorganized LMFIC, in their capacity as members of Liberty Mutual Holding Company. As such, Liberty Mutual Holding Company will continue not to be subject to the SEC's reporting and disclosure requirements as it otherwise would be if it were a publicly traded company. Since, as a result of the Global Transaction, Liberty Mutual Holding Company will continue not to be subject to the SEC's reporting and disclosure requirements, it will not be covered by most research analysts. As a result, members of Liberty Mutual Holding Company will have limited access to information concerning Liberty Mutual Holding Company, in comparison to a publicly traded company.

Liberty Mutual Holding Company Will Be Subject to Differing Regulation From EIOW MHC

Upon consummation of the Global Transaction, which includes consummation of the MHC Merger Agreement, the Equity Rights of Members in EIOW MHC will be extinguished and replaced with Equity Rights in Liberty Mutual Holding Company. Unlike EIOW MHC, which will be subject to the regulation of the Wisconsin Commissioner, Liberty Mutual Holding Company, as a Massachusetts mutual holding company, will be subject to regulation by the Massachusetts Commissioner of Insurance. As a result, mutual holding company activities once regulated by the Wisconsin Commissioner under the EIOW MHC structure will be regulated by the Massachusetts Commissioner of Insurance upon the merger of EIOW MHC into Liberty Mutual Holding Company. The Massachusetts Commissioner will retain jurisdiction at all times over Liberty Mutual Holding Company to ensure that the interests of Policyholders of Converted EIOW, as members of Liberty Mutual Holding Company, are protected. However, certain activities will be regulated differently under the Massachusetts General Laws than under the Wisconsin Statutes including rules on demutualization and the initial public offering of stock. See "Regulation — Degree of Regulation Upon Consummation of the Global Transaction," page 54,

“— *Certain Differences between Massachusetts’ and Wisconsin’s Demutualization Laws*,” page 54, “— *Certain Differences between Massachusetts and Wisconsin Laws Regarding an Initial Public Offering*,” page 55.

Potential Conflicts of Interest Between Members and Potential Future Shareholders

Upon consummation of the Global Transaction, conflicts of interest issues may arise where the interests of Policyholders of Converted EIOW differ from the interests of shareholders of LMHC Massachusetts Holdings, LMGI, or Reorganized LMIC, and where those differing interests may conflict. Such circumstances will arise in the event that stock of any of the latter three companies is sold to outside investors.

Examples of conflicts of interest that potentially could arise include the following:

- If stock of Converted EIOW or any of its parent companies other than Liberty Mutual Holding Company is ever sold, the directors of the company that issued and sold the stock — LMHC Massachusetts Holdings, LMGI or Reorganized LMIC — would owe fiduciary duties to all shareholders. This is in contrast to today where EIOW’s board of directors has a duty only to EIOW’s Policyholders and need only consider their interests exclusively.
- Upon consummation of the Restructuring and the Global Transaction, EIOW’s Policyholders will no longer have the right to vote on matters involving Converted EIOW, including the election of Converted EIOW’s directors and the sale of stock to third parties.
- In considering whether to declare policyholder dividends, directors of Converted EIOW will need to assess whether declaring a policyholder dividend and the amount of that dividend is likely to have an adverse effect on the value of the stock held by shareholders. More specifically, the payment of policyholder dividends would have the effect of reducing the surplus of Converted EIOW and thereby potentially could have an adverse effect on the market value of stock held by shareholders.
- If officers or directors are awarded stock or stock options in LMHC Massachusetts Holdings, LMGI or Converted EIOW, the economic interests of such individuals could, at least in part, become aligned with those of the shareholders. For example, this could have the effect of potentially influencing such officers and directors to favor corporate actions that might increase the value of their shares or options in contrast to corporate actions that might reduce the cost of insurance to policyholders.

Demutualization of Liberty Mutual Holding Company

Under Wisconsin law, if EIOW demutualizes, Policyholders of EIOW will be entitled to a distribution of common stock of the new stock insurer (or any parent holding company) in proportion to their equitable share in EIOW. After the Restructuring, if EIOW MHC demutualizes, Policyholders of Converted EIOW, as Members of EIOW MHC, will be entitled to a distribution of common stock of the new stock corporation in proportion to their equitable share in EIOW MHC. After the Global Transaction, however, Policyholders of Converted EIOW, as Members of Liberty Mutual Holding Company, will be entitled to cash, stock or other forms of consideration in the event Liberty Mutual Holding Company demutualizes.

Section 611.76 and Section 644.25 of the Wisconsin Statutes govern the demutualization of a Wisconsin mutual insurance company and a Wisconsin mutual holding company, respectively. The provisions governing the distribution of common stock to policyholders is identical under both sections. Each policyholder who has paid premiums within five years prior to the day the board of directors passed a resolution to demutualize the mutual insurance company or the mutual holding company, as applicable, shall be entitled to a distribution of common stock of the new stock corporation in proportion to his or her equitable share. A policyholder’s equitable share shall be determined by the ratio which the net premium (gross premium less return premium and dividends paid) he or she has paid to the insurance company during the five years immediately preceding the resolution of the board bears to the total net premiums received by the insurance company during the same period. If the equitable share is sufficient only for the purchase of a fraction of a share of stock, the policyholder shall have the option either to receive the value of the fractional share in cash or to purchase a full share by paying the balance in cash.

After the Global Transaction, Converted EIOW will be a subsidiary of Liberty Mutual Holding Company and Policyholders of Converted EIOW will be Members of Liberty Mutual Holding Company. Any future demutualization of Liberty Mutual Holding Company will be undertaken in accordance with Massachusetts law. Under Massachusetts law, policyholders are entitled to cash, stock or other forms of consideration in the event of a demutualization.

According to Section 19U(b)(5) of Chapter 175 of the Massachusetts General Laws, the aggregate consideration to be paid to all members of a demutualizing mutual holding company must be equal to the value of the “entire capital and surplus” of the mutual holding company and the individual allocation to Members must be determined under a “fair and reasonable” formula approved by the Massachusetts Commissioner.

There is little, if any, precedent under Massachusetts law for determining the aggregate amount of consideration payable pursuant to Section 19U(b)(5) of Chapter 175 or for determining how to allocate consideration to policyholders in connection with the demutualization of a mutual holding company with one or more property and casualty insurer subsidiaries. The demutualizations that have occurred in Massachusetts all have involved life insurance companies, whose financial and insurance policy characteristics are fundamentally different from those of property and casualty insurers.

For the following reasons EIOW does not believe that it is in a position to estimate with any reasonable degree of certainty the amount of consideration that might potentially be allocated to members of Liberty Mutual Holding Company in the event of its demutualization:

- Massachusetts law provides little or no guidance on what standards the Massachusetts Commissioner must utilize in determining whether to approve as “fair and reasonable” any formula proposed by a demutualizing mutual holding company for allocation of any aggregate consideration being paid to its members.
- Since no Massachusetts mutual insurance company — neither a life insurer nor a property and casualty insurer — has converted to a mutual holding company, there are no guiding or controlling precedents.
- Unlike the life insurance industry, there are no generally accepted standards or methodologies that are utilized in developing a formula for allocation of the aggregate consideration to be paid to members of demutualizing property and casualty insurers or mutual holding companies, particularly under Massachusetts law.
- In devising any formula for the allocation of consideration among members, the obligations of Converted EIOW under outstanding surplus notes and other debt would need to be considered.
- If a demutualization of Liberty Mutual Holding Company were to occur after consummation of the Global Transaction, the relative impact of any such formula on the Policyholders of Converted EIOW, Reorganized LMIC and Reorganized LMFIC would need to be evaluated and considered.
- Any demutualization of Liberty Mutual Holding Company would be governed by the law in effect at the time of the demutualization. The law is subject to change, and the law at the time of any demutualization may not be the same as that presently in effect.
- LMIC and LMFIC have participated in the Liberty Pool for 44 years, while EIOW has participated in the Liberty Pool since 1999. This reinsurance pooling arrangement has had a substantial effect on the relative surplus of LMIC, LMFIC and EIOW. The effect of the reinsurance pooling arrangements over time would, therefore, require careful analysis and consideration in any determination concerning the amount of consideration that properly should be allocated to present or future policyholders of either company.

Given the variety of factors that will need to be considered and the fact that Massachusetts law provides little, if any, guidance on what standards the Massachusetts Commissioner must utilize in determining whether the given allocation formula that might be proposed is “fair and reasonable,” there can be no assurance in the event of a demutualization of Liberty Mutual Holding Company that the amount of consideration paid to Converted EIOW Policyholders will be based on EIOW’s (or Converted EIOW’s) capital and surplus on either the effective date of the Restructuring or the Global Transaction or at any other time.

It is important to note that no demutualizations are currently being contemplated, either for EIOW, EIOW MHC or Liberty Mutual Holding Company. For more information on demutualizations or an analysis of the differences between the demutualization laws in Wisconsin and Massachusetts, see “*Structural Alternatives to Mutual Holding Company Plan — Demutualization*,” page 48 and “*Regulation — Certain Differences between Massachusetts’ and Wisconsin’s Demutualization Laws*,” page 54.

STRUCTURAL ALTERNATIVES TO MUTUAL HOLDING COMPANY PLAN

The principal structural alternatives to the Mutual Holding Company Plan considered by management and the Board of Directors and available under the Wisconsin Statutes, are for EIOW to: (1) remain a mutual insurance company; (2) merge with one or both of the other Liberty Companies; (3) establish a downstream holding company; or (4) undergo a demutualization.

(1) Status Quo — Remaining a Mutual Insurance Company

The property and casualty insurance industry is highly competitive and rapidly changing. The pace of consolidation is increasing as foreign insurance companies acquire U.S. insurers. New competitors are entering the marketplace due to federal legislation deregulating the financial services industries, which eliminated many of the legal barriers among

insurance, banking and financial services companies. The internet and other technologies are changing the way financial products and services are being sold and delivered. EIOW's Board of Directors believes the most successful companies in this changing environment will be those with the necessary scale, capital, flexibility to respond to market conditions, and financial strength to provide high quality, cost effective products and services that are responsive to customer needs.

Within this environment, mutual insurance companies are limited by their legal structure in their ability to compete effectively. Specifically, mutual insurance companies have minimal access to capital beyond what is generated internally, while most competitors have many more options to raise capital, including the ability to issue stock. In addition, mutual companies have limited ability to structure acquisitions and therefore have more limited growth opportunities.

In recent years, two small mutual property and casualty insurance companies, National Chiropractic Mutual Insurance Company and FCCI Mutual Insurance Company, along with most of the largest mutual life insurance companies, have either completed a reorganization or announced their intention to undertake a reorganization into a mutual holding company structure, or demutualized. Acacia Mutual Life Insurance Company, Ameritas Life Insurance Company, AmerUs Life Insurance Company, General American Life Insurance Company, Minnesota Mutual Life Insurance Company, National Life Insurance Company of Vermont, Ohio National Life Insurance Company, Pacific Mutual Life Insurance Company and Security Benefit Life Insurance Company, among others, have positioned themselves to access the capital markets and make acquisitions by reorganizing to the mutual holding company structure. Others, such as Metropolitan Life Insurance Company, Mutual Life Insurance Company of New York (MONY), John Hancock Life Insurance Company, Prudential Insurance Company of America and Principal Mutual Life Insurance Company either have demutualized, or proposed to demutualize, to position themselves in today's competitive environment.

Based on these, and other considerations described in this Policyholder Information Statement, the Board of Directors of EIOW has unanimously determined that having EIOW reorganize into a Wisconsin mutual holding company structure and, ultimately, having the transactions comprising the Global Transaction be consummated, is fair and equitable to Policyholders and expected to benefit Policyholders.

(2) Merger with other Liberty Companies

Although a merger among EIOW and both of LMIC and LMFIC would align the legal and operational structures of the Liberty Companies, any such merger will result in disadvantages for the Liberty Company (or Liberty Companies) that would cease to exist. These disadvantages would include, among other things, the loss of that company's separate identity, corporate existence and insurance licenses. Consummation of EIOW's Mutual Holding Company Plan as well as the Global Transaction will allow EIOW and the other Liberty Companies to gain the benefits of a merger without causing any of the Liberty Companies to forfeit their separate identities or licenses and without causing any policyholder disruption.

(3) Downstream Stock Subsidiary and IPO

Another capital raising alternative available to a mutual insurer is to establish a downstream holding company, which in turn owns one or more downstream stock subsidiaries. Shares of the downstream holding company can then be sold to investors to raise capital. Policyholders of the mutual parent continue to own 100% of the mutual company, which in turn owns a controlling percentage of the publicly traded holding company.

Equity capitalization at the downstream holding company adds financial flexibility to the overall capital structure of the mutual group without a loss of operating control of its business. This structure also allows the mutual to acquire stock companies with stock from its publicly traded subsidiary, as well as continue with opportunities to merge or affiliate with other mutual insurers.

Under this scenario, a share of the mutual insurer's business (i.e., premiums, losses and expenses) could be shifted to a downstream stock company through reinsurance. Since any of EIOW's businesses or lines of business could be singled out and sold to equity investors, the downstream stock structure affords EIOW the opportunity to issue additional equity and debt in the capital markets. Given that the initial public offering price of any company is dependent upon its particular business strategy, growth prospects, financial returns and investment sentiment, the downstream capital raising alternative provides EIOW with the opportunity to choose which business or businesses it would like to take public in order to achieve the highest relative value.

Although the absolute proceeds obtained through a downstream initial public offering may be less than a demutualization, the capital obtained can still be used to support the public company's equity base and future growth. The capital raised could also be deployed to other parts of the organization via a dividend payment, or sale of a portion of EIOW's shares in the downstream company's stock in the public market. In addition, proceeds from the sale of a downstream stock company can be maximized by issuing additional debt against the equity offering or by issuing super-voting shares to EIOW, giving it control yet selling greater than 50% of the economic value of the selected business. For

example, EIOW could issue and hold Class B shares, which would carry voting rights of 10 votes per share, as contrasted with one vote per share Class A shares issued to the IPO investors.

There are, however, operational and regulatory problems associated with the downstream subsidiary and IPO alternative:

- Operations placed in a downstream subsidiary are limited to those that can be successfully and legally separated from those of the upstream mutual insurer.
- The ability to raise capital in a subsidiary is generally solely dependent on the operations of that subsidiary.
- Investment in the stock of a subsidiary of the mutual insurer does not give those third-party shareholders any right to participate in the earnings of the mutual insurer.
- Efficient deployment of capital raised by issuing stock to public or private investors may be limited to the subsidiary. As a result, the mutual insurer may not be able to deploy the additional capital efficiently in other areas, such as affiliated companies or the parent, even though such upstream deployment could be more beneficial to the mutual insurer's operations.

(4) Demutualization

A demutualization converts a mutual insurance company into a stock insurance company. The potential benefits to EIOW and its Members of a demutualization include the following:

- In the event of a demutualization of EIOW, Policyholders of EIOW would receive consideration in the form of common stock upon the extinguishment of their Equity Rights in EIOW, which they will not receive in the Restructuring.
- Demutualization would provide the opportunity to use stock of EIOW (or its parent holding company) as "acquisition currency."
- Demutualization overcomes certain potential conflicts of interest between Policyholders of Converted EIOW and shareholders that a mutual holding company structure may create in the event of a sale of stock, since the Equity Rights of Policyholders of EIOW are extinguished for common stock and will therefore no longer exist.
- The valuation of an initial public offering associated with a demutualization may be preferable to the valuation of an initial public offering of a downstream subsidiary of a mutual holding company. See "*Special Considerations and Risks Regarding the Mutual Holding Company Plan*," page 39.

Demutualization as a structural alternative to the mutual holding company structure also presents certain potential disadvantages to Policyholders of EIOW, including the following:

- The mutual holding company structure, by preserving mutuality, would provide the best opportunity for EIOW to preserve its historic commitment to its Policyholders and to maintain its focus on long-term business objectives benefiting both current and future Policyholders rather than the short-term financial results frequently demanded by investors focused on short-term stock market performance.
- Except in the case of a sponsored demutualization, where a mutual insurer demutualizes with the intention of immediately being acquired by another insurer, demutualization often eliminates a mutual insurer's (or mutual holding company's) ability to merge with another mutual insurer (or mutual holding company). As the insurance industry continues to consolidate and competition for a decreasing number of attractive acquisition and affiliation candidates intensifies, demutualization would further limit the universe of candidates available to EIOW for strategic mutual alliances.
- Demutualization may be a less efficient way to raise capital. Under a demutualization, the converting insurer is required to distribute cash, stock or other forms of consideration to policyholders upon the extinguishment of their equity rights in the mutual insurer. Typically, a concurrent initial public offering is required as part of the demutualization to replenish paid-out surplus, raise additional capital and to establish a market for the new stock. A demutualization with an initial public offering may be an inefficient way to raise capital because:

(i) the timing of the public offering relies on the demutualization schedule, not on market conditions; and

(ii) the initial public offering may be discounted due to market concerns about: (1) the risks inherent in any new offering; and (2) concerns about the after-market performance of the stock since Policyholders who are given stock may want to sell immediately after an initial public offering.

- The mutual holding company structure permits the transition to partial public ownership to be made through a sequence of offerings, the timing of which is within the control of EIOW MHC. In contrast, the demutualization process necessarily requires the complete and rapid transformation to 100% public ownership, which means any stock offering(s) which is or are part of the demutualization process must fit within the demutualization schedule, which, depending on market conditions, may raise less value per share than EIOW MHC could raise under the mutual holding company structure. There are, however, other limitations on share value that mutual holding companies are subject to. See *“Special Considerations and Risks Regarding the Mutual Holding Company Plan,”* page 39, and in particular *“— Marketability of Stock,”* page 40.
- Historically, demutualizations are more difficult to structure, more time consuming and a more expensive process than mutual holding company reorganizations.

It is important to note that the Mutual Holding Company Plan does not preclude a subsequent demutualization of EIOW MHC, although no plans to demutualize are currently being contemplated by EIOW.

For further information regarding demutualizations, see *“Regulation — Certain Differences between Massachusetts’ and Wisconsin’s Demutualization Laws,”* page 54 and *“Special Considerations and Risks Regarding the Global Transaction — Demutualization of Liberty Mutual Holding Company,”* page 45.

Board Recommendation on Structural Alternatives

The Board of Directors has considered the various structural alternatives and believes that the Restructuring is the most appropriate and desirable option for EIOW. The Board of Directors believes that the Restructuring is fair and equitable to Policyholders and expected to benefit the Policyholders and should be undertaken as authorized by the Wisconsin Statutes.

MANAGEMENT

General

As currently contemplated, the board of directors and officers of EIOW MHC will not be substantially different from EIOW's current Board of Directors and officers.

EIOW has no employees. All services provided to EIOW are provided by LMIC employees. There are no plans to change any existing executive compensation plans of LMIC or adopt any new compensation plans as a result of the Restructuring or the Global Transaction. The Restructuring will have no effect on existing compensation plans of LMIC. LMIC intends to certify to the Massachusetts Commissioner that neither the consummation of the Restructuring or the Global Transaction will trigger any "change of control" provisions in LMIC's executive compensation plans.

No director, officer or agent of EIOW, or any other Person, shall receive any fee, commission, or other valuable consideration, whatsoever, other than his or her usual, regular salary and compensation, for in any manner aiding, promoting or assisting with the Restructuring. In addition, without the prior approval of the Wisconsin Commission, no compensation may be paid to, or accrued for the benefit of any officer of Converted EIOW, other than his or her usual, regular salary and compensation, solely for serving as director or officer of EIOW MHC or any stock holding company parent of Converted EIOW.

Directors and Officers of EIOW MHC

Applicable Charter Provision

Pursuant to EIOW MHC's proposed articles of incorporation, the board of directors of EIOW MHC shall consist of not less than seven nor more than ten members and shall be composed of such number as shall be fixed from time to time by the bylaws. The initial board of directors of EIOW MHC shall consist of ten members.

Board of Directors of EIOW MHC

The names, ages, and biographical information of each of the individuals who will constitute the initial board of directors of EIOW MHC is set forth below.

J. PAUL CONDRIN, III. Age 39. Director, EIOW since December, 1998. Senior Vice President and Chief Financial Officer, LMIC since March, 1997. From 1995 to 1997, Vice President and Comptroller, LMIC. Senior Vice President and Chief Financial Officer, LMFIC since April, 2000. From 1998 to 2000, Vice President and Chief Financial Officer, LMFIC. From 1997 to 1998, Vice President, Chief Financial Officer and Comptroller, LMFIC. From 1995 to 1997, Vice President and Comptroller, LMFIC.

TERRY L. CONNER. Age 55. Director, EIOW since December, 1998. Senior Vice President and Chief Information Officer, LMIC since June, 1994. Senior Vice President and Chief Information Officer, LMFIC since April, 2000. From 1990 to 1994, Division Vice President, Electronic Data Systems.

DWIGHT E. DAVIS. Age 56. Director, EIOW since September, 1996. From September, 1996 to July, 2000, President and Chief Operating Officer, EIOW. Member of the Board of Directors and President and Chief Executive Officer of Greenheck Fan Corporation; M&I First American Bank; North Central Health Protection Plan; Wausau Benefits, Inc.; Wausau Homes, Inc.; Wisconsin Manufacturers & Commerce; and numerous charitable foundations and organizations.

A. ALEXANDER FONTANES. Age 46. Director, EIOW since December, 1998. Senior Vice President and Chief Investment Officer, LMIC since 1992. From 1990 to 1992, Vice President, LMIC. Senior Vice President and Chief Investment Officer, LMFIC since April, 2000. From 1992 to 2000, Vice President, LMFIC.

GARY R. GREGG. Age 45. Director, EIOW since December, 1998. Vice Chairman, EIOW since February, 1999. Executive Vice President, LMIC since 1995. From 1992 to 1995, Senior Vice President, LMIC. From 1988 to 1992, Vice President, LMIC. Executive Vice President, LMFIC since April, 2000. From 1994 to 2000, Vice President, LMFIC.

EDMUND F. KELLY. Age 56. Director, EIOW since December, 1998. Chairman, EIOW since February, 1999. Chairman, President and Chief Executive Officer, LMIC and LMFIC since April, 2000. From April, 1998 to 2000, President and Chief Executive Officer, LMIC and LMFIC. From 1992 to 1998, President and Chief Operating Officer, LMIC and LMFIC. Director, LMIC and LMFIC since April, 1992. Director of Citizens Financial Group, Inc.

CHRISTOPHER C. MANSFIELD. Age 51. Director, EIOW since December, 1998. Senior Vice President and General Counsel, LMIC since 1987. From 1985 to 1987, Vice President and General Counsel, LMIC. Senior Vice President and General Counsel, LMFIC since April, 2000. From 1985 to 2000, Vice President and General Counsel, LMFIC.

JAMES J. MCINTYRE. Age 43. Director, EIOW since July, 2000. President and Chief Operating Officer, EIOW since July, 2000. From March, 1998 to July, 2000, Executive Vice President, Commercial Insurance Markets, EIOW. From May, 1997 to March, 1998, Senior Vice President, Standard/Custom Accounts, EIOW. From April, 1996 to May, 1997, Vice President, Standard Accounts-Western Division, EIOW.

JEFFREY S. PADNOS. Age 53. Director, EIOW since January, 1999. President, Louis Padnos Iron and Metal Company, which purchases, processes and recycles scrap metal, primarily for the auto industry.

MICHAEL E. STROH. Age 60. Director, EIOW since January, 1999. President and Chief Executive Officer and Chairman, Stroh Die Casting Company, Inc. and Stroh Controls, Inc., privately held companies which produce zinc and aluminum die castings, machine castings, and other components for both domestic and international customers.

Officers of EIOW MHC

The names, ages, positions and biographical information of each of the individuals who will constitute the initial officers of EIOW MHC is set forth below.

EDMUND F. KELLY. Position: Chairman and CEO. *See above.*

GARY R. GREGG. Position: Vice Chairman. *See above.*

JAMES J. MCINTYRE. Position: President and COO. *See above.*

J. STANLEY HOFFERT. Age 54. Position: Vice President — General Counsel and Secretary, EIOW since February, 1999. From May, 1995 to February, 1999, Vice President — Associate General Counsel and Assistant Secretary, EIOW. From February, 1985 to May, 1995, Vice President — Governmental Affairs and Counsel, EIOW.

ELLIOT J. WILLIAMS. Age 62. Position: Vice President and Treasurer, EIOW since June, 2000. Vice President and Treasurer, LMIC and LMFIC since 1996. From 1986 to 1996, Vice President, LMIC.

Directors and Officers of Converted EIOW

Applicable Bylaw Provision

Pursuant to Converted EIOW's bylaws, the board of directors of Converted EIOW shall consist of not fewer than seven nor more than ten as determined from time to time by vote of a majority of the whole board of directors of Converted EIOW. The initial board of directors of Converted EIOW will consist of ten members.

Board of Directors of Converted EIOW

The names, ages and biographical information of each of the individuals who will constitute the initial board of directors of Converted EIOW are set forth below. The initial board of directors of Converted EIOW is expected to be the same as the initial board of directors of EIOW MHC.

See “— Board of Directors of EIOW MHC,” above.

Officers of Converted EIOW

The names, ages, positions and biographical information of each of the individuals who will constitute the initial officers of Converted EIOW are set forth below.

See “— Officers of EIOW MHC,” above.

CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE RESTRUCTURING AND THE MHC MERGER

The following is a general discussion of certain U.S. federal income tax consequences of the Restructuring and the MHC Merger. This discussion is for general information purposes only and does not purport to address all tax consequences that may be relevant to a Member or to EIOW. For example, this discussion does not address any U.S. federal estate or excise tax consequences or any state, local, or foreign tax consequences. This discussion is based upon the Code, regulations promulgated by the U.S. Treasury Department and judicial and administrative rulings and decisions in effect on the date of this Policyholder Information Statement, all of which are subject to change, possibly with retroactive effect. **Accordingly, each Member is urged to consult his or her own tax advisor regarding the specific tax**

consequences of the Restructuring and the MHC Merger that may be applicable, including the reporting requirements, the applicability of federal, state, local and foreign tax laws and the effects of any changes in tax laws or regulations.

The Restructuring

It is a condition to the consummation of the Restructuring that EIOW obtain a private letter ruling from the IRS that is in force on the Effective Date providing that, for U.S. federal income tax purposes, the conversion of EIW into Converted EIW will qualify as a reorganization within the meaning of section 368(a) of the Code. **EIOW has received a private letter ruling from the IRS providing that, for U.S. federal income tax purposes, the conversion of EIW into Converted EIW will qualify as a reorganization within the meaning of section 368(a) of the Code.**

Assuming that for U.S. federal income tax purposes the conversion of EIW into Converted EIW will qualify as a reorganization within the meaning of section 368(a) of the Code, (i) the Members of EIW whose Equity Rights in EIW are extinguished and replaced with Equity Rights in EIW MHC in the Restructuring will not recognize gain or loss for U.S. federal income tax purposes, (ii) the tax basis of the Equity Rights in EIW MHC received by Members whose Equity Rights in EIW are extinguished in the Restructuring will be zero, and (iii) the holding period of the Equity Rights in EIW MHC received by a Member in the Restructuring will include the holding period of such Member's Equity Rights in EIW that are extinguished in the Restructuring. In addition, EIW will not recognize gain or loss for U.S. federal income tax purposes upon the extinguishment of the Members' Equity Rights in EIW and the replacement of such Equity Rights with Equity Rights in EIW MHC pursuant to the Restructuring.

The MHC Merger

It is a condition to the consummation of the MHC Merger that EIW obtain (i) a private letter ruling from the IRS that is in force on the effective date of the MHC Merger providing that, for U.S. federal income tax purposes, the conversion of EIW into Converted EIW will qualify as a reorganization within the meaning of section 368(a) of the Code and (ii) an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, special tax counsel to EIW, or another nationally-recognized independent tax counsel to EIW, that, for U.S. federal income tax purposes, (a) the extinguishment of the Equity Rights of the Members of EIW in EIW and the replacement of such Equity Rights with Equity Rights in Liberty Mutual Holding Company pursuant to the Restructuring and the MHC Merger will be pursuant to transactions qualifying under section 368(a) or section 351(a) of the Code and (b) the Members of EIW whose Equity Rights in EIW are extinguished and replaced with Equity Rights in Liberty Mutual Holding Company in the Restructuring and the MHC Merger will not recognize gain or loss in the Restructuring and the MHC Merger.

Assuming that for U.S. federal income tax purposes the MHC Merger will qualify as a reorganization within the meaning of section 368(a) of the Code, (i) the Members of EIW MHC on the Effective Date of the MHC Merger whose Equity Rights in EIW MHC are extinguished and replaced with Equity Rights in Liberty Mutual Holding Company in the MHC Merger will not recognize gain or loss for U.S. federal income tax purposes, (ii) the tax basis of the Equity Rights in Liberty Mutual Holding Company received by Members of EIW MHC whose Equity Rights in EIW MHC are extinguished in the MHC Merger will be zero, and (iii) the holding period of the Equity Rights in Liberty Mutual Holding Company received by a Member in the MHC Merger will include the holding period of such Member's Equity Rights in EIW MHC that are extinguished in the MHC Merger. In addition, EIW MHC will not recognize gain or loss for U.S. federal income tax purposes in the MHC Merger.

CERTAIN CANADIAN INCOME TAX CONSEQUENCES OF THE RESTRUCTURING AND THE MHC MERGER

The following is a general summary of certain Canadian federal income tax consequences of the Restructuring and the MHC Merger. This summary is applicable to Members who, for the purposes of the *Income Tax Act* (Canada) (the "Canadian Tax Act"), and at all relevant times, are resident in Canada, receive Equity Rights in EIW MHC on the extinguishment of their Equity Rights in EIW, deal at arm's length with EIW, EIW MHC, Liberty Mutual Holding Company and LMFIC and hold their Equity Rights as capital property (each a "Canadian Member").

This summary is based on the current provisions of the Canadian Tax Act and the Regulations thereunder (the "Canadian Tax Regulations"), in force as of the date hereof, the current published administrative policies of the Canada Customs and Revenue Agency, and all specific proposals (the "Tax Proposals") to amend the Canadian Tax Act and the Canadian Tax Regulations publicly announced by the Minister of Finance (Canada) prior to the date hereof. This summary is not exhaustive of all possible Canadian federal income tax consequences and, except for the Tax Proposals, does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, and does not take into account provincial, territorial or foreign tax consequences which may differ significantly from those discussed

herein. With respect to the Tax Proposals, no assurance can be given that the Tax Proposals will be enacted in the form proposed or at all.

The following summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Canadian Member. Accordingly, Canadian Members should consult with their own tax advisors for advice with respect to the tax consequences to them having regard to their own particular circumstances.

The Restructuring

A Canadian Member's income, loss, capital gain or capital loss arising as a consequence of the extinguishment of the Canadian Member's Equity Rights in EIOW and the replacement of such Equity Rights with Equity Rights in EIOW MHC is deemed to be nil. The adjusted cost base, for purposes of the Canadian Tax Act, of a Canadian Member's Equity Rights in EIOW MHC will be nil. EIOW will not realize a gain or loss on its shares or Equity Rights for Canadian federal income tax purposes as a result of the extinguishment of the Members' Equity Rights in EIOW and the replacement of such Equity Rights with Equity Rights in EIOW MHC pursuant to the Restructuring.

The MHC Merger

Assuming for U.S. commercial law purposes that on the merger of EIOW MHC and Liberty Mutual Holding Company the Equity Rights of a Canadian Member in EIOW MHC are extinguished and replaced with Equity Rights in Liberty Mutual Holding Company, a Canadian Member will, as a result of the MHC Merger realize a capital gain equal to the amount, if any, by which the proceeds of disposition exceed the adjusted cost base to the Canadian Member of their Equity Rights in EIOW MHC and any reasonable costs of disposition. For this purpose, the adjusted cost base of the EIOW MHC Equity Rights will be nil and the proceeds of disposition will be the fair market value of the Equity Rights in Liberty Mutual Holding Company at the date of the extinguishment and replacement. It is expected, however, that the fair market value of Equity Rights in Liberty Mutual Holding Company will be de minimis, in light of, among other things, their nontransferability and temporary nature (i.e., Equity Rights will continue only so far as the Policy from which such rights are derived remains In Force), and the fact that Liberty Mutual Holding Company does not plan to pay dividends or make other distributions to its Members following the MHC Merger.

A Canadian Member will be required to include one-half of the amount of any resulting capital gain (a "taxable capital gain") in income. Capital gains realized by an individual may be subject to alternative minimum tax, and, in the case of a Canadian-controlled private corporation, the Canadian Tax Act imposes a refundable tax of 6 $\frac{2}{3}$ % on investment income. For this purpose, investment income includes capital gains.

EIOW MHC will not realize a gain or loss on its Equity Rights for Canadian federal income tax purposes as a result of the issuance of Equity Rights in Liberty Mutual Holding Company on the extinguishment of the EIOW MHC Members' Equity Rights in EIOW MHC pursuant to the MHC Merger.

REGULATION

General

EIOW is licensed to transact business in and is subject to regulation and supervision of Wisconsin and all other 49 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. EIOW is also licensed to do business in Canada. The extent of such regulation varies, but most jurisdictions have laws and regulations governing the financial aspects of insurers, including standards of solvency, reserves, reinsurance, capital adequacy and the business conduct of insurers. In addition, state insurance statutes and regulations usually require the licensing of insurers and their agents, and the approval of policy forms, rates and related materials. Such statutes and regulations also prescribe the permitted types and concentration of investments.

Degree of Regulation Upon Restructuring

Upon consummation of the Restructuring, Converted EIOW and its insurance company subsidiaries will continue to be subject to the same degree of insurance regulation as they are currently subject to, with the exception that Converted EIOW will be subject to those provisions of Wisconsin Statutes relating to stock (as opposed to mutual) property and casualty insurance companies as well as the applicable provisions of Chapter 644 of the Wisconsin Statutes.

EIOW MHC, as a Wisconsin mutual holding company, will be subject to regulation by the Wisconsin Commissioner. Specifically, the Wisconsin Commissioner has jurisdiction over EIOW MHC while it is a Wisconsin-domiciled mutual

holding company, to assure that the interests of its Members are protected. In addition, from the Effective Date of the Restructuring and to the extent that there is an initial public offering or sale of shares of any intermediate stock holding company or companies or Converted EIOW, EIOW MHC will be required, at all times, to retain direct or indirect ownership and control of at least 51% of the outstanding voting stock of Converted EIOW.

Furthermore, the Wisconsin Statutes provide that a mutual holding company, such as EIOW MHC: (i) shall not engage in the insurance business; (ii) shall file with the Wisconsin Commissioner, within 60 days after adoption, a copy of its bylaws and amendments thereto, if any; (iii) shall be permitted to amend its articles of incorporation if the requisite number of Members present and voting at a meeting duly called for that purpose, vote in favor of any such amendment; (iv) shall be subject to the certain requirements applicable to Wisconsin nonstock corporations, including certain requirements regarding the corporation's bylaws and directors and officers that are specifically incorporated by reference by Chapter 644 of the Wisconsin Statutes; (v) may not be a party to a contract that has the effect of delegating to a person, to the substantial exclusion of the board of directors, the authority to exercise any management control of the mutual holding company or of any of its major corporate functions; (vi) may not dissolve, liquidate or wind-up without Member approval and the prior written approval of the Wisconsin Commissioner or the court pursuant to proceedings brought pursuant to Sections 181.1430 and 644.28 of the Wisconsin Statutes; (vii) may not demutualize without approval of a majority of the votes cast by its members and the prior written approval of the Wisconsin Commissioner; and (viii) may not merge with another mutual holding company without the approval of the Wisconsin Commissioner pursuant to Section 611.73 of the Wisconsin Statutes.

Degree of Regulation Upon Consummation of the Global Transaction

Converted EIOW

Upon consummation of the Global Transaction, Converted EIOW will continue to be subject to the same degree of insurance regulation as it will be following the Restructuring. As a Wisconsin reorganized stock insurer, it will be under the jurisdiction of the Wisconsin Commissioner.

Liberty Mutual Holding Company

Liberty Mutual Holding Company, as a Massachusetts mutual holding company, will be subject to regulation by the Massachusetts Commissioner of Insurance. The Massachusetts Commissioner will retain jurisdiction at all times over Liberty Mutual Holding Company to ensure that the interests of Policyholders of Converted EIOW, as members of Liberty Mutual Holding Company, are protected. If, in the future, the board of directors of Liberty Mutual Holding Company determines it is in the best interests of its members to demutualize, Massachusetts General Laws on demutualization will govern the process. See “— Certain Differences between Massachusetts’ and Wisconsin’s Demutualization Laws” below.

Certain Differences between Massachusetts’ and Wisconsin’s Demutualization Laws

Upon consummation of the Global Transaction, EIOW MHC will have merged out of existence, and Converted EIOW will become a subsidiary of Liberty Mutual Holding Company, a Massachusetts mutual holding company to be formed by LMIC under its plan of reorganization. LMIC has no current plans to demutualize. Under the Massachusetts General Laws, moreover, a property and casualty insurance company, such as LMIC, cannot demutualize without first undergoing a mutual holding company reorganization. However, if and when the board of directors of Liberty Mutual Holding Company determines it is desirable to pursue such a transaction, and assuming consummation of the merger of EIOW MHC with and into Liberty Mutual Holding Company, the demutualization laws that will be applicable to such a transaction will be those of Massachusetts, where Liberty Mutual Holding Company is incorporated, and not those of Wisconsin.

In the event of a demutualization, EIOW Policyholders should be mindful that the demutualization provisions of Massachusetts applicable to a mutual holding company demutualization differ from those of Wisconsin in certain respects, including, but not limited to, the following:

Voting Requirements of Members to Approve Demutualization

Unlike Massachusetts General Laws where a demutualization plan must be approved by a vote of not less than two-thirds of the votes cast by voting members of a mutual holding company, under the Wisconsin Statutes, a demutualization plan only requires the approval of a majority of the votes cast by voting members of the mutual holding company seeking to demutualize. Therefore, the receipt of member approval sufficient to approve a demutualization plan is more difficult to obtain for a mutual holding company that is incorporated in Massachusetts as opposed to Wisconsin.

Eligibility to Participate in Distribution of Consideration and/or to Purchase Stock

Under Massachusetts General Laws, in the case of a demutualization, a policyholder is eligible to participate in the distribution of consideration and the purchase of stock if that policyholder appears on the company's records, on the date of demutualization, as a person holding equity rights on both December 31 immediately preceding the demutualization date and the date the mutual holding company's board of directors first voted to demutualize. Under the Wisconsin Statutes, however, each member who was a policyholder of the converted insurance company and has paid premiums within five years prior to the date of the resolution adopting the demutualization plan, shall be entitled without additional payment to receive his or her proportional share of stock in the new stock corporation. Therefore, a person or entity who was an EIOW policyholder at some time during the five years prior to the demutualization, but who was not a policyholder on both the date that the mutual holding company's board of directors voted to demutualize and on the December 31 immediately preceding the demutualization date, will not be eligible for a demutualization distribution under Massachusetts law.

Prices of Shares Offered to Persons Holding Equity Rights

Under Massachusetts General Laws, in the case of a demutualization, stock is to be offered to those persons holding equity rights in the mutual holding company at a price not greater than to be thereafter offered to others under the demutualization plan. Under the Wisconsin Statutes the price of the shares may not exceed 50% of the median equitable share of all members who have been policyholders of the converted insurance company and have paid premiums within five years prior to the company's board of directors adopting the demutualization plan. Although the Massachusetts and Wisconsin laws provide a different approach for determining the share price, the precise amount of the share price under either approach is ultimately subject to regulatory approval.

Preemptive Rights

Under Massachusetts General Laws, in the case of a demutualization, members have preemptive rights to receive stock in exchange for their equity rights in the mutual holding company. Preemptive rights are broader under the Wisconsin Statutes, which provide not only for preemptive rights in any stock issued in the demutualization but also provide for preemptive rights in any other stock issued within the next five years after the demutualization.

Certain Differences between Massachusetts and Wisconsin Laws Regarding an Initial Public Offering

Under a mutual holding company structure, a mutual holding company may sell up to 49% of the shares of any of its intermediate stock holding companies or the converted insurer in one or more public offerings. LMIC has no current plans to undergo any public offering as a part of LMIC's reorganization to a mutual holding company structure. However, if and when Liberty Mutual Holding Company were to sell up to 49% of the shares of any of its intermediate stock holding companies or Converted EIOW, the initial public offering rules of Massachusetts differ from those of Wisconsin in certain respects that EIOW policyholders should be mindful of, including, but not limited to, the following:

Restrictions on Ownership of Stock by Directors and Officers

The Wisconsin Statutes restrict directors, officers and other management of the mutual holding company, any intermediate stock holding company or the converted insurance company from acquiring or offering to acquire stock until one year after the initial public offering. Under Massachusetts General Laws, directors and officers cannot acquire stock in any intermediate stock holding company or the converted insurance company until six months after the initial public offering. After the initial period restrictions, management may not own more than 5% in the aggregate during the next two years and is limited to 18% in the aggregate thereafter under Massachusetts General Laws, while the Wisconsin Statutes limit management to 5% individually and 10% in the aggregate thereafter.

Subscription Rights

Both the Massachusetts and Wisconsin laws provide for subscription rights to policyholders of the converted insurance company. However, under Massachusetts General Laws, a committee of the mutual holding company's outside directors can determine, by a two-thirds vote, not to grant stock subscription rights to policyholders if it would not be in the best interests of the policyholders, with such determination subject to approval by the Massachusetts Commissioner of Insurance.

The comparisons set forth above of Massachusetts and Wisconsin laws regarding initial public offerings of an intermediate stock holding company or a converted insurance company in a mutual holding company structure are comparisons that EIOW believes may be considered as material differences to Policyholders; however, there are other

general differences between Massachusetts and Wisconsin laws regarding initial public offerings and there can be no assurance that Policyholders may not consider such other differences to be material to them.

DISSOLUTION OR LIQUIDATION

Liquidation is a legal concept that refers to the distribution of corporate assets after the termination of the corporate existence of a company. In the event of the voluntary or involuntary dissolution or liquidation of EIOW MHC, any surplus remaining after payment of all liabilities of EIOW MHC will be distributed to the Members on a pro-rata basis up to a maximum amount equal to the total premium paid, with interest, and any surplus remaining thereafter will be paid to the Wisconsin state treasury to the credit of the common school fund in accordance with Sections 644.28(5) and 645.72(4) of the Wisconsin Statutes. Stockholders of Converted EIOW will have no liquidation or other rights with respect to EIOW MHC in their capacities as such.

CORPORATE GOVERNANCE

As a mutual insurance company, EIOW has no authority to issue stock and, thus, has no stockholders. Control of EIOW is vested in its Board of Directors, the members of which are elected by the Members of EIOW. After the Restructuring, the affairs of Converted EIOW will be under the direction of Converted EIOW's board of directors and all voting rights as to Converted EIOW, including the election of the board of directors of Converted EIOW, will be vested exclusively in the holder of its outstanding voting stock, specifically, EIOW MHC. Immediately upon consummation of the Restructuring, EIOW MHC will be able to control the outcome of all matters presented to the stockholders of Converted EIOW for resolution by vote, including the election of members to the board of directors of Converted EIOW.

CONDITIONS TO CONSUMMATION OF THE MUTUAL HOLDING COMPANY PLAN

In order for the Mutual Holding Company Plan to become effective: (1) the Mutual Holding Company Plan must be approved by the Wisconsin Commissioner; (2) the Mutual Holding Company Plan, the articles of incorporation of EIOW MHC and the amended and restated articles of incorporation of EIOW, must be approved by Eligible Members; (3) EIOW must receive certain rulings, opinions or letters on tax and securities matters; (4) the Wisconsin Commissioner must issue to EIOW a certificate of authority as Converted EIOW, a property and casualty stock insurer; (5) the articles of incorporation of EIOW MHC and amended articles of incorporation of EIOW must be filed with the Wisconsin Commissioner; (6) EIOW and its subsidiaries must make all necessary filings with Governmental Entities and obtain all requisite regulatory approvals that may be required from those states and jurisdictions where EIOW and its subsidiaries are domiciled or transact insurance business; (7) the plan of reorganization of LMIC to reorganize to a mutual holding company under the laws of Massachusetts must be approved in all respects, although this condition is subject to waiver by a majority vote of EIOW's Board of Directors; and (8) the necessary LMFIC policyholder approval of LMFIC's reorganization and the receipt by LMFIC of the Massachusetts Commissioner of Insurance's approval of LMFIC's reorganization have been obtained, although this condition is subject to waiver by a majority vote of EIOW's Board of Directors.

Approval of the Commissioner

In order for the Mutual Holding Company Plan to become effective, it must be approved by the Wisconsin Commissioner after the Public Hearing. The Public Hearing, which will be held at 1 p.m. at The Hilton Madison Monona Terrace, 9 E. Wilson Street, Madison, Wisconsin 53703 on October 16, 2001 by the Wisconsin Commissioner or a hearing examiner designated by the Wisconsin Commissioner, will be open to the public.

In accordance with the Public Hearing procedures as the Wisconsin Commissioner or the designated hearing examiner may prescribe, any Policyholder, any commissioner of any jurisdiction where EIOW is authorized to do any business as well as any member of the general public may present written or oral statements at the Public Hearing and may present written statements within a period (to be prescribed by the Wisconsin Commissioner) after the Public Hearing is held. The Wisconsin Commissioner shall take statements presented by such Policyholder, any commissioner of any jurisdiction where EIOW is authorized to do any business or such member of the public into consideration in making a determination whether to approve the Mutual Holding Company Plan. For more information about the public hearing, see "Notice of Public Hearing," enclosed separately in this Policyholder Information Statement packet.

After the Public Hearing, the Wisconsin Commissioner will approve the Mutual Holding Company Plan unless she finds that the Mutual Holding Company Plan violates the law, is not fair and equitable to Policyholders or is contrary to the

interests of Policyholders or the public. In considering the Mutual Holding Company Plan, the Wisconsin Commissioner will also consider whether the Restructuring would be detrimental to the safety and soundness of EIOW or to the contractual rights and reasonable expectations of the Persons who are Policyholders on the Effective Date. The Wisconsin Commissioner may also take into consideration any conclusions and recommendations on the subject of restructuring published by recognized organizations of professional insurance actuaries. The Wisconsin Commissioner may by rule establish standards applicable to a restructuring under Chapter 644 of the Wisconsin Statutes.

Approval of Eligible Members

One of the conditions for the Mutual Holding Company Plan to become effective is that it must be approved by a majority vote of Eligible Members at the Special Meeting. In order to approve and adopt the Mutual Holding Company Plan and to consummate the transactions contemplated thereby, including the amendment and restatement of the articles of incorporation of EIOW, (i) at least a majority of Persons who were Policyholders of EIOW on the Resolution Date and who remain Policyholders on the Record Date and voting at the Special Meeting (in person or by proxy) must vote FOR the Mutual Holding Company Plan *and* (ii) at least a majority of Policyholders who are Members on the Record Date and voting at the Special Meeting (in person or by proxy) must vote FOR the Mutual Holding Company Plan. For purposes of voting on the Mutual Holding Company Plan, each Eligible Member who votes at the Special Meeting (in person or by proxy) may only cast his vote once. See *“Special Meeting of Members — Voting at the Special Meeting,”* page 23 and *“— How to Vote,”* page 24.

Certain U.S. Federal Income Tax Considerations

It is a condition to the consummation of the Restructuring that EIOW obtain a private letter ruling from the IRS that is in force on the Effective Date providing that, for U.S. federal income tax purposes, the conversion of EIOW into Converted EIOW will qualify as a reorganization within the meaning of section 368(a) of the Code. It is a condition to the consummation of the MHC Merger that EIOW obtain (i) a private letter ruling from the IRS that is in force on the effective date of the MHC Merger providing that, for U.S. federal income tax purposes, the conversion of EIOW into Converted EIOW will qualify as a reorganization within the meaning of section 368(a) of the Code and (ii) an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, special tax counsel to EIOW, or another nationally-recognized independent tax counsel to EIOW, that, for U.S. federal income tax purposes, (a) the extinguishment of the Equity Rights of the Members of EIOW in EIOW and the replacement of such Equity Rights with Equity Rights in Liberty Mutual Holding Company pursuant to the Restructuring and the MHC Merger will be pursuant to transactions qualifying under section 368(a) or section 351(a) of the Code and (b) the Members of EIOW whose Equity Rights in EIOW are extinguished and replaced with Equity Rights in Liberty Mutual Holding Company in the Restructuring and the MHC Merger will not recognize gain or loss in the Restructuring and the MHC Merger. EIOW has received a private letter ruling from the IRS providing that, for U.S. federal income tax purposes, the conversion of EIOW into Converted EIOW will qualify as a reorganization within the meaning of section 368(a) of the Code. See *“Certain U.S. Federal Income Tax Consequences of the Restructuring and the MHC Merger,”* page 51.

Securities Law Matters

The Mutual Holding Company Plan shall not become effective unless EIOW shall have (i) obtained a “no-action” letter from the SEC relating to matters pertaining to the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended; or (ii) received an opinion of independent legal counsel in form and substance satisfactory to the Board of Directors of EIOW with respect to federal and state securities law matters.

A “no-action” letter has been received in which the SEC staff has confirmed that it would not recommend enforcement action to the SEC if the Restructuring is effected, the Equity Rights of EIOW Policyholders in EIOW become Equity Rights in EIOW MHC, and Policyholders receive Equity Rights in EIOW MHC automatically, by operation of law, as a result of purchasing Policies from time to time, without registration under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended. In reaching its position in the “no-action” letter, the SEC staff specifically noted, among other things, that “the new mutual holding company may not pay dividends or make any other payment of income or profits except as approved by the Commissioner.”

Certificate of Authority

The Mutual Holding Company Plan shall not become effective unless the Wisconsin Commissioner issues to EIOW a certificate of authority as Converted EIOW, a property and casualty stock insurer, granting Converted EIOW the authority under Wisconsin law to continue conducting its insurance business.

Other Regulatory Approvals

Another condition to effect the Mutual Holding Company Plan is that EIOW make all required filings with Governmental Entities and obtain all necessary regulatory approvals that are required in those jurisdictions where EIOW is domiciled or conducts insurance business. The other regulatory filings and approvals reasonably required to be obtained with respect to the Restructuring include: (i) the filing of applications with certain states to amend EIOW's insurance licenses to reflect the fact that, upon consummation of EIOW's Restructuring: (a) EIOW will be a stock rather than a mutual insurance company and (b) EIOW's name will change to "Employers Insurance Company of Wausau" and (ii) foreign insurance regulatory filings (similar in nature to an acquisition of control filing) in Bermuda and Canada.

EFFECTIVE DATE OF THE MUTUAL HOLDING COMPANY PLAN

If all of the conditions to consummation of the Mutual Holding Company Plan are met or waived, as applicable, the Mutual Holding Company Plan is expected to become effective during the fourth quarter of 2001. However, no assurance can be given that this timetable will be met. If the Mutual Holding Company Plan does not become effective for any reason, EIOW will remain a mutual insurance company.

AMENDMENT AND WITHDRAWAL OF THE MUTUAL HOLDING COMPANY PLAN

At any time before the Effective Date, EIOW may, by resolution of the Board, amend the Mutual Holding Company Plan or withdraw the Mutual Holding Company Plan. If any amendment is made after the Public Hearing, the Wisconsin Commissioner will determine whether such amendment changes the 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 the Mutual Holding Company Plan as amended. If an amendment that the Wisconsin Commissioner determines is materially disadvantageous to any of the Policyholders is made after the Mutual Holding Company Plan has been approved by the Policyholders, the Mutual Holding Company Plan as amended will be submitted for reconsideration by the Policyholders.

LITIGATION AND OTHER MATTERS

On June 28, 2001, a purported nation-wide class action complaint was filed against LMIC in the Superior Court for Middlesex County, Commonwealth of Massachusetts ("the Court") by three LMIC policyholders on behalf of themselves and all other similarly situated LMIC policyholders seeking, among other things, that the court (1) enjoin the printing and dissemination of the LMIC policyholder information statement, (2) enjoin LMIC from disseminating any other notices or descriptions to the extent they contain information similar to that in the LMIC policyholder information statement, and (3) in the event that such injunctive relief is not obtained prior to dissemination of the LMIC policyholder information statement to eligible members of LMIC, enjoin counting of the LMIC member vote on LMIC's plan of reorganization and/or to obtain an order rendering the LMIC member vote on LMIC's plan of reorganization null and void. Although EIOW is not a named defendant in the complaint, there can be no assurance that this complaint filed against LMIC and any resulting litigation will not delay or impede consummation of the Global Transaction.

In a July 11, 2001 decision, the Court denied the plaintiffs' motion to preliminarily enjoin LMIC from mailing the LMIC policyholder information statement to its policyholders as well as LMIC's motion to dismiss the complaint. As a result, LMIC expects the litigation will continue. LMIC believes that the allegations set forth in the complaint are without merit.

LMIC has posted the complaint, as well as the Court's July 11, 2001 decision on its website (www.libertymutual.com), and may place other pleadings relating to such litigation on its website from time to time. These postings are for the information of all policyholders of the Liberty Companies, including EIOW.

The complaint alleges, among other things, that the LMIC policyholder information statement either makes material misrepresentations or fails to provide disclosure in the following areas:

- Alleges that the LMIC policyholder information statement fails to disclose that the LMIC plan of reorganization extinguishes LMIC members' equity rights including their ability to receive annual dividends on LMIC's earnings, whether or not there are outside shareholders.
- Alleges that the LMIC policyholder information statement fails to disclose that due to federal securities laws that do not apply to LMIC now, the board of directors of Reorganized LMIC will no longer be able to pay annual dividends

to policyholders on Reorganized LMIC's total earnings as they can do today through the proper exercise of their discretion.

- Alleges that the LMIC policyholder information statement fails to disclose that Reorganized LMIC will have to be run for the benefit of the shareholders (without prejudice to outside shareholders with a minority of the votes), and will no longer be operated for the exclusive benefit of LMIC policyholders.
- Alleges that the LMIC policyholder information statement fails to disclose that, following the reorganization of LMIC, policyholders of LMIC may not directly share in the future profits and/or benefits of Reorganized LMIC.
- Alleges that the LMIC policyholder information statement fails to disclose that stock company directors (representing shareholder interests) can adversely affect LMIC's members' equity rights in Liberty Mutual Holding Company, thus allowing outside shareholders to directly harm all LMIC members' rights under the mutual holding company structure. The complaint asserts that under the plan of reorganization of LMIC, future LMIC policyholders' contract rights will be in Reorganized LMIC, and they will also receive equity rights in Liberty Mutual Holding Company exactly equal to those of the class. If the shareholders (or directors owing them duties) decide that it is in the shareholders' interest to double the sale of low-premium insurance (e.g., credit insurance) which in turn doubles the number of policyholders, they can do so. The complaint further alleges that the doubling of policyholders with equal equity rights in Liberty Mutual Holding Company would substantially dilute the class' voting power, and dilutes their interests in the event of a demutualization, liquidation or dissolution of Liberty Mutual Holding Company.
- Alleges that the LMIC policyholder information statement fails to disclose that LMIC's 660,000 policyholder's interests in its \$4.4 billion in surplus — which they would receive in a future demutualization — will be diluted as a result of the Global Transaction with 1.6 million LMFIC Policyholders (whose current claim on LMFIC's \$856 million surplus is much lower per policyholder).
- Alleges that the LMIC policyholder information statement fails to disclose that there will be a change in control of LMIC and the entire Liberty Mutual Holding Company structure as a result of the Global Transaction because LMIC's 660,000 policyholders will lose voting control to LMFIC's 1.6 million policyholders, who will possess equal votes in Liberty Mutual Holding Company even though LMIC has far more assets than LMFIC.
- Alleges that the LMIC policyholder information statement falsely claims throughout that the LMIC reorganization will "preserve mutuality," that the LMIC policyholder information statement deceptively defines a mutual insurer, and that the LMIC policyholder information statement misrepresents what a mutual insurer legally is to LMIC policyholders/members.
- Alleges that the LMIC policyholder information statement fails to disclose that the LMIC plan of reorganization extinguishes LMIC's policyholders' guarantee of priority in the event of a bankruptcy as against all other creditors.
- Alleges that the LMIC policyholder information statement fails to disclose that the LMIC reorganization will extinguish LMIC policyholders' right to (1) have LMIC operated solely for their benefit, (2) have LMIC's surplus used for LMIC policyholders exclusive benefit, and (3) receive insurance "at cost."
- Alleges that the LMIC policyholder information statement fails to disclose various conflicts of interest that will exist following the LMIC reorganization, including that shareholders want higher returns on operations, while LMIC policyholders seek higher dividends and reduced premiums on those same operations and surplus.
- Alleges that the LMIC policyholder information statement fails to disclose that under a mutual holding company structure, the state law guarantee of priority for LMIC policyholders may no longer exist because federal laws that are not currently applicable to LMIC may preempt such state laws. The complaint also alleges that the LMIC policyholder information statement fails to disclose that LMIC policyholders suffer no such preemption risk if the LMIC reorganization is not consummated.
- Alleges that the LMIC policyholder information statement fails to disclose that in a mutual holding company structure, directors and management will have strong personal incentives to issue stock because, following the LMIC reorganization, directors and management will allegedly have the opportunity to award themselves valuable (and tax deferred) equity compensation.
- Alleges that the LMIC policyholder information statement fails to disclose that a mutual holding company structure combines the entrenchment of Reorganized LMIC and Liberty Mutual Holding Company directors and officers with their ability to be enriched through equity compensation in a stock company.

- Alleges that the LMIC policyholder information statement fails to disclose that the Liberty Mutual Holding Company and Reorganized LMIC directors will have total authority to grant themselves valuable equity compensation, such as stock or stock options, without LMIC policyholders' approval.
- Alleges that the LMIC policyholder information statement fails to disclose that "the directors will be immune from takeover, and thus insulated from the discipline of the marketplace."
- Alleges that the LMIC policyholder information statement fails to disclose why LMIC's board of directors did not ask its investment banker, CSFB, to examine the benefits of a full demutualization for LMIC policyholders (i.e., a \$4.4 billion distribution) as an alternative to the LMIC reorganization.
- Alleges that the LMIC policyholder information statement fails to disclose that the market value of the stock issued to policyholders of insurance companies that have demutualized purportedly typically doubles in value within two years of demutualization and that such stock purportedly trades at prices above the surplus levels of the insurers.
- Alleges that the LMIC policyholder information statement fails to disclose that LMIC had previously determined that it can achieve far more efficiencies and benefits through growth strategies already available and/or utilized by it than by adopting a mutual holding company structure, and that LMIC purportedly determined that a mutual holding company structure confers only a few benefits that are also available under alternative strategic approaches.
- Alleges that the LMIC policyholder information statement fails to disclose that, if an initial public offering were to be consummated, it may cost significantly more to operate Reorganized LMIC (and its parent companies) than it does to currently operate LMIC due to required shareholder disclosures, federal filings and other legal mandates that do not now apply to LMIC.
- Alleges that the LMIC policyholder information statement fails to disclose that "in a full conversion to stock (demutualization), Liberty's 660,000 policyholders would receive — at the minimum — their proportionate share of Liberty's \$4.4 billion in surplus." The complaint further alleges that "[o]n average, Liberty's policyholders would receive in compensation three times their average annual premium in a demutualization, or \$6,600 each."

The complaint (Docket No. MICV2001-02767) is publicly available at the Office of the Civil Clerk, Middlesex Superior Court, 40 Thorndike Street, Cambridge, Massachusetts 02141.

While LMIC believes that all of the allegations set forth in the complaint, including those set forth above, are without merit and in certain instances based upon factually incorrect information and/or assumptions, there can be no assurance that such litigation or any other litigation brought relating to the LMIC plan of reorganization will not delay or impede consummation of the LMIC plan of reorganization.

On June 28, 2001, LMIC received a letter from the Editor of Schiff's Insurance Observer, purportedly acting as "Information Agent" for an entity called the Liberty Mutual Defense Fund, offering to acquire LMIC in a purported "tax-free transaction in which LMIC's policyholders would own 100% of the Liberty Mutual Defense Fund upon completion of the transaction." On August 8, 2001, at a regularly scheduled meeting of the LMIC board of directors, the LMIC board of directors reviewed and rejected the proposal, reaffirming its commitment to mutuality, support for the mutual holding company structure and support for the proposed transactions with LMFIC and EIOW.

SELECTED FINANCIAL INFORMATION

The selected statutory financial information set out below for EIOW, as of and for each of the three years ended December 31, 1998 through 2000, is derived from the audited statutory financial statements of EIOW. The selected statutory financial information as of and for the three months ended March 31, 2001 and 2000 is derived from the unaudited quarterly statutory financial statements filed with the OCI. This financial information should be read in conjunction with the audited statutory financial statements attached as Annex G hereto.

Because the GAAP financial statements of EIOW MHC and its subsidiaries after the consummation of the Restructuring will not differ materially from the GAAP financial statements of EIOW, no pro forma financial information for EIOW MHC and its subsidiaries is presented in this Policyholder Information Statement.

Selected GAAP financial information is also set out below for the Liberty Mutual Group as of and for the years ended December 31, 1999 and 2000 and is based on the audited GAAP financial statements for the Liberty Mutual Group. The selected GAAP financial information for the Liberty Mutual Group as of and for the three months ended March 31, 2001 and 2000 is derived from interim unaudited GAAP financial information for the Liberty Mutual Group. This financial information should be read in conjunction with the audited GAAP financial statements attached as Annex H, hereto.

Because the GAAP financial statements of Liberty Mutual Holding Company, LMHC Massachusetts Holdings and LMGI after consummation of the Global Transaction will not differ materially from the GAAP financial statements of the Liberty Mutual Group, no pro forma financial information for such companies is presented in this Policyholder Information Statement.

**Employers Insurance of Wausau
SAP Financial Information
(\$ in millions)**

SAP Information

	Year Ended December 31,			Three Months Ended March 31,	
	1998	1999	2000	2000	2001
Premiums earned	\$1,094	\$ 898	\$1,143	\$ 263	\$ 289
Investment income, net	156	145	193	55	55
Realized investment gains	346	6	67	0	0
Other, net	(4)	74	64	(6)	2
Total Revenue	1,592	1,123	1,467	312	346
Losses and loss expenses	1,123	824	1,059	238	267
Other underwriting expenses	238	216	282	70	79
Policyholder dividends	12	15	15	4	4
Total Expenses	1,373	1,055	1,356	312	350
Pre-tax income	219	68	111	(0)	(4)
Income taxes	(24)	0	7	0	0
Net Income	\$ 243	\$ 68	\$ 104	\$ (0)	\$ (4)
Total Assets	\$2,837	\$3,207	\$4,025	\$3,793	\$4,082
Total Liabilities	2,262	2,538	3,280	3,142	3,398
Surplus	575	669	745	651	684

**Liberty Mutual Group
GAAP Financial Information
(\$ in millions)**

Combined GAAP information

	Year Ended December 31,		Three Months Ended March 31,	
	1999	2000	2000	2001
Premiums earned	\$ 9,483	\$10,016	\$ 2,332	\$ 2,621
Investment income, net	1,817	1,826	521	317
Realized investment gains	448	44	106	10
Other, net	395	361	95	118
Total Revenues	12,143	12,247	3,054	3,066
Losses and loss expenses	8,069	8,540	1,886	2,167
Benefits and expenses	3,418	3,619	891	987
Policyholder dividends	130	98	30	27
Total Expenses	11,617	12,257	2,807	3,181
Pre-tax income	526	(10)	247	(115)
Income taxes	157	(79)	33	(5)
Income from continuing operations before minority interest	369	69	214	(110)
Minority interest	(1)	2	—	—
Income from continuing operations	368	71	214	(110)
Discontinued operations	71	90	28	(34)
Net Income	\$ 439	\$ 161	\$ 242	\$ (144)
Total Assets	\$62,251	\$65,527	\$63,647	\$65,764
Total Liabilities	54,912	57,639	55,869	58,038
Surplus	7,339	7,888	7,778	7,726

MUTUAL HOLDING COMPANY PLAN
OF
EMPLOYERS INSURANCE OF WAUSAU A Mutual Company,
(As Amended on August 21, 2001)

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PREAMBLE

WHEREAS, EMPLOYERS INSURANCE OF WAUSAU A Mutual Company (“EIOW”), 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 Statutes (the “Restructuring”);

WHEREAS, pursuant to this 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 Equity Rights in EIOW on the Effective Date of the Restructuring will become Members of EIOW MHC; and (v) all Equity Rights of Members 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 a reorganization within the meaning of section 368(a) of the Internal Revenue Code of 1986, as amended (the “Code”) and that this Mutual Holding Company Plan will be, and is hereby, adopted as a plan of reorganization for purposes of the Code;

WHEREAS, it is anticipated that the Restructuring, if consummated, will be one of a series of transactions (the “Global Transaction”) that will result in EIOW, Liberty Mutual Insurance Company, a Massachusetts mutual property and casualty insurance company (“LMIC”), and potentially 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 Massachusetts mutual holding company to be formed by LMIC (“Liberty Mutual Holding Company”). Upon consummation of the Global Transaction, policyholders of Converted EIOW, Reorganized LMIC and Reorganized LMFIC will become members of and have Equity Rights in a single mutual holding company, Liberty Mutual Holding Company;

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 section 368(a) or section 351(a) of the Code;

WHEREAS, insurance and financial services deregulation, global consolidation, low levels of growth in the domestic insurance market and excess industry capital have created an environment which has increased pressures and reduced profitability. The Board of Directors believes the Restructuring will enhance the financial strength and strategic flexibility of EIOW by creating a corporate structure that will provide access to capital from sources currently unavailable to EIOW. Further, the Restructuring, by making the Global Transaction possible, will help EIOW position itself competitively for the future;

WHEREAS, at a meeting duly called and held on September 14, 2000, the Board of Directors unanimously passed a resolution finding that the Restructuring is fair and equitable to Policyholders and expected to benefit the Policyholders for the following reasons and purposes: (i) the Restructuring will provide EIOW with greater operating flexibility; (ii) the Restructuring will preserve mutuality; and (iii) the Restructuring provides the foundation for the Global Transaction. On August 21, 2001, this Mutual Holding Company Plan was amended with the unanimous approval of the Board of Directors;

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 (the “Wisconsin Commissioner”) for approval as provided by Section 644.07(7) of the Wisconsin Statutes; and

WHEREAS, the Board of Directors of EIOW has directed that this Mutual Holding Company Plan be furnished to Eligible Members of EIOW for approval as provided by Section 644.07(8) of the Wisconsin Statutes.

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” or “Board of Directors” means the board of directors of EIOW.

“Code” has the meaning set forth in the preamble.

“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 Section 631.51(2) of the Wisconsin Statutes 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 Wisconsin 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, based on EIOW’s records, (i) a Person who was a Member on the Resolution Date and remains a Member on the Record Date and/or (ii) a Person who is a Member on the Record Date.

“Equity Rights” means the uncertificated rights in the equity of EIOW MHC or EIOW, as applicable, conferred by law, including (i) Membership Interests in EIOW MHC or EIOW, as applicable, and (ii) Rights in Surplus of EIOW MHC or EIOW, as applicable. After the consummation of the Global Transaction, Equity Rights shall refer to the uncertificated rights in the equity of Liberty Mutual Holding Company, conferred by law.

“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 by EIOW’s records.

“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, LMFIC and other affiliated companies, collectively. Upon consummation of the Global Transaction, the 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 Statutes 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 Statutes 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.

“Named Insured” means the Person which is the primary insured in a Policy or determined in accordance with the applicable provisions of the Voting Rules.

“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 holder of a Policy.

“Public Hearing” means the public hearing conducted by the Wisconsin Commissioner, or a hearing examiner designated by the Wisconsin Commissioner, pursuant to the provisions of Section 644.07(6) of the Wisconsin Statutes which is to be held at 1 p.m. on October 16, 2001 at The Hilton Madison Monona Terrace, 9 E. Wilson Street, Madison, Wisconsin 53703.

“Record Date” means October 31, 2001, the date established by the Board of Directors as the record date 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 19T of Chapter 175 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 19F to 19W, of Chapter 175 of the Massachusetts General Laws.

“Resolution Date” means September 14, 2000, the date the Board of Directors initially 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 Chapters 181, 611 or 645 of the Wisconsin Statutes, 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 Statutes. 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 Chapters 181, 611, 644 or 645 of the Wisconsin Statutes 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 such Chapters of the Wisconsin Statutes.

“SEC” means the United States Securities and Exchange Commission.

“Special Meeting” means the special meeting of Eligible Members of EIOW to vote on this Mutual Holding Company Plan, to be held on November 20, 2001, and any adjournments, postponements or continuations thereof.

“Voting Rules” means the rules prepared by EIOW governing the conduct of voting on the Mutual Holding Company Plan which are approved by the Wisconsin Commissioner pursuant to the provisions of Section 5.5 hereof.

“Wisconsin Commissioner” means the Commissioner of Insurance for the State of Wisconsin.

“Wisconsin Statutes” means the general laws of the State of Wisconsin.

ARTICLE II THE RESTRUCTURING

2.1 *The Restructuring.* On the Effective Date and in accordance with the terms of this Mutual Holding Company Plan and Chapter 644 of the Wisconsin Statutes, (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 Equity Rights 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 EIOW MHC.* On the Effective Date, EIOW MHC shall be incorporated as a Wisconsin mutual holding company. On the Effective Date, Members 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 Current Policy Terms and Dividend Payments.* 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. This Mutual Holding Company Plan will not increase premiums or diminish Policy benefits or other Policy obligations to Policyholders. EIOW’s current practices with respect to Dividends to Policyholders will not be affected by the Restructuring.

2.5 *Extinguishing of Equity Rights in EIOW.* On the Effective Date, the Equity Rights held by EIOW’s Policyholders in EIOW 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 Members of EIOW MHC; provided, however, the Equity Rights in EIOW MHC shall continue so long as the related Policy remains In Force, except in the event of a demutualization as provided under Section 611.76 of the Wisconsin Statutes.

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 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. 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 be issued 100% of the initial voting stock of Converted EIOW. Thereafter, in the event that shares of voting stock in Converted EIOW are sold to third parties, EIOW MHC, pursuant to Chapter 644 of the Wisconsin Statutes, will be required to at all times to own, directly or indirectly, at least 51% of the shares of voting stock of Converted EIOW.

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 PURPOSE OF EIOW'S RESTRUCTURING

3.1 *Purpose of the Restructuring.* Insurance and financial services deregulation, global consolidation, low levels of growth in the domestic insurance market and excess industry capital have created an environment which has increased pressures and reduced profitability. The Board of Directors believes the Restructuring will enhance the financial strength and strategic flexibility of EIOW by creating a corporate structure that will provide access to capital from sources currently unavailable to EIOW. Further, the Restructuring, by making the Global Transaction possible, will help EIOW position itself competitively for the future.

At a meeting duly called and held on September 14, 2000, the Board of Directors unanimously passed a resolution finding that the Restructuring is fair and equitable to Policyholders and expected to benefit the Policyholders for the following reasons and purposes: (i) the Restructuring will provide EIOW with greater operating flexibility; (ii) the Restructuring will preserve mutuality; and (iii) the Restructuring provides the foundation for the Global Transaction. On August 21, 2001, this Mutual Holding Company Plan was amended with the unanimous approval of the Board of Directors.

ARTICLE IV APPROVAL BY THE WISCONSIN COMMISSIONER

4.1 *Application.* EIOW has submitted to the Wisconsin Commissioner for her approval 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.

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

4.3 *Notice of Public Hearing.* Notice of the Public Hearing shall be mailed by EIOW to Eligible Members 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 Wisconsin Commissioner approves the summary, and any comment that the Wisconsin Commissioner considers necessary for the adequate information of Policyholders.

- (a) The notice, this Mutual Holding Company Plan or a summary of this Mutual Holding Company Plan, and any comment that the Wisconsin 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.
- (b) In accordance with such hearing procedures as the Wisconsin Commissioner or the designated hearing examiner may prescribe, any Eligible Member, insurance commissioner of any jurisdiction in which EIOW is authorized to do any business, or member of the general public 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 Wisconsin Commissioner or the hearing examiner. The Wisconsin Commissioner shall take the statements presented into consideration in making the determination to approve this Mutual Holding Company Plan.

4.4 *Approval by the Wisconsin Commissioner.* The Wisconsin 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 V

APPROVAL BY ELIGIBLE MEMBERS

5.1 *Special Meeting.* After this Mutual Holding Company Plan has been approved by the Wisconsin Commissioner, EIOW shall hold a special meeting of Eligible Members of EIOW (“Special Meeting”) at the offices of EIOW located at 1800 West Bridge Street, Wausau, Wisconsin 54401. At the Special Meeting, Eligible Members will be asked to consider and vote to approve this Mutual Holding Company Plan.

5.2 *Eligibility to Vote at the Special Meeting.* A Person will be entitled to vote on this Mutual Holding Company Plan by virtue of having met *either* one of the following eligibility requirements:

(a) *First Eligibility Category:*

- (i) Such Person was listed on the records of EIOW as a Policyholder on the *Resolution Date* of one or more Policies (or as principal if the Policy is a surety bond or obligation); and
- (ii) One or more of these Policies was In Force on the *Record Date*.

(b) *Second Eligibility Category:*

- (i) Such Person was listed on the records of EIOW as a Policyholder on the *Record Date* of one or more Policies (or as principal if the Policy is a surety bond or obligation); and
- (ii) One or more of these Policies was In Force on the *Record Date*.

Under this voting procedure, Policyholders are grouped into two categories depending on their having met one or both of the voting eligibility requirements. The two eligibility categories exist due to differences regarding Policyholders’ right to vote under the Wisconsin Statutes and the EIOW bylaws. For the sake of clarity, the two eligibility categories do not cancel one another out; rather, the first eligibility category is a subset of the second eligibility category.

5.3 *Number of Votes.* In accordance with Wisconsin statutory requirements, each Person meeting the requirements listed under the first eligibility category set forth in Section 5.2 (a) above will be entitled to one vote, regardless of the number of Policies such Person holds or may have held. In compliance with the bylaws of EIOW, each Person meeting the requirements listed under the second eligibility category set forth in Section 5.2 (b) above will be entitled to one vote, regardless of the number of Policies such Person holds or may have held. Each Eligible Member may only cast his vote once, regardless of whether he is qualified to vote under both eligibility categories.

5.4 *Approval Requirement.* Member approval of this Mutual Holding Company Plan requires: (i) at least a majority of Persons who were Policyholders of EIOW on the Resolution Date and who remain Policyholders on the Record Date voting at the Special Meeting (in person or by proxy) for approval of this Mutual Holding Company Plan; and (ii) at least a majority of Policyholders who are Members on the Record Date voting at the Special Meeting (in person or by proxy) for approval of this Mutual Holding Company Plan. In accordance with the bylaws of EIOW, the presence, in person, of at least ten Members is necessary to constitute a quorum at the Special Meeting.

5.5 *Voting Rules.* EIOW shall prepare Voting Rules, which will include a method for the resolution of disputes relating to voting matters, for submission to, and approval by, the Wisconsin Commissioner.

6.5 *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 VI CONDITIONS TO CONSUMMATION OF THE RESTRUCTURING

6.1 *General.* In order for this Mutual Holding Company Plan to become effective: (i) this Mutual Holding Company Plan, the articles of incorporation of ELOW MHC and the amended and restated articles of incorporation of ELOW, must be approved by Eligible Members; (ii) this Mutual Holding Company Plan must be approved by the Wisconsin Commissioner; (iii) ELOW must receive certain rulings, opinions or letters on tax and securities matters; (iv) the Wisconsin Commissioner must issue to ELOW a certificate of authority as Converted ELOW, a property and casualty stock insurer; (v) the articles of incorporation of ELOW MHC and amended articles of incorporation of ELOW must be filed with the Wisconsin Commissioner; (vi) ELOW and its subsidiaries must make all necessary filings with Governmental Entities and obtain all requisite regulatory approvals that may be required from those states and jurisdictions where ELOW and its subsidiaries are domiciled or transact insurance business; (vii) the plan of reorganization of LMIC to reorganize to a mutual holding company under the laws of Massachusetts must be approved in all respects, although this condition is subject to waiver by a majority vote of ELOW's Board of Directors; and (viii) the necessary LMFIC policyholder approval of LMFIC's reorganization and the receipt by LMFIC of the Massachusetts Commissioner of Insurance's approval of LMFIC's reorganization have been obtained, although this condition is subject to waiver by a majority vote of ELOW's Board of Directors.

ARTICLE VII ADDITIONAL PROVISIONS

7.1 *Continuation of Rights and Obligations.* The Restructuring of ELOW into a stock insurance company subsidiary of ELOW MHC shall not in any way annul, modify or change any of ELOW's existing suits, rights, contracts or liabilities, except with respect to the Equity Rights, if any, in ELOW that are extinguished as provided in Section 2.5, and the corporate existence of ELOW shall be continued in all respects. Converted ELOW, 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 ELOW 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.

7.2 *Effective Date.* The date upon which the Wisconsin Commissioner issues the certificate of authority to Converted ELOW shall be the Effective Date of the Restructuring.

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

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

7.5 *Expenses.* ELOW 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 Wisconsin Commissioner and the prorated salaries of any involved office staff members of the OCI, shall be borne by ELOW.

7.6 *Dividend Policies.* It is the intention of ELOW that its current policies regarding Dividends or other refunds of premiums to Policyholders will remain unchanged after the Restructuring. Any payments of dividends or other distributions by ELOW MHC pursuant to Section 181.1302(4) shall be made to Members only by a vote of two-thirds of the Board of Directors of ELOW MHC and with the approval of the Wisconsin Commissioner.

7.7 *Amendment or Withdrawal of Mutual Holding Company Plan.* At any time before the Effective Date, ELOW may, by resolution of its Board of Directors, amend this Mutual Holding Company Plan or withdraw this Mutual Holding Company Plan. The Wisconsin 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 ELOW and, in such case, may require a further public hearing on this Mutual Holding Company Plan as amended. If an amendment that the Wisconsin 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.

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

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

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

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

7.10 *Reasonable Expenses Associated With Any Appeal of Wisconsin Commissioner's Order.* Converted ELOW shall bear any and all reasonable costs and expenses incurred by or on behalf of the Wisconsin Commissioner in connection with any appeal of the Wisconsin Commissioner's order relating to ELOW's Mutual Holding Company Plan. Converted ELOW shall promptly pay such costs and expenses once such costs and expenses are approved for payment by the Wisconsin Commissioner.

7.11 *Corrections.* ELOW may, until the Effective Date, by an instrument executed by an officer or other official under ELOW's corporate seal and submitted to the Wisconsin Commissioner, make such modifications as are appropriate to correct errors, clarify existing items, or make additions to correct manifest omissions in this Mutual Holding Company Plan (including the Schedules). ELOW may, in the same manner, also make such modifications as may be required by the Wisconsin Commissioner after the Public Hearing as a condition of approval of this Mutual Holding Company Plan.

7.12 *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.

7.13 *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 Holding Company Plan to be signed by its Secretary and attested to by its Counsel and Assistant Secretary on August 21, 2001.

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company

By: /s/ J. Stanley Hoffert

Name: J. Stanley Hoffert
Title: Vice President, General Counsel and
Secretary

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

**AMENDED AND RESTATED ARTICLES OF INCORPORATION
OF
EMPLOYERS INSURANCE COMPANY OF WAUSAU**

**AMENDED AND RESTATED
ARTICLES OF INCORPORATION
EMPLOYERS INSURANCE COMPANY OF WAUSAU**

These restated articles of incorporation of Employers Insurance Company of Wausau supersede and take the place of heretofore existing articles of incorporation and amendments thereto.

ARTICLE I
Business to be Undertaken

This corporation is authorized to transact the business of insuring persons and organizations against any and all of the hazards as may be authorized or permitted for stock insurance corporations under the laws of the State of Wisconsin as they are now or as they may hereafter be enacted or amended, and to reinsure those same hazards and at the option of the corporation to issue participating policies of insurance in respect to any of such hazards; and to have, exercise and enjoy, without limitation, all of the powers, privileges and rights conferred upon or permitted to stock insurance corporations which are necessary or convenient to effect any or all of the purposes for which such corporations may now or hereafter be organized under the laws of the State of Wisconsin.

ARTICLE II
Name and Location

The name of this corporation shall be Employers Insurance Company of Wausau, and its location, home office and a principal place of business shall be in the City of Wausau, in the County of Marathon and State of Wisconsin.

ARTICLE III
Period of Existence

The period of existence of this corporation shall be perpetual.

ARTICLE IV
Capital Stock

The aggregate number of shares of capital stock which the corporation shall have authority to issue shall be five million shares, and shall consist of one class only, designated as common shares, each with a par value of one dollar.

ARTICLE V
Registered Office

The address of the registered office is 2000 Westwood Drive, Wausau, Wisconsin 54401.

ARTICLE VI
Registered Agent

The name of the registered agent at the address of the registered office is J. S. Hoffert.

ARTICLE VII
Officers and Directors

1. The principal officers of the corporation shall be a Chairman of the Board, a Chief Executive Officer, a Vice Chairman of the Board, a President, a Secretary and a Treasurer. The Board of Directors may provide for the election or appointment of such additional officers as it may deem for the best interest of the corporation.
2. The number of Directors of the corporation constituting the Board of Directors of the corporation shall not be less than seven (7) nor more than twenty-four (24), the actual number thereof, within said limits, to be fixed by the Bylaws of the corporation.

ARTICLE VIII
Election and Terms of Directors

1. The term of each Director shall be for three years, or for such lesser term as may be necessary to maintain the number of Directors to be elected at each ensuing annual meeting at, or as nearly possible at, one third of the membership of the Board of Directors. Directors shall serve during the term for which they are elected and qualified and until their successors are elected and qualified, but any Director shall be eligible for reelection.
2. A Director may be removed from office by the affirmative vote of a majority of the outstanding shares entitled to vote at the election of such Director, taken at an annual meeting of the shareholders, or at a special meeting of the shareholders called for that purpose.
3. Any vacancy in the Board of Directors, unless otherwise provided by law, may be filled by an affirmative vote of a majority of the Directors then in office, and such Director so elected shall serve until the next annual meeting of the shareholders at which time a Director shall be elected by the shareholders.

ARTICLE IX
Fiscal Year

The fiscal year of the corporation shall terminate on the 31st day of December of each year.

ARTICLE X
Restrictions and Transfer of Stock

The transfer of shares of stock of the corporation may be restricted, provided that any such restriction shall be stated upon the certificate representing the shares so restricted.

ARTICLE XI
Pre-Emptive Rights

No shareholder shall, because of his ownership of shares, have a pre-emptive or other right to purchase, subscribe for, or take any part of any shares or any part of the notes, debentures, bonds, or other securities convertible into or carrying options or warrants to purchase shares of this corporation issued, optioned or sold by it after its incorporation.

ARTICLE XII
Name and Address of Incorporator

The name and address of the incorporator is J. S. Hoffert, 2000 Westwood Drive, Wausau, Wisconsin, 54401.

ARTICLE XIII
Amendments

These Articles may be amended in the manner authorized by law at the time of amendment.

Amended and Restated
Effective _____
ctd _____

**AMENDED AND RESTATED BYLAWS
OF
EMPLOYERS INSURANCE COMPANY OF WAUSAU**

AMENDED AND RESTATED BYLAWS
EMPLOYERS INSURANCE COMPANY OF WAUSAU

ARTICLE I
Principal Place of Business

The home office and a principal place of business of the Corporation shall be in the City of Wausau, in the County of Marathon, and in the State of Wisconsin. The Corporation may have such other offices, either within or without the State of Wisconsin, as the Board of Directors may designate or as the business of the Corporation may require from time to time. The records and documents required by law to be kept by the Corporation permanently shall be kept at the Corporation's home office.

ARTICLE II
Shareholders

SECTION 1. *Annual Meeting of Shareholders.* The annual meeting of the shareholders shall be held at the home office of the Corporation or at such other place, within or without the State of Wisconsin, as the Board of Directors may select, at such time each year as shall be fixed from time to time by the Chairman of the Board, for the purpose of electing a Board of Directors, and for the transaction of such other business as may properly be brought before the meeting. If the election of Directors shall not be held on the day designated as herein provided for any annual meeting of the shareholders or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the shareholders as soon thereafter as is practicable.

SECTION 2. *Special Meetings.* Special meetings of the shareholders, for any purpose or purposes, may be called by (1) the Chairman of the Board, the Chief Executive Officer, or such other officer(s) as the Board of Directors may authorize from time to time, (2) the Board of Directors, or (3) a committee designated by the Board of Directors in accordance with Article IV of these Bylaws if invested with power to call special meetings. Further, special meetings of the shareholders shall be called by the Chief Executive Officer or by the Secretary at the request of the holders of not less than one-tenth of all of the outstanding shares of the Corporation entitled to vote at the meeting. Special meetings may be held at any place within or without the State of Wisconsin as shall be designated in the notice of meeting. Only business within the purpose described in the special meeting notice shall be conducted at a special shareholders' meeting.

SECTION 3. *Notice of Meetings of Shareholders.* Written notice stating the place, day and hour of the meeting and, in case of a special meeting, the purpose(s) for which the meeting is called, shall be delivered not less than ten days nor more than 60 days before the date of meeting, either personally or by mail, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at shareholder's address as it appears on the share record books of the Corporation, with prepaid postage thereon.

SECTION 4. *Quorum.* Except as otherwise provided by law, a majority of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of the shareholders and a majority (a plurality in the case of election of directors) of votes cast at any meeting at which a quorum is present shall be decisive of any motion or election. At any adjourned meeting at which a quorum shall be present or represented, any business may be transacted which may have been transacted at the meeting as originally noticed.

SECTION 5. *Proxies.* At all meetings of shareholders, a shareholder entitled to vote may vote by proxy appointed in writing by the shareholder. A proxy appointment shall become effective when received by the Secretary or other officer or agent of the Corporation authorized to tabulate votes. No proxy shall be valid after 11 months from the date of its execution, unless otherwise provided in the proxy.

SECTION 6. *Voting of Shares.* Each outstanding share entitled to vote shall be entitled to one vote upon each matter submitted to a vote at a meeting of the shareholders.

SECTION 7. *Voting of Shares by Certain Holders.* Shares standing in the name of another corporation may be voted by the proxy committee of such other corporation, any proxy appointed by such proxy committee, or any elected officer of such other corporation, in the absence of express notice to this Corporation, given in writing to the Secretary, of the designation of some other person by the Board of Directors or the Bylaws of such other corporation. Shares held by an administrator, executor, guardian, conservator, trustee in bankruptcy, receiver, or assignee for creditors may be voted by him or her, either in person or by proxy, without a transfer of such shares into his or her name, provided that there is filed with the Secretary before or at the time of meeting proper evidence of his or her incumbency and the number of shares held. Shares standing in the name of a fiduciary may be voted by him or her, either in person or by proxy.

SECTION 8. *Fixing of Record Date.* The Board of Directors may fix a future date as the record date for the purpose of determining (1) shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, (2) shareholders entitled to demand a special meeting under Section 2 of this Article, (3) shareholders entitled to receive payment of any dividend, or (4) shareholders, for any other proper purpose. The record date shall be no more than 70 days before the date on which the particular action requiring this determination of shareholders is to be taken. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the close of business on the date on which notice of the meeting is mailed or on the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall be applied to any adjournment thereof unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

SECTION 9. *Waiver of Notice by Shareholders.* Whenever any notice whatever is required to be given to any shareholder of the Corporation under the Amended and Restated Articles of Incorporation or Bylaws or any provision of law, a waiver thereof in writing, signed at any time, whether before or after the time of the meeting, by the shareholder entitled to such notice, shall be deemed equivalent to the giving of such notice; provided that such waiver in respect to any matter of which notice is required under any provision of Chapter 180, Wisconsin Statutes, shall contain the same information as would have been required to be included in such notice, except the time and place of meeting. A shareholder's attendance at a meeting, in person or by proxy, waives objection to lack of notice or defective notice, unless the shareholder at the beginning of the meeting or promptly upon arrival objects to holding the meeting or transacting the business at the meeting.

SECTION 10. *Informal Action by Shareholders.* Any action required or permitted by the Amended and Restated Articles of Incorporation or Bylaws or any provision of law to be taken at a meeting of the shareholders, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof.

ARTICLE III

Board of Directors

SECTION 1. *General Powers.* The Corporation's powers shall be exercised by or under the authority of, and its business and affairs shall be managed under the direction of, its Board of Directors.

SECTION 2. *Number of Directors.* The number of Directors shall be ten (10).

SECTION 3. *Qualifications.* Directors need not be shareholders of the Corporation.

SECTION 4. *Regular Meetings.* Meetings of the Directors shall be held at the principal office of the Corporation in the City of Wausau, Wisconsin, or at such other place, within or without the State of Wisconsin as may be designated by the Chief Executive Officer, at least four times in each year as shall be fixed from time to time by the Chief Executive Officer.

SECTION 5. *Special Meetings.* The Chief Executive Officer may, at any time in such officer's discretion, call special meetings of the Directors, and shall call a special meeting whenever a majority of the number of Directors fixed by Section 2. of Article III above shall, in writing, request the Chief Executive Officer so to do. The Secretary shall give notice of all meetings of the Directors. Such notice shall be mailed to each Director at least five days prior to holding such meeting. Such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with prepaid postage thereon. Whenever any notice whatever is required to be given to any Director of the Corporation under the Amended and Restated Articles of Incorporation or Bylaws or any provision of law, a waiver thereof in writing, signed at any time, whether before or after the time of meeting, by the Director entitled to such notice, shall be deemed equivalent to the giving of such notice. A Director's attendance at a meeting waives objection to lack of notice or defective notice, unless the Director at the beginning of the meeting or promptly upon arrival objects to holding the meeting or transacting the business at the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of such meeting.

The action of a majority of the Directors present at any regular or special meeting at which a quorum is present shall be valid notwithstanding any defect in the notice of such meeting.

SECTION 6. *Quorum.* A majority of the Directors then in office shall constitute a quorum of the Board of Directors for the transaction of business.

SECTION 7. *Manner of Acting.* The act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by law or by the Amended and Restated Articles of Incorporation or these Bylaws.

SECTION 8. *Meetings by Electronic Means of Communication.* The Board of Directors, or any committee of the Board, may, in addition to conducting meetings in which each Director participates in person and notwithstanding any place set forth in the notice of the meeting or these Bylaws, conduct any regular or special meeting by the use of any telephonic or other electronic means of communication, provided that (1) all participating Directors may simultaneously hear each other during the meeting or (2) all communication during the meeting is immediately transmitted to each participating Director and each participating Director is able to immediately send messages to all other participating Directors. Before the commencement of any business in the meeting at which any Directors do not participate in person, all participating Directors shall be informed that a meeting is taking place at which official business may be transacted.

SECTION 9. *Nomination and Election of Directors.* The election and terms of Directors shall be governed by Article VIII of the Amended and Restated Articles of Incorporation of the Corporation.

At least 30 days prior to the annual meeting of the shareholders, the Board of Directors shall nominate candidates for the office of Director to succeed the Directors whose terms of office will expire on the date of such annual meeting and shall thereupon file the names of such candidates with the Secretary. Any holder or holders of shares of capital stock entitled to vote at any meeting of the shareholders may also nominate candidates to succeed the Directors whose terms of office will expire on the date of such meeting by filing with the Secretary at least 30 days before such annual meeting a certificate signed and acknowledged by each such shareholder setting forth the full names and addresses of such shareholders and giving the names and addresses of the candidates nominated and by filing with such certificate the written acceptance of such nomination by each nominee named in such certificate.

No candidate not nominated by the Board of Directors or by shareholders as above provided shall be voted upon except by the consent of the holders of three-quarters of the outstanding shares entitled to vote at such meeting, either in person or represented by proxy.

SECTION 10. *Removal/Resignation.* A Director may be removed from office by the affirmative vote of a majority of the outstanding shares entitled to vote for the election of such Director, taken at an annual meeting of the shareholders or at a special meeting of the shareholders called for that purpose.

Any Director may resign at any time by giving written notice to the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President or the Secretary of the Corporation. Any such resignation shall take effect when the notice of resignation is delivered, unless the notice specifies a later effective date and the Corporation accepts the later effective date. Unless otherwise specified in the notice of resignation, the acceptance of resignation shall not be necessary to make it effective.

SECTION 11. *Vacancies.* Any vacancy in the Board of Directors, unless otherwise provided by law, may be filled by the vote of a majority of the Directors present at a meeting at which a quorum is present; provided that if the Board of Directors is reduced to less than a majority by reason of vacancies, however caused, the remaining Directors, by a majority vote, or the remaining Director may fill such vacancies. Such Director(s) so elected shall serve until the next annual meeting of the shareholders at which time a Director shall be elected to fill the unexpired term or for such lesser term as may be necessary to maintain the number of Directors to be elected at each ensuing annual meeting at, or as nearly as possible at, one-third of the membership of the Board of Directors.

SECTION 12. *Compensation and Expenses.* Except as otherwise provided by law, the Board of Directors, irrespective of any personal interest of any of its members, may (1) establish reasonable compensation of all Directors for services to the Corporation as Directors or delegate this authority to an appropriate committee, (2) provide for, or delegate authority to an appropriate committee to provide for, reasonable pensions, disability or death benefits, and all other benefits or payments to Directors and to their estates, families, dependents or beneficiaries for prior service rendered to the Corporation by the Directors and (3) provide for reimbursement of reasonable expenses incurred in the performance of the Directors' duties, including the expense of traveling to and from Board meetings.

SECTION 13. *Contributions.* The Board of Directors may, subject to any restrictions imposed by law and to such rules as it may adopt, make contributions of such sums of money as it determines to be reasonable for public welfare or for charitable, scientific or educational purposes.

SECTION 14. *Action Without a Meeting.* Any action required or permitted to be taken at a meeting of the Board or any committee thereof may be taken without a meeting if the consent to the action so taken shall be obtained by adoption of or written consent to a resolution authorizing or ratifying the action so taken by all Directors. Any action without a meeting of the Board shall be limited to situations where time is of the essence and not in lieu of regularly scheduled meeting.

ARTICLE IV

Committees

SECTION 1. *Executive Committee.* The Board of Directors may designate an Executive Committee consisting of not less than seven Directors. The Chairman of the Board, the Chief Executive Officer, and the President shall be members of the Executive Committee. Employees of the Corporation shall not constitute a majority of the Executive Committee. A majority of the members of the Executive Committee shall constitute a quorum. The Executive Committee shall have all powers of the Board of Directors in the management of the business and affairs of the Corporation when the Board of Directors is not in session, but it shall, at all times, be subject to the control of the Board of Directors and perform such duties as the Board of Directors may order. The Executive Committee shall meet at regular intervals at the home office of the Corporation or such other place and at such time as determined by the Chief Executive Officer. The Chief Executive Officer may at any time in such officer's discretion call special meetings of the Executive Committee.

SECTION 2. *Nominating Committee.* The Board of Directors may designate a Nominating Committee consisting of three or more Directors which shall suggest to the Board of Directors the names of persons to be nominated as candidates for the office of Director.

SECTION 3. *Investment Committee.* The Board of Directors may designate an Investment Committee consisting of three or more Directors. The Investment Committee shall recommend to the Board of Directors the general investment policy for the Corporation. The Investment Committee shall meet at regular intervals determined by the Chief Executive Officer to perform its function. The Chief Executive Officer may at any time in such officer's discretion call special meetings of the Investment Committee.

SECTION 4. *Audit Committee.* The Board of Directors may designate an Audit Committee consisting of three or more Directors. Neither the President nor the Chief Executive Officer shall be members of the Audit Committee. The Audit Committee shall recommend to the Board of Directors the appointment of an independent accounting firm, review the financial statements with the accounting firm, inquire into the effectiveness of the Corporation's internal auditing methods and procedures, and report to the Board of Directors at the conclusion of their audit. The Audit Committee shall meet at regular intervals at the home office of the Corporation or such other place and at such time as determined by the chairman of the Committee.

SECTION 5. *Other Committees.* The Board of Directors may at any time designate one or more committees, each consisting of three or more Directors, one of whom shall be the Chief Executive Officer or such person as the Chief Executive Officer shall designate to represent him, to exercise the powers of the Board in the management of the business affairs of the Corporation to the extent authorized by law and in the resolution.

SECTION 6. *Notice of Meetings of Committees.* No notice of regular meetings of any committee shall be necessary. Reasonable notice shall be given of special meetings of any committee, but the action of the majority at any regular or special meeting of any committee shall be valid notwithstanding any defect in the notice of such meeting. Article III, Section 8, captioned "Meetings by Electronic Means of Communication," is hereby incorporated into this Article IV by reference.

ARTICLE V

Officers of the Corporation

SECTION 1. *Officers.* The elective officers of the Corporation shall be a Chairman of the Board, a Chief Executive Officer, Vice Chairman of the Board, a President, a Secretary, a Treasurer and other officers as the Board of Directors may elect or appoint or provide for by resolution from time to time. The principal officers of the Corporation shall be a Chairman of the Board, a Chief Executive Officer, a Vice Chairman of the Board, a President, a Secretary, and a Treasurer. The Chairman of the Board, the Chief Executive Officer and the Vice Chairman of the Board shall be Directors of the Corporation. The Board of Directors may at any time remove any officer so elected and appointed. The Board of Directors may provide for the appointment of such additional officers as it may deem for the best interest of the Corporation. Each such officer shall hold office for one year or until (1) such officer's successor shall be duly elected, (2) such officer's death or (3) such officer shall resign or shall be removed by the Board of Directors.

SECTION 2. *Vacancies.* A vacancy in any of the offices set forth in Sections 3., 4., 5., 6., and 7. of Article V because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for any unexpired portion of the term.

SECTION 3. *The Chairman of the Board.* The Chairman of the Board shall preside as Chairman of all meetings of the Directors and shareholders of the Corporation.

SECTION 4. *Chief Executive Officer.* The Chief Executive Officer shall be the chief executive officer and shall exercise general administrative leadership and direction of the Corporation in conformity with actions and controls established and maintained by the Board of Directors. The Chief Executive Officer shall have the power and authority to execute on behalf of the Corporation any and all documents, contracts, instruments, or other papers to which the signature of the Corporation is to be attached; provided, however, a facsimile signature may be printed, engraved, or stamped on any approved document, contract, instrument or other papers of the Corporation.

In the absence of the Chairman of the Board, or at the request thereof, the Chief Executive Officer shall preside at meetings of the shareholders and the Board of Directors, sign the record of such meetings at which such officer shall preside and shall have such other powers and duties as may be prescribed by the Board of Directors.

SECTION 5. *Vice Chairman of the Board.* In the absence of the Chairman of the Board and Chief Executive Officer or at the request of either such officers, the Vice Chairman of the Board shall perform the duties of the Chairman of the Board and when so acting, shall have all the power of and be subject to all of the restrictions upon the Chairman of the Board; and in addition thereto, shall perform such other duties as may be assigned by the Chairman of the Board, by the Chief Executive Officer or by the Board of Directors.

SECTION 6. *President.* The President shall be the Chief Operating Officer of the Corporation and shall, in compliance with the laws of the State of Wisconsin, Restated and Amended Articles of Incorporation and these Bylaws, and in concurrence with the Chief Executive Officer and actions of the Board of Directors, direct the activities of its officers.

Except as provided for by resolution of the Board of Directors or by memorandum from the Chief Executive Officer, the President shall have the power and authority to execute on behalf of the Corporation those documents, contracts, instruments, or other papers to which the signature of the Corporation is to be attached; provided, however, a facsimile signature may be printed, engraved or stamped on any approved document, contract, instrument, or other papers of this Corporation. The President shall exercise the discretion of and perform generally all of the duties incident to the office of President and such other and further duties as may be required by the Board of Directors and the Chief Executive Officer.

SECTION 7. *Secretary.* The Secretary shall keep a record of the minutes of the Corporation and of its Board of Directors and its committees. The Secretary shall countersign all instruments and documents executed by the Corporation which the law or the Corporation's Bylaws require to be so countersigned, and affix to instruments and documents the seal of the Corporation, whenever required by law or by the Board of Directors. The Secretary shall keep all documents, instruments, records, papers, books, or like things pertaining to the business of the Corporation, and shall keep in proper books therefore the actions of the Corporation and shall perform such other duties as are usually incident to such office. President and Secretary shall not be the same person.

SECTION 8. *Treasurer.* The Treasurer shall: (a) have charge and custody of and be responsible for all funds and securities of the Corporation, receive and give receipts for moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected by or under the authority of the Board of Directors or any committee designated by the Board of Directors; and (b) in general perform all of the duties incident to the office of Treasurer and have such other duties and exercise such other authority as from time to time may be delegated or assigned by the Chief Executive Officer, the Board of Directors or any committee designated by the Board of Directors.

SECTION 9. *Resignation.* Any officer may resign at any time by giving written notice to the Board of Directors, the Chief Executive Officer, the President, or the Secretary. Any such resignation shall take effect when the notice of resignation is delivered, unless the notice specifies a later effective date and the Corporation accepts the later effective date. Unless otherwise specified in the notice of resignation, the acceptance of resignation shall not be necessary to make it effective.

SECTION 10. *Powers of Attorney.* The Chief Executive Officer, the President or the Secretary, subject to such limitations as the Board of Directors may prescribe, shall execute such powers of attorney as are necessary to make effective the insurance policies and the contracts of the Corporation.

ARTICLE VI

Contracts, Loans, Checks and Funds of Corporation

SECTION 1. *Contracts.* The Board of Directors may authorize any officer(s) or agent(s) to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation and such authorization may be general or confined to specific instances.

SECTION 2. *Loans.* No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name unless authorized by or under authority of a resolution of the Board of Directors. Such authorization may be general or confined to specific instances.

SECTION 3. *Checks, Drafts, etc.* All checks, drafts, or other orders for payment of money, notes or other evidences of indebtedness issued in the name of the Corporation, shall be signed by such officer(s) or agent(s) of the Corporation and in such manner as shall from time to time be determined by or under authority of a resolution of the Board of Directors.

SECTION 4. *Funds of Corporation.* All funds of the Corporation shall be deposited or invested to the credit of the Corporation in such depositories or in such securities as may be authorized by the Board of Directors or any committee designated by the Board of Directors or by these Bylaws, except that securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of such bank or banking and trust company, and the Corporation may acquire and hold securities in bearer form. The officers and employees of the Corporation handling funds and securities of the Corporation shall give surety bonds in such sums as the Board of Directors or any committee designated by the Board of Directors to act on its behalf may require.

ARTICLE VII

Surplus and Other Funds

The Corporation shall maintain such reserves and guaranty funds as are required by law. The Board of Directors may determine what amounts in addition to the amount required by law shall be set aside from time to time as contingent and special reserves.

ARTICLE VIII

Participation in Surplus

Surplus accumulations on such contracts of insurance as may be issued by the Corporation upon the participating basis shall be returned to policyholders in accordance with the laws of Wisconsin under the exclusive direction of the Board of Directors. The Board of Directors may in its discretion classify holders of participating policies into groups on such basis and in such manner as may be permitted by law.

ARTICLE IX

Dividends

The Board of Directors may from time to time declare, and the Corporation may pay, dividends upon its outstanding shares in the manner and upon the terms and conditions provided by law and the Amended and Restated Articles of Incorporation.

ARTICLE X

Certificates for Shares and their Transfer

SECTION 1. *Certificates for Shares.* Certificates representing shares in the Corporation shall, at a minimum, state on their face all of the following: (1) the name of the issuing corporation and that it is organized under the laws of the State of Wisconsin; (2) the name of the person to whom issued; and (3) the number of shares that the certificate represents. The share certificates shall be signed by the Chief Executive Officer, the President, or any vice president, and by the Secretary or any assistant secretary or any other officer(s) designated by the Board of Directors. A record shall be kept of the name of the owner(s) of the shares represented by each certificate, the number of shares represented by each certificate, the date of each certificate, and in case of cancellation, the date of cancellation. Every certificate surrendered to the Corporation for exchange or transfer shall be canceled, and no new certificate(s) shall be issued in exchange for any existing certificate(s) until the existing certificate(s) shall have been so canceled, except that in a case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

SECTION 2. *Consideration for Shares.* The Corporation's shares may be issued for such consideration as may be fixed from time to time by the Board of Directors.

SECTION 3. *Transfer of Shares.* Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation by the holder of record thereof or by such holder's legal representative, who shall furnish proper evidence of authority to transfer, or by such holder's attorney authorized by power of attorney duly executed and filed with the Secretary of the Corporation, and on surrender for cancellation of the certificate for such shares. Where a share certificate is presented to the Corporation with a request for register for transfer, the Corporation shall not be liable to the owner or any other person suffering a loss as a result of the registration of transfer if (1) there were on or with the certificate the necessary endorsements and (2) the Corporation had no duty to inquire into adverse claims or has discharged the duty. The Corporation may require reasonable assurance that the endorsements are genuine and effective in

compliance with such regulations as may be prescribed by or under the Board of Directors' authority. The person in whose name shares stand on the books of the Corporation shall, to the full extent permitted by law, be deemed by the Corporation to be the owner thereof for all purposes.

SECTION 4. *Stock Regulations.* The Board of Directors shall have the power and authority to make such further rules and regulations not inconsistent with the statutes of the State of Wisconsin as the Board may deem expedient concerning the issue, transfer and registration of certificates representing shares of the Corporation.

ARTICLE XI

Indemnification of Directors, Officers and Employees

SECTION 1. *Indemnification of Directors, Officers and Employees.* The Corporation shall indemnify each director, officer and employee to the extent that he or she has been successful on the merits or otherwise in the defense of a proceeding, for all reasonable expenses incurred in the proceeding if the director, officer or employee was a party because he or she is or was a director, officer or employee of the Corporation. In addition, the Corporation shall indemnify each director, officer and employee against liability, including reasonable related expenses, incurred by the director, officer or employee in any proceeding to which the director, officer or employee was a party because he or she is or was a director, officer or employee of the Corporation, unless the liability was incurred because the director, officer or employee breached or failed to perform a duty that he or she owed to the Corporation and such breach or failure to perform constitutes any of the following:

A. A willful failure to deal fairly with this Corporation or its members in connection with the matter in which the director, officer or employee had a material conflict of interest.

B. A violation of the criminal law, unless the director, officer or employee had a reasonable cause to believe that his or her conduct was lawful or no reasonable cause to believe that his or her conduct was unlawful.

C. A transaction from which the director, officer or employee derived an improper personal profit, or

D. Willful misconduct.

The Corporation shall indemnify each director, officer and employee in connection with any proceeding or a part thereof initiated by such director, officer or employee only if such proceeding, or the relevant part thereof initiated by that person, was authorized by or on behalf of the Corporation in a determination made pursuant to Section 4 below.

SECTION 2. *Other Rights.* The rights of indemnification under this Article XI shall not be deemed exclusive of any other rights to which those persons seeking indemnification may be entitled under the Amended and Restated Articles of Incorporation, these Bylaws, any agreement, vote of members or disinterested directors, or otherwise, including court ordered indemnification, and shall continue as to any such person who has ceased to be a director, officer or employee and shall inure to the benefit of the heirs, executors and administrators of any such person.

SECTION 3. *Payment of Expenses as Incurred.* The Corporation shall pay to or on behalf of each director and, upon determination under Section 4 below, may pay to or on behalf any officer or employee, his or her reasonable expenses as incurred in any such proceeding, provided that any such payment of expenses as incurred to or on behalf of any director or officer in advance of final disposition of such proceeding shall be made only after delivery to the Corporation of an appropriate affirmation and undertaking in accordance with laws of the State of Wisconsin, and provided further that the Corporation may require delivery of an appropriate affirmation and undertaking before any payment of expenses as incurred to or on behalf of any employee in advance of final disposition of such proceeding.

SECTION 4. *Determination of Indemnification and Payment of Expenses as Incurred.* Any determination under this Section 4 shall be the discretionary. Notwithstanding anything in this Article XI, the Corporation shall not indemnify any director, officer or employee under Section 1 or Section 2 hereof nor allow any director, officer or employee to retain the benefit of the payment of any incurred expenses pursuant to Section 3 hereof, unless it is determined by or on behalf of the Corporation that the liability for incurred expenses did not arise from the director's, officer's or employee's breach or failure to perform a duty that he or she owed to the Corporation which constitutes conduct described under subsections A, B, C or D of Section 1 of this Article. Any director, officer or employee who is a party to the same or related proceeding for which indemnification or any payment of expenses is sought, may not participate in any determination under this Section 4, with respect thereto. Any determination by or on behalf of the Corporation regarding indemnification or payment of expenses, or other authorization under this Article XI shall be made: (A) by the Board of Directors by a majority vote of a quorum consisting of directors who were not, and are not, parties to or threatened with any such proceeding, or (B) if such a quorum is not obtainable, or if a majority of vote of a quorum of disinterested directors so directs, in a written opinion by independent legal counsel meeting the requirements of independence prescribed by the laws of the State of

Wisconsin, or (C) by the members, or (D) by the Circuit Court of Marathon County, Wisconsin, or the court in which such proceeding was brought or is pending.

SECTION 5. *Contractual Rights; Applicability.* The right to be indemnified or to the payment of expenses as incurred pursuant this Article XI (i) is a contract right based upon good and valuable consideration, pursuant to which the person entitled thereto may bring suit as if the provision hereof were set forth in a separate written contract between the Corporation and such person, (ii) is intended to be retroactive and shall be available with respect to events occurring prior to the adoption hereof, and (iii) shall continue to exist after the rescission or restrictive modification hereof with respect to events occurring prior thereto.

SECTION 6. *Insurance.* The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer or employee of the Corporation against any liability asserted against such person and incurred in any such capacity, or arising out of the status of such, whether or not the Corporation would have the power to indemnify such person against such liability under this Article XI.

SECTION 7. *Definition.* As used in this Article XI, director, officer or employee of the Corporation means any of the following:

- A. An individual who is or was a director, officer or employee of the Corporation.
- B. An individual who, while a director, officer or employee of the Corporation, is or was serving at the Corporation's request as a director, officer, partner, trustee, member of any governing or decision-making committee, manager, employee or agent of another corporation or foreign corporation, limited liability Corporation, partnership, joint venture, trust or other enterprise.
- C. An individual who, while a director, officer or employee of the Corporation, is or was serving an employee benefit plan because his or her duties to the Corporation also impose duties on, or otherwise involve services by, the person to the plan or to the participants in or beneficiaries of the plan.
- D. Unless the context requires otherwise, the estate or personal representative of a director, officer or employee.

ARTICLE XII
Emergencies

Notwithstanding any other provision of these Bylaws, the Board of Directors may, at any time, adopt a resolution in accordance with authority now or hereafter vested in it under which, to the extent and upon the terms stated therein, corporate powers may be exercised during the existence of emergency conditions.

ARTICLE XIII
Amendments

These Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the Board of Directors at any regular or special meeting of the Board of Directors. Any Bylaw adopted by the Board shall be subject to amendment or repeal by the shareholders.

Effective _____

ARTICLES OF INCORPORATION
OF
EMPLOYERS INSURANCE OF WAUSAU MUTUAL HOLDING COMPANY

**ARTICLES OF INCORPORATION
EMPLOYERS INSURANCE OF WAUSAU MUTUAL HOLDING COMPANY**

HOME OFFICE: Wausau, Wisconsin

The following Articles of Incorporation have been duly adopted pursuant to the authority and provisions of Chapters 611, 644 and 181 of the Wisconsin Statutes.

ARTICLE I
Name and Location

The name of this Corporation shall be Employers Insurance of Wausau Mutual Holding Company, and its principal office shall be 2000 Westwood Drive, City of Wausau, in the County of Marathon, and the State of Wisconsin.

ARTICLE II
Period of Existence

The period of existence is perpetual.

ARTICLE III
Registered Agent

The address of the initial registered agent is 2000 Westwood Drive, Wausau, WI 54401 and the name of such registered agent at such address is J. S. Hoffert.

ARTICLE IV
Incorporator

The sole incorporator shall be J. S. Hoffert at 2000 Westwood Drive, Wausau, WI 54401.

ARTICLE V
Business to be Undertaken

This Corporation is organized for the purpose of engaging in any lawful act or activity for which a mutual holding corporation may be organized under the Wisconsin Statutes, and to own at all times, directly or indirectly, at least fifty-one percent (51%) of the voting stock of Employers Insurance Company of Wausau, the stock insurer into which EMPLOYERS INSURANCE OF WAUSAU A Mutual Company, a mutual insurer, has been reorganized in accordance with the provisions of Chapter 644 of the Wisconsin Statutes.

ARTICLE VI
Plan of Membership

1. This Corporation shall be a mutual holding company, without capital stock.
2. Every policyholder of Employers Insurance Company of Wausau shall be a member and have one vote.

ARTICLE VII

Mode of Exercising Corporate Powers

1. The Board of Directors shall consist of not less than seven (7) nor more than ten (10) persons to be elected by the members, the actual number thereof, within said limits, to be fixed by the Bylaws of the Corporation.

2. The term of each Director shall be for three (3) years, or for such lesser term as may be necessary to maintain the number of Directors to be elected at each ensuing Annual Meeting at, or as nearly possible at, one third of the membership of the Board of Directors. Directors shall serve during the term for which they are elected and qualified and until their successors are elected and qualified, but any Director shall be eligible for reelection.

3. Any vacancy in the Board of Directors, however occurring, during the interim of the annual meeting of the members shall be filled by the Board of Directors.

4. The Board of Directors shall have power to enact bylaws and rules and regulations for the government of the corporation and the conduct of its affairs not inconsistent with these Articles of Incorporation and the Laws of the State of Wisconsin, and such bylaws, rules, and regulations may be amended or repealed by the Directors at any regular, annual or special meeting of the Board.

5. The Board of Directors shall have exclusive control of the business affairs of the corporation and shall elect all officers, with power to select and appoint such additional officers necessary to carry on the business of the corporation, and to make such other contracts, merge or acquire other entities as they may deem for the best interest of the Corporation.

6. The Board of Directors shall possess and exercise all other powers usually vested in the Directors of like mutual insurance holding companies which are consistent with the provisions of these Articles of Incorporation and with the Laws of State of Wisconsin, and may accept any additional powers and privileges which any like mutual insurance holding corporation may be authorized by the legislature of the State of Wisconsin to exercise.

ARTICLE VIII

Distributions

The Corporation is authorized to pay dividends and to make distributions under Section 181.1302(4) of the Wisconsin Statutes, as declared and ordered by a vote of $\frac{2}{3}$ of the Board of Directors; provided, however, any payment of dividends the Corporation makes under this provision shall be made to members only with the approval of the Wisconsin Commissioner of Insurance.

ARTICLE IX

Officers

The principal officers of the Corporation shall be Chairman of the Board, a Chief Executive Officer, a Vice Chairman of the Board, a President, a Secretary and a Treasurer.

ARTICLE X

Amendment

These Articles of Incorporation may be amended by a vote of three-fourths ($\frac{3}{4}$) of the members voting at a regular or special meeting after the proposed amendment has been filed with the Secretary and any other person required by law, and a copy thereof, with the notice of the time and place of meeting, has been mailed to each member at least thirty (30) days prior to such meeting.

BYLAWS
OF
EMPLOYERS INSURANCE OF WAUSAU MUTUAL HOLDING COMPANY

BYLAWS
EMPLOYERS INSURANCE OF WAUSAU MUTUAL HOLDING COMPANY
HOME OFFICE: WAUSAU, WISCONSIN

ARTICLE I
Principal Place of Business

The principal place of business or home office of the company shall be in the City of Wausau, in the County of Marathon, and the State of Wisconsin.

ARTICLE II
Members and Meetings

SECTION 1. *Membership.* All persons, firms, and corporations that become policyholders of the Employers Insurance Company of Wausau shall be members hereof and entitled to all the privileges and subject to all the liabilities of membership while their respective policies, including preliminary binders, are in force, except so far as such privileges may be expressly waived by a member. A corporation, or a partnership, which becomes a member of the company may authorize any person to represent it therein, and that person, as such representative, shall have all the rights of any individual member; and until it shall have received written notice to the contrary from such corporation, or such partnership, or until some other person shall have been authorized to represent the corporation or partnership in the company and the company shall have received written notice thereof, the company may assume that any officer of such corporation, or member of such partnership, purporting to act for the corporation or such partnership, is the duly authorized representative of the corporation or such partnership, and entitled to act and vote on its behalf. Whenever in these bylaws the word "member" is used, the same shall be deemed and construed to mean, according to the context, either the policyholder, whether individual, partnership, or corporation, or the representative of a corporation or partnership.

SECTION 2. *Annual Meeting.* The annual meeting of the members of the company shall be held at the home office of the company in the City of Wausau, Wisconsin, on the fourth Wednesday of May of each year at 10 o'clock A.M., for the purpose of transacting the general business of the company and the election of directors, and at such meeting every member shall be entitled to one vote, to be cast in person or by proxy. In case the annual meeting for any year should not be duly called or held, the Board of Directors or the Executive Committee or the Chief Executive Officer shall call a special meeting to be held as soon as may be thereafter in lieu of and for the purpose of such annual meeting, and all proceedings at such meeting shall have the same force and effect as if taken at the regular annual meeting.

SECTION 3. *Special Meetings.* Special meetings of the members of the company shall also be held at its home office in the City of Wausau, Wisconsin, at such time as may be specified in the notice of the meeting, which time shall be not more than sixty days after receipt by the Secretary or other authorized person of the request or application hereinafter provided for, and the Secretary or, in case of the Secretary's absence, incapacity, or disability, such person as the Board of Directors, the Executive Committee or the Chief Executive Officer shall appoint, shall call such special meeting whenever requested in writing so to do by the Chief Executive Officer, or a majority of the Board of Directors or of the Executive Committee, or upon the written application of one hundred fifty members; and such request or application shall state the purpose of such meeting. Every member shall be entitled to one vote at such meeting, to be cast in person or by proxy.

SECTION 4. *Proxies.* All proxies must be filed with the Secretary at least one month before the meeting at which they are to be used.

SECTION 5. *Notice of Meeting.* The date and place of the annual meeting of members shall be set forth in policies issued by the company and no further notice of such meeting shall be required. Notice of a special meeting shall be published not more than ninety days nor less than seven days before such meeting in a daily newspaper in the largest city in each state of the United States in which the company maintains a service office or, if the Board of Directors shall so decide, shall be mailed to each member at least seven days prior to the time for holding such meeting.

SECTION 6. *Reports.* At each annual meeting of the members, the directors and officers shall submit complete and detailed reports of the condition of the company and of the transactions during the preceding year.

SECTION 7. *Quorum.* Ten members present in person shall constitute a quorum at the annual meeting of the members of this company or at any special meetings of the members of the company.

ARTICLE III
Board of Directors

SECTION 1. *Number of Directors; Meetings.* The number of directors of the company shall be ten (10) and such directors are designated as the Board of Directors. The meetings of the directors shall be held in the home office of the company in the City of Wausau, Wisconsin, or at such other place as may be designated by the Chief Executive Officer on the dates approved by the Board of Directors.

The Chief Executive Officer may, at any time in such officer's discretion, call special meetings of the directors, and the Chief Executive Officer shall call a special meeting whenever six directors shall, in writing, request such officer so to do. The Secretary shall give notice of all meetings of the directors. Such notice shall be mailed to each director at least five days prior to holding such meeting.

SECTION 2. *Annual Meeting.* The annual meeting of the directors shall be held on the same day as the annual meeting of members. At such annual meeting, the directors shall elect the officers of the company and appoint standing committees. If for any cause the annual meeting of directors shall not be held at the time designated, or, being held, there shall be failure to elect officers and appoint standing committees, such officers and committees may be elected and appointed either at a special meeting called for such purpose or at the next regular meeting.

SECTION 3. *Quorum.* A majority of the directors in office for the time being shall constitute a quorum of the Board of Directors for the transaction of business.

SECTION 4. *Nomination and Election.* At least thirty days prior to the annual meeting of the members, the Board of Directors shall nominate candidates for the office of director to succeed the directors whose terms of office will expire on the date of such annual meeting and shall thereupon file the names of such candidates with the Secretary. Any fifty or more members may also nominate candidates to succeed the directors whose terms of office will expire on the date of such meeting by filing with the Secretary at least thirty days before such annual meeting a certificate signed and acknowledged by each of such members setting forth the full names and addresses of such members and giving the names and addresses of the candidates nominated and by filing with such certificate the written acceptance of such nomination by each nominee named in such certificate. No candidate not nominated by the Board or members as above provided shall be voted upon except by consent of three quarters of those personally present or represented by proxy at such meeting. The names of all candidates shall be made known by the Secretary to any member upon written request of such member.

SECTION 5. *Vacancies.* Vacancies in the Board of Directors occurring during the interim of the annual meeting, including any vacancy resulting from the enlargement of the Board, shall be filled by the Board by a majority vote of the directors then in office, and the person so elected shall serve for the applicable term or any unexpired portion thereof.

SECTION 6. *General Powers.* The Board of Directors shall have control of the business affairs of the company and shall possess and exercise all powers usually vested in the directors or trustees of insurance companies, which are consistent with the provisions of the articles of incorporation and with the laws of the State, and may accept any additional powers and privileges which any like insurance company may be authorized by the legislature of the State of Wisconsin to exercise.

SECTION 7. *Dividends.* The Board of Directors may declare dividends and make distributions pursuant to Subsection 181.1302(4), Wisconsin Statutes, from surplus funds held in excess of all liabilities. Dividends and such distributions shall be in such amount as the Board of Directors shall determine is fair and reasonable and shall not be made contingent upon the continuance or renewal of the policy.

SECTION 8. *Surplus and Other Funds.* For the purpose of creating funds to provide greater security to policyholders, the Board of Directors may set aside so much of the earnings of the company as they deem reasonable and proper. Such funds shall belong to the company and shall be used as ordered by the Board of Directors. The Board of Directors may determine what amounts in addition to amounts required by statute shall be set aside from time to time as contingent and special reserves.

SECTION 9. *Contributions.* The Board of Directors may, subject to the restrictions imposed by law and to such rules as it may adopt, make contributions of such sums of money as it determines to be reasonable for public welfare or for charitable, scientific or educational purposes.

SECTION 10. *Action Without a Meeting.* Any action required or permitted to be taken at a meeting of the Board or a Committee thereof may be taken without a meeting if a consent in writing to the adoption of a resolution authorizing the action so taken shall be signed by all directors or all the members of the Committee, as the case may be.

Meetings of the Board of Directors (or a committee of the Board of Directors) may be held via telephonic or other electronic connection, provided that such connection permits all directors to hear and be heard simultaneously, all in accordance with the provisions of Sections 611.51, 644.16 and 181.0820 of the Wisconsin Statutes.

ARTICLE IV

Committees

SECTION 1. *Executive Committee.* The Board of Directors may designate an Executive Committee consisting of not less than seven directors. The Chairman of the Board and the President shall be members of the Executive Committee. Employees of the company shall not constitute a majority of the Executive Committee. A majority of the members of the Executive Committee shall constitute a quorum. The Executive Committee shall have all powers of the Board of Directors in the management of the business and affairs of the company when the Board of Directors is not in session, but it shall, at all times, be subject to the control of the Board of Directors and perform such duties as the Board of Directors may order. The Executive Committee shall meet at regular intervals at the home office of the company or such other place and at such time as determined by the Chief Executive Officer. The Chief Executive Officer may at any time in such officer's discretion call special meetings of the Executive Committee.

SECTION 2. *Nominating Committee.* The Board of Directors may designate a Nominating Committee consisting of three or more directors which shall suggest to the Board of Directors the names of persons to be nominated as candidates for the office of director.

SECTION 3. *Investment Committee.* The Board of Directors may designate an Investment Committee consisting of three or more directors. The Investment Committee shall recommend to the Board of Directors the general investment policy for the company. The Investment Committee shall meet at regular intervals determined by the Chief Executive Officer to perform its function. The Chief Executive Officer may at any time in such officer's discretion call special meetings of the Investment Committee.

SECTION 4. *Audit Committee.* The Board of Directors may designate an Audit Committee consisting of three or more directors. Neither the President nor the Chief Executive Officer shall be members of the Audit Committee. The Audit Committee shall recommend to the Board of Directors the appointment of an independent accounting firm, review the financial statements with the accounting firm, inquire into the effectiveness of the company's internal auditing methods and procedures, and report to the Board of Directors at the conclusion of their audit. The Audit Committee shall meet at regular intervals at the home office of the company or such other place and at such time as determined by the chairman of the Committee.

SECTION 5. *Other Committees.* The Board of Directors may at any time designate one or more committees, each consisting of three or more directors, one of whom shall be the Chief Executive Officer or such person as the Chief Executive Officer shall designate, to exercise the powers of the Board in the management of the business and affairs of the company to the extent authorized by law and in the resolution.

SECTION 6. *Notice of Meetings of Committees.* No notice of regular meetings of any committee shall be necessary. Reasonable notice shall be given of special meetings of any committee, but the action of the majority at any regular or special meeting of any committee shall be valid notwithstanding any defect in the notice of such meeting.

Meetings of the Board of Directors (or a committee of the Board of Directors) may be held via telephonic or other electronic connection, provided that such connection permits all directors to hear and be heard simultaneously, all in accordance with the provisions of Section 181.0821 of the Wisconsin Statutes.

ARTICLE V

Officers of the Company

SECTION 1. *Officers.* The elective officers of the company shall be a Chairman of the Board, a Chief Executive Officer, Vice Chairman of the Board, a President, a Secretary, a Treasurer and other officers as the Board of Directors may elect or appoint or provide for by resolution from time to time. The principal officers of the company shall be a Chairman of the Board, a Chief Executive Officer, a Vice Chairman of the Board, a President, a Secretary, and a Treasurer. The Chairman of the Board, the Chief Executive Officer and the Vice Chairman of the Board shall be directors of the company. The Board of Directors may at any time remove any officer so elected and appointed. Each such officer shall hold office for one year or until such officer's successor shall have been duly elected or until such officer's death or until such officer shall resign or shall have been removed by the Board of Directors. A vacancy in any elective office because of death, resignation, removal, disqualification or otherwise may be filled by the Board of Directors for the unexpired portion of the term.

SECTION 2. *The Chairman of the Board.* The Chairman of the Board shall preside as chairman of all meetings of the directors and members of the company.

SECTION 3. *Chief Executive Officer.* The Chief Executive Officer shall exercise general administrative leadership and direction of the company in conformity with actions and controls established and maintained by the Board of Directors. The Chief Executive Officer shall have the power and authority to execute on behalf of the company any and all documents,

contracts, instruments, or other papers to which the signature of the company is to be attached; provided, however, a facsimile signature may be printed, engraved, or stamped on any approved document, contract, instrument or other papers of the company.

In the absence of the Chairman of the Board, or at the request thereof, the Chief Executive Officer shall preside at meetings of the members and the Board of Directors, sign the record of such meetings at which such officer shall preside and shall have such other powers and duties as may be prescribed by the Board of Directors.

SECTION 4. *Vice Chairman of the Board.* In the absence of the Chairman of the Board and Chief Executive Officer or at the request of either such officers, the Vice Chairman of the Board shall perform the duties of the Chairman of the Board and when so acting, shall have all the power of and be subject to all of the restrictions upon the Chairman of the Board; and in addition thereto, shall perform such other duties as may be assigned by the Chairman of the Board, by the Chief Executive Officer or by the Board of Directors.

SECTION 5. *President.* The President shall be the Chief Operating Officer of the company and shall, in compliance with the laws of the State of Wisconsin, Articles of Incorporation and these Bylaws, and in concurrence with the Chief Executive Officer and actions of the Board of Directors, direct the activities of its officers.

Except as provided for by resolution of the Board of Directors or by memorandum from the Chief Executive Officer, the President shall have the power and authority to execute on behalf of the company those documents, contracts, instruments, or other papers to which the signature of the company is to be attached; provided, however, a facsimile signature may be printed, engraved or stamped on any approved document, contract, instrument, or other papers of this company. The President shall exercise the discretion of and perform generally all of the duties incident to the Office of President and such other and further duties as may be required by the Board of Directors and the Chief Executive Officer.

SECTION 6. *Secretary.* The Secretary shall keep a record of the minutes of the company and of its Board of Directors and its committees. The Secretary shall countersign all instruments and documents executed by the company which the law or the company's Bylaws require to be so executed, and affix to instruments and documents the seal of the company, whenever required by law or by the Board of Directors. The Secretary shall keep all documents, instruments, records, papers, books, or like things pertaining to the business of the company, and shall keep in proper books therefor the transactions of the company and shall perform such other duties as are usually incident to such office.

SECTION 7. *Treasurer.* The Treasurer shall: (a) have charge and custody of and be responsible for all funds and securities of the company, receive and give receipts for moneys due and payable to the company from any source whatsoever, and deposit all such moneys in the name of the company in such banks, trust companies or other depositories as shall be selected by or under the authority of the Board of Directors or any committee designated by the Board of Directors; and (b) in general perform all of the duties incident to the office of treasurer and have such other duties and exercise such other authority as from time to time may be delegated or assigned by the Chief Executive Officer, the Board of Directors or any committee designated by the Board of Directors.

SECTION 8. *Powers of Attorney.* The Chief Executive Officer, the President or the Secretary, subject to such limitations as the Board of Directors may prescribe, shall execute such powers of attorney as are necessary to make effective the insurance policies and contracts of the company.

ARTICLE VI

Funds of the Company

All moneys belonging to the company shall be deposited or invested in the name of Employers Insurance of Wausau Mutual Holding Company in such depositories or in such securities as may be authorized by the Board of Directors, Executive Committee or these Bylaws, except that securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of such bank or banking and trust company, and the company may acquire and hold securities in bearer form. The officers and employees of the company handling funds and securities of the company shall give surety bonds in such sums as the Board of Directors or Executive Committee may require.

ARTICLE VII

Indemnification of Directors, Officers and Employees

SECTION 1. *Indemnification of Directors, Officers and Employees.* The company shall indemnify each director, officer and employee to the extent that he or she has been successful on the merits or otherwise in the defense of a proceeding, for all reasonable expenses incurred in the proceeding if the director, officer or employee was a party because he or she is or was a director, officer or employee of the company. In addition, the company shall indemnify each director,

officer and employee against liability, including reasonable related expenses, incurred by the director, officer or employee in any proceeding to which the director, officer or employee was a party because he or she is or was a director, officer or employee of the company, unless the liability was incurred because the director, officer or employee breached or failed to perform a duty that he or she owed to the company and such breach or failure to perform constitutes any of the following:

- A. A willful failure to deal fairly with this company or its members in connection with the matter in which the director, officer or employee had a material conflict of interest.
- B. A violation of the criminal law, unless the director, officer or employee had a reasonable cause to believe that his or her conduct was lawful or no reasonable cause to believe that his or her conduct was unlawful.
- C. A transaction from which the director, officer or employee derived an improper personal profit, or
- D. Willful misconduct.

The company shall indemnify each director, officer and employee in connection with any proceeding or a part thereof initiated by such director, officer or employee only if such proceeding, or the relevant part thereof initiated by that person, was authorized by or on behalf of the company in a determination made pursuant to Section 4 below.

SECTION 2. *Other Rights.* The rights of indemnification under this Article VII shall not be deemed exclusive of any other rights to which those persons seeking indemnification may be entitled under the Articles of Incorporation, these Bylaws, any agreement, vote of members or disinterested directors, or otherwise, including court ordered indemnification, and shall continue as to any such person who has ceased to be a director, officer or employee and shall inure to the benefit of the heirs, executors and administrators of any such person.

SECTION 3. *Payment of Expenses as Incurred.* The company shall pay to or on behalf of each director and, upon determination under Section 4 below, may pay to or on behalf any officer or employee, his or her reasonable expenses as incurred in any such proceeding, provided that any such payment of expenses as incurred to or on behalf of any director or officer in advance of final disposition of such proceeding shall be made only after delivery to the company of an appropriate affirmation and undertaking in accordance with laws of the State of Wisconsin, and provided further that the company may require delivery of an appropriate affirmation and undertaking before any payment of expenses as incurred to or on behalf of any employee in advance of final disposition of such proceeding.

SECTION 4. *Determination of Indemnification and Payment of Expenses as Incurred.* Any determination under this Section 4 shall be the discretionary. Notwithstanding anything in this Article VII, the company shall not indemnify any director, officer or employee under Section 1 or Section 2 hereof nor allow any director, officer or employee to retain the benefit of the payment of any incurred expenses pursuant to Section 3 hereof, unless it is determined by or on behalf of the company that the liability for incurred expenses did not arise from the director's, officer's or employee's breach or failure to perform a duty that he or she owed to the company which constitutes conduct described under subsections A, B, C or D of Section 1 of this Article. Any director, officer or employee who is a party to the same or related proceeding for which indemnification or any payment of expenses is sought, may not participate in any determination under this Section 4, with respect thereto. Any determination by or on behalf of the company regarding indemnification or payment of expenses, or other authorization under this Article VII shall be made: (A) by the Board of Directors by a majority vote of a quorum consisting of directors who were not, and are not, parties to or threatened with any such proceeding, or (B) if such a quorum is not obtainable, or if a majority of votes of a quorum of disinterested directors so directs, in a written opinion by independent legal counsel meeting the requirements of independence prescribed by the laws of the state of Wisconsin, or (C) by the members, or (D) by the Circuit Court of Marathon County, Wisconsin, or the court in which such proceeding was brought or is pending.

SECTION 5. *Contractual Rights; Applicability.* The right to be indemnified or to the payment of expenses as incurred pursuant to this Article VII: (i) is a contract right based upon good and valuable consideration, pursuant to which the person entitled thereto may bring suit as if the provision hereof were set forth in a separate written contract between the company and such person, (ii) is intended to be retroactive and shall be available with respect to events occurring prior to the adoption hereof, and (iii) shall continue to exist after the rescission or restrictive modification hereof with respect to events occurring prior thereto.

SECTION 6. *Insurance.* The company may purchase and maintain insurance on behalf of any person who is or was a director, officer or employee of the company against any liability asserted against such person and incurred in any such capacity, or arising out of the status of such, whether or not the company would have the power to indemnify such person against such liability under this Article VII.

SECTION 7. *Definition.* As used in this Article VII, director, officer or employee of the company means any of the following:

- A. An individual who is or was a director, officer or employee of the company.
- B. An individual who, while a director, officer or employee of the company, is or was serving at the company's request as a director, officer, partner, trustee, member of any governing or decision-making committee, manager, employee or agent of another corporation or foreign corporation, limited liability company, partnership, joint venture, trust or other enterprise.
- C. An individual who, while a director, officer or employee of the company, is or was serving an employee benefit plan because his or her duties to the company also impose duties on, or otherwise involve services by, the person to the plan or to the participants in or beneficiaries of the plan.
- D. Unless the context requires otherwise, the estate or personal representative of a director, officer or employee.

ARTICLE VIII

Emergencies

Notwithstanding any other provision of these Bylaws, the Board of Directors may, at any time, adopt a resolution in accordance with authority now or hereafter vested in it under which, to the extent and upon the terms stated therein, corporate powers may be exercised during the existence of emergency conditions.

Effective _____

EIOW MHC Officers and Directors

Directors of EIOW MHC

J. PAUL CONDRIN III. Age 39. Position: Director, EIOW since December, 1998. Senior Vice President and Chief Financial Officer, LMIC since March, 1997. From 1995 to 1997, Vice President and Comptroller, LMIC. Senior Vice President and Chief Financial Officer, LMFIC since April, 2000. From 1998 to 2000, Vice President and Chief Financial Officer, LMFIC. From 1997 to 1998, Vice President, Chief Financial Officer and Comptroller, LMFIC. From 1995 to 1997, Vice President and Comptroller, LMFIC.

TERRY L. CONNER. Age 55. Position: Director, EIOW since December, 1998. Senior Vice President and Chief Information Officer, LMIC since June, 1994. Senior Vice President and Chief Information Officer, LMFIC since April, 2000. From 1990 to 1994, Division Vice President, Electronic Data Systems.

DWIGHT E. DAVIS. Age 56. Position: Director, EIOW since September, 1996. From September, 1996 to July, 2000, President and Chief Operating Officer, EIOW. Member of the Board of Directors and President and Chief Executive Officer of Greenheck Fan Corporation; M&I First American Bank; North Central Health Protection Plan; Wausau Benefits, Inc.; Wausau Homes, Inc.; Wisconsin Manufacturers & Commerce; and numerous charitable foundations and organizations.

A. ALEXANDER FONTANES. Age 46. Position: Director, EIOW since December, 1998. Senior Vice President and Chief Investment Officer, LMIC since 1992. From 1990 to 1992, Vice President, LMIC. Senior Vice President and Chief Investment Officer, LMFIC since April, 2000. From 1992 to 2000, Vice President, LMFIC.

GARY R. GREGG. Age 45. Position: Director, EIOW since December, 1998. Vice Chairman, EIOW since February, 1999. Executive Vice President, LMIC since 1995. From 1992 to 1995, Senior Vice President, LMIC. From 1988 to 1992, Vice President, LMIC. Executive Vice President, LMFIC since April, 2000. From 1994 to 2000, Vice President, LMFIC.

EDMUND F. KELLY. Age 56. Position: Director, EIOW since December, 1998. Chairman, EIOW since February, 1999. Chairman, President and Chief Executive Officer, LMIC and LMFIC since April, 2000. From April, 1998 to 2000, President and Chief Executive Officer, LMIC and LMFIC. From 1992 to 1998, President and Chief Operating Officer, LMIC and LMFIC. Director, LMIC and LMFIC since April, 1992. Director of Citizens Financial Group, Inc.

CHRISTOPHER C. MANSFIELD. Age 51. Position: Director, EIOW since December, 1998. Senior Vice President and General Counsel, LMIC since 1987. From 1985 to 1987, Vice President and General Counsel, LMIC. Senior Vice President and General Counsel, LMFIC since April, 2000. From 1985 to 2000, Vice President and General Counsel, LMFIC.

JAMES J. MCINTYRE. Age 43. Position: Director, EIOW since July, 2000. President and Chief Operating Officer, EIOW since July, 2000. From March, 1998 to July, 2000, Executive Vice President, Commercial Insurance Markets, EIOW. From May, 1997 to March, 1998, Senior Vice President, Standard/Custom Accounts, EIOW. From April, 1996 to May, 1997, Vice President, Standard Accounts-Western Division, EIOW.

JEFFREY S. PADNOS. Age 53. Position: Director, EIOW since January, 1999. President, Louis Padnos Iron and Metal Company, which purchases, processes and recycles scrap metal, primarily for the auto industry.

MICHAEL E. STROH. Age 60. Position: Director, EIOW since January, 1999. President and Chief Executive Officer and Chairman, Stroh Die Casting Company, Inc. and Stroh Controls, Inc., privately held companies which produce zinc and aluminum die castings, machine castings, and other components for both domestic and international customers.

Officers of EIOW MHC

The names, ages, positions and biographical information of each of the individuals who will constitute the initial officers of EIOW MHC is set forth below.

EDMUND F. KELLY. Position: Chairman and CEO. *See above.*

GARY R. GREGG. Position: Vice Chairman. *See above.*

JAMES J. MCINTYRE. Position: President and COO. *See above.*

J. STANLEY HOFFERT. Age 54. Position: Vice President, General Counsel and Secretary, EIOW since February, 1999. From May, 1995 to February, 1999, Vice President, Associate General Counsel and Assistant Secretary, EIOW. From February, 1985 to May, 1995, Vice President - Governmental Affairs and Counsel, EIOW.

ELLIOT J. WILLIAMS. Age 62. Position: Vice President and Treasurer, EIOW since June, 2000. Vice President and Treasurer, LMIC and LMFIC since 1996. From 1986 to 1996, Vice President, LMIC.

Directors and Officers of Employers Insurance Company of Wausau

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Officers of Employers Insurance of Wausau

EDMUND F. KELLY. Position: Chairman and CEO. *See above.*

GARY R. GREGG. Position: Vice Chairman. *See above.*

JAMES J. MCINTYRE. Position: President and COO. *See above.*

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AGREEMENT AND PLAN OF MERGER

by and among

LIBERTY MUTUAL HOLDING COMPANY,

**EMPLOYERS INSURANCE OF WAUSAU
MUTUAL HOLDING COMPANY,**

EMPLOYERS INSURANCE COMPANY OF WAUSAU

and

WAUSAU INSURANCE ACQUISITION CORPORATION

dated November [], 2001

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This AGREEMENT AND PLAN OF MERGER (this "Agreement"), dated as of November , 2001, is made by and among Liberty Mutual Holding Company, a Massachusetts mutual holding company ("Liberty Mutual Holding Company"), Employers Insurance of Wausau Mutual Holding Company, a Wisconsin mutual holding company ("EIOW MHC"), Employers Insurance Company of Wausau, a Wisconsin reorganized stock property and casualty company wholly-owned by EIOW MHC ("Converted EIOW") and Wausau Insurance Acquisition Corporation, a Wisconsin stock property and casualty insurance company wholly-owned by Liberty Mutual Holding Company ("Merger Sub"). Liberty Mutual Holding Company, EIOW MHC, Converted EIOW and Merger Sub are sometimes referred to herein as the "Constituent Companies". Capitalized terms used in this Agreement are defined in Article I.

WITNESSETH:

WHEREAS, the Board of Directors of each of Liberty Mutual Holding Company and EIOW MHC deem it advisable and in the best interests of the members of their respective companies to effect the merger of EIOW MHC with and into Liberty Mutual Holding Company (the "MHC Merger") upon the terms and subject to the conditions set forth herein;

WHEREAS, Merger Sub is a corporation newly formed solely for the purpose of effectuating the Subsidiary Merger;

WHEREAS, simultaneously with the consummation of the MHC Merger, Merger Sub will merge with and into Converted EIOW (the "Subsidiary Merger", and together with the MHC Merger, the "Mergers") upon the terms and subject to the conditions set forth herein;

WHEREAS, simultaneously with the consummation of the Mergers, (i) EIOW MHC shall be merged into Liberty Mutual Holding Company and cease to exist; (ii) the Merger Sub shall be merged into Converted EIOW and cease to exist; (iii) members of EIOW MHC shall become members of Liberty Mutual Holding Company; (iv) the EMHC Equity Rights shall be extinguished and replaced with LMHC Equity Rights; and (v) all shares of voting stock in Converted EIOW shall be held by Liberty Mutual Holding Company;

WHEREAS, for United States federal income tax purposes, it is intended that the Mergers will qualify as a reorganization under section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and that this Agreement is hereby adopted as a plan of reorganization for purposes of the Code; and

WHEREAS, the Board of Directors of each of the Constituent Companies has approved and adopted this Agreement by resolutions duly adopted.

NOW, THEREFORE, in consideration of the foregoing premises, the Constituent Companies hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Definitions. The following terms, when used in this Agreement, shall have the meanings set forth herein. The terms defined below, which may be used in their singular or plural forms, shall be deemed to refer to the singular or plural as the context requires.

"Agreement" shall mean this Agreement and Plan of Merger.

"Applicable Law" shall mean any applicable order, law, regulation, rule, ordinance, order, writ, injunction, directive, judgment, decree, principle of common law, constitution or treaty enacted, promulgated, issued, enforced or entered by any Governmental Entity applicable to the parties hereto, or any of their respective Subsidiaries, properties, or assets as the case may be.

"Board of Directors" shall mean, with respect to any Person, such Person's board of directors.

"Business Day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in Massachusetts or Wisconsin are permitted or obligated by law to be closed for regular banking business.

"Closing" shall have the meaning set forth in Section 3.1.

"Closing Date" shall have the meaning set forth in Section 3.1.

"Code" shall have the meaning set forth in the preamble.

"Consent or Filing" shall have the meaning set forth in Section 4.3.

"Constituent Companies" shall mean Liberty Mutual Holding Company, EIOW MHC, Converted EIOW and Merger Sub.

"Conversion" shall mean the proposed reorganization of EIOW to a stock property and casualty insurance company within a mutual holding company structure under the laws of the State of Wisconsin.

"Converted EIOW" shall mean Employers Insurance Company of Wausau, a Wisconsin reorganized stock property and casualty insurance company and a wholly-owned subsidiary of EIOW MHC.

“EIOW MHC” shall mean Employers Insurance of Wausau Mutual Holding Company, a Wisconsin mutual holding company.

“EIOW MHC Insurer Subsidiary” shall mean each EIOW MHC Subsidiary that is authorized to transact an insurance business.

“EIOW MHC Subsidiary” shall mean a Subsidiary of EIOW MHC.

“Effective Date” shall have the meaning set forth in Section 2.3.

“EMHC Equity Rights” shall mean the membership interests of a member of EIOW MHC and such member’s rights in surplus, if any, as such terms are defined under Section 644.02 of the Wisconsin Insurance Code, including the uncertificated rights in the equity of EIOW MHC conferred upon members of EIOW MHC pursuant to Article II of the bylaws of EIOW MHC.

“Financial Statements” shall mean the balance sheet, statements of income, statements of policyholders’ surplus, statement of cash flows and accompanying notes to financial statements.

“GAAP” shall mean generally accepted accounting principles in effect in the United States of America.

“Governmental Entity” shall mean 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.

“HSR Act” shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the regulations promulgated thereunder.

“Insurance License” shall mean a license, certificate of authority, permit or other authorization granted by a Governmental Entity to transact an insurance business.

“Knowledge” shall mean the actual knowledge of the relevant Person, and in the instance of a corporate Person, the actual knowledge of its executive officers.

“Liability” shall mean a liability, obligation, claim or cause of action (of any kind or nature whatsoever, whether absolute, accrued, contingent or other and whether known or unknown).

“Liberty Mutual Holding Company” shall mean Liberty Mutual Holding Company, a Massachusetts mutual insurance holding company.

“Liberty Mutual Holding Company Insurer Subsidiary” shall mean each Liberty Mutual Holding Company Subsidiary that is authorized to transact an insurance business.

“Liberty Mutual Holding Company Subsidiary” shall mean a Subsidiary of Liberty Mutual Holding Company.

“LMFIC” shall have the meaning set forth in Section 7.1(e).

“LMHC Equity Rights” shall mean equity rights in Liberty Mutual Holding Company, as such term is defined under Section 19G of Chapter 175 of the Massachusetts General Laws, including such rights conferred upon members of Liberty Mutual Holding Company pursuant to Article V of the articles of organization of Liberty Mutual Holding Company.

“Massachusetts Commissioner” shall have the meaning set forth in Section 6.3(a).

“Massachusetts General Laws” shall mean the general laws of Massachusetts.

“Material Adverse Effect” shall mean a material adverse effect on the business, financial condition or results of operations of the businesses of Liberty Mutual Holding Company, EIOW MHC, Converted EIOW or Merger Sub, as applicable, and their respective Subsidiaries, taken as a whole; *provided, however*, that the following shall be excluded from the definition of “Material Adverse Effect” and from any determination as to whether such Material Adverse Effect has occurred or may occur: the effects of changes that are generally applicable to (1) the property and casualty insurance and/or brokerage industries (including, without limitation, the impact of natural catastrophes) or (2) any material change in the financial, banking, currency or capital markets in general (either in the United States or any international market).

“MHC Merger” shall mean the merger of EIOW MHC with and into Liberty Mutual Holding Company, with Liberty Mutual Holding Company being the surviving entity.

“Mergers” shall mean the MHC Merger and the Subsidiary Merger.

“Person” shall mean an individual, corporation, partnership, association, joint stock company, limited liability company, limited liability partnership, trust, government agency, state or political subdivision of a state, public or private corporation, board, association, estate, trustee, or fiduciary, or any similar entity.

“Required Filings and Approvals” shall mean (i) the filing of this Agreement with and the approval of such by the insurance departments, and such other applications, registrations, declarations, filings, authorizations, orders, consents and approvals as may be reasonably required to be made or obtained prior to consummation of the transactions

contemplated hereby under the insurance laws of any jurisdiction, (ii) the approval of this Agreement by the members of Liberty Mutual Holding Company, (iii) the filing of this Agreement with the Massachusetts and Wisconsin Departments of Insurance as contemplated by Section 6.3, (iv) consents, authorizations, approvals, filings or exemptions in respect of the transactions contemplated hereby required to be made or obtained prior to consummation of the transactions contemplated hereby for compliance with the applicable provisions of state and federal securities laws and (v) the filing of premerger notification reports by the Constituent Companies under the HSR Act and the expiration or early termination of the waiting period thereunder.

“SAP” shall mean the statutory accounting principles and practices prescribed or permitted by the domiciliary state of the relevant Person.

“Subsidiary” of a Person means any Person with respect to whom such specified Person, directly or indirectly, beneficially owns fifty percent or more of the equity interests in, or holds the voting control of fifty percent or more of the equity interests in, such Person.

“Subsidiary Merger” shall mean the merger of Merger Sub with and into Converted EIOW, with Converted EIOW being the surviving entity.

“Surviving Insurer” shall mean Converted EIOW from and after the Effective Date.

“Surviving MHC” shall mean Liberty Mutual Holding Company from and after the Effective Date.

“Wisconsin Commissioner” shall have the meaning set forth in Section 6.3(b).

“Wisconsin Insurance Code” shall mean the insurance laws of Wisconsin.

ARTICLE II

THE MERGER

Section 2.1 The MHC Merger. On the Effective Date, without any further action by either of Liberty Mutual Holding Company or EIOW MHC, the MHC Merger shall become effective, and EIOW MHC shall be merged with and into Liberty Mutual Holding Company in accordance with Section 19S of Chapter 175 of the Massachusetts General Laws and Section 611.73 of the Wisconsin Insurance Code (as made applicable to mutual holding companies by Section 644.27 of the Wisconsin Insurance Code) and Liberty Mutual Holding Company shall be the surviving and continuing entity.

Section 2.2 The Subsidiary Merger. On the Effective Date, without any further action by either of Converted EIOW or Merger Sub, the Subsidiary Merger shall become effective, and Merger Sub shall be merged with and into Converted EIOW in accordance with Section 611.72 of the Wisconsin Insurance Code and Converted EIOW shall be the surviving and continuing entity.

Section 2.3 Effective Date of the Mergers. The Effective Date shall be the later of (i) the date on which this Agreement is filed with the Secretary of State in the Commonwealth of Massachusetts (along with the Massachusetts Commissioner’s endorsement) and the articles of merger are filed with the Wisconsin Commissioner in the State of Wisconsin, respectively, and (ii) such later date and time as may be mutually agreed to by the parties (the “Effective Date”).

Section 2.4 Effect of the Mergers. The Mergers shall have the effects set forth in Section 19S of Chapter 175 of the Massachusetts General Laws and Sections 611.72 and 611.73 of the Wisconsin Insurance Code (the latter as made applicable to mutual holding companies by Section 644.27 of the Wisconsin Insurance Code). Without limiting the generality of the foregoing, and subject thereto, as a result of the Mergers, on the Effective Date:

(a) All members of EIOW MHC having EMHC Equity Rights shall have, by operation of law, such EMHC Equity Rights extinguished and replaced with LMHC Equity Rights in Liberty Mutual Holding Company.

(b) All shares of voting stock of Converted EIOW shall be issued to Liberty Mutual Holding Company.

(c) The title or right to all property (real, personal and mixed) owned or possessed by EIOW MHC shall accrue to Liberty Mutual Holding Company without reversion or impairment; the title or right to all property (real, personal and mixed) owned or possessed by Merger Sub shall accrue to Converted EIOW without reversion or impairment.

(d) Any and all other interests of, belonging to, or due to EIOW MHC shall accrue to Liberty Mutual Holding Company without further act or deed; any and all other interests of, belonging to, or due to Merger Sub shall accrue to Converted EIOW without further act or deed. At any time after the Effective Date, the officers of each Constituent Company shall, in the name of the respective Constituent Company, execute and deliver all such proper deeds, assignments and other instruments and take or cause to be taken all such further or other action as Liberty Mutual Holding Company or Converted EIOW may deem necessary or desirable in order to vest, perfect or confirm in Liberty Mutual Holding Company or Converted EIOW, as the case may be, title to and possession of all of the property, rights, privileges, powers, franchises, immunities and interests of EIOW MHC or Merger Sub and to otherwise carry out the purposes of this Agreement.

(e) Liberty Mutual Holding Company shall assume all the liabilities and obligations of EIOW MHC and Converted EIOW shall assume all the liabilities and obligations of Merger Sub. Neither the rights of creditors nor any liens upon the property of any Constituent Company shall be impaired by the Mergers, provided that such liens upon property of EIOW MHC or Merger Sub shall be limited to the property affected thereby immediately prior to the Effective Date.

(f) Any civil, criminal, administrative or investigatory proceeding pending against any of the Constituent Companies may be continued as if the Mergers did not occur, or Liberty Mutual Holding Company may be substituted in the proceeding for EIOW MHC and Converted EIOW may be substituted in the proceeding for Merger Sub.

Section 2.5 Articles and By-laws of the Surviving MHC. (a) From and after the Effective Date, and without any further action on the part of Liberty Mutual Holding Company, the articles of organization of Liberty Mutual Holding Company, as in effect immediately prior to the Effective Date, shall be the articles of organization of the Surviving MHC.

(b) From and after the Effective Date, and without any further action on the part of Liberty Mutual Holding Company, the by-laws of Liberty Mutual Holding Company, as in effect immediately prior to the Effective Date, shall be the by-laws of the Surviving MHC.

Section 2.6 Articles and By-laws of the Surviving Insurer. (a) From and after the Effective Date, and without any further action on the part of Converted EIOW, the articles of incorporation of Converted EIOW, as in effect immediately prior to the Effective Date, shall be the articles of incorporation of the Surviving Insurer.

(b) From and after the Effective Date, and without any further action on the part of Converted EIOW, the by-laws of Converted EIOW, as in effect immediately prior to the Effective Date, shall be the by-laws of the Surviving Insurer.

Section 2.7 Directors and Officers of the Surviving MHC. (a) From and after the Effective Date, the persons who were the directors of Liberty Mutual Holding Company immediately prior to the Effective Date shall continue to be the directors of the Surviving MHC and shall hold office until their respective terms of office expire or until their respective successors are duly appointed or elected and qualified.

(b) From and after the Effective Date, the persons who were the officers of Liberty Mutual Holding Company immediately prior to the Effective Date shall continue to be the officers of the Surviving MHC until their respective successors are duly appointed or elected and qualified.

Section 2.8 Directors and Officers of the Surviving Insurer. (a) From and after the Effective Date, the persons who were the directors of Converted EIOW immediately prior to the Effective Date shall continue to be the directors of the Surviving Insurer and shall hold office until their respective terms of office expire or until their respective successors are duly appointed or elected and qualified.

(b) From and after the Effective Date, the persons who were the officers of Converted EIOW immediately prior to the Effective Date shall continue to be the officers of the Surviving Insurer until their respective successors are duly appointed or elected and qualified.

ARTICLE III

THE CLOSING

Section 3.1 Closing. The closing (the "Closing") of this Agreement shall be held at the offices of Skadden, Arps, Slate, Meagher & Flom LLP at One Beacon Street, Boston, Massachusetts or at such other location agreed to by the parties, on a date to be specified by the parties (the "Closing Date"), which shall be no later than five (5) Business Days after satisfaction or waiver of the conditions set forth in Article VII, unless another time or date is mutually agreed to by the parties.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF LIBERTY MUTUAL HOLDING COMPANY AND MERGER SUB

Each of Liberty Mutual Holding Company and Merger Sub represents and warrants to EIOW MHC and Converted EIOW, respectively, as follows:

Section 4.1 Organization and Qualification. (a) Liberty Mutual Holding Company is a mutual insurance holding company duly organized, validly existing and in good standing under the laws of the Commonwealth of Massachusetts and has the requisite corporate power and authority to conduct its business as it is currently being conducted. Merger Sub is a stock insurance company duly organized, validly existing and in good standing under the laws of the State of Wisconsin and has the requisite corporate power and authority to conduct its business as it is currently being conducted. Every other Liberty Mutual Holding Company Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has the requisite corporate power and authority to conduct its business as it

is currently being conducted. Liberty Mutual Holding Company and each of the Liberty Mutual Holding Company Subsidiaries (including Merger Sub) is duly qualified to do business, and is in good standing, in the respective jurisdictions where the character of its assets owned or leased or the nature of its business requires such qualification, except for the failures to be so qualified or in good standing which would not, individually or in the aggregate, have a Material Adverse Effect. Each Liberty Mutual Holding Company Subsidiary is listed on Schedule 4.1(a).

(b) Each Liberty Mutual Holding Company Insurer Subsidiary possesses an Insurance License in each jurisdiction in which such Liberty Mutual Holding Company Insurer Subsidiary is required to possess an Insurance License. Neither Liberty Mutual Holding Company nor any Liberty Mutual Holding Company Subsidiary has Knowledge of any event (other than the Mergers), proceeding or investigation which would reasonably be expected to lead to the revocation, amendment, failure to renew, limitation, suspension or restriction of any Insurance License and which would have a Material Adverse Effect. Each Liberty Mutual Holding Company Insurer Subsidiary is listed in Schedule 4.1(b).

(c) Copies of the articles of organization and by-laws of Liberty Mutual Holding Company and the articles of incorporation and by-laws of Merger Sub have heretofore been delivered to EIOW MHC and Converted EIOW, respectively, and copies of the articles of organization and by-laws of every other Liberty Mutual Holding Company Subsidiary have heretofore been delivered or made available to EIOW MHC, and all such copies are accurate and complete as of the date hereof.

Section 4.2 Authorization. Each of Liberty Mutual Holding Company and Merger Sub has the requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly approved and authorized by the Boards of Directors of Liberty Mutual Holding Company and Merger Sub, respectively. Except for the approval of this Agreement by the affirmative vote of at least two-thirds of the votes cast by members of Liberty Mutual Holding Company entitled to vote on the MHC Merger, no other corporate proceedings on the part of Liberty Mutual Holding Company or Merger Sub are necessary to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Liberty Mutual Holding Company and Merger Sub and (assuming this Agreement is a legal, valid and binding obligation of EIOW MHC and Converted EIOW, respectively) constitutes a legal, valid and binding agreement of Liberty Mutual Holding Company and Merger Sub, enforceable against Liberty Mutual Holding Company and Merger Sub, respectively, in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, rehabilitation, liquidation, conservation, dissolution, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

Section 4.3 Consents and Approvals of Government Agencies. Other than Required Filings and Approvals, no consent, approval, order or authorization of, or registration, application, declaration, or filing (collectively, "Consents or Filings") with any Person is required with respect to Liberty Mutual Holding Company, Merger Sub or any other Liberty Mutual Holding Company Subsidiary in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, except for any Consent or Filing, the failure to obtain or do which would not (i) cause any Insurance License held by a Liberty Mutual Holding Company Insurer Subsidiary to fail to be in full force and effect without amendment, limitation or condition of any kind, or (ii) individually or in the aggregate, have a Material Adverse Effect.

Section 4.4 No Violation. The execution, delivery and performance of this Agreement by Liberty Mutual Holding Company and Merger Sub and the consummation of the transactions contemplated hereby will not (i) violate any provision of the articles of organization or the by-laws of Liberty Mutual Holding Company, the articles of incorporation or the by-laws of Merger Sub or of any other Liberty Mutual Holding Company Subsidiary, (ii) violate, conflict with, result in a breach of any provision of, constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, result in the termination of or accelerate the performance required by, result in a right of termination or acceleration under, or result in the creation of any lien upon any of the assets of Liberty Mutual Holding Company, Merger Sub or any other Liberty Mutual Holding Company Subsidiary under, any of the terms, conditions or provisions of any contract to which Liberty Mutual Holding Company, Merger Sub or any other Liberty Mutual Holding Company Subsidiary is a party or to which it or any of its assets may be subject or (iii) constitute a breach or violation of or default under any Insurance License or any other license that is material to the business of Liberty Mutual Holding Company, Merger Sub or any other Liberty Mutual Holding Company Subsidiary or law to which Liberty Mutual Holding Company, Merger Sub or any other Liberty Mutual Holding Company Subsidiary is subject, excluding from the foregoing clauses (ii) and (iii) violations, breaches or defaults that would not individually or in the aggregate have a Material Adverse Effect, except as disclosed on Schedule 4.4.

Section 4.5 Financial Statements. Liberty Mutual Holding Company has previously delivered to EIOW MHC and Converted EIOW true and complete copies of the Liberty Mutual Group Financial Statements. Each of the Liberty Mutual Group Financial Statements was (and, as to Financial Statements not yet provided, will be) prepared in accordance with

GAAP, and each presents (and, as to Financial Statements not yet provided, will present) fairly in all material respects the financial condition, results of operations and changes in surplus of Liberty Mutual Holding Company and its consolidated subsidiaries as of the dates or for the periods covered thereby, in conformity with GAAP.

Section 4.6 Absence of Certain Changes or Events. Since [DATE], each of Liberty Mutual Holding Company and the Liberty Mutual Holding Company Subsidiaries (including the Mergers Sub) has conducted its business only in the ordinary course, consistent with past practice, and (i) there has not occurred any event, change or development which individually or in the aggregate would have a Material Adverse Effect, (ii) there has not been any setting aside or payment of any dividend or other distribution by Liberty Mutual Holding Company to its members other than regular dividends consistent with past practice, (iii) there have not been any changes in the articles of organization or by-laws of Liberty Mutual Holding Company and (iv) there has not been any damage, destruction or loss, whether covered by insurance or not, which would have a Material Adverse Effect.

Section 4.7 No Undisclosed Liabilities. Since [DATE], neither Liberty Mutual Holding Company, Merger Sub nor any other Liberty Mutual Holding Company Subsidiary incurred any Liabilities, other than (i) Liabilities incurred in the ordinary course of business, consistent with, past practice or (ii) Liabilities that, individually or in the aggregate, would not be material to Liberty Mutual Holding Company, Merger Sub and the other Liberty Mutual Holding Company Subsidiaries taken as a whole, except as disclosed on Schedule 4.7.

Section 4.8 Litigation. Except as set forth in Schedule 4.8, there are no proceedings or investigations pending nor, to the Knowledge of Liberty Mutual Holding Company, Merger Sub and the other Liberty Mutual Holding Company Subsidiaries, threatened, against, relating to, involving or otherwise affecting Liberty Mutual Holding Company, Merger Sub or any other Liberty Mutual Holding Company Subsidiary that individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF EIOW MHC

Each of EIW MHC and Converted EIW represents and warrants to Liberty Mutual Holding Company and Merger Sub, respectively, as follows:

Section 5.1 Organization and Qualification. (a) EIW MHC is a mutual insurance holding company duly organized, validly existing and in good standing under the laws of the State of Wisconsin and has the requisite corporate power and authority to conduct its business as it is currently being conducted. Converted EIW is a reorganized stock insurance company duly organized, validly existing and in good standing under the laws of the State of Wisconsin and has the requisite corporate power and authority to conduct its business as it is currently being conducted. Every other EIW MHC Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has the requisite corporate power and authority to conduct its business as it is currently being conducted. EIW MHC and each of the EIW MHC Subsidiaries (including Converted EIW) is duly qualified to do business, and is in good standing, in the respective jurisdictions where the character of its assets owned or leased or the nature of its business requires such qualification, except for the failures to be so qualified or in good standing which would not, individually or in the aggregate, have a Material Adverse Effect. Each EIW MHC Subsidiary is listed on Schedule 5.1(a).

(b) Converted EIW and every other EIW MHC Insurer Subsidiary possesses an Insurance License in each jurisdiction in which such EIW MHC Insurer Subsidiary is required to possess an Insurance License. Neither EIW MHC, Converted EIW nor any other EIW MHC Subsidiary has Knowledge of any event (other than the Mergers), proceeding or investigation which would reasonably be expected to lead to the revocation, amendment, failure to renew, limitation, suspension or restriction of any Insurance License and which would have a Material Adverse Effect. Each EIW MHC Insurer Subsidiary is listed in Schedule 5.1(b).

(c) Copies of the articles of incorporation and by-laws of EIW MHC and Converted EIW have heretofore been delivered to Liberty Mutual Holding Company and Merger Sub, respectively, and copies of the articles of incorporation and by-laws of every other EIW MHC Subsidiary have heretofore been delivered or made available to Liberty Mutual Holding Company, and all such copies are accurate and complete as of the date hereof.

Section 5.2 Authorization. Each of EIW MHC and Converted EIW has the requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly approved and authorized by the Boards of Directors of EIW MHC and Converted EIW, respectively. No other corporate proceedings on the part of EIW MHC or Converted EIW are necessary to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by EIW MHC and Converted EIW and (assuming this Agreement is a legal, valid and binding obligation of Liberty Mutual Holding Company and Merger Sub, respectively) constitutes a legal, valid and binding agreement of EIW MHC and Converted EIW enforceable against

EIOW MHC and Converted EIOW, respectively, in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, rehabilitation, liquidation, conservation, dissolution, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

Section 5.3 Consents and Approvals of Government Agencies. Other than Required Filings and Approvals, no Consents or Filings with any Person is required with respect to EIOW MHC, Converted EIOW or any other EIOW MHC Subsidiary in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, except for any Consent or Filing, the failure to obtain or do which would not (i) cause any Insurance License held by Converted EIOW or any other EIOW MHC Insurer Subsidiary to fail to be in full force and effect without amendment, limitation or condition of any kind, or (ii) individually or in the aggregate, have a Material Adverse Effect.

Section 5.4 No Violation. The execution, delivery and performance of this Agreement by EIOW MHC and Converted EIOW and the consummation of the transactions contemplated hereby will not (i) violate any provision of the articles of incorporation or the by-laws of EIOW MHC, Converted EIOW or any other EIOW MHC Subsidiary, (ii) violate, conflict with, result in a breach of any provision of, constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, result in the termination of or accelerate the performance required by, result in a right of termination or acceleration under, or result in the creation of any lien upon any of the assets of EIOW MHC, Converted EIOW or any other EIOW MHC Subsidiary under, any of the terms, conditions or provisions of any contract to which EIOW MHC, Converted EIOW or any other EIOW MHC Subsidiary is a party or to which it or any of its assets may be subject or (iii) constitute a breach or violation of or default under any Insurance License or any other license that is material to the business of EIOW MHC, Converted EIOW or any other EIOW MHC Subsidiary or law to which EIOW MHC, Converted EIOW or any other EIOW MHC Subsidiary is subject, excluding from the foregoing clauses (ii) and (iii) violations, breaches or defaults that would not individually or in the aggregate have a Material Adverse Effect, except as disclosed on Schedule 5.4.

Section 5.5 Financial Statements. Each of EIOW MHC and Converted EIOW has previously delivered to Liberty Mutual Holding Company and Merger Sub, respectively, true and complete copies of Converted EIOW Financial Statements. Each of Converted EIOW Financial Statements was (and, as to Financial Statements not yet provided, will be) prepared in accordance with SAP, and each presents (and, as to Financial Statements not yet provided, will present) fairly in all material respects the financial condition, results of operations and changes in surplus of Converted EIOW and its consolidated subsidiaries as of the dates or for the periods covered thereby, in conformity with SAP.

Section 5.6 Absence of Certain Changes or Events. Since [DATE], each of EIOW MHC and the EIOW MHC Subsidiaries (including Converted EIOW) has conducted its business only in the ordinary course, consistent with past practice, and (i) there has not occurred any event, change or development which individually or in the aggregate would have a Material Adverse Effect, (ii) there has not been any setting aside or payment of any dividend or other distribution by EIOW MHC to its members other than regular dividends consistent with past practice, (iii) there have not been any changes in the articles of incorporation or by-laws of EIOW MHC or Converted EIOW and (iv) there has not been any damage, destruction or loss, whether covered by insurance or not, which would have a Material Adverse Effect.

Section 5.7 No Undisclosed Liabilities. Since [DATE], neither EIOW MHC, Converted EIOW nor any other EIOW MHC Subsidiary incurred any Liabilities, other than (i) Liabilities incurred in the ordinary course of business, consistent with, past practice or (ii) Liabilities that, individually or in the aggregate, would not be material to EIOW MHC, Converted EIOW and the other EIOW MHC Subsidiaries taken as a whole, except as disclosed on Schedule 5.7.

Section 5.8 Litigation. Except as set forth in Schedule 5.8, there are no proceedings or investigations pending nor, to the Knowledge of EIOW MHC, Converted EIOW and the other EIOW MHC Subsidiaries, threatened, against, relating to, involving or otherwise affecting EIOW MHC, Converted EIOW or any other EIOW MHC Subsidiary that individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

ARTICLE VI

CERTAIN COVENANTS

Section 6.1 Conduct of Business Pending the Mergers. Each of the Constituent Companies covenants and agrees as to itself and its Subsidiaries that, from and after the date hereof up to and including the Effective Date, unless the other party shall otherwise agree in writing or as otherwise expressly permitted or contemplated by this Agreement or required by law:

(a) Such party's business and its Subsidiaries' business shall be conducted only in the ordinary course in substantially the same manner as heretofore conducted, such party and its Subsidiaries shall use all reasonable efforts to preserve intact their respective present business organizations, keep available the services of their respective present officers and employees and preserve their respective relationships with policyholders, insureds,

agents, brokers, suppliers and others having business dealings with them to the end that their respective goodwill and ongoing businesses shall not be impaired in any material respect.

(b) Such party or its Subsidiaries shall not declare, set aside or pay any dividend or make any similar distribution other than policy dividends declared and paid in a manner consistent with past practice without prior disclosure to and approval by the other party, which approval shall not be unreasonably withheld.

(c) Such party shall not make or propose to make, nor shall such party permit any of its Subsidiaries to make or propose to make, any change in its dividend, underwriting, investment and other material insurance practices in any respect which is material to the condition of such party and its Subsidiaries taken as a whole.

(d) Such party shall not agree nor permit any of its Subsidiaries to agree, in writing or otherwise, to take any of the actions prohibited by the foregoing clauses (a) through (c).

Section 6.2 Member Approval. As soon as is practicable following the date hereof, Liberty Mutual Holding Company shall duly call, give notice of, convene and hold a special meeting of its members who under Massachusetts law are eligible to vote with respect to the MHC Merger for the purpose of considering and approving this Agreement. Notice of the meeting of the members of Liberty Mutual Holding Company shall be accompanied by a copy of this Agreement pursuant to the requirements of Massachusetts law. The Board of Directors of Liberty Mutual Holding Company will recommend that the members of Liberty Mutual Holding Company will vote in favor of this Agreement and will use its best efforts to solicit such members to vote in favor of this Agreement and to take all other actions reasonably necessary or advisable to secure the votes of the members of Liberty Mutual Holding Company which are required in order to approve this Agreement and effect the MHC Merger.

Section 6.3 Government Approvals. (a) As soon as practicable after the date hereof, Liberty Mutual Holding Company shall apply for or obtain any necessary consent, satisfaction, or approval of the Commissioner of Insurance for the Commonwealth of Massachusetts (the "Massachusetts Commissioner"), for or regarding the MHC Merger. Liberty Mutual Holding Company shall use its best efforts to secure such consent, satisfaction, or approval of the Massachusetts Commissioner, for, regarding or of the MHC Merger.

(b) As soon as practicable after the date hereof, EIOW MHC shall apply for or obtain any necessary consent, satisfaction, or approval of the Commissioner of Insurance for the State of Wisconsin (the "Wisconsin Commissioner"), for or regarding the MHC Merger. EIOW MHC shall use its best efforts to secure such consent, satisfaction, or approval of the Wisconsin Commissioner, for, regarding, or of the MHC Merger.

(c) As soon as practicable after the date hereof, Converted EIOW and Merger Sub shall apply for or obtain any necessary consent, satisfaction, or approval of the Wisconsin Commissioner, for, regarding, or of the Subsidiary Merger. Converted EIOW and Merger Sub shall use their best efforts to secure such consent, satisfaction, or approval of the Wisconsin Commissioner, for, regarding, or of the Subsidiary Merger.

(d) After obtaining all governmental and regulatory approvals for the Mergers set forth on Schedule 6.3, (i) Liberty Mutual Holding Company shall file a duplicate of this Agreement with the state secretary in the Commonwealth of Massachusetts and (ii) Converted EIOW shall file the articles of merger with the Wisconsin Commissioner.

Section 6.4 Cooperation. The Constituent Companies shall use their respective best efforts to secure all other governmental and regulatory approvals as may be necessary or desirable to comply with the laws of any governmental instrumentality with respect to the transactions contemplated by this Agreement. Each of the parties shall cooperate with each other by furnishing any additional information and executing and delivering any additional documents as may be reasonably requested by the other party to further perfect or evidence the consummation of, or otherwise implement, the Mergers.

ARTICLE VII

CONDITIONS PRECEDENT TO EFFECTING THE MERGER

Section 7.1 Conditions to Each Party's Obligation to Effect the Mergers. The respective obligations of each party to effect the Mergers shall be subject to the fulfillment at or prior to the Effective Date of the following conditions:

(a) This Agreement and the MHC Merger shall have been approved and adopted by the vote of at least two-thirds of the members of Liberty Mutual Holding Company as are present and voting at the special meeting called for such purpose.

(b) The waiting period applicable to the consummation of the MHC Merger and the Subsidiary Merger under the HSR Act shall have expired or been terminated.

(c) All Required Filings and Approvals required to be obtained prior to the Effective Date shall have been obtained and not rescinded or adversely modified or limited (as set forth in the proviso below) or, if merely required to be filed, such filings shall have been made and accepted, and all waiting periods prescribed by Applicable Law shall

have expired or been terminated in accordance with Applicable Law; *provided* that such approvals shall not contain any conditions or limitations that compel or seek to compel Liberty Mutual Holding Company to dispose of or to hold separately all or any portion of the business or assets of the Constituent Companies or their respective Subsidiaries or impose or seek to impose any limitation on the ability of Liberty Mutual Holding Company or any Subsidiary of Liberty Mutual Holding Company to conduct its business or own its assets after the Effective Date in substantially the same manner as the Constituent Companies and their respective Subsidiaries may presently conduct their business or own their assets.

(d) No order entered or law promulgated or enacted by any Governmental Entity shall be in effect which would prevent the consummation of the Mergers or the other transactions contemplated hereby, and no proceeding brought by a Governmental Entity shall have been commenced and be pending which seeks to restrain, prevent, or materially delay or restructure the transactions contemplated hereby or which otherwise questions the validity or legality of any such transactions.

(e) Liberty Mutual Fire Insurance Company, a Massachusetts mutual property and casualty insurance company ("LMFIC") which is planning to reorganize with Liberty Mutual Holding Company to a stock property and casualty insurance company pursuant to Section 175:19T under the Massachusetts General Laws, has obtained LMFIC policyholder and Massachusetts Commissioner approvals for its proposed plan of reorganization; *provided, however*, with respect to the condition set forth in this subsection (e) only, it may be waived by the Constituent Companies.

Section 7.2 Conditions to Obligations of EIOW MHC and Converted EIOW to Effect the Mergers. The obligations of EIOW MHC and Converted EIOW to effect the Mergers shall be subject to the fulfillment at or prior to the Effective Date of the following additional conditions:

(a) Liberty Mutual Holding Company shall have performed and complied in all material respects with all obligations and agreements required to be performed and complied with by it under this Agreement at or prior to the Effective Date and EIOW MHC shall have received an Officers' Certificate from Liberty Mutual Holding Company as to the satisfaction of this condition.

(b) The representations and warranties of Liberty Mutual Holding Company and Merger Sub contained in this Agreement shall be true and correct in all material respects at and as of the date of this Agreement and at and as of the Effective Date as if made at and as of such date and time, except as otherwise contemplated or permitted by this Agreement (it being understood that the truth and correctness of any such representations and warranties made as of a specified date shall be determined only as of such specified date) and EIOW MHC and Converted EIOW shall have received an Officers' Certificate from Liberty Mutual Holding Company as to the satisfaction of this condition.

(c) Converted EIOW shall have obtained an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, special tax counsel to Converted EIOW, or another nationally-recognized independent tax counsel to Converted EIOW, dated as of the Effective Date, that, for United States federal income tax purposes, (a) the extinguishment of the Equity Rights of the members of EIOW in EIOW and the replacement of such Equity Rights with Equity Rights in Liberty Mutual Holding Company pursuant to the Conversion and the Mergers will be pursuant to transactions qualifying under section 368(a) or section 351(a) of the Code and (b) the members of EIOW whose Equity Rights in EIOW are extinguished and replaced with Equity Rights in Liberty Mutual Holding Company in the Conversion and the Mergers will not recognize gain or loss in the Conversion and the Mergers.

Section 7.3 Conditions to Obligations of Liberty Mutual Holding Company and Merger Sub to Effect the Mergers. The obligations of Liberty Mutual Holding Company and Merger Sub to effect the Mergers shall be subject to the fulfillment at or prior to the Effective Date of the following additional conditions:

(a) EIOW MHC and Converted EIOW shall have performed and complied in all material respects with all obligations and agreements required to be performed and complied with by it under this Agreement at or prior to the Effective Date and Liberty Mutual Holding Company shall have received an Officers' Certificate from EIOW MHC and Converted EIOW as to the satisfaction of this condition.

(b) The representations and warranties of EIOW MHC and Converted EIOW contained in this Agreement shall be true and correct in all material respects at and as of the date of this Agreement and at and as of the Effective Date as if made at and as of such date and time, except as otherwise contemplated or permitted by this Agreement (it being understood that the truth and correctness of any such representations and warranties made as of a specified date shall be determined only as of such specified date) and Liberty Mutual Holding Company and Merger Sub shall have received an Officers' Certificate from EIOW MHC as to the satisfaction of this condition.

(c) Liberty Mutual Holding Company shall have obtained an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, special tax counsel to Liberty Mutual Holding Company, or another nationally-recognized independent tax counsel to Liberty Mutual Holding Company, dated as of the Effective Date, that, for United States federal income tax purposes, (a) the extinguishment of the Equity Rights of the members of EIOW in EIOW and the replacement of such Equity Rights with Equity Rights in Liberty Mutual Holding Company pursuant to the Conversion and the Mergers will

be pursuant to transactions qualifying under section 368(a) or section 351(a) of the Code and (b) the members of EIOW whose Equity Rights in EIOW are extinguished and replaced with Equity Rights in Liberty Mutual Holding Company in the Conversion and the Mergers will not recognize gain or loss in the Conversion and the Mergers.

ARTICLE VIII TERMINATION

Section 8.1 Termination. This Agreement may be terminated and the Mergers abandoned at any time prior to the Effective Date by mutual written consent of the Constituent Parties.

Section 8.2 Effect of Termination. In the event of the termination of this Agreement pursuant to Section 8.1, this Agreement shall thereafter become void and have no further force or effect.

ARTICLE IX MISCELLANEOUS

Section 9.1 Costs and Expenses. Except as expressly otherwise provided herein, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be the obligation of the party incurring such costs or expenses.

Section 9.2 Notices. All notices, requests, demands, and other communications required or permitted to be given under this Agreement shall be given in writing and shall be deemed to have been given if delivered by hand, by facsimile or by certified mail, postage pre-paid, to the parties at the following addresses:

If to Liberty Mutual Holding Company:

Liberty Mutual Holding Company
175 Berkeley Street
Boston, Massachusetts 02117
Attn: General Counsel
Facsimile: (617) 574-5805

If to EIOW MHC:

EIOW MHC
2000 Westwood Drive
Wausau, Wisconsin 54401
Attn: General Counsel
Facsimile: (715) 842-6800

If to Converted EIOW:

Employers Insurance Company of Wausau
2000 Westwood Drive
Wausau, Wisconsin 54401
Attn: General Counsel
Facsimile: (715) 842-6800

If to Merger Sub:

Wausau Insurance Acquisition Corporation
C/O Liberty Mutual Holding Company
175 Berkeley Street
Boston, Massachusetts 02117
Attn: General Counsel
Facsimile: (617) 574-5805

Any party to this Agreement may by notice given in accordance with this Section 9.2 designate a new address for notices, requests, or other communications to such party.

Section 9.3 Service of Process. Liberty Mutual Holding Company agrees that it may be served with process in the State of Wisconsin in any proceeding for enforcement of any obligation of Liberty Mutual Holding Company arising from the Mergers. The address upon which such process shall be served is: Liberty Mutual Holding Company, 175 Berkeley Street, Boston, Massachusetts 02117.

Section 9.4 Invalidity. Unless the invalidity or unenforceability of any provision or portion thereof frustrates the intent of the parties or the purpose of this Agreement, such invalidity or unenforceability shall not affect the validity or enforceability of the other provisions or portions thereof. In the event that such provision shall be declared unenforceable

by a court of competent jurisdiction, such provision or portion thereof, to the extent declared unenforceable, shall be stricken. However, in the event any such provision or portion thereof shall be declared unenforceable due to its scope, breadth or duration, then it shall be modified to the scope, breadth or duration permitted by law and shall continue to be fully enforceable as so modified.

Section 9.5 Third Party Beneficiaries. Nothing in this Agreement, express or implied, is intended to or shall confer upon any Person other than the parties hereto any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

Section 9.6 Construction. The terms and conditions of this Agreement represent the results of bargaining and negotiations among the parties, and none of which has acted under duress or compulsion, whether legal, economic or otherwise, and represent the results of a combined draftsmanship effort. Consequently, the terms and conditions hereof shall be interpreted and construed in accordance with their usual and customary meanings, and the parties hereby expressly waive and disclaim in connection with the interpretation and construction hereof any rule of law or procedures requiring otherwise, specifically including but not limited to any rule of law to the effect that ambiguous or conflicting terms or conditions contained herein shall be interpreted or construed against the party which prepared this Agreement or any earlier draft hereof.

Section 9.7 Entire Agreement. This Agreement, together with each exhibit, agreement, certificate, and other document contemplated hereby, contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all other prior agreements and understandings, both written and oral among the parties, with respect to the subject matter hereof, and there are no agreements, representations, or warranties between the parties other than those set forth herein.

Section 9.8 Severability. If any provision of this Agreement shall be determined by a court of competent jurisdiction to be invalid or unenforceable in any jurisdiction, such determination shall not affect the validity or enforceability of the remaining provisions of this Agreement in such jurisdiction or affect the validity or enforceability of such provision in any other jurisdiction.

Section 9.9 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement shall become effective when one or more counterparts have been signed by each party hereto and delivered to the other parties hereto.

Section 9.10 Headings. The headings in this Agreement are for the convenience of reference only and shall not affect its interpretations.

Section 9.11 Governing Law. Except as provided in Article II, this Agreement shall be governed by the laws of the Commonwealth of Massachusetts, without application of Massachusetts' conflicts of law principles.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers and by a majority of the board of directors of each of Liberty Mutual Holding Company, EIOW MHC, Converted EIOW and Merger Sub on the date first above written.

Liberty Mutual Holding Company

By: _____
Name:
Title: President

Liberty Mutual Holding Company

By: _____
Name:
Title: Director

Liberty Mutual Holding Company

By: _____
Name:
Title: Director

Liberty Mutual Holding Company

By: _____
Name:
Title: Director

Employers Insurance of Wausau
Mutual Holding Company

By: _____
Name:
Title: President

Employers Insurance of Wausau
Mutual Holding Company

By: _____
Name:
Title: Director

Employers Insurance of Wausau
Mutual Holding Company

By: _____
Name:
Title: Director

Employers Insurance of Wausau
Mutual Holding Company

By: _____
Name:
Title: Director

Employers Insurance Company of Wausau

By: _____
Name:
Title:

Employers Insurance Company of Wausau

By: _____
Name:
Title:

Wausau Insurance Acquisition Corporation

By: _____
Name:
Title:

Corporate Seal

Liberty Mutual Holding Company

By: _____
Name:
Title: Secretary

Liberty Mutual Holding Company

By: _____
Name:
Title: Director

Liberty Mutual Holding Company

By: _____
Name:
Title: Director

Liberty Mutual Holding Company

By: _____
Name:
Title: Director

Employers Insurance of Wausau
Mutual Holding Company

By: _____
Name:
Title: Secretary

Employers Insurance of Wausau
Mutual Holding Company

By: _____
Name:
Title: Director

Employers Insurance of Wausau
Mutual Holding Company

By: _____
Name:
Title: Director

Employers Insurance Company of Wausau

By: _____
Name:
Title:

Employers Insurance Company of Wausau

By: _____
Name:
Title:

Wausau Insurance Acquisition Corporation

By: _____
Name:
Title:

REORGANIZATION AND COMBINATION AGREEMENT

by and among

LIBERTY MUTUAL HOLDING COMPANY,

LIBERTY INSURANCE ACQUISITION CORPORATION

and

LIBERTY MUTUAL FIRE INSURANCE COMPANY

Dated November [], 2001

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This REORGANIZATION AND COMBINATION AGREEMENT, dated November [], 2001 (this "Agreement"), is made by and among Liberty Mutual Holding Company, a Massachusetts mutual insurance holding company ("Liberty Mutual Holding Company"), Liberty Insurance Acquisition Corporation, a newly-formed Massachusetts stock property and casualty insurance company and wholly-owned subsidiary of Liberty Mutual Holding Company ("Liberty Insurance Acquisition Corp."), and Liberty Mutual Fire Insurance Company, a Massachusetts mutual property and casualty insurance company ("LMFIC"). Capitalized terms used in this Agreement are defined in Article I hereof.

WITNESSETH:

WHEREAS, LMFIC proposes to adopt a Plan of Reorganization under Section 19T of Chapter 175 of the Massachusetts General Laws pursuant to which LMFIC will reorganize to a stock insurance company (LMFIC as such, "Reorganized LMFIC"), subject to the terms and conditions set forth herein (the "LMFIC Reorganization");

WHEREAS, Liberty Insurance Acquisition Corp. will be a newly-formed Massachusetts stock property and casualty insurance company and a wholly-owned subsidiary of Liberty Mutual Holding Company which will be established for the sole purpose of merging with and into Reorganized LMFIC and capitalized in accordance with Massachusetts law;

WHEREAS, immediately upon consummation of the LMFIC Reorganization, Liberty Insurance Acquisition Corp. shall merge with and into Reorganized LMFIC, with Reorganized LMFIC being the surviving entity, subject to the terms and conditions set forth herein (the "Combination");

WHEREAS, for United States federal income tax purposes, it is intended that the LMFIC Reorganization and the Combination will qualify as nonrecognition transactions under section 368(a) or section 351(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and that this Agreement is hereby adopted as a plan of reorganization for purposes of the Code; and

WHEREAS, the Board of Directors of each of Liberty Mutual Holding Company and LMFIC have approved this Agreement and the transactions contemplated hereby, and have determined that this Agreement and the transactions contemplated hereby are in the best interests of their respective Members.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and covenants set forth herein and in reliance upon the representations, warranties, conditions and covenants contained herein, and intending to be legally bound hereby and thereby, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS

Section 1.1 Definitions. The following terms, when used in this Agreement, shall have the meanings set forth herein. The terms defined below, which may be used in their singular or plural forms, shall be deemed to refer to the singular or plural as the context requires.

"Agreement" shall mean this Reorganization and Combination Agreement.

"Applicable Law" shall mean any applicable order, law, regulation, rule, ordinance, order, writ, injunction, directive, judgment, decree, principle of common law, constitution or treaty enacted, promulgated, issued, enforced or entered by any Governmental Entity applicable to the parties hereto, or any of their respective Subsidiaries, properties, or assets as the case may be.

"Board of Directors" shall mean, with respect to any Person, such Person's board of directors.

"Business Day" shall mean any day other than a Saturday, Sunday or a day on which banking institutions in Massachusetts are permitted or obligated by law to be closed for regular banking business.

"Closing" shall have the meaning set forth in Section 3.1.

"Closing Date" shall have the meaning set forth in Section 3.1.

"Code" shall have the meaning set forth in the preamble.

"Combination" shall mean the merger of Liberty Insurance Acquisition Corp. with and into Reorganized LMFIC, with Reorganized LMFIC being the surviving entity.

"Commissioner" shall mean the Commissioner of Insurance for the Commonwealth of Massachusetts.

"Consent or Filing" shall have the meaning set forth in Section 4.3.

"Effective Date" shall have the meaning set forth in Section 2.5.

"EIOW" shall mean EMPLOYERS INSURANCE OF WAUSAU A Mutual Company, a Wisconsin property and casualty mutual insurer.

“EIOW MHC” shall mean Employers Insurance of Wausau Mutual Holding Company, a Wisconsin mutual holding company.

“Equity Rights” shall mean uncertificated rights in the equity of LMFIC or Liberty Mutual Holding Company, as applicable, conferred by law, including: (i) the right to vote for the election of directors at annual meetings of LMFIC or Liberty Mutual Holding Company, as applicable; (ii) the right to share in any distribution of, or to receive consideration based upon, the value of LMFIC or Liberty Mutual Holding Company, as applicable, in liquidation, dissolution or otherwise under the articles of organization or bylaws of LMFIC or Liberty Mutual Holding Company, as applicable, or otherwise as provided by law; (iii) the right to dividends as, if and when determined by the Board of Directors of LMFIC or Liberty Mutual Holding Company, as applicable; and (iv) the right to participate in a demutualization of Liberty Mutual Holding Company.

“Financial Statements” shall mean the balance sheet, statements of income, statements of policyholders’ surplus, statement of cash flows and accompanying notes to financial statements.

“GAAP” shall mean generally accepted accounting principles in effect in the United States of America.

“Governmental Entity” shall mean 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.

“HSR Act” shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the regulations promulgated thereunder.

“In Force” with respect to a Policy, shall mean on a given day if it has been issued, has not been cancelled and its stated Policy term has not expired.

“Insurance License” shall mean a license, certificate of authority, permit or other authorization granted by a Governmental Entity to transact an insurance business.

“IRS” shall mean the United States Internal Revenue Service.

“Knowledge” shall mean the actual knowledge of the relevant Person, and in the instance of a corporate Person, the actual knowledge of its executive officers.

“Liability” shall mean a liability, obligation, claim or cause of action (of any kind or nature whatsoever, whether absolute, accrued, contingent or other and whether known or unknown).

“Liberty Insurance Acquisition Corp.” shall mean Liberty Insurance Acquisition Corporation, a newly-formed Massachusetts stock property and casualty insurance company and wholly-owned subsidiary of Liberty Mutual Holding Company, formed for the sole purpose of merging with and into reorganized LMFIC.

“Liberty Mutual Holding Company” shall mean Liberty Mutual Holding Company, a Massachusetts mutual insurance holding company.

“Liberty Mutual Holding Company Subsidiary” shall mean a Subsidiary of Liberty Mutual Holding Company.

“Liberty Mutual Holding Company Insurer Subsidiary” shall mean each Liberty Mutual Holding Company Subsidiary that is authorized to transact an insurance business.

“LMFIC” shall mean Liberty Mutual Fire Insurance Company, a Massachusetts mutual property and casualty insurance company.

“LMFIC Reorganization” shall refer to the reorganization of LMFIC pursuant to Section 19T of Chapter 175 of the Massachusetts General Laws.

“Massachusetts General Laws” shall mean the general laws of the Commonwealth of Massachusetts.

“Material Adverse Effect” shall mean a material adverse effect on the business, financial condition or results of operations of the businesses of Liberty Mutual Holding Company, Liberty Mutual Holding Company Subsidiaries or LMFIC, as applicable, taken as a whole; *provided, however*, that the following shall be excluded from the definition of “Material Adverse Effect” and from any determination as to whether such Material Adverse Effect has occurred or may occur: the effects of changes that are generally applicable to (1) the property and casualty insurance and/or brokerage industries (including, without limitation, the impact of natural catastrophes) or (2) any material change in the financial, banking, currency or capital markets in general (either in the United States or any international market).

“Member” shall mean a Person appearing as the named insured on a Policy (or as principal if the Policy is a surety bond or obligation) issued by LMFIC (or Reorganized LMFIC on and after the Effective Date), based on LMFIC’s records (or based on Reorganized LMFIC’s records on and after the Effective Date).

“MHC Merger Agreement” shall mean the merger agreement dated November , 2001 by and between Liberty Mutual Holding Company and ELOW MHC, as such agreement may be amended from time to time.

“Person” shall mean an individual, corporation, partnership, association, joint stock company, limited liability company, limited liability partnership, trust, government agency, state or political subdivision of a state, public or private corporation, board, association, estate, trustee, or fiduciary, or any similar entity.

“Plan of Reorganization” shall mean the plan of reorganization of LMFIC attached hereto as Schedule 1.1.

“Policy” shall mean 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 LMFIC (or Reorganized LMFIC on and after the Effective Date) in the course of business and not terminated.

“Policyholder” shall mean the holder of a Policy.

“Reorganized LMFIC” shall refer to LMFIC on and after the Effective Date, as a Massachusetts reorganized stock insurance company and a wholly-owned subsidiary of Liberty Mutual Holding Company.

“Required Filings and Approvals” shall mean (i) the filing of this Agreement with and the approval of such by the insurance departments, and such other applications, registrations, declarations, filings, authorizations, orders, consents and approvals as may be reasonably required to be made or obtained prior to consummation of the transactions contemplated hereby under the insurance laws of any jurisdiction, (ii) the approval of this Agreement by the members of Liberty Mutual Holding Company and LMFIC, (iii) consents, authorizations, approvals, filings or exemptions in respect of the transactions contemplated hereby required to be made or obtained prior to consummation of the transactions contemplated hereby for compliance with the applicable provisions of state and federal securities laws, and (iv) the filing of premerger notification reports by Liberty Mutual Holding Company and LMFIC under the HSR Act and the expiration or early termination of any applicable waiting period thereunder.

“Subsidiary” of a Person means any Person with respect to whom such specified Person, directly or indirectly, beneficially owns fifty percent or more of the equity interests in, or holds the voting control of fifty percent or more of the equity interests in, such Person.

ARTICLE 2

THE REORGANIZATION AND COMBINATION

Section 2.1 Reorganization of LMFIC to Stock Insurer. (a) The Board of Directors of LMFIC has approved and adopted the Plan of Reorganization.

(b) In accordance with the Plan of Reorganization and upon the receipt of all necessary Member and Commissioner approvals, LMFIC shall reorganize to a Massachusetts stock insurance company pursuant to Section 19T of Chapter 175 of the Massachusetts General Laws. Reorganized LMFIC shall be a continuation of the corporate existence of LMFIC and its articles of organization and by-laws shall be the amended and restated articles of organization and by-laws set forth in the Plan of Reorganization, as they may thereafter be amended.

Section 2.2 The Combination. Upon the terms and subject to the conditions set forth in this Agreement, the following transaction shall be consummated upon the consummation of the LMFIC Reorganization or as soon thereafter as is reasonably practicable, and such transaction shall be effective as of the Effective Date:

(i) Liberty Insurance Acquisition Corp. shall merge with and into Reorganized LMFIC, with Reorganized LMFIC being the surviving entity; and

(ii) All of the shares of voting stock of Reorganized LMFIC shall be issued to Liberty Mutual Holding Company.

Section 2.3 Extinguishment and Replacement of Equity Rights. (a) Upon the Effective Date, (i) the right to vote in the election of directors or at annual or special meetings of LMFIC, (ii) the right to share in any distribution of, or to receive consideration based upon, the surplus of LMFIC in liquidation, dissolution or otherwise under the articles of organization or by-laws of LMFIC or otherwise as provided by law and (iii) the right to dividends as, if and when determined by the Board of Directors of LMFIC, shall be extinguished.

(b) On the Effective Date, the Members of LMFIC shall immediately become Members of Liberty Mutual Holding Company; *provided, however*, that the rights of a Person as a Member shall continue only so long as the related Policy remains In Force.

(c) Holders of Policies that are In Force on the Effective Date shall, by operation of law, as of the Effective Date have Equity Rights in Liberty Mutual Holding Company; *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.

(d) Holders of Policies that are issued after the Effective Date by Reorganized LMFIC shall be Members of Liberty Mutual Holding Company and holders of Equity Rights in Liberty Mutual Holding Company. The rights of a Person as a Member of Liberty Mutual Holding Company or as holder of Equity Rights shall continue only so long as the related Policy remains In Force.

Section 2.4 Voting Stock. From the Effective Date, at least fifty-one percent (51%) of the issued and outstanding voting stock of Reorganized LMFIC shall be owned, at all times, directly or indirectly, by Liberty Mutual Holding Company, and at least fifty-one percent (51%) of the issued and outstanding voting stock of any intermediate stock holding company shall be owned, at all times, directly or indirectly, by Liberty Mutual Holding Company.

Section 2.5 Effective Date. Upon the terms and subject to the conditions of this Agreement, the parties hereto will use all reasonable efforts to assure that all Required Filings and Approvals are made or obtained, as applicable, and the Combination shall be effective at the date the amended and restated articles of organization of Reorganized LMFIC are filed with the Massachusetts Secretary of State's office (the "Effective Date"). Upon the terms and subject to the conditions of this Agreement, the parties hereto will use all reasonable efforts to assure that the filings contemplated hereby are made, and that the Effective Date occurs, as soon as is practicable.

ARTICLE 3

THE CLOSING

Section 3.1 Closing. The closing of the Combination (the "Closing") will take place simultaneously with the closing of the LMFIC Reorganization or as soon thereafter as is reasonably practicable, at 10:00 a.m. at the offices of Skadden, Arps, Slate, Meagher & Flom LLP at One Beacon Street, Boston, Massachusetts or such other location mutually agreed to by the parties, on a date to be specified by the parties (the "Closing Date").

ARTICLE 4

REPRESENTATIONS AND WARRANTIES OF LIBERTY MUTUAL HOLDING COMPANY

Liberty Mutual Holding Company represents and warrants to LMFIC as follows:

Section 4.1 Organization and Qualification. (a) Liberty Mutual Holding Company is a mutual insurance holding company duly organized, validly existing and in good standing under the laws of the Commonwealth of Massachusetts and has the requisite corporate power and authority to conduct its business as it is currently being conducted. Each Liberty Mutual Holding Company Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has the requisite corporate power and authority to conduct its business as it is currently being conducted. Liberty Mutual Holding Company and each of the Liberty Mutual Holding Company Subsidiaries is duly qualified to do business, and is in good standing, in the respective jurisdictions where the character of its assets owned or leased or the nature of its business requires such qualification, except for the failures to be so qualified or in good standing which would not, individually or in the aggregate, have a Material Adverse Effect. Each Liberty Mutual Holding Company Subsidiary is listed on Schedule 4.1(a).

(b) Each Liberty Mutual Holding Company Insurer Subsidiary possesses an Insurance License in each jurisdiction in which such Liberty Mutual Holding Company Insurer Subsidiary is required to possess an Insurance License. Neither Liberty Mutual Holding Company nor any Liberty Mutual Holding Company Subsidiary has Knowledge of any event, proceeding or investigation which would reasonably be expected to lead to the revocation, amendment, failure to renew, limitation, suspension or restriction of any Insurance License and which would have a Material Adverse Effect. Each Liberty Mutual Holding Company Insurer Subsidiary is listed in Schedule 4.1(b).

(c) Copies of the articles of organization and by-laws of Liberty Mutual Holding Company have heretofore been delivered to LMFIC and copies of the articles of organization and by-laws of each of the Liberty Mutual Subsidiaries have heretofore been delivered or made available to LMFIC, and all such copies are accurate and complete as of the date hereof.

Section 4.2 Authorization. Liberty Mutual Holding Company has the requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly approved and authorized by the Board of Directors of Liberty Mutual Holding Company. Except for the approval of this Agreement by the affirmative vote of no less than two-thirds of the votes cast by members of Liberty Mutual Holding Company entitled to vote on the LMFIC Reorganization, no other corporate proceedings on the part of Liberty Mutual Holding Company are necessary to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Liberty Mutual Holding Company and (assuming this Agreement is a legal, valid and binding obligation of LMFIC) constitutes a legal, valid and binding agreement of Liberty Mutual Holding Company enforceable against Liberty Mutual Holding Company in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, rehabilitation, liquidation, conservation, dissolution, insolvency, reorganization, moratorium or

other similar laws now or hereafter in effect relating to creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

Section 4.3 Consents and Approvals of Government Agencies. Other than Required Filings and Approvals, no consent, approval, order or authorization of, or registration, application, declaration, or filing (collectively, "Consents or Filings") with any Person is required with respect to Liberty Mutual Holding Company or any Liberty Mutual Holding Company Subsidiary in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, except for any Consent or Filing, the failure to obtain or do which would not (A) cause any Insurance License held by a Liberty Mutual Holding Company Insurer Subsidiary to fail to be in full force and effect without amendment, limitation or condition of any kind, or (B) individually or in the aggregate, have a Material Adverse Effect.

Section 4.4 No Violation. The execution, delivery and performance of this Agreement by Liberty Mutual Holding Company and the consummation of the transactions contemplated hereby will not (i) violate any provision of the articles of organization or the by-laws of Liberty Mutual Holding Company or of any of the Liberty Mutual Subsidiaries, (ii) violate, conflict with, result in a breach of any provision of, constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, result in the termination of or accelerate the performance required by, result in a right of termination or acceleration under, or result in the creation of any lien upon any of the assets of Liberty Mutual Holding Company or of any of the Liberty Mutual Subsidiaries under, any of the terms, conditions or provisions of any contract to which Liberty Mutual Holding Company or any such Liberty Mutual Holding Company Subsidiary is a party or to which it or any of its assets may be subject or (iii) constitute a breach or violation of or default under any Insurance License or any other license that is material to the business of Liberty Mutual Holding Company or any Liberty Mutual Holding Company Subsidiary or law to which Liberty Mutual Holding Company or any Liberty Mutual Holding Company Subsidiary is subject, excluding from the foregoing clauses (ii) and (iii) violations, breaches or defaults that would not individually or in the aggregate have a Material Adverse Effect, except as disclosed on Schedule 4.4.

Section 4.5 Financial Statements. Liberty Mutual Holding Company has previously delivered to LMFIC true and complete copies of the Liberty Mutual Group Financial Statements. Each of the Liberty Mutual Group Financial Statements was (and, as to Financial Statements not yet provided, will be) prepared in accordance with GAAP, and each presents (and, as to Financial Statements not yet provided, will present) fairly in all material respects the financial condition, results of operations and changes in surplus of Liberty Mutual Holding Company and its consolidated Subsidiaries as of the dates or for the periods covered thereby, in conformity with GAAP.

Section 4.6 Absence of Certain Changes or Events. Since [DATE], each of Liberty Mutual Holding Company and the Liberty Mutual Subsidiaries has conducted its business only in the ordinary course, consistent with past practice, and (i) there has not occurred any event, change or development which individually or in the aggregate would have a Material Adverse Effect, (ii) there has not been any setting aside or payment of any dividend or other distribution by Liberty Mutual Holding Company to its members other than regular dividends consistent with past practice, (iii) there have not been any changes in the articles of organization or by-laws of Liberty Mutual Holding Company and (iv) there has not been any damage, destruction or loss, whether covered by insurance or not, which would have a Material Adverse Effect.

Section 4.7 No Undisclosed Liabilities. Since [DATE], neither Liberty Mutual Holding Company nor any Liberty Mutual Holding Company Subsidiary incurred any Liabilities, other than (i) Liabilities incurred in the ordinary course of business, consistent with, past practice or (ii) Liabilities that, individually or in the aggregate, would not be material to Liberty Mutual Holding Company and the Liberty Mutual Subsidiaries taken as a whole, except as disclosed on Schedule 4.7.

Section 4.8 Litigation. Except as set forth in Schedule 4.8, there are no proceedings or investigations pending nor, to the Knowledge of Liberty Mutual Holding Company and the Liberty Mutual Subsidiaries, threatened, against, relating to, involving or otherwise affecting Liberty Mutual Holding Company or any Liberty Mutual Holding Company Subsidiary that individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

ARTICLE 5

REPRESENTATIONS AND WARRANTIES OF LIBERTY INSURANCE ACQUISITION CORPORATION

Liberty Insurance Acquisition Corp. represents and warrants to LMFIC as follows:

Section 5.1 Organization and Qualification. (a) Liberty Insurance Acquisition Corp. is a stock company duly organized, validly existing and in good standing under the laws of the Commonwealth of Massachusetts and has the requisite corporate power and authority to conduct its business as it is currently being conducted.

(b) Copies of the articles of organization and by-laws of Liberty Insurance Acquisition Corp. have heretofore been delivered to LMFIC and all such copies are accurate and complete as of the date hereof.

Section 5.2 Authorization. Liberty Insurance Acquisition Corp. has the requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly approved and authorized by the Board of Directors of Liberty Insurance Acquisition Corp. No other corporate proceedings on the part of Liberty Insurance Acquisition Corp. are necessary to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Liberty Insurance Acquisition Corp. and (assuming this Agreement is a legal, valid and binding obligation of LMFIC) constitutes a legal, valid and binding agreement of Liberty Insurance Acquisition Corp. enforceable against Liberty Insurance Acquisition Corp. in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, rehabilitation, liquidation, conservation, dissolution, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

Section 5.3 Consents and Approvals of Government Agencies. Other than Required Filings and Approvals, no Consents or Filings with any Person are required with respect to Liberty Insurance Acquisition Corp. in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby.

Section 5.4 No Violation. The execution, delivery and performance of this Agreement by Liberty Insurance Acquisition Corp. and the consummation of the transactions contemplated hereby will not violate any provision of the articles of organization or the by-laws of Liberty Insurance Acquisition Corp.

Section 5.5 No Undisclosed Liabilities. Since the date of its incorporation, Liberty Insurance Acquisition Corp. has not incurred any Liabilities.

ARTICLE 6

REPRESENTATIONS AND WARRANTIES OF LIBERTY MUTUAL FIRE INSURANCE COMPANY

LMFIC represents and warrants to Liberty Mutual Holding Company as follows:

Section 6.1 Organization and Qualification. (a) LMFIC is a mutual insurance company duly organized, validly existing and in good standing under the laws of the Commonwealth of Massachusetts and has the requisite corporate power and authority to conduct its business as it is currently being conducted. LMFIC is duly qualified to do business, and is in good standing, in the respective jurisdictions where the character of its assets owned or leased or the nature of its business requires such qualification, except for the failures to be so qualified or in good standing which would not, individually or in the aggregate, have a Material Adverse Effect.

(b) LMFIC possesses an Insurance License in each jurisdiction in which LMFIC is required to possess an Insurance License. LMFIC has no Knowledge of any event, proceeding or investigation which would reasonably be expected to lead to the revocation, amendment, failure to renew, limitation, suspension or restriction of any Insurance License and which would have a Material Adverse Effect.

(c) Copies of the articles of organization and by-laws of LMFIC have heretofore been delivered to Liberty Mutual Holding Company and all such copies are accurate and complete as of the date hereof.

Section 6.2 Authorization. LMFIC has the requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly approved and authorized by the Board of Directors of LMFIC. Except for the approval of this Agreement by the affirmative vote of no less than two-thirds of the votes cast by Members of LMFIC entitled to vote on the LMFIC Reorganization, no other corporate proceedings on the part of LMFIC are necessary to authorize this Agreement and the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by LMFIC and (assuming this Agreement is a legal, valid and binding obligation of Liberty Mutual Holding Company) constitutes a legal, valid and binding agreement of LMFIC enforceable against LMFIC in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, rehabilitation, liquidation, conservation, dissolution, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally and (ii) the remedy of specific performance and injunctive and other forms of equitable relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

Section 6.3 Consents and Approvals of Government Agencies. Other than Required Filings and Approvals, no Consents or Filings with any Person are required with respect to LMFIC in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, except for any Consent or Filing, the failure to obtain or do which would not (A) cause any Insurance License held by LMFIC to fail to be in full force and effect without amendment, limitation or condition of any kind, or (B) individually or in the aggregate, have a Material Adverse Effect.

Section 6.4 No Violation. The execution, delivery and performance of this Agreement by LMFIC and the consummation of the transactions contemplated hereby will not (i) violate any provision of the articles of organization or the by-laws of LMFIC, (ii) violate, conflict with, result in a breach of any provision of, constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, result in the termination of or accelerate the performance required by, result in a right of termination or acceleration under, or result in the creation of any lien upon any of the assets of LMFIC under, any of the terms, conditions or provisions of any contract to which LMFIC is a party or to which it or any of its assets may be subject or (iii) constitute a breach or violation of or default under any Insurance License or any other license that is material to the business of LMFIC or law to which LMFIC is subject, excluding from the foregoing clauses (ii) and (iii) violations, breaches or defaults that would not individually or in the aggregate have a Material Adverse Effect, except as disclosed on Schedule 6.4.

Section 6.5 Financial Statements. LMFIC has previously delivered to Liberty Mutual Holding Company true and complete copies of the LMFIC Financial Statements. Each of the LMFIC Financial Statements was (and, as to Financial Statements not yet provided, will be) prepared in accordance with GAAP, and each presents (and, as to Financial Statements not yet provided, will present) fairly in all material respects the financial condition, results of operations and changes in surplus of LMFIC as of the dates or for the periods covered thereby, in conformity with GAAP.

Section 6.6 Absence of Certain Changes or Events. Since [DATE], LMFIC has conducted its business only in the ordinary course, consistent with past practice, and (i) there has not occurred any event, change or development which individually or in the aggregate would have a Material Adverse Effect, (ii) there has not been any setting aside or payment of any dividend or other distribution by Liberty Mutual Holding Company to its members other than regular dividends consistent with past practice, (iii) there have not been any changes in the articles of organization or by-laws of LMFIC and (iv) there has not been any damage, destruction or loss, whether covered by insurance or not, which would have a Material Adverse Effect.

Section 6.7 No Undisclosed Liabilities. Since [DATE], LMFIC has not incurred any Liabilities, other than (i) Liabilities incurred in the ordinary course of business, consistent with, past practice or (ii) Liabilities that, individually or in the aggregate, would not be material to LMFIC taken as a whole, except as disclosed on Schedule 6.7.

Section 6.8 Litigation. Except as set forth in Schedule 6.8, there are no proceedings or investigations pending nor, to the Knowledge of LMFIC, threatened, against, relating to, involving or otherwise affecting LMFIC that individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

ARTICLE 7

CERTAIN COVENANTS

Section 7.1 Conduct of Business Pending the LMFIC Reorganization and Combination. Each of Liberty Mutual Holding Company, Liberty Insurance Acquisition Corp. and LMFIC covenants and agrees as to itself (and with respect to Liberty Mutual Holding Company, also its Subsidiaries) that, from and after the date hereof up to and including the Effective Date, unless the other party shall otherwise agree in writing or as otherwise expressly permitted or contemplated by this Agreement or required by law:

(a) Such party's business (and with respect to Liberty Mutual Holding Company, also its Subsidiaries' businesses) shall be conducted only in the ordinary course in substantially the same manner as heretofore conducted, such party (and with respect to Liberty Mutual Holding Company, also its Subsidiaries) shall use all reasonable efforts to preserve intact their respective present business organizations, keep available the services of their respective present officers and employees and preserve their respective relationships with policyholders, insureds, agents, brokers, suppliers and others having business dealings with them to the end that their respective goodwill and ongoing businesses shall not be impaired in any material respect.

(b) Such party (or, with respect to Liberty Mutual Holding Company, also its Subsidiaries) shall declare, set aside or pay any dividend or make any similar distribution other than regular dividends declared and paid in a manner consistent with past practice without prior disclosure to and approval by the other party, which approval shall not be unreasonably withheld.

(c) Such party shall not make or propose to make (nor, with respect to Liberty Mutual Holding Company, shall permit any of its Subsidiaries also to make or propose to make) any change in its dividend, underwriting, investment and other material insurance practices in any respect which is material to the condition of such party (and with respect to Liberty Mutual Holding Company, also its Subsidiaries) taken as a whole.

Section 7.2 Member Approval.

(a) Prior to the date hereof, LMFIC shall have duly called, given notice of, convened and held a special meeting of its Members who under Massachusetts law are eligible to vote with respect to the LMFIC Reorganization and

Combination for the purpose of considering and approving this Agreement. Notice of the meetings of the Members of LMFIC shall have been accompanied by a copy of this Agreement pursuant to the requirements of Massachusetts law. The Board of Directors of LMFIC will have recommended that the Members of LMFIC vote in favor of this Agreement and used its respective best efforts to solicit such Members to vote in favor of this Agreement and to take all other actions reasonably necessary or advisable to secure the votes of the Members of LMFIC which are required in order to approve this Agreement and effect the LMFIC Reorganization and Combination.

(b) As soon as is practicable following the date hereof, Liberty Mutual Holding Company shall duly call, give notice of, convene and hold a special meeting of its members who under Massachusetts law are eligible to vote with respect to the LMFIC Reorganization and Combination for the purpose of considering and approving this Agreement. Notice of the meetings of the members of Liberty Mutual Holding Company shall be accompanied by a copy of this Agreement pursuant to the requirements of Massachusetts law. The Board of Directors of Liberty Mutual Holding Company will recommend that the members of Liberty Mutual Holding Company vote in favor of this Agreement and will use its respective best efforts to solicit such members to vote in favor of this Agreement and to take all other actions reasonably necessary or advisable to secure the votes of the members of Liberty Mutual Holding Company which are required in order to approve this Agreement and effect the LMFIC Reorganization and Combination.

Section 7.3 Government Approvals. As soon as practicable after the date hereof, each of Liberty Mutual Holding Company and LMFIC shall apply for or obtain any necessary consent, satisfaction, or approval of the Commissioner, for, regarding, or of the LMFIC Reorganization and Combination. Each of Liberty Mutual Holding Company and LMFIC shall use its reasonable efforts to secure such consent, satisfaction, or approval of the Commissioner, for, regarding or of the LMFIC Reorganization and Combination.

Section 7.4 Plan of Reorganization. LMFIC shall not amend or modify the Plan of Reorganization adopted by the Board of Directors of LMFIC setting forth the appropriate proceedings for amending LMFIC's articles of organization to give effect to the reorganization from a mutual insurer into a stock corporation without the prior written consent of Liberty Mutual Holding Company.

Section 7.5 Cooperation. Liberty Mutual Holding Company and LMFIC shall use their respective best efforts to secure all other governmental and regulatory approvals as may be necessary or desirable to comply with the laws of any governmental instrumentality with respect to the transactions contemplated by this Agreement. Each of the parties shall cooperate with each other by furnishing any additional information and executing and delivering any additional documents as may be reasonably requested by the other party to further perfect or evidence the consummation of, or otherwise implement, the LMFIC Reorganization and Combination.

ARTICLE 8

CONDITIONS TO CLOSING

Section 8.1 Conditions to Closing. The consummation of the transactions contemplated hereby is subject to the satisfaction of the following conditions:

(i) Approval by a vote of not less than two-thirds of the members of Liberty Mutual Holding Company voting on the LMFIC Reorganization at a meeting of the members of Liberty Mutual Holding Company called for that purpose;

(ii) Approval by a vote of not less than two-thirds of the Members of LMFIC voting on the LMFIC Reorganization and receipt of two thirds of the votes cast at a meeting of the Members of LMFIC called for that purpose;

(iii) The waiting period applicable to the consummation of the Combination under the HSR Act shall have expired or been terminated;

(iv) Approval of the Plan of Reorganization, including the amended and restated articles of organization and by-laws of Reorganized LMFIC by the Commissioner;

(v) Receipt of (a) a "no-action" letter from the Securities and Exchange Commission relating to matters pertaining to the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, or (b) an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, special securities counsel to LMFIC, or another nationally recognized independent securities legal counsel to LMFIC, which is in form and substance satisfactory to the Board of Directors of Liberty Mutual Holding Company and LMFIC, respectively, with respect to federal and state securities law matters;

(vi) Issuance by the Commissioner to LMFIC of the Certificate of Authority as Reorganized LMFIC, a reorganized property and casualty stock insurer, granting Reorganized LMFIC the authority under Massachusetts law to continue conducting its insurance business;

(vii) Satisfaction of all the conditions to the consummation of the transactions contemplated by the MHC Merger Agreement by and between Liberty Mutual Holding Company and ELOW MHC; *provided, however*, with respect to the condition set forth in this subsection (viii) only, it may be waived by the Board of Directors of Liberty Mutual Holding Company and LMFIC;

(viii) Receipt of all other material consents, approvals or waivers of all Governmental Entities necessary for the consummation of the LMFIC Reorganization.

(ix) All permits, regulatory consents, approvals or clearances necessary for or in connection with the consummation of the Combination shall have been obtained, and no Governmental Entity having jurisdiction over the business of Liberty Mutual Holding Company or its Subsidiaries shall have imposed any condition to such approval, other than conditions that involve solely ministerial acts and/or routine reporting requirements.

(x) No Governmental Entity or third party shall have commenced any proceeding seeking a temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the transactions contemplated hereby, or damages other than any such proceeding which, in the judgment of Liberty Mutual Holding Company and LMFIC, would not be reasonably likely to materially interfere with the consummation of the transactions contemplated hereby; provided that, if applicable, Liberty Mutual Holding Company and LMFIC shall have used their reasonable efforts to have such proceeding dismissed or terminated.

Section 8.2 Conditions to Obligation of LMFIC to Effect the LMFIC Reorganization and Combination. The obligation of LMFIC to effect the LMFIC Reorganization and Combination shall be subject to the fulfillment at or prior to the Effective Date of the following additional conditions:

(a) Liberty Mutual Holding Company shall have performed and complied in all material respects with all obligations and agreements required to be performed and complied with by it under this Agreement at or prior to the Effective Date and LMFIC shall have received an Officers' Certificate from Liberty Mutual Holding Company as to the satisfaction of this condition.

(b) The representations and warranties of Liberty Mutual Holding Company and Liberty Insurance Acquisition Corp. contained in this Agreement shall be true and correct in all material respects at and as of the date of this Agreement and at and as of the Effective Date as if made at and as of such date and time, except as otherwise contemplated or permitted by this Agreement (it being understood that the truth and correctness of any such representations and warranties made as of a specified date shall be determined only as of such specified date) and LMFIC shall have received an Officers' Certificate from Liberty Mutual Holding Company as to the satisfaction of this condition.

(c) LMFIC shall have obtained (i) a private letter ruling from the Internal Revenue Service that is in force on the Effective Date providing that, for United States federal income tax purposes, the conversion of LMFIC into Reorganized LMFIC will qualify as a reorganization within the meaning of section 368(a) of the Code, and (ii) an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, special tax counsel to LMFIC, or another nationally-recognized independent tax counsel to LMFIC, dated as of the Effective Date, that, for United States federal income tax purposes, (a) the extinguishment of the Equity Rights of the Members of LMFIC in LMFIC and the replacement of such Equity Rights with Equity Rights in Liberty Mutual Holding Company pursuant to the LMFIC Reorganization and the Combination will be pursuant to transactions qualifying under section 368(a) or section 351(a) of the Code and (b) the Members of LMFIC whose Equity Rights in LMFIC are extinguished and replaced with Equity Rights in Liberty Mutual Holding Company in the LMFIC Reorganization and the Combination will not recognize gain or loss in the LMFIC Reorganization and the Combination.

Section 8.3 Conditions to Obligation of Liberty Mutual Holding Company to Effect the LMFIC Reorganization and Combination. The obligation of Liberty Mutual Holding Company to effect the LMFIC Reorganization and Combination shall be subject to the fulfillment at or prior to the Effective Date of the following additional conditions:

(a) LMFIC shall have performed and complied in all material respects with all obligations and agreements required to be performed and complied with by it under this Agreement at or prior to the Effective Date and Liberty Mutual Holding Company shall have received an Officers' Certificate from LMFIC as to the satisfaction of this condition.

(b) The representations and warranties of LMFIC contained in this Agreement shall be true and correct in all material respects at and as of the date of this Agreement and at and as of the Effective Date as if made at and as of such date and time, except as otherwise contemplated or permitted by this Agreement (it being understood that the truth and correctness of any such representations and warranties made as of a specified date shall be determined only as of such specified date) and Liberty Mutual Holding Company shall have received an Officers' Certificate from LMFIC as to the satisfaction of this condition.

(c) Liberty Mutual Holding Company shall have obtained an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, special tax counsel to Liberty Mutual Holding Company, or another nationally-recognized independent tax counsel to Liberty Mutual Holding Company, dated as of the Effective Date, that, for United States federal income tax purposes, (a) the extinguishment of the Equity Rights of the Members of LMFIC in LMFIC and the replacement of such Equity Rights with Equity Rights in Liberty Mutual Holding Company pursuant to the LMFIC Reorganization and the Combination will be pursuant to transactions qualifying under section 368(a) or section 351(a) of the Code and (b) the Members of LMFIC whose Equity Rights in LMFIC are extinguished and replaced with Equity Rights in Liberty Mutual Holding Company in the LMFIC Reorganization and the Combination will not recognize gain or loss in the LMFIC Reorganization and the Combination.

ARTICLE 9 TERMINATION

Section 9.1 Termination. This Agreement may be terminated and the transactions contemplated herein abandoned at any time prior to the Effective Date by mutual written consent of Liberty Mutual Holding Company and LMFIC.

Section 9.2 Effect of Termination. In the event of the termination of this Agreement pursuant to Section 9.1, this Agreement shall thereafter become void and have no further force or effect.

ARTICLE 10 MISCELLANEOUS PROVISIONS

Section 10.1 Costs and Expenses. Except as expressly otherwise provided herein, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be the obligation of the party incurring such costs or expenses.

Section 10.2 Notices. All notices, requests, demands, and other communications required or permitted to be given under this Agreement shall be given in writing and shall be deemed to have been given if delivered by hand, by facsimile, or by certified mail, postage pre-paid, to the parties at the following addresses:

If to Liberty Mutual Holding Company:

Liberty Mutual Holding Company
175 Berkeley Street
Boston, Massachusetts 02117
Attn: General Counsel
Facsimile: (617) 574-5805

If to Liberty Insurance Acquisition Corp.:

Liberty Insurance Acquisition Corporation
c/o Liberty Mutual Holding Company
175 Berkeley Street
Boston, Massachusetts 02117
Attn: General Counsel
Facsimile: (617) 574-5805

If to LMFIC:

Liberty Mutual Fire Insurance Company
175 Berkeley Street
Boston, Massachusetts 02117
Attn: General Counsel
Facsimile: (617) 574-5805

Any party to this Agreement may by notice given in accordance with this Section 10.2 designate a new address for notices, requests, or other communications to such party.

Section 10.3 Invalidity. Unless the invalidity or unenforceability of any provision or portion thereof frustrates the intent of the parties or the purpose of this Agreement, such invalidity or unenforceability shall not affect the validity or enforceability of the other provisions or portions thereof. In the event that such provision shall be declared unenforceable by a court of competent jurisdiction, such provision or portion thereof, to the extent declared unenforceable, shall be stricken. However, in the event any such provision or portion thereof shall be declared unenforceable due to its scope, breadth or duration, then it shall be modified to the scope, breadth or duration permitted by law and shall continue to be fully enforceable as so modified.

Section 10.4 Third Party Beneficiaries. Nothing in this Agreement, express or implied, is intended to or shall confer upon any Person other than the parties hereto any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

Section 10.5 Construction. The terms and conditions of this Agreement represent the results of bargaining and negotiations among the parties, and none of which has acted under duress or compulsion, whether legal, economic or otherwise, and represent the results of a combined draftsmanship effort. Consequently, the terms and conditions hereof shall be interpreted and construed in accordance with their usual and customary meanings, and the parties hereby expressly waive and disclaim in connection with the interpretation and construction hereof any rule of law or procedures requiring otherwise, specifically including but not limited to any rule of law to the effect that ambiguous or conflicting terms or conditions contained herein shall be interpreted or construed against the party which prepared this Agreement or any earlier draft hereof.

Section 10.6 Entire Agreement. This Agreement, together with each exhibit, agreement, certificate, and other document contemplated hereby, contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all other prior agreements and understandings, both written and oral among the parties, with respect to the subject matter hereof, and there are no agreements, representations, or warranties between the parties other than those set forth herein.

Section 10.7 Severability. If any provision of this Agreement shall be determined by a court of competent jurisdiction to be invalid or unenforceable in any jurisdiction, such determination shall not affect the validity or enforceability of the remaining provisions of this Agreement in such jurisdiction or affect the validity or enforceability of such provision in any other jurisdiction.

Section 10.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement shall become effective when one or more counterparts have been signed by each party hereto and delivered to the other parties hereto.

Section 10.9 Headings. The headings in this Agreement are for the convenience of reference only and shall not affect its interpretations.

Section 10.10 Governing Law. This Agreement shall be deemed to have been made under and governed by the laws of Massachusetts, without regard to Massachusetts' choice of law rules.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of Liberty Mutual Holding Company, Liberty Insurance Acquisition Corp. and LMFIC as of the date first above written.

LIBERTY MUTUAL HOLDING COMPANY

By _____
Name:
Title:

LIBERTY INSURANCE ACQUISITION CORPORATION

By _____
Name:
Title:

LIBERTY MUTUAL FIRE INSURANCE COMPANY

By _____
Name:
Title:

**ARTICLES OF ORGANIZATION
OF
LIBERTY MUTUAL HOLDING COMPANY
(Under G.L. Ch. 156B
and G.L. Ch. 175, s.49)**

ARTICLE I

Name

The name of the Company is Liberty Mutual Holding Company (the “Company”).

ARTICLE II

Organization

The Company is a mutual holding company organized under Sections 19F to 19W, inclusive, of Chapter 175 of the Massachusetts General Laws.

ARTICLE III

Purpose

The purpose of the Company is (i) to own, directly or indirectly, at least 51 percent of the voting stock of Reorganized Liberty Mutual Insurance Company, the stock insurer into which Liberty Mutual Insurance Company, a mutual insurer, has been reorganized in accordance with the provisions of Sections 19F to 19W, inclusive, of Chapter 175 of the Massachusetts General Laws; and (ii) to engage in any other lawful activities permitted to a mutual holding company under the Massachusetts General Laws.

The Company may be a general or limited partner in any business enterprise which the Company would have power to conduct by itself.

ARTICLE IV

No Voting Stock

The Company is not authorized to issue voting stock.

ARTICLE V

Member Rights

The members of the Company shall have the rights specified in (i) subsections (a) to (n) of Section 19K of Chapter 175 of the Massachusetts General Laws, (ii) these Articles of Organization and (iii) the Company’s bylaws.

ARTICLE VI

Dividends

No dividends shall be declared except upon two-thirds vote of the Board of Directors.

ARTICLE VII

Assets and Liabilities

The Company’s assets and liabilities are, to the extent provided in Section 19K(j) of Chapter 175 of the Massachusetts General Laws, subject to inclusion in the estate of Liberty Mutual Insurance Company in any proceedings

successfully prosecuted against Liberty Mutual Insurance Company under Section 6 or Sections 180A to 180L, inclusive, of Chapter 175 of the Massachusetts General Laws.

ARTICLE VIII

Amendment of Articles of Organization

The Company expressly reserves the right to amend its articles of organization from time to time in such manner and for such purposes as may at the time be permitted by law.

ARTICLE IX

Elimination of Liability

No director shall be personally liable to the Company or its members for monetary damages for breach of fiduciary duty as a director notwithstanding any provision of law imposing such liability; provided, however, that this provision shall not eliminate the liability of a director, to the extent that such liability is provided by applicable law, (i) for any breach of the director's duty of loyalty to the Company or its members, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, or (iii) for any transaction from which the director derived an improper personal benefit. This provision shall not eliminate the liability of a director for any act or omission occurring prior to the date upon which this provision becomes effective. No amendment or repeal of this provision shall apply to or have any effect on the liability or alleged liability of any director for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal.

The following information shall not for any purpose be treated as a permanent part of the Company's Articles of Organization:

ARTICLE X

Principal Office

The initial principal office of the Company is located at 175 Berkeley Street, Boston, Massachusetts.

ARTICLE XI

Directors and Officers

The names and post office addresses of the initial directors and officers of the Company are as described below:

<u>Name</u>	<u>Directors</u>	<u>Address</u>
Michael J. Babcock		175 Berkeley Street, Boston, Massachusetts
Charles I. Clough, Jr.		175 Berkeley Street, Boston, Massachusetts
William F. Connell		175 Berkeley Street, Boston, Massachusetts
Gary L. Countryman		175 Berkeley Street, Boston, Massachusetts
Paul J. Darling, II		175 Berkeley Street, Boston, Massachusetts
John P. Hamill		175 Berkeley Street, Boston, Massachusetts
Marian L. Heard		175 Berkeley Street, Boston, Massachusetts
Edmund F. Kelly		175 Berkeley Street, Boston, Massachusetts
Thomas J. May		175 Berkeley Street, Boston, Massachusetts
Kenneth L. Rose		175 Berkeley Street, Boston, Massachusetts
Glenn P. Strehle		175 Berkeley Street, Boston, Massachusetts
William C. Van Faasen		175 Berkeley Street, Boston, Massachusetts

Officers

<u>Name</u>	<u>Position</u>	<u>Address</u>
Edmund F. Kelly	Chairman of the Board, President and Chief Executive Officer	175 Berkeley Street, Boston, Massachusetts
John B. Conners	Executive Vice President	175 Berkeley Street, Boston, Massachusetts
Gary R. Gregg	Executive Vice President	175 Berkeley Street, Boston, Massachusetts
Roger L. Jean	Executive Vice President	175 Berkeley Street, Boston, Massachusetts
Thomas C. Ramey	Executive Vice President	175 Berkeley Street, Boston, Massachusetts
J. Paul Condrin, III	Senior Vice President and Chief Financial Officer	175 Berkeley Street, Boston, Massachusetts
Terry L. Conner	Senior Vice President and Chief Information Officer	175 Berkeley Street, Boston, Massachusetts
A. Alexander Fontanes	Senior Vice President and Chief Investment Officer	175 Berkeley Street, Boston, Massachusetts
Christopher C. Mansfield	Senior Vice President and General Counsel	175 Berkeley Street, Boston, Massachusetts
Helen E. R. Sayles	Senior Vice President	175 Berkeley Street, Boston, Massachusetts
Stephen G. Sullivan	Senior Vice President	175 Berkeley Street, Boston, Massachusetts
Dexter R. Legg	Vice President and Secretary	175 Berkeley Street, Boston, Massachusetts
Douglas M. Hodes	Vice President and Corporate Actuary	175 Berkeley Street, Boston, Massachusetts
Dennis J. Langwell	Vice President and Comptroller	175 Berkeley Street, Boston, Massachusetts
Elliot J. Williams	Vice President and Treasurer	175 Berkeley Street, Boston, Massachusetts

ARTICLE XII

Fiscal Year

The date initially adopted for the end of the Company's fiscal year is December 31st.

IN WITNESS WHEREOF, and under the penalties of perjury, for the purpose of forming this Company under the laws of the Commonwealth of Massachusetts, the incorporator has signed these articles of organization this day of , 2001.

**BY-LAWS
OF
LIBERTY MUTUAL HOLDING COMPANY**

ARTICLE I

Principal Place of Business — Definitions

SECTION 1. *Principal Place of Business.* The principal place of business of the company shall be in the City of Boston, Massachusetts, or at such other location as may be designated.

SECTION 2. *Definitions.* As used in these by-laws:

“policy” shall mean any policy or contract of insurance (other than a reinsurance contract), including any fidelity bond or any surety bond, or any binder or renewal certificate issued in the course of business and not terminated and issued by an insurance company whose policyholders are by law entitled to be members of this mutual holding company.

“company” shall mean this mutual holding company.

ARTICLE II

Members and Their Participation in Management

SECTION 1. *Membership.* Any person or organization appearing as the primary insured in a policy or as the principal on any policy that is a surety bond or obligation shall, while any such policy is in force, be a member of the company.

SECTION 2. *Participation in Management.* Any member of the company shall be entitled to vote, either in person or by proxy, at all meetings of the company. An organization which is a member may authorize any person to represent it at said meetings and such person shall have all the rights at said meetings of an individual member. Until written designation of an authorized representative has been received by the company, it may assume that any officer or partner of an organization which is a member is qualified to act or vote in behalf of such member.

ARTICLE III

Board of Directors

SECTION 1. *Nomination and Election.* The Board of Directors shall consist of not less than twelve nor more than twenty-four persons as determined from time to time by vote of a majority of the whole board.

At each annual meeting of the company, approximately one-third of the board shall be elected by ballot to hold office until the annual meeting of the company held in the third year thereafter shall have elected directors and such directors shall have qualified.

At least sixty days prior to the annual meeting of the company, the board shall nominate candidates for the office of director to succeed the directors whose term of office will expire on the date of such annual meeting and shall thereupon file the names of such candidates with the secretary. At least one-tenth of one per cent of the members may also nominate candidates to succeed the directors whose term of office will expire on the date of such annual meeting by filing with the secretary at least sixty days before such meeting a certificate signed and acknowledged by each of such members setting forth the full names and addresses of such members and giving the names and addresses of the candidates nominated and by filing with such certificate the written acceptance of such nominations by each nominee named in such certificate. No person shall be eligible for election as a director unless nominated in accordance with the procedures set forth above. The names of all candidates shall be made known by the secretary to any member upon written request of such member.

SECTION 2. *Qualifications.* A majority of the directors shall be members of the company. A majority of the outside directors shall be members of the company. As used in these by-laws, “outside directors” shall mean persons who are not officers or employees of the company or of any entity controlling, controlled by or under common control with the company and who are not beneficial owners of a controlling interest in the voting stock of any such entity. Each person elected a director shall comply with such other qualification conditions as may be required by law or by the board.

SECTION 3. *Powers.* The board shall manage and control the business and affairs of the company. The board may create and fill additional offices and may fill any vacancy in office that may occur.

Any vacancy in the board may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director. Any election to fill vacancies held at a time when the number of directors is less than nine shall first elect successors to the directors whose terms would have expired at the next annual meeting and after all such successors have been elected shall then elect successors to the directors whose terms would have expired at the second annual meeting following such election, provided however that: at any such election, not more than three directors shall be

chosen by the same ballot; no further balloting shall be held until after the newly elected directors shall have qualified; and newly qualified directors shall be entitled to participate in further balloting.

SECTION 4. *Election of Officers.* After the adjournment of each annual meeting of the company, the board shall, if a quorum be then present, without further notice, hold a meeting at which by ballot it may elect a chairman and one or more vice chairmen, each of whom shall be a director, and at which it shall elect a chief executive officer who shall be a director, a president, and one or more vice presidents, a secretary, a clerk, a treasurer, a comptroller, one or more assistant secretaries and one or more assistant treasurers and may at any time remove any officer so elected. If a quorum shall not then be present, such officers shall be elected at the first meeting of the board at which a quorum is present. Any two or more offices may be held by the same person.

SECTION 5. *Creation of Committees.* The board may create and at any time change the membership of or terminate the committees specified in Article IV, and may delegate powers to such committees as provided in said Article IV.

SECTION 6. *Removal.* Any director, whether elected by the directors to fill a vacancy in the board or by the members, may be removed from office only for cause (1) by vote of a majority of the members who vote or (2) by vote of a majority of the directors then in office. As used in these by-laws, "cause" shall mean (1) conviction of a felony, (2) declaration of unsound mind by order of court, (3) gross dereliction of duty, (4) commission of an action involving moral turpitude, or (5) commission of an action which constitutes intentional misconduct or a knowing violation of law if such action in either event results in both an improper substantial personal benefit and a material injury to the company. A director may be removed for cause only after a reasonable notice and opportunity to be heard before the body proposing to remove him.

ARTICLE IV *Committees*

SECTION 1. *Executive Committee of the Board.* The board may elect or by vote authorize the chief executive officer to appoint five or more directors, one of whom shall be the chief executive officer to constitute an executive committee of the board. By vote the board may delegate to such executive committee any or all of the powers granted to the board by law and by these by-laws and not specifically delegated to any other committee or reserved to the board by law.

SECTION 2. *Investment Committee.* The board by vote may elect three or more directors, one of whom shall be the chief executive officer to constitute an investment committee. By vote the board may delegate to such committee any or all of the powers granted to the board by law or by these by-laws with respect to the investment or reinvestment of the company's funds and the purchase and sale of stocks, bonds and other securities.

SECTION 3. *Other Committees.* The board by vote may at any time elect or authorize the chief executive officer to appoint three or more directors, one of whom shall be the chief executive officer or such person as he shall designate to represent him, to constitute a committee for any legal purpose. By vote the board may delegate to such committee limited authority to exercise in behalf of the board powers of the board with respect to the duties of such committee.

ARTICLE V *Officers of the Company*

SECTION 1. *Term of Office of Elected Officers.* Each officer elected by the board shall, unless removed, hold office for one year or until his successor is elected and qualified.

SECTION 2. *Chairman.* The chairman of the board, if such officer has been elected, shall preside at all meetings of the company and of the board and shall perform such other duties as may be imposed upon him by law, by these by-laws or by the board.

In the absence or inability to act of the chairman, whoever is designated by the chairman, or if the chairman makes no such designation, then whoever is designated by the board, shall exercise such powers and discharge such duties of the chairman as may be delegated.

SECTION 3. *Chief Executive Officer.* The chief executive officer shall have general charge and oversight of the business and affairs of the company and shall perform such other duties as may be imposed upon him by law, by these by-laws, by the board, or by the chairman of the board. In the absence or inability to act of the chairman, the chief executive officer shall preside at all meetings of the company and of the board.

In the absence or inability to act of the chief executive officer, whoever is designated by the chief executive officer, or if the chief executive officer makes no such designation, then whoever is designated by the board, shall exercise such powers and discharge such duties of the chief executive officer as may be delegated.

SECTION 4. *Vice Chairmen.* A vice chairman, if such officer has been elected, shall perform such duties as may be imposed upon him by law, by these by-laws, by the board, or by the chairman of the board.

SECTION 5. *President.* In the absence or inability to act of the chairman and the chief executive officer, the president shall preside at all meetings of the company and of the board. The president shall also perform such duties as may be imposed upon him by law, by these by-laws, by the board, by the chairman of the board, or by the chief executive officer.

In the absence or inability to act of the president, whoever is designated by the president, or if the president makes no such designation, then whoever is designated by the board, shall exercise such powers and discharge such duties of the president as may be delegated.

SECTION 6. *Vice Presidents.* A vice president shall have such powers and discharge such duties as may be from time to time conferred or imposed upon him by the board, the chairman, chief executive officer, vice chairman or president. In the absence of the chairman, the chief executive officer and the president from any meeting of the company or of the board, a vice president shall preside.

SECTION 7. *Secretary and Clerk.* The secretary shall give such notice as is required by law and by these by-laws of all meetings of the company, the board, and the executive committee. He shall keep such books and records as the board or the chief executive officer may require. He shall execute all instruments coming within the jurisdiction of his office. He shall perform such duties as are or may be required of him by law, by these by-laws, by the board, or by the chief executive officer. He shall have custody of the corporate seal and shall furnish copies thereof to such officers and attorneys-in-fact as shall be authorized to impress the same. He shall be the clerk of the company and shall perform such duties as are or may be required of the clerk by law. During the absence of the secretary or his inability to act, an assistant secretary, authorized in writing by the chief executive officer shall exercise the powers and duties of the secretary.

SECTION 8. *Treasurer.* The treasurer shall exercise such powers and duties as may from time to time be prescribed by law, by these by-laws, by the chief executive officer or by the board. In the absence of the treasurer, his duties shall be performed by another officer designated by the chief executive officer.

SECTION 9. *Comptroller.* The comptroller shall exercise such powers and duties as may from time to time be prescribed by law, by these by-laws, by the chief executive officer or by the board. In the absence of the comptroller, his duties shall be performed by another officer designated by the chief executive officer.

SECTION 10. *Appointed Officers and Representatives.* The chairman, the chief executive officer or the president may appoint such additional officers and representatives as he may deem necessary and may at any time remove any officer or representative so appointed. The officer exercising the appointive power shall determine the duties and the powers of such additional officers and representatives.

SECTION 11. *Qualification of Officers.* The secretary, the treasurer, the comptroller, the assistant secretaries and the assistant treasurers shall furnish such bond as may be required by law or by the board. In addition each officer of the company shall comply with such other qualification conditions as may be required by law or by the board.

ARTICLE VI

Meetings of the Company

SECTION 1. *Annual Meeting.* The annual meeting of the company shall be held at the principal place of business, or at such other location as may be designated by the chief executive officer, on the second Wednesday in April at ten o'clock in the forenoon. If the annual meeting for any year shall not be duly held, the board or the chief executive officer shall call a special meeting to be held as soon as may be thereafter in lieu of and for the same purposes; and all proceedings at such special meeting shall have the same force and effect as if taken at the annual meeting.

SECTION 2. *Special Meetings.* Special meetings of the company shall be held at such times and for such purposes, as may be specified in the notice of such meetings, and shall be called by the secretary, or in the event of his absence or inability to act, by such person as the board or the chief executive officer shall appoint, whenever requested in writing so to do by the chief executive officer, by a majority of the board, by a majority of the executive committee, or upon the written application of at least the number of members required by the law in effect at the date of the application to join in such application. Such requests or applications shall state the times and purposes of such meetings.

SECTION 3. *Voting Powers of Members.* In all meetings of the company each member shall be entitled to one vote, regardless of the number of policies he holds. Any required member approval shall be by the affirmative vote of a majority of the members who vote on such action, or a higher percentage of the members as may be required by law or the company's articles of organization.

With respect to any merger transaction between the company and another mutual holding company, the provisions of Section 19S of Chapter 175 of the Massachusetts General Laws shall apply, which requires, among other things, the

approval of any such merger by two-thirds of the members of the company as are present and voting at a special meeting called for such purpose. There shall be no member approval required for transactions authorized pursuant to Section 19T of Chapter 175 of the Massachusetts General Laws, or similar provisions of other state mutual holding company laws, unless the board determines otherwise.

SECTION 4. *Proxies.* Members may vote by proxies dated and executed within three months of, and returned and recorded on the books of the company seven days or more before, the meeting at which they are to be used. No person shall, as attorney by proxy or otherwise, cast more than twenty votes.

SECTION 5. *Differences in Statutory and By-Law Member Approval Requirements.* To the extent the member approval requirements of Massachusetts law relating to any matter requiring the approval of members are different from that otherwise required by these by-laws, the member approval requirements of Massachusetts law shall apply to the exclusion of the member approval requirements of these by-laws.

SECTION 6. *Notice of Annual Meetings.* Members shall be notified of the time and place of the annual meeting by written notice to each member at his address as it appears on the records of the company, and the company shall mail the notice by first class mail at least sixty days before the annual meeting.

SECTION 7. *Notice of Special Meetings.* Members shall be notified of the time and place of any special meeting by written notice to each member at his address as it appears on the records of the company, and the company shall mail the notice in the manner in which the board deems appropriate at least seven days before the special meeting.

SECTION 8. *Record Date.* The board may fix in advance a time which shall be not more than ninety days before the date of any meeting of members or the date for the payment of any dividend or the making of any distribution to members or the last day on which consent or dissent of members may be effectively expressed for any purpose, as the record date for determining the members having the right to notice of and to vote at such meeting and for or against adjournment thereof, the right to receive such dividend or distribution or the right to give such consent or dissent. In any such case, only members of record on such record date shall have such right, notwithstanding the issuance or termination of policies after the record date.

If no record date is fixed, the record date for determining the members having the right to notice of or to vote at a meeting of members shall be the close of business on the day next preceding the day on which notice is given and, for any other purpose, shall be the close of business on the day on which the board acts with respect thereto.

SECTION 9. *Matters to be Considered at Meetings.* At any meeting of the company, only such business shall be conducted, and only such proposals shall be acted upon, as shall have been properly brought before the meeting by or at the direction of the officer presiding at the meeting, by or at the direction of the board, or otherwise as prescribed by law. To the extent that a member may by law be entitled to bring a proposal before the meeting, written notice of the proposal executed by the member must be filed with the secretary at least sixty days before the date of the annual meeting. The member's notice shall set forth (1) a brief description of the proposal and the reasons for conducting such business at the annual meeting, (2) the name and address of the member making the proposal, (3) a representation that the member intends to continue to hold the policy giving rise to his membership, and (4) a representation that the member intends to appear in person or by proxy to present the proposal at the meeting. Such member may submit no more than one proposal for a particular meeting. At any special meeting of the company, only such business shall be conducted, and only such proposals shall be acted upon, as shall have been set forth in the notice of such special meeting.

ARTICLE VII

Meetings of the Board of Directors

Regular meetings of the board shall be held at such times and places as the board may from time to time determine. Special meetings of the board shall be called by the secretary whenever the chairman, the chief executive officer, a vice chairman, the president, or not less than a majority of directors then in office shall so request.

ARTICLE VIII

Meetings of the Executive and Investment Committees

Regular meetings of the executive committee and of the investment committee shall be held at such times and places as the respective committee may determine. Special meetings shall be called by the secretary whenever the chief executive officer or the majority of the members of the committee shall so request.

ARTICLE IX

Notices of Meetings of the Board of Directors, the Executive Committee, and the Investment Committee

No notice of regular meetings of the board, of the executive committee, or of the investment committee, shall be necessary. Reasonable notice shall be given of special meetings, but the action of a majority at any regular or special meeting shall be valid notwithstanding any defect in the notice of such meeting. A director shall be deemed to have been notified of a meeting if he shall be present at such meeting or shall in writing waive notice thereof either before or after such meeting.

ARTICLE X

Quorum

At meetings of the company twenty members present or represented in person at the meeting shall constitute a quorum for the transaction of business; but a meeting at which a quorum is not present may be adjourned to a future time by the members or representatives of members who are present. At all meetings of the board a majority of directors then in office shall constitute a quorum for the transaction of business. At all meetings of the executive committee, the investment committee, or other committees, a majority of the committee members shall constitute a quorum for the transaction of business.

ARTICLE XI

Action Without Meeting; Telephone Conference Meetings

SECTION 1. *Action Without Meeting.* Any action required or permitted to be taken at any meeting of the directors may be taken without a meeting if all the directors consent to the action in writing and the written consents are filed with the records of the meetings of directors. Any action required or permitted to be taken at any meeting of a committee of the board may be taken without a meeting if all the committee members consent to the action in writing and the written consents are filed with the records of the meetings of the committee.

SECTION 2. *Telephone Conference Meetings.* Meetings of the board of directors or of any committee of the board may be held by conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time.

ARTICLE XII

Resignations and Vacancies

SECTION 1. *Resignations.* Any member of the board, or any officer elected by the board, may resign by giving written notice to the secretary. Any appointed officer may resign by giving written notice to the officer having the appointive power. Any member of a committee of the board may resign from the committee by giving written notice to the secretary.

SECTION 2. *Term of Office.* Each director or officer chosen to fill a vacancy shall hold office until the next annual meeting. At that meeting, if a portion of his predecessor's term remains unexpired, he or some other person shall be elected to hold office for that unexpired term.

SECTION 3. *Action During Vacancies.* In the event of vacancy in the board or in any committee, the remaining directors or members of such committee may act notwithstanding such vacancy.

SECTION 4. *Absences.* In the event of the extended temporary absence or inability to act of any member of a committee of the board, the board, or the executive committee if so authorized by the board, may appoint a member of the board to act in his stead during his absence.

SECTION 5. *Vacancy Resulting from Enlargement of the Board.* Any vacancy in the board resulting from the enlargement of the board may be filled only by a majority of the directors then in office.

ARTICLE XIII

Non-Assessment

No member shall be liable to any assessment by the company.

ARTICLE XIV

Indemnification of Officers and Directors

The company shall, to the extent legally permissible, indemnify any person serving or who has served (a) as a director or officer of the company, or (b) at the request of the company as a director, officer, employee or other agent of another organization, or (c) at the request of the company in any capacity with respect to any employee benefit plan, against all

liabilities and expenses (including amounts paid in satisfaction of judgments, in compromise or settlement, or as fines and penalties, and counsel fees) reasonably incurred by him in connection with the defense or disposition of any action, suit or other proceeding, whether civil or criminal, in which he may be involved or with which he may be threatened, while serving or thereafter, by reason of his being or having been such a director, officer, employee or agent, or a person in any capacity with respect to an employee benefit plan. Such indemnification may include payment by the company of expenses incurred in defending a civil or criminal action or proceeding in advance of the final disposition of such action or proceeding, upon receipt of an undertaking by the person indemnified to repay such payment if he shall be adjudicated to be not entitled to indemnification under this article. Such undertaking may be accepted without reference to the financial ability of such person to make repayment. No indemnification shall be provided for any person with respect to any matter as to which he shall have been adjudicated in any proceeding not to have acted in good faith in the reasonable belief that his action was in the best interest of the company or to the extent that such matter relates to service with respect to any employee benefit plan in the best interests of the participants or beneficiaries of such employee benefit plan. The right of indemnification provided in this article shall not be exclusive of or affect any other rights to which any person referred to in the first sentence of this article may be entitled. Nothing in this article shall affect any right to indemnification to which company personnel, other than those referred to in the first sentence of this article, may be entitled by contract or otherwise by law. As used in this article, any reference to a person indemnified shall include his heirs and legal representatives.

ARTICLE XV
Contributions

The board may, subject to the restrictions imposed by law and to such rules that it may adopt, make contributions of such sums of money, securities or other things of value, as it determines to be reasonable for public welfare or for charitable, scientific or educational purposes.

ARTICLE XVI
Emergencies

If, as a result of a catastrophe or other emergency conditions, a meeting, with the number required to be present under Article X of these by-laws, of the board, of the company, or of any committee of the board cannot feasibly be convened, then the number required for a quorum shall be the minimum number required by the statute in effect at the time of the meeting and this provision shall supersede the quorum requirements stated in Article X of these by-laws.

Notwithstanding any other provision of these by-laws, the board may, at any time, adopt a resolution in accordance with authority now or hereafter vested in it under which, to the extent and upon the terms stated therein, corporate powers may be exercised during the existence of emergency conditions.

ARTICLE XVII
Gender Neutral

Words contained in these by-laws implying the masculine gender shall also include the feminine gender.

ARTICLE XVIII
Amendment of By-Laws

These by-laws may be amended, altered or repealed in whole or in part, and new by-laws may be adopted at any annual or special meeting of the company by the affirmative vote of a majority of the members who vote on such action, provided that the proposed change has been approved by the board by a vote of not less than two-thirds of the directors prior to such meeting and provided that notice of the substance or character of the proposed change shall have been included in the notice of the meeting.

**ARTICLES OF ORGANIZATION
OF
LMHC MASSACHUSETTS HOLDINGS INC.**

**The Commonwealth of Massachusetts
William Francis Galvin
Secretary of the Commonwealth
One Ashburton Place, Boston, Massachusetts 02108-1512**

**ARTICLES OF ORGANIZATION
(General Laws, Chapter 156B)**

ARTICLE I

The exact name of the corporation is:
LMHC Massachusetts Holdings Inc.

ARTICLE II

The purpose of the corporation is to engage in the following business activities:

To engage exclusively in buying, selling, dealing in or holding securities on its own behalf and not as a broker pursuant to M.G.L.A. c. 63 § 38B.

Note: If the space provided under any article or item on this form is insufficient, additions shall be set forth on one side only of a separate 8½ x 11 sheets of paper with a left margin of at least 1 inch. Additions to more than one article may be made on a single sheet so long as each article requiring each addition is clearly indicated.

ARTICLE III

State the total number of shares and par value, if any, of each class of stock which the corporation is authorized to issue.

<u>Without Par Value</u>		<u>With Par Value</u>		
<u>Type</u>	<u>Number of Shares</u>	<u>Type</u>	<u>Number of Shares</u>	<u>Par Value</u>
Common:	None	Common:	1,000	\$.01
Preferred:	None	Preferred:	None	None

ARTICLE IV

If more than one class of stock is authorized, state a distinguishing designation for each class. Prior to the issuance of any shares of a class, if shares of another class are outstanding, the corporation must provide a description of the preferences, voting powers, qualifications, and special or relative rights or privileges of that class and of each other class of which shares are outstanding and of each series then established within any class.

Not applicable.

ARTICLE V

The restrictions, if any, imposed by the Articles of Organization upon the transfer of shares of stock of any class are:

None.

ARTICLE VI

** Other lawful provisions, if any, for the conduct and regulation of the business and affairs of the corporation, for its voluntary dissolution, or for limiting, defining, or regulating the powers of the corporation, or of its directors or stockholders, or of any class of stockholders:

See attached Article VI(a).

**** If there are no provisions state "None".**

Note: The preceding six (6) articles are considered to be permanent and may ONLY be changed by filing appropriate Articles of Amendment.

Article VI(a)

To the extent and in the manner provided in the by-laws, the Board of Directors may make, amend or repeal the by-laws in whole or in part, except with respect to any provision thereof which by law or by the by-laws requires action by the stockholders.

To the extent and in the manner provided in the by-laws, meetings of the stockholders may be held anywhere within the Commonwealth of Massachusetts or elsewhere in the United States.

The Corporation may enter into partnership agreements (general or limited) and joint ventures with any person, firm, association, or corporation engaged in carrying on any business in which the Corporation is authorized to engage, or in connection with carrying out all or any of the purposes of the Corporation.

ARTICLE VII

The effective date of organization of the corporation shall be the date approved and filed by the Secretary of the Commonwealth. If a later effective date is desired, specify such date which shall not be more than thirty days after the date of filing.

ARTICLE VIII

The information contained in Article VIII is not a permanent part of the Articles of Organization.

a. The street address (post office boxes are not acceptable) of the principal office of the corporation in Massachusetts is:

175 Berkeley Street, Boston, Massachusetts 02117

b. The name, residential address and post office address of each director and officer of the corporation is as follows:

	<u>Name</u>	<u>Residential Address</u>	<u>Post Office Address</u>
President:			
Treasurer:	<i>See attached Article VIII(a).</i>		
Clerk:			
Directors:			

c. The fiscal year (i.e., tax year) of the corporation shall end on the last day of the month of: *December*

d. The name and business address of the resident agent, if any, of the corporation is:

ARTICLE IX

By-laws of the corporation have been duly adopted and the president, treasurer, clerk and directors whose names are set forth above, have been duly elected.

Article VIII (a)

<u>Title</u>	<u>Name</u>	<u>Residence</u>	<u>Post Office Address</u>
President	Edmund F. Kelly	Weston, MA	175 Berkeley Street Boston, MA 02117
Vice President & Treasurer	Elliot J. Williams	Medford, MA	175 Berkeley Street Boston, MA 02117
Clerk	Dexter R. Legg	Portsmouth, NH	175 Berkeley Street Boston, MA 02117
Directors	J. Paul Condrin, III	Walpole, MA	175 Berkeley Street Boston, MA 02117
	Edmund F. Kelly	Weston, MA	175 Berkeley Street Boston, MA 02117
	Christopher C. Mansfield	Dedham, MA	175 Berkeley Street Boston, MA 02117

**BY-LAWS
OF
LMHC MASSACHUSETTS HOLDINGS INC.**

ARTICLE I

PRINCIPAL OFFICE AND SEAL

Section 1. PRINCIPAL OFFICE. The initial principal office of the corporation shall be as set forth in the Articles of Organization. The directors may at any time, and from time to time, change the location of the principal office of the corporation in the Commonwealth of Massachusetts; provided that no such change shall be effective until any certificate or report of the change as may be required by law has been filed.

Section 2. SEAL. The seal of the corporation shall be in such form as the directors may from time to time determine.

ARTICLE II

STOCKHOLDERS

Section 1. ANNUAL MEETING. The annual meeting of the stockholders shall be held on the date that the directors may from time to time determine, provided that the date shall be within six months after the end of the fiscal year of the corporation. If for any reason the annual meeting shall not be held on the date determined by the directors, a special meeting in lieu of the annual meeting may be held with all the force and effect of an annual meeting. The hour and place of the annual meeting shall be as the directors may from time to time determine. The manner of conducting it shall be as the chief executive officer may from time to time determine. The purposes of the annual meeting shall be those as from time to time are required by law, the Articles of Organization, or these by-laws, and may also include such further purposes as the directors or the chief executive officer may determine.

Section 2. SPECIAL MEETINGS. Special meetings of the stockholders shall be held at such times and for such purposes as may be specified in the notice of such meetings, and may be called by the chairman, the president, or the directors, and shall be called by the clerk upon written application of one or more stockholders who hold at least ten percent in interest of the stock entitled to vote at the meeting. Such application shall specify the purposes for which the meeting is to be called and may designate the date, hour and place of such meeting, provided that no such application shall designate a date not a business day or an hour not within normal business hours as the date or hour of such meeting without the approval of the directors or the chief executive officer. The manner of conducting a special meeting shall be as the chief executive officer may from time to time determine.

Section 3. NOTICE OF ANNUAL AND SPECIAL MEETING. A written notice of any meeting of stockholders stating the place, date and hour thereof and, in case of a special meeting, the purposes thereof shall be given by the clerk by mailing, at least seven days before the meeting, such notice to each stockholder entitled to vote at such meeting. Notice of such meeting may be waived in writing either before or after the meeting. Actual attendance at a meeting either in person or by proxy shall constitute a waiver of notice.

Section 4. VOTING POWER OF STOCKHOLDERS. Each stockholder may vote at any meeting of the stockholders either in person or by proxy filed with the clerk at or before such meeting. Each stockholder shall be entitled to one vote for each share of stock standing registered in the stockholder's name on the records of the corporation. If a quorum is present, the vote of a majority of the shares represented and entitled to vote at a particular meeting shall be required for action at such meeting, except to the extent that a larger number is required by law, the Articles of Organization, or these by-laws.

Section 5. QUORUM. A majority in interest of all stock issued, outstanding and entitled to vote, when present in person or represented by proxy, shall constitute a quorum for the transaction of business at any meeting of the stockholders.

Section 6. ACTION WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting if all stockholders entitled to vote on the matter consent to the action in writing and the written consents are filed with the records of the meetings of the stockholders. Such consents shall be treated for all purposes as a vote at a meeting.

ARTICLE III

STOCK

Section 1. ISSUANCE. The directors may at any time issue all or any part of the unissued capital stock from time to time authorized under the Articles of Organization and may determine, subject to any requirements of law, the consideration for which stock is to be issued and the manner of allocating such consideration between capital and surplus.

Section 2. CERTIFICATES OF STOCK. The shares of the corporation shall be represented by certificates. Each certificate shall be signed by the chairman, the president or a vice president and by the treasurer or an assistant treasurer and impressed with the seal of the corporation, which shall certify the number of shares represented by such certificate. Such certificate shall be in such form as the directors shall from time to time adopt.

Section 3. REPLACEMENT OF CERTIFICATES. The directors may determine the conditions upon which a new certificate of stock may be issued in place of any certificate alleged to have been lost, mutilated or destroyed. They may, in their discretion, require the owner of a lost, mutilated or destroyed certificate, or his legal representative, to give a bond, sufficient in their opinion, with or without an acceptable corporate surety and in such penalty and form as they may require, to indemnify the corporation against any loss or claim which may arise by reason of the issue of the shares in place of such lost, mutilated or destroyed stock certificate.

Section 4. TRANSFER OF CERTIFICATES. Certificates of stock may be transferred only by assignment endorsed thereon, or by means of an instrument or assignment attached thereto, executed by the stockholder named therein or by his attorney-in-fact duly authorized thereunto in writing. Transfers shall be made on the books of the corporation upon surrender of the certificate properly assigned; and upon such surrender a new certificate shall be issued in lieu thereof to the assignee.

Section 5. RECORD DATE; CLOSING TRANSFER BOOKS. The directors may fix in advance a time, which shall be not more than sixty days before the date of any meeting of stockholders or the date for the payment of any dividend or the making of any distribution to stockholders or the last day on which the consent or dissent of stockholders may be effectively expressed for any purpose, as the record date for determining the stockholders having the right to notice of and to vote at such meeting and any adjournment thereof or the right to receive such dividend or distribution or the right to give such consent or dissent. In such case only stockholders of record on such record date shall have such right, notwithstanding any transfer of stock on the books of the corporation after the record date; or without fixing such record date the directors may for any of such purposes close the transfer books for all or any part of such period.

ARTICLE IV

BOARD OF DIRECTORS

Section 1. ELECTION, TERM OF OFFICE AND REMOVAL. The board of directors shall consist of not less than three nor more than ten persons, as the stockholders may from time to time determine. The directors shall be elected at each annual meeting of the stockholders. Except as otherwise provided by law, the Articles of Organization or these by-laws, the directors so elected shall hold office until the next annual meeting of the stockholders shall have elected directors and such directors shall have qualified. No director need be a stockholder. The stockholders may at any time remove any director with or without cause. The directors, by vote of a majority of the directors then in office, may at any time remove any director for cause. A director may be removed for cause only after a reasonable notice and opportunity to be heard before the body proposing to remove such director.

Section 2. POWERS. The board of directors shall manage the business and affairs of the corporation and may exercise all the powers of the corporation, except such as by law, the Articles of Organization or these by-laws are conferred upon or reserved to the stockholders.

Section 3. MEETINGS. Meetings of the board of directors may be held anywhere within the Commonwealth of Massachusetts or elsewhere as the directors may from time to time determine or as may be specified in the notice of the meeting. A regular meeting of the board of directors shall be held immediately following the annual meeting of the stockholders, and other regular meetings shall be held at such times and places as the directors may from time to time determine. No notice of any regular meeting of the board of directors shall be required. Special meetings of the board of directors shall be held at such times and for such purposes as may be specified in the notice of such meetings, and may be called by the chairman, the president, or a majority of the directors by oral or written notice duly delivered or mailed to each director not less than one day before such meeting. Notice of any meeting of the board of directors may be waived in writing either before or after the meeting. A notice or waiver of notice need not specify the purpose of any special meeting of the directors. Actual attendance at a meeting shall constitute a waiver of notice, except in the case of a director who attends the meeting protesting, prior thereto or at its commencement, the lack of notice to such director. If a quorum is present, a majority of the directors present at a particular meeting may take any action on behalf of the board at such meeting, except to the extent that a larger number is required by law, the Articles of Organization, or these by-laws.

Section 4. QUORUM. A majority of the directors then in office shall constitute a quorum for the transaction of business at any meeting of the board of directors.

Section 5. ACTION WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of the directors may be taken without a meeting if all the directors consent to the action in writing and the written consents are filed with the records of the meetings of the directors. Such consents shall be treated for all purposes as a vote at a meeting.

Section 6. COMMITTEES. The directors may create one or more committees, with members to be elected from and by the board of directors. The directors may delegate to any such committee some or all of their powers, except as otherwise provided by law. The directors may determine the manner of conducting committee business, whether at a meeting or otherwise, and the number of members required to constitute a quorum or required to take specified types of action. Any committee shall at each regular meeting of the directors report to the directors any actions taken by it.

Section 7. TELEPHONE CONFERENCE MEETINGS. Members of the board of directors or any committee designated thereby may participate in a meeting of such board or committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.

ARTICLE V

OFFICERS

Section 1. ELECTION, TERM OF OFFICE AND REMOVAL. The officers of the corporation shall include a president, a treasurer and a clerk. They may also include a chairman, one or more vice presidents, a secretary, one or more assistant secretaries or assistant clerks, one or more assistant treasurers, and such other officers as the directors may from time to time determine. On the day of and after the adjournment of each annual meeting of the stockholders, the board shall, without further notice, hold a meeting at which it shall elect the officers of the corporation. No officer need be a stockholder. Except for the chairman, no officer need be a director. The same person may hold more than one office. The clerk shall be a resident of the Commonwealth of Massachusetts unless the corporation shall have complied with any applicable law requiring the appointment of a resident agent in the Commonwealth of Massachusetts. Except as otherwise provided by law, the Articles of Organization or these by-laws, each officer so elected shall hold office until the first meeting of the directors following the next annual meeting of the stockholders and until such officer's successor is elected and qualified. The directors may at any time remove any officer with or without cause. An officer may be removed for cause only after a reasonable notice and opportunity to be heard before the directors.

Section 2. CHIEF EXECUTIVE OFFICER. If a chairman is elected, the board shall designate either the chairman or the president to be the chief executive officer of the corporation. If a chairman is not elected or in the absence or inability to act of the chairman, the president shall be the chief executive officer. The chief executive officer shall have general charge and oversight of the business and affairs of the corporation and shall enforce and execute the orders and instructions of the board. The chief executive officer may appoint subordinate officials and representatives and shall determine the powers and duties of such officials and representatives. The chief executive officer may at any time remove any official or representative so appointed.

Section 3. CHAIRMAN. The chairman of the board, if such officer has been elected, shall preside at all meetings of the stockholders and of the board and shall perform such other duties as may be imposed by law, by these by-laws, and by the board. In the absence or inability to act of the chairman, the president shall exercise the powers and discharge the duties of the chairman.

Section 4. PRESIDENT. The president shall be the chief operating officer of the corporation subject to the direction of the board and of the chairman if the chairman is the chief executive officer of the corporation. Except when the chairman has been so designated, the president shall be the chief executive officer. In the absence or inability to act of the chairman, the president shall preside at all meetings of the stockholders and of the board. The president shall also perform such duties as may be imposed by law, by these by-laws, by the board, and by the chairman.

Section 5. VICE PRESIDENTS. The board or the chief executive officer may designate any vice president to exercise the powers and discharge the duties of the chief executive officer during the absence or inability to act of the chairman and the president. A vice president not specifically designated as aforesaid shall have such powers and discharge such duties as may be from time to time conferred or imposed upon such vice president by the board, the chairman or the president. In the absence of the chairman and of the president from any meeting of the stockholders or of the board, a vice president shall preside.

Section 6. CLERK. The clerk shall give such notice as is required by law and by these by-laws of all meetings of the stockholders, the board, and any committee of the board. The clerk shall record all proceedings of the stockholders in a book to be kept therefor, shall record all proceedings of the directors in a book to be kept therefor, and shall keep such other books and records as the board or the chief executive officer may require. The clerk shall execute all instruments coming within the jurisdiction of his office. The clerk shall perform such duties as are or may be required by law, by these by-laws, by the board, or by the chief executive officer. The clerk shall have custody of the corporate seal and shall furnish copies thereof to such officers and attorneys-in-fact as shall be authorized to impress the same. During the absence or inability to act of the clerk, an assistant clerk or assistant secretary, authorized in writing by the chief executive officer, shall exercise the powers and duties of the clerk.

Section 7. TREASURER. The treasurer shall be the chief financial officer of the corporation and shall cause accurate books of account to be kept. The treasurer shall also exercise such powers and duties as may from time to time be prescribed by law, by these by-laws, by the chief executive officer or by the board. In the absence of the treasurer, his duties shall be performed by another officer designated by the chief executive officer.

Section 8. OTHER OFFICERS. If the board elects other officers of the corporation, they shall exercise such powers and duties as may from time to time be prescribed by the chief executive officer or by the board.

ARTICLE VI

RESIGNATIONS, VACANCIES AND ABSENCES

Section 1. RESIGNATIONS. Any member of the board, any member of a committee of the board, or any officer may resign by delivering a written resignation to the clerk. Such resignation shall be effective upon receipt by the clerk unless it expressly states otherwise.

Section 2. VACANCIES. The directors may fill any vacancy in any office that may occur. Any vacancy in the board of directors, however occurring, including a vacancy resulting from the enlargement of the board, may be filled by a majority of the remaining directors, even if less than a quorum, for the unexpired term or terms. The person chosen to fill a vacancy shall hold office for the unexpired term of that person's predecessor. In the event of any vacancy in the board or in any committee, the remaining directors or members of such committee may act notwithstanding such vacancy.

Section 3. ABSENCES. In the event of the temporary absence or inability to act of any member of a committee of the board, the board may appoint a member of the board to act in such member's stead during such absence.

ARTICLE VII

INDEMNIFICATION

The company shall, to the extent legally permissible, indemnify any person serving or who has served (a) as a director or officer of the company, or (b) at the request of the company as a director, officer, employee or other agent of another organization, or (c) at the request of the company in any capacity with respect to any employee benefit plan, against all liabilities and expenses (including amounts paid in satisfaction of judgments, in compromise or settlement, or as fines and penalties, and counsel fees) reasonably incurred by him in connection with the defense or disposition of any action, suit or other proceeding, whether civil or criminal, in which he may be involved or with which he may be threatened, while serving or thereafter, by reason of his being or having been such a director, officer, employee or agent, or a person in any capacity with respect to an employee benefit plan. Such indemnification may include payment by the company of expenses incurred in defending a civil or criminal action or proceeding in advance of the final disposition of such action or proceeding, upon receipt of an undertaking by the person indemnified to repay such payment if he shall be adjudicated to be not entitled to indemnification under this article. Such undertaking may be accepted without reference to the financial ability of such person to make repayment. No indemnification shall be provided for any person with respect to any matter as to which he shall have been adjudicated in any proceeding not to have acted in good faith in the reasonable belief that his action was in the best interest of the company or to the extent that such matter relates to service with respect to any employee benefit plan in the best interests of the participants or beneficiaries of such employee benefit plan. The right of indemnification provided in this article shall not be exclusive of or affect any other rights to which any person referred to in the first sentence of this article may be entitled. Nothing in this article shall affect any right to indemnification to which company personnel, other than those referred to in the first sentence of this article, may be entitled by contract or otherwise by law. As used in this article, any reference to a person indemnified shall include his heirs and legal representatives.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

Section 1. FISCAL YEAR. The fiscal year of the corporation shall end on the last day of the month of December.

Section 2. SECURITIES OF OTHER CORPORATIONS. The directors may determine from time to time the individuals who shall have full power and authority in the name and on behalf of the corporation, subject to instructions of the directors, to waive notice of, to attend, to act and vote at, and to appoint any person to act as proxy or attorney-in-fact for this corporation (with or without power of substitution) at any meeting of stockholders or shareholders of any other corporation or organization, the securities of which may be held by this corporation.

ARTICLE IX

AMENDMENT OF BY-LAWS

These by-laws may be amended or repealed, and new by-laws may be adopted, by the stockholders. The directors may also make, amend or repeal these by-laws in whole or in part, except with respect to any provision which by law requires action by the stockholders. Not later than the time of giving notice of the meeting of stockholders next following the making, amending or repealing by the directors of any by-law, notice thereof stating the substance of the change shall be given to all stockholders entitled to vote on amending the by-laws. Any by-law adopted by the directors may be amended or repealed by the stockholders.

ARTICLES OF ORGANIZATION

OF

LIBERTY MUTUAL GROUP INC.

The Commonwealth of Massachusetts

William Francis Galvin

Secretary of the Commonwealth

One Ashburton Place, Boston, Massachusetts 02108-1512

ARTICLES OF ORGANIZATION

(General Laws, Chapter 156B)

ARTICLE I

The exact name of the corporation is:

Liberty Mutual Group Inc.

ARTICLE II

The purpose of the corporation is to engage in the following business activities:

To engage exclusively in buying, selling, dealing in or holding securities and to engage in any other business permitted by law.

Note: If the space provided under any article or item on this form is insufficient, additions shall be set forth on one side only of a separate 8½ x 11 sheets of paper with a left margin of at least 1 inch. Additions to more than one article may be made on a single sheet so long as each article requiring each addition is clearly indicated.

ARTICLE III

State the total number of shares and par value, if any, of each class of stock which the corporation is authorized to issue.

<u>Without Par Value</u>		<u>With Par Value</u>		
<u>Type</u>	<u>Number of Shares</u>	<u>Type</u>	<u>Number of Shares</u>	<u>Par Value</u>
Common:	None	Common:	1,000	\$.01
Preferred:	None	Preferred:	None	None

ARTICLE IV

If more than one class of stock is authorized, state a distinguishing designation for each class. Prior to the issuance of any shares of a class, if shares of another class are outstanding, the corporation must provide a description of the preferences, voting powers, qualifications, and special or relative rights or privileges of that class and of each other class of which shares are outstanding and of each series then established within any class.

Not applicable.

ARTICLE V

The restrictions, if any, imposed by the Articles of Organization upon the transfer of shares of stock of any class are:

None.

ARTICLE VI

**Other lawful provisions, if any, for the conduct and regulation of the business and affairs of the corporation, for its voluntary dissolution, or for limiting, defining, or regulating the powers of the corporation, or of its directors or stockholders, or of any class of stockholders:

See attached Article VI(a).

****If there are no provisions state "None".**

Note: The preceding six (6) articles are considered to be permanent and may ONLY be changed by filing appropriate Articles of Amendment.

ARTICLE VI(a)

To the extent and in the manner provided in the by-laws, the Board of Directors may make, amend or repeal the by-laws in whole or in part, except with respect to any provision thereof which by law or by the by-laws requires action by the stockholders.

To the extent and in the manner provided in the by-laws, meetings of the stockholders may be held anywhere within the Commonwealth of Massachusetts or elsewhere in the United States.

The Corporation may enter into partnership agreements (general or limited) and joint ventures with any person, firm, association, or corporation engaged in carrying on any business in which the Corporation is authorized to engage, or in connection with carrying out all or any of the purposes of the Corporation.

ARTICLE VII

The effective date of organization of the corporation shall be the date approved and filed by the Secretary of the Commonwealth. If a *later* effective date is desired, specify such date which shall not be more than thirty days after the date of filing.

ARTICLE VIII

The information contained in Article VIII is not a permanent part of the Articles of Organization.

a. The street address (post office boxes are not acceptable) of the principal office of the corporation in Massachusetts is:

175 Berkeley Street, Boston, Massachusetts 02117

b. The name, residential address and post office address of each director and officer of the corporation is as follows:

	<u>Name</u>	<u>Residential Address</u>	<u>Post Office Address</u>
President:			
Treasurer:	<i>See attached Article VIII(a).</i>		
Clerk:			
Directors:			

c. The fiscal year (i.e., tax year) of the corporation shall end on the last day of the month of:

December

d. The name and business address of the resident agent, if any, of the corporation is:

ARTICLE IX

By-laws of the corporation have been duly adopted and the president, treasurer, clerk and directors whose names are set forth above, have been duly elected.

Article VIII(a)

<u>Title</u>	<u>Name</u>	<u>Residence</u>	<u>Post Office Address</u>
President	Edmund F. Kelly	Weston, MA	175 Berkeley Street Boston, MA 02117
Vice President & Treasurer	Elliot J. Williams	Medford, MA	175 Berkeley Street Boston, MA 02117
Clerk	Dexter R. Legg	Portsmouth, NH	175 Berkeley Street Boston, MA 02117
Directors	J. Paul Condryn, III	Walpole, MA	175 Berkeley Street Boston, MA 02117
	Edmund F. Kelly	Weston, MA	175 Berkeley Street Boston, MA 02117
	Christopher C. Mansfield	Dedham, MA	175 Berkeley Street Boston, MA 02117

**BY-LAWS
OF
LIBERTY MUTUAL GROUP INC.**

ARTICLE I

PRINCIPAL OFFICE AND SEAL

Section 1. PRINCIPAL OFFICE. The initial principal office of the corporation shall be as set forth in the Articles of Organization. The directors may at any time, and from time to time, change the location of the principal office of the corporation in the Commonwealth of Massachusetts; provided that no such change shall be effective until any certificate or report of the change as may be required by law has been filed.

Section 2. Seal. The seal of the corporation shall be in such form as the directors may from time to time determine.

ARTICLE II

STOCKHOLDERS

Section 1. ANNUAL MEETING. The annual meeting of the stockholders shall be held on the date that the directors may from time to time determine, provided that the date shall be within six months after the end of the fiscal year of the corporation. If for any reason the annual meeting shall not be held on the date determined by the directors, a special meeting in lieu of the annual meeting may be held with all the force and effect of an annual meeting. The hour and place of the annual meeting shall be as the directors may from time to time determine. The manner of conducting it shall be as the chief executive officer may from time to time determine. The purposes of the annual meeting shall be those as from time to time are required by law, the Articles of Organization, or these by-laws, and may also include such further purposes as the directors or the chief executive officer may determine.

Section 2. SPECIAL MEETINGS. Special meetings of the stockholders shall be held at such times and for such purposes as may be specified in the notice of such meetings, and may be called by the chairman, the president, or the directors, and shall be called by the clerk upon written application of one or more stockholders who hold at least ten percent in interest of the stock entitled to vote at the meeting. Such application shall specify the purposes for which the meeting is to be called and may designate the date, hour and place of such meeting, provided that no such application shall designate a date not a business day or an hour not within normal business hours as the date or hour of such meeting without the approval of the directors or the chief executive officer. The manner of conducting a special meeting shall be as the chief executive officer may from time to time determine.

Section 3. NOTICE OF ANNUAL AND SPECIAL MEETING. A written notice of any meeting of stockholders stating the place, date and hour thereof and, in case of a special meeting, the purposes thereof shall be given by the clerk by mailing, at least seven days before the meeting, such notice to each stockholder entitled to vote at such meeting. Notice of such meeting may be waived in writing either before or after the meeting. Actual attendance at a meeting either in person or by proxy shall constitute a waiver of notice.

Section 4. VOTING POWER OF STOCKHOLDERS. Each stockholder may vote at any meeting of the stockholders either in person or by proxy filed with the clerk at or before such meeting. Each stockholder shall be entitled to one vote for each share of stock standing registered in the stockholder's name on the records of the corporation. If a quorum is present, the vote of a majority of the shares represented and entitled to vote at a particular meeting shall be required for action at such meeting, except to the extent that a larger number is required by law, the Articles of Organization, or these by-laws.

Section 5. QUORUM. A majority in interest of all stock issued, outstanding and entitled to vote, when present in person or represented by proxy, shall constitute a quorum for the transaction of business at any meeting of the stockholders.

Section 6. ACTION WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting if all stockholders entitled to vote on the matter consent to the action in writing and the written consents are filed with the records of the meetings of the stockholders. Such consents shall be treated for all purposes as a vote at a meeting.

ARTICLE III

STOCK

Section 1. ISSUANCE. The directors may at any time issue all or any part of the unissued capital stock from time to time authorized under the Articles of Organization and may determine, subject to any requirements of law, the consideration for which stock is to be issued and the manner of allocating such consideration between capital and surplus.

Section 2. CERTIFICATES OF STOCK. The shares of the corporation shall be represented by certificates. Each certificate shall be signed by the chairman, the president or a vice president and by the treasurer or an assistant treasurer

and impressed with the seal of the corporation, which shall certify the number of shares represented by such certificate. Such certificate shall be in such form as the directors shall from time to time adopt.

Section 3. REPLACEMENT OF CERTIFICATES. The directors may determine the conditions upon which a new certificate of stock may be issued in place of any certificate alleged to have been lost, mutilated or destroyed. They may, in their discretion, require the owner of a lost, mutilated or destroyed certificate, or his legal representative, to give a bond, sufficient in their opinion, with or without an acceptable corporate surety and in such penalty and form as they may require, to indemnify the corporation against any loss or claim which may arise by reason of the issue of the shares in place of such lost, mutilated or destroyed stock certificate.

Section 4. TRANSFER OF CERTIFICATES. Certificates of stock may be transferred only by assignment endorsed thereon, or by means of an instrument or assignment attached thereto, executed by the stockholder named therein or by his attorney-in-fact duly authorized thereunto in writing. Transfers shall be made on the books of the corporation upon surrender of the certificate properly assigned; and upon such surrender a new certificate shall be issued in lieu thereof to the assignee.

Section 5. RECORD DATE; CLOSING TRANSFER BOOKS. The directors may fix in advance a time, which shall be not more than sixty days before the date of any meeting of stockholders or the date for the payment of any dividend or the making of any distribution to stockholders or the last day on which the consent or dissent of stockholders may be effectively expressed for any purpose, as the record date for determining the stockholders having the right to notice of and to vote at such meeting and any adjournment thereof or the right to receive such dividend or distribution or the right to give such consent or dissent. In such case only stockholders of record on such record date shall have such right, notwithstanding any transfer of stock on the books of the corporation after the record date; or without fixing such record date the directors may for any of such purposes close the transfer books for all or any part of such period.

ARTICLE IV

BOARD OF DIRECTORS

Section 1. ELECTION, TERM OF OFFICE AND REMOVAL. The board of directors shall consist of not less than three nor more than ten persons, as the stockholders may from time to time determine. The directors shall be elected at each annual meeting of the stockholders. Except as otherwise provided by law, the Articles of Organization or these by-laws, the directors so elected shall hold office until the next annual meeting of the stockholders shall have elected directors and such directors shall have qualified. No director need be a stockholder. The stockholders may at any time remove any director with or without cause. The directors, by vote of a majority of the directors then in office, may at any time remove any director for cause. A director may be removed for cause only after a reasonable notice and opportunity to be heard before the body proposing to remove such director.

Section 2. POWERS. The board of directors shall manage the business and affairs of the corporation and may exercise all the powers of the corporation, except such as by law, the Articles of Organization or these by-laws are conferred upon or reserved to the stockholders.

Section 3. MEETINGS. Meetings of the board of directors may be held anywhere within the Commonwealth of Massachusetts or elsewhere as the directors may from time to time determine or as may be specified in the notice of the meeting. A regular meeting of the board of directors shall be held immediately following the annual meeting of the stockholders, and other regular meetings shall be held at such times and places as the directors may from time to time determine. No notice of any regular meeting of the board of directors shall be required. Special meetings of the board of directors shall be held at such times and for such purposes as may be specified in the notice of such meetings, and may be called by the chairman, the president, or a majority of the directors by oral or written notice duly delivered or mailed to each director not less than one day before such meeting. Notice of any meeting of the board of directors may be waived in writing either before or after the meeting. A notice or waiver of notice need not specify the purpose of any special meeting of the directors. Actual attendance at a meeting shall constitute a waiver of notice, except in the case of a director who attends the meeting protesting, prior thereto or at its commencement, the lack of notice to such director. If a quorum is present, a majority of the directors present at a particular meeting may take any action on behalf of the board at such meeting, except to the extent that a larger number is required by law, the Articles of Organization, or these by-laws.

Section 4. QUORUM. A majority of the directors then in office shall constitute a quorum for the transaction of business at any meeting of the board of directors.

Section 5. ACTION WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of the directors may be taken without a meeting if all the directors consent to the action in writing and the written consents are filed with the records of the meetings of the directors. Such consents shall be treated for all purposes as a vote at a meeting.

Section 6. COMMITTEES. The directors may create one or more committees, with members to be elected from and by the board of directors. The directors may delegate to any such committee some or all of their powers, except as otherwise provided by law. The directors may determine the manner of conducting committee business, whether at a

meeting or otherwise, and the number of members required to constitute a quorum or required to take specified types of action. Any committee shall at each regular meeting of the directors report to the directors any actions taken by it.

Section 7. TELEPHONE CONFERENCE MEETINGS. Members of the board of directors or any committee designated thereby may participate in a meeting of such board or committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.

ARTICLE V

OFFICERS

Section 1. ELECTION, TERM OF OFFICE AND REMOVAL. The officers of the corporation shall include a president, a treasurer and a clerk. They may also include a chairman, one or more vice presidents, a secretary, one or more assistant secretaries or assistant clerks, one or more assistant treasurers, and such other officers as the directors may from time to time determine. On the day of and after the adjournment of each annual meeting of the stockholders, the board shall, without further notice, hold a meeting at which it shall elect the officers of the corporation. No officer need be a stockholder. Except for the chairman, no officer need be a director. The same person may hold more than one office. The clerk shall be a resident of the Commonwealth of Massachusetts unless the corporation shall have complied with any applicable law requiring the appointment of a resident agent in the Commonwealth of Massachusetts. Except as otherwise provided by law, the Articles of Organization or these by-laws, each officer so elected shall hold office until the first meeting of the directors following the next annual meeting of the stockholders and until such officer's successor is elected and qualified. The directors may at any time remove any officer with or without cause. An officer may be removed for cause only after a reasonable notice and opportunity to be heard before the directors.

Section 2. CHIEF EXECUTIVE OFFICER. If a chairman is elected, the board shall designate either the chairman or the president to be the chief executive officer of the corporation. If a chairman is not elected or in the absence or inability to act of the chairman, the president shall be the chief executive officer. The chief executive officer shall have general charge and oversight of the business and affairs of the corporation and shall enforce and execute the orders and instructions of the board. The chief executive officer may appoint subordinate officials and representatives and shall determine the powers and duties of such officials and representatives. The chief executive officer may at any time remove any official or representative so appointed.

Section 3. CHAIRMAN. The chairman of the board, if such officer has been elected, shall preside at all meetings of the stockholders and of the board and shall perform such other duties as may be imposed by law, by these by-laws, and by the board. In the absence or inability to act of the chairman, the president shall exercise the powers and discharge the duties of the chairman.

Section 4. PRESIDENT. The president shall be the chief operating officer of the corporation subject to the direction of the board and of the chairman if the chairman is the chief executive officer of the corporation. Except when the chairman has been so designated, the president shall be the chief executive officer. In the absence or inability to act of the chairman, the president shall preside at all meetings of the stockholders and of the board. The president shall also perform such duties as may be imposed by law, by these by-laws, by the board, and by the chairman.

Section 5. VICE PRESIDENTS. The board or the chief executive officer may designate any vice president to exercise the powers and discharge the duties of the chief executive officer during the absence or inability to act of the chairman and the president. A vice president not specifically designated as aforesaid shall have such powers and discharge such duties as may be from time to time conferred or imposed upon such vice president by the board, the chairman or the president. In the absence of the chairman and of the president from any meeting of the stockholders or of the board, a vice president shall preside.

Section 6. CLERK. The clerk shall give such notice as is required by law and by these by-laws of all meetings of the stockholders, the board, and any committee of the board. The clerk shall record all proceedings of the stockholders in a book to be kept therefor, shall record all proceedings of the directors in a book to be kept therefor, and shall keep such other books and records as the board or the chief executive officer may require. The clerk shall execute all instruments coming within the jurisdiction of his office. The clerk shall perform such duties as are or may be required by law, by these by-laws, by the board, or by the chief executive officer. The clerk shall have custody of the corporate seal and shall furnish copies thereof to such officers and attorneys in fact as shall be authorized to impress the same. During the absence or inability to act of the clerk, an assistant clerk or assistant secretary, authorized in writing by the chief executive officer, shall exercise the powers and duties of the clerk.

Section 7. TREASURER. The treasurer shall be the chief financial officer of the corporation and shall cause accurate books of account to be kept. The treasurer shall also exercise such powers and duties as may from time to time be prescribed by law, by these by-laws, by the chief executive officer or by the board. In the absence of the treasurer, his duties shall be performed by another officer designated by the chief executive officer.

Section 8. OTHER OFFICERS. If the board elects other officers of the corporation, they shall exercise such powers and duties as may from time to time be prescribed by the chief executive officer or by the board.

ARTICLE VI

RESIGNATIONS, VACANCIES AND ABSENCES

Section 1. RESIGNATIONS. Any member of the board, any member of a committee of the board, or any officer may resign by delivering a written resignation to the clerk. Such resignation shall be effective upon receipt by the clerk unless it expressly states otherwise.

Section 2. VACANCIES. The directors may fill any vacancy in any office that may occur. Any vacancy in the board of directors, however occurring, including a vacancy resulting from the enlargement of the board, may be filled by a majority of the remaining directors, even if less than a quorum, for the unexpired term or terms. The person chosen to fill a vacancy shall hold office for the unexpired term of that person's predecessor. In the event of any vacancy in the board or in any committee, the remaining directors or members of such committee may act notwithstanding such vacancy.

Section 3. ABSENCES. In the event of the temporary absence or inability to act of any member of a committee of the board, the board may appoint a member of the board to act in such member's stead during such absence.

ARTICLE VII

INDEMNIFICATION

The company shall, to the extent legally permissible, indemnify any person serving or who has served (a) as a director or officer of the company, or (b) at the request of the company as a director, officer, employee or other agent of another organization, or (c) at the request of the company in any capacity with respect to any employee benefit plan, against all liabilities and expenses (including amounts paid in satisfaction of judgments, in compromise or settlement, or as fines and penalties, and counsel fees) reasonably incurred by him in connection with the defense or disposition of any action, suit or other proceeding, whether civil or criminal, in which he may be involved or with which he may be threatened, while serving or thereafter, by reason of his being or having been such a director, officer, employee or agent, or a person in any capacity with respect to an employee benefit plan. Such indemnification may include payment by the company of expenses incurred in defending a civil or criminal action or proceeding in advance of the final disposition of such action or proceeding, upon receipt of an undertaking by the person indemnified to repay such payment if he shall be adjudicated to be not entitled to indemnification under this article. Such undertaking may be accepted without reference to the financial ability of such person to make repayment. No indemnification shall be provided for any person with respect to any matter as to which he shall have been adjudicated in any proceeding not to have acted in good faith in the reasonable belief that his action was in the best interest of the company or to the extent that such matter relates to service with respect to any employee benefit plan in the best interests of the participants or beneficiaries of such employee benefit plan. The right of indemnification provided in this article shall not be exclusive of or affect any other rights to which any person referred to in the first sentence of this article may be entitled. Nothing in this article shall affect any right to indemnification to which company personnel, other than those referred to in the first sentence of this article, may be entitled by contract or otherwise by law. As used in this article, any reference to a person indemnified shall include his heirs and legal representatives.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

Section 1. FISCAL YEAR. The fiscal year of the corporation shall end on the last day of the month of December.

Section 2. SECURITIES OF OTHER CORPORATIONS. The directors may determine from time to time the individuals who shall have full power and authority in the name and on behalf of the corporation, subject to instructions of the directors, to waive notice of, to attend, to act and vote at, and to appoint any person to act as proxy or attorney-in-fact for this corporation (with or without power of substitution) at any meeting of stockholders or shareholders of any other corporation or organization, the securities of which may be held by this corporation.

ARTICLE IX

AMENDMENT OF BY-LAWS

These by-laws may be amended or repealed, and new by-laws may be adopted, by the stockholders. The directors may also make, amend or repeal these by-laws in whole or in part, except with respect to any provision which by law requires action by the stockholders. Not later than the time of giving notice of the meeting of stockholders next following the making, amending or repealing by the directors of any by-law, notice thereof stating the substance of the change shall be given to all stockholders entitled to vote on amending the by-laws. Any by-law adopted by the directors may be amended or repealed by the stockholders.

Directors and Officers of Liberty Mutual Holding Company

Board of Directors of Liberty Mutual Holding Company

The names, ages, and biographical information of each of the individuals who will constitute the initial board of directors of Liberty Mutual Holding Company are set forth below:

MICHAEL J. BABCOCK. Age 59. Director since August, 1984. Private Investor; President and Chief Operating Officer of Leslie Fay Companies, Inc., an apparel manufacturer, from 1993 to 1995; Director of HRDQ, Inc.

CHARLES I. CLOUGH. Age 58. Director since February, 2000. Chairman and Chief Executive Officer, Clough Capital Partners, LP since January, 2000; Chief Investment Strategist at Merrill Lynch & Company, Inc. from 1987 through 1999; Chairman of the Board of Trustees of Boston College.

WILLIAM F. CONNELL. Age 63. Director since February, 1999. Chairman and Chief Executive Officer of Connell Limited Partnership, a manufacturer of industrial products and metals recycler; Director of Fleet Boston Corporation, Harcourt General, Inc., and LCI International, Inc.

GARY L. COUNTRYMAN. Age 61. Director since 1983. Chairman Emeritus, LMIC and LMFIC since April, 2000; Chairman from April, 1998 to 2000; Chairman and Chief Executive Officer from April, 1986 to 1998. Director of Fleet Boston Corporation, NSTAR and Harcourt General, Inc.

PAUL J. DARLING, II. Age 63. Director since April, 1990. Chairman, President and Chief Executive Officer of Corey Steel Company, a manufacturer of cold finished steel bars and a metal service center, since 1984; Director of Unisource Worldwide, Inc.

JOHN P. HAMILL. Age 61. Director since July, 1988. Chairman and Chief Executive Officer of Sovereign Bank New England since January 10, 2000; President of Fleet Bank of Massachusetts, N.A. from 1992 to December 31, 1999.

MARIAN L. HEARD. Age 60. Director since November, 1994. President and Chief Executive Officer of the United Way of Massachusetts Bay and Chief Executive Officer of the United Way of New England since 1992; Director of CVS Corporation and Fleet Boston Corporation, and a Director or Trustee of numerous national and local non-profit organizations.

EDMUND F. KELLY. Age 55. Director since April, 1992. Chairman, President and Chief Executive Officer, LMIC and LMFIC since April, 2000. From April, 1998 to 2000 President and Chief Executive Officer of LMIC and LMFIC. From 1992 to 1998 President and Chief Operating Officer, LMIC and LMFIC. Director of LMIC and LMFIC since April, 1992. Chairman of EIOW since February, 1999 and Director of EIOW since December, 1998. Director of Citizens Financial Group, Inc.

THOMAS J. MAY. Age 54. Director since January, 1998. Chairman and Chief Executive Officer of NSTAR since 1999; Chairman, President and Chief Executive Officer of Boston Edison Company from 1994 to August, 1999; Director of Fleet Boston Corporation, NSTAR, RCN Corporation and New England Business Service, Inc.

DR. KENNETH L. ROSE. Age 65. Director since February, 1999. President and Chief Executive Officer of Henkels & McCoy, Inc., a privately held engineering and construction company.

GLENN P. STREHLE. Age 65. Director since April, 1979. Treasurer Emeritus and Advisor to the Chairman and President of the Massachusetts Institute of Technology since January, 1999; Treasurer of MIT (and Vice President from 1986 and Vice President for Finance from June, 1994) from 1975 through 1998.

WILLIAM C. VAN FAASEN. Age 52. Director since April 10, 2001. President and CEO of Blue Cross Blue Shield of Massachusetts, Inc.

Officers of Liberty Mutual Holding Company

The names, ages, positions and biographical information of each of the individuals who will constitute the initial officers of Liberty Mutual Holding Company are set forth below:

EDMUND F. KELLY. Chairman, President and CEO. *See Board of Directors of Liberty Mutual Holding Company.*

JOHN B. CONNERS. Age 55. Position: Executive Vice President, LMIC, since 1987. From 1983 to 1987, Senior Vice President, LMIC. Executive Vice President, LMFIC since April, 2000.

GARY R. GREGG. Age 45. Position: Executive Vice President, LMIC since 1995. From 1992 to 1995, Senior Vice President, LMIC. From 1988 to 1992, Vice President, LMIC. Executive Vice President, LMFIC since April, 2000. From 1994 to 2000, Vice President, LMFIC. Vice Chairman, EIOW since February, 1999 and Director, EIOW since December, 1998.

ROGER L. JEAN. Age 53. Position: Executive Vice President, LMIC since August 1999. Executive Vice President, LMFIC since April, 2000. From August, 1998 to 1999, President and COO, GRE Insurance Group. From 1992 to 1998, President and CEO, ING U.S. Property and Casualty Corp.

THOMAS C. RAMEY. Age 57. Position: Executive Vice President, LMIC, since 1995. From 1992 to 1995, Senior Vice President, LMIC. Executive Vice President, LMFIC since April, 2000. From 1986 to 1992, President and CEO, American International Healthcare.

J. PAUL CONDRIN, III. Age 39. Position: Senior Vice President and Chief Financial Officer, LMIC, since March, 1997. From 1995 to 1997, Vice President and Comptroller, LMIC. Senior Vice President and Chief Financial Officer, LMFIC since April, 2000. From 1998 to 2000 Vice President and Chief Financial Officer, LMFIC. From 1997 to 1998 Vice President, Chief Financial Officer and Comptroller, LMFIC. From 1995 to 1997 Vice President and Comptroller, LMFIC. Director, EIOW since December, 1998.

TERRY L. CONNER. Age 55. Position: Senior Vice President and Chief Information Officer, LMIC since June, 1994. Senior Vice President and Chief Information Officer, LMFIC since April, 2000. Director, EIOW since December, 1998. From 1990 to 1994, Division Vice President, Electronic Data Systems.

A. ALEXANDER FONTANES. Age 46. Position: Senior Vice President and Chief Investment Officer, LMIC since 1992. From 1990 to 1992, Vice President, LMIC. Senior Vice President and Chief Investment Officer, LMFIC since April, 2000. From 1992 to 2000 Vice President, LMFIC. Director, EIOW since December, 1998.

CHRISTOPHER C. MANSFIELD. Age 51. Position: Senior Vice President and General Counsel, LMIC since 1987. From 1985 to 1987, Vice President and General Counsel, LMIC. Senior Vice President and General Counsel, LMFIC since April, 2000. From 1985 to 2000 Vice President and General Counsel, LMFIC. Director, EIOW since December, 1998.

HELEN E.R. SAYLES. Age 50. Position: Senior Vice President, LMIC since 1992. From 1989 to 1992 Vice President, LMIC. Senior Vice President, LMFIC since April, 2000.

STEPHEN G. SULLIVAN. Age 53. Position: Senior Vice President, LMIC, since 1996. Senior Vice President, LMFIC since April, 2000. From 1978 to 1996, President, Mintz & Hoke Advertising.

DEXTER R. LEGG. Age 48. Position: Vice President and Secretary, LMIC and LMFIC since December, 2000. Chief of Staff, LMIC, since 1998. From 1995 to 1998, Vice President, LMIC.

DOUGLAS M. HODES. Age 54. Position: Vice President and Corporate Actuary, LMIC since 1992. Vice President and Corporate Actuary, LMFIC since April, 2000. From 1980 to 1992, Vice President and Actuary, Metropolitan Life Ins. Co.

DENNIS J. LANGWELL. Age 42. Position: Vice President and Comptroller, LMIC and LMFIC since 1998. From 1997 to 1998, Assistant Comptroller, LMIC. From 1994 to 1997, CFO, Covenant Insurance Group.

ELLIOT J. WILLIAMS. Age 62. Position: Vice President and Treasurer, LMIC and LMFIC, since 1996. From 1986 to 1996, Vice President, LMIC. Vice President and Treasurer, EIOW since June, 2000.

Directors and Officers of LMHC Massachusetts Holdings

Board of Directors of LMHC Massachusetts Holdings

The names, ages and biographical information of each of the individuals who are intended to constitute the initial board of directors of LMHC Massachusetts Holdings are set forth below:

J. PAUL CONDRIN, III. Age 39. Position: Senior Vice President and Chief Financial Officer, LMIC, since March, 1997. From 1995 to 1997, Vice President and Comptroller, LMIC. Senior Vice President and Chief Financial Officer, LMFIC since April, 2000. From 1998 to 2000 Vice President and Chief Financial Officer, LMFIC. From 1997 to 1998 Vice President, Chief Financial Officer and Comptroller, LMFIC. From 1995 to 1997 Vice President and Comptroller, LMFIC. Director, EIOW since December, 1998.

EDMUND F. KELLY. Age 55. Director since April, 1992. Chairman, President and Chief Executive Officer, LMIC and LMFIC since April, 2000. From April, 1998 to 2000 President and Chief Executive Officer of LMIC and LMFIC. From 1992 to 1998 President and Chief Operating Officer, LMIC and LMFIC. Director of LMIC and LMFIC since April, 1992. Chairman of EIOW since February, 1999 and Director of EIOW since December, 1998. Director of Citizens Financial Group, Inc.

CHRISTOPHER C. MANSFIELD. Age 51. Position: Senior Vice President and General Counsel, LMIC since 1987. From 1985 to 1987, Vice President and General Counsel, LMIC. Senior Vice President and General Counsel, LMFIC since April, 2000. From 1985 to 2000 Vice President and General Counsel, LMFIC. Director, EIOW since December, 1998.

Officers of LMHC Massachusetts Holdings

The names, ages, positions and biographical information of each of the individuals who will constitute the initial officers of LMHC Massachusetts Holdings are set forth below:

EDMUND F. KELLY. Chairman, President and CEO. *See Board of Directors of LMHC Massachusetts Holdings.*

J. PAUL CONDRIN, III. Vice President and Chief Financial Officer. *See Board of Directors of LMHC Massachusetts Holdings.*

DEXTER R. LEGG. Age 48. Position: Vice President and Secretary, LMIC and LMFIC since December, 2000. Chief of Staff, LMIC, since 1998. From 1995 to 1998, Vice President, LMIC.

CHRISTOPHER C. MANSFIELD. Vice President and General Counsel. *See Board of Directors of LMHC Massachusetts Holdings.*

ELLIOT J. WILLIAMS. Age 62. Position: Vice President and Treasurer, LMIC and LMFIC, since 1996. From 1986 to 1996, Vice President, LMIC. Vice President and Treasurer, EIOW since June, 2000.

Directors and Officers of Liberty Mutual Group Inc.

Board of Directors of Liberty Mutual Group Inc.

The names, ages and biographical information of each of the individuals who are intended to constitute the initial board of directors of Liberty Mutual Group Inc. are set forth below:

J. PAUL CONDRIN, III. Age 39. Position: Senior Vice President and Chief Financial Officer, LMIC, since March, 1997. From 1995 to 1997, Vice President and Comptroller, LMIC. Senior Vice President and Chief Financial Officer, LMFIC since April, 2000. From 1998 to 2000 Vice President and Chief Financial Officer, LMFIC. From 1997 to 1998 Vice President, Chief Financial Officer and Comptroller, LMFIC. From 1995 to 1997 Vice President and Comptroller, LMFIC. Director, EIOW since December, 1998.

EDMUND F. KELLY. Age 55. Director since April, 1992. Chairman, President and Chief Executive Officer, LMIC and LMFIC since April, 2000. From April, 1998 to 2000 President and Chief Executive Officer of LMIC and LMFIC. From 1992 to 1998 President and Chief Operating Officer, LMIC and LMFIC. Director of LMIC and LMFIC since April, 1992. Chairman of EIOW since February, 1999 and Director of EIOW since December, 1998. Director of Citizens Financial Group, Inc.

CHRISTOPHER C. MANSFIELD. Age 51. Position: Senior Vice President and General Counsel, LMIC since 1987. From 1985 to 1987, Vice President and General Counsel, LMIC. Senior Vice President and General Counsel, LMFIC since April, 2000. From 1985 to 2000 Vice President and General Counsel, LMFIC. Director, EIOW since December, 1998.

Officers of Liberty Mutual Group Inc.

The names, ages, positions and biographical information of each of the individuals who will constitute the initial officers of Liberty Mutual Group Inc. are set forth below:

EDMUND F. KELLY. Chairman, President and CEO. *See Board of Directors of Liberty Mutual Group Inc.*

J. PAUL CONDRIN, III. Vice President and Chief Financial Officer. *See Board of Directors of Liberty Mutual Group Inc.*

DEXTER R. LEGG. Age 48. Position: Vice President and Secretary, LMIC and LMFIC since December, 2000. Chief of Staff, LMIC, since 1998. From 1995 to 1998, Vice President, LMIC.

CHRISTOPHER C. MANSFIELD. Vice President and General Counsel. *See Board of Directors of Liberty Mutual Group Inc.*

ELLIOT J. WILLIAMS. Age 62. Position: Vice President and Treasurer, LMIC and LMFIC, since 1996. From 1986 to 1996, Vice President, LMIC. Vice President and Treasurer, EIOW since June, 2000.

Directors and Officers of Reorganized LMIC

Board of Directors of Reorganized LMIC

The names, ages and biographical information of each of the individuals who are intended to constitute the initial board of directors of Reorganized LMIC is set forth below. The initial board of directors of Reorganized LMIC are intended to be the same as the initial board of directors of Reorganized LMIC.

J. PAUL CONDRIN, III. Age 39. Position: Senior Vice President and Chief Financial Officer, LMIC, since March, 1997. From 1995 to 1997, Vice President and Comptroller, LMIC. Senior Vice President and Chief Financial Officer, LMFIC since April, 2000. From 1998 to 2000 Vice President and Chief Financial Officer, LMFIC. From 1997 to 1998 Vice President, Chief Financial Officer and Comptroller, LMFIC. From 1995 to 1997 Vice President and Comptroller, LMFIC. Director, EIOW since December, 1998.

JOHN B. CONNERS. Age 55. Position: Executive Vice President, LMIC, since 1987. From 1983 to 1987, Senior Vice President, LMIC. Executive Vice President, LMFIC since April, 2000.

A. ALEXANDER FONTANES. Age 46. Position: Senior Vice President and Chief Investment Officer, LMIC since 1992. From 1990 to 1992, Vice President, LMIC. Senior Vice President and Chief Investment Officer, LMFIC since April, 2000. From 1992 to 2000 Vice President, LMFIC. Director, EIOW since December, 1998.

GARY R. GREGG. Age 45. Position: Executive Vice President, LMIC since 1995. From 1992 to 1995, Senior Vice President, LMIC. From 1988 to 1992, Vice President, LMIC. Executive Vice President, LMFIC since April, 2000. From 1994 to 2000, Vice President, LMFIC. Vice Chairman, EIOW since February, 1999 and Director, EIOW since December, 1998.

EDMUND F. KELLY. Age 55. Director since April, 1992. Chairman, President and Chief Executive Officer, LMIC and LMFIC since April, 2000. From April, 1998 to 2000 President and Chief Executive Officer of LMIC and LMFIC. From 1992 to 1998 President and Chief Operating Officer, LMIC and LMFIC. Director of LMIC and LMFIC since April, 1992. Chairman of EIOW since February, 1999 and Director of EIOW since December, 1998. Director of Citizens Financial Group, Inc.

CHRISTOPHER C. MANSFIELD. Age 51. Position: Senior Vice President and General Counsel, LMIC since 1987. From 1985 to 1987, Vice President and General Counsel, LMIC. Senior Vice President and General Counsel, LMFIC since April, 2000. From 1985 to 2000 Vice President and General Counsel, LMFIC. Director, EIOW since December, 1998.

THOMAS C. RAMEY. Age 57. Position: Executive Vice President, LMIC, since 1995. From 1992 to 1995, Senior Vice President, LMIC. Executive Vice President, LMFIC since April, 2000. From 1986 to 1992, President and CEO, American International Healthcare.

Officers of Reorganized Liberty Mutual Insurance Company

The names, ages, positions and biographical information of each of the individuals who will constitute the initial officers of Liberty Mutual Insurance Company are set forth below:

EDMUND F. KELLY. Chairman, President and CEO. *See Board of Directors of Reorganized LMIC.*

JOHN B. CONNERS. Executive Vice President. *See Board of Directors of Reorganized LMIC.*

GARY R. GREGG. Executive Vice President. *See Board of Directors of Reorganized LMIC.*

ROGER L. JEAN. Age 53. Position: Executive Vice President, LMIC since August 1999. Executive Vice President, LMFIC since April, 2000. From August 1998 to 1999, President and COO, GRE Insurance Group. From 1992 to 1998, President and CEO, ING U.S. Property and Casualty Corp.

THOMAS C. RAMEY. Executive Vice President. *See Board of Directors of Reorganized LMIC.*

J. PAUL CONDRIN, III. Senior Vice President and Chief Financial Officer. *See Board of Directors of Reorganized LMIC.*

TERRY L. CONNER. Age 55. Position: Senior Vice President and Chief Information Officer, LMIC since June 1994. Senior Vice President and Chief Information Officer, LMFIC since April, 2000. Director, EIOW since December, 1998. From 1990 to 1994, Division Vice President, Electronic Data Systems.

A. ALEXANDER FONTANES. Senior Vice President and Chief Investment Officer. *See Board of Directors of Reorganized LMIC.*

CHRISTOPHER C. MANSFIELD. Senior Vice President and General Counsel. *See Board of Directors of Reorganized LMIC.*

HELEN E.R. SAYLES. Age 50. Position: Senior Vice President, LMIC since 1992. From 1989 to 1992 Vice President, LMIC. Senior Vice President, LMFIC since April, 2000.

STEPHEN G. SULLIVAN. Age 53. Position: Senior Vice President, LMIC, since 1996. Senior Vice President, LMFIC since April, 2000. From 1978 to 1996, President, Mintz & Hoke Advertising.

DEXTER R. LEGG. Age 48. Position: Vice President and Secretary, LMIC and LMFIC since December, 2000. Chief of Staff, LMIC, since 1998. From 1995 to 1998, Vice President, LMIC.

DOUGLAS M. HODES. Age 54. Position: Vice President and Corporate Actuary, LMIC since 1992. Vice President and Corporate Actuary, LMFIC since April, 2000. From 1980 to 1992, Vice President and Actuary, Metropolitan Life Ins. Co.

DENNIS J. LANGWELL. Age 42. Position: Vice President and Comptroller, LMIC and LMFIC since 1998. From 1997 to 1998, Assistant Comptroller, LMIC. From 1994 to 1997, CFO, Covenant Insurance Group.

ELLIOT J. WILLIAMS. Age 62. Position: Vice President and Treasurer, LMIC and LMFIC, since 1996. From 1986 to 1996, Vice President, LMIC. Vice President and Treasurer, ELOW since June, 2000.

August 21, 2001

Board of Directors
EMPLOYERS INSURANCE OF WAUSAU A Mutual Company
2000 Westwood Drive
Wausau, Wisconsin 54401

Dear Sirs:

You have asked us to advise you with respect to the fairness to the policyholders who are members ("Policyholders"), taken as a group, of EMPLOYERS INSURANCE OF WAUSAU A Mutual Company (the "Company") from a financial point of view: (i) of the extinguishment of their equity rights in the Company and the replacement of such equity rights for equity rights in EIOW MHC (as defined below) and the continuance of their contract rights in Converted EIOW (as defined below), pursuant to the draft Mutual Holding Company Plan of the Company, dated as of September 14, 2000, as amended on August 21, 2001 (the "Plan"), to be filed with the Office of the Commissioner of Insurance for the State of Wisconsin (the "Commissioner") and the MHC Merger Agreement (as defined below); and (ii) the consummation of the MHC Merger Agreement (as defined below), assuming that such agreement was consummated on the date hereof. Capitalized terms not otherwise defined herein are used as defined in the Plan and the Company Policyholder Information Statement (as defined below).

Overview of Restructuring

You have informed us that the Plan provides for the Company's reorganization (the "Restructuring") pursuant to Chapter 644 of the Wisconsin Insurance Code (the "Code") whereby, among other things: (1) the Company will convert to a Wisconsin stock property and casualty insurance company ("Converted EIOW"); (2) the Company will form Employers Insurance of Wausau Mutual Holding Company ("EIOW MHC"), a Wisconsin mutual holding company; (3) Converted EIOW will issue all of its shares of voting stock to EIOW MHC and become a direct, wholly owned subsidiary of EIOW MHC; and (4) EIOW MHC will be required at all times to own, directly or indirectly, at least fifty-one percent (51%) of the voting stock of Converted EIOW. You have further informed us that the terms and provisions of the policies held by Policyholders will not be changed as a result of the Restructuring. In addition, you have informed us that the rights of Policyholders as described in their policies will not be reduced or altered in any way as a result of the Restructuring, and the premiums required to be paid as specified in the policies will not be increased or otherwise changed as a result of the Restructuring.

As contemplated in the Code, the Plan provides members of the Company with equity rights in EIOW MHC upon the extinguishment of their equity rights in the Company and continues such members' contract rights in Converted EIOW.

The consummation of the Restructuring is conditioned on, among other things: (1) approval of the Plan by the board of directors of the Company; (2) approval of the Plan by the Commissioner; (3) approval of the Plan by Eligible Members; (4) the receipt by the Company of certain rulings, opinions and/or letters on tax and securities matters; (5) the issuance by the Commissioner to the Company of a certificate of authority as Converted EIOW, a property and casualty stock insurer; (6) the filing with the Commissioner of the articles of incorporation of EIOW MHC and amended articles of incorporation of the Company; (7) the submission by the Company of all filings required to be made with Governmental Entities and the receipt of all necessary regulatory approvals in respect thereof; (8) unless otherwise waived by the Company's Board of Directors, satisfaction of all of the conditions to the consummation of the reorganization of Liberty Mutual Insurance Company ("LMIC"); and (9) unless otherwise waived by the Company's Board of Directors, receipt by Liberty Mutual Fire Insurance Company, a Massachusetts mutual property and casualty insurance company ("LMFIC"), of LMFIC policyholder and Massachusetts Insurance Commissioner approvals for the LMFIC reorganization.

Overview of Agreements Comprising the Global Transaction

Assuming consummation of, and in addition to, the Restructuring, EIOW and EIOW MHC intend to enter into a merger agreement with Liberty Mutual Holding Company, a Massachusetts mutual holding company to be formed by LMIC, pursuant to which EIOW MHC will merge with and into Liberty Mutual Holding Company with Liberty Mutual Holding Company as the surviving mutual entity and, simultaneously therewith, Converted EIOW, the stock insurance company into which EIOW will reorganize pursuant to its restructuring, will merge with Wausau Insurance Acquisition Corporation ("Wausau Insurance Acquisition Corp."), a Wisconsin stock insurance company and a wholly owned subsidiary of Liberty Mutual Holding Company, with Converted EIOW as the surviving entity (the merger of EIOW MHC and Liberty Mutual Holding Company and the merger of Converted EIOW and Wausau Insurance Acquisition Corp., collectively, the "MHC Merger Agreement"). Pursuant to the terms of the MHC Merger Agreement, the equity rights of members of EIOW MHC will be extinguished and such equity rights in EIOW MHC will be replaced with equity rights in Liberty Mutual Holding Company.

In addition to entering into the MHC Merger Agreement, Liberty Mutual Holding Company intends to enter into a reorganization and combination agreement (the "Reorganization and Combination Agreement") with LMFIC and Liberty Insurance Acquisition Corporation ("Liberty Insurance Acquisition Corp."), a Massachusetts stock property and casualty insurance company and a wholly owned subsidiary of Liberty Mutual Holding Company, pursuant to which LMFIC will reorganize to a Massachusetts stock insurance company ("Reorganized LMFIC") and, immediately thereafter, Liberty Insurance Acquisition Corp. will merge with and into Reorganized LMFIC, with Reorganized LMFIC being the survivor and becoming a wholly owned subsidiary of Liberty Mutual Holding Company. Pursuant to the terms of the LMFIC Reorganization and the Reorganization and Combination Agreement, the equity rights of members of Reorganized LMFIC will be extinguished and such equity rights in Reorganized LMFIC will be replaced with equity rights in Liberty Mutual Holding Company.

The MHC Merger Agreement, the Reorganization and Combination Agreement, and the subsequent contribution of shares of Reorganized LMFIC and Converted EIOW from Liberty Mutual Holding Company to LMHC Massachusetts Holdings and in turn, from LMHC Massachusetts Holdings to LMGI, comprise the Global Transaction. Assuming the transactions comprising the Global Transaction are consummated, Reorganized LMIC, Reorganized LMFIC and Converted EIOW will be brought under the common ownership of Liberty Mutual Holding Company. In the event that the Reorganization and Combination Agreement is consummated, but the MHC Merger Agreement is not, Reorganized LMIC and Reorganized LMFIC will be under common ownership of Liberty Mutual Holding Company and only Reorganized LMIC policyholders and Reorganized LMFIC policyholders will become members of Liberty Mutual Holding Company. Conversely, in the event that the MHC Merger Agreement is consummated, but the Reorganization and Combination Agreement is not, Reorganized LMIC and Converted EIOW will be under the common ownership of Liberty Mutual Holding Company, and only Reorganized LMIC policyholders and Converted EIOW Policyholders will become members of Liberty Mutual Holding Company.

Overview of Documents and Information Reviewed

In arriving at our opinion, we have reviewed, among other things: (i) the Plan and all exhibits thereto; the Company's draft policyholder information statement regarding the Restructuring dated September 14, 2000, as amended on August 21, 2001 (the "Company Policyholder Information Statement"), annual statutory reports for the Company for the year ended December 31, 2000, and certain interim financial reports of the Company; (ii) LMIC's Plan of Reorganization and all exhibits thereto (the "LMIC Reorganization"); the draft policyholder information statement regarding the LMIC Reorganization dated September 13, 2000, as amended on June 13, 2001 and as supplemented on July 27, 2001, annual statutory reports for LMIC for the year ended December 31, 2000, and certain interim financial reports of LMIC; (iii) LMFIC's Plan of Reorganization and all exhibits thereto (the "LMFIC Reorganization"), the draft policyholder information statement regarding the LMFIC Reorganization dated September 13, 2000, as amended on June 13, 2001 and as supplemented on July 27, 2001, annual statutory reports for LMFIC for the year ended December 31, 2000 and certain interim financial reports of LMFIC; (iv) a draft of the Reorganization and Combination Agreement dated September 13, 2000, as amended on June 13, 2001; and (v) a draft of the MHC Merger Agreement dated September 13, 2000, as amended on June 13, 2001. We have also reviewed certain other information, including financial forecasts, provided to us by the Company, LMIC and LMFIC, and have met with the Company's management to discuss the business, operations, financial condition and prospects of the Company.

In arriving at our opinion we have assumed (a) that the Restructuring is consummated in all material respects in accordance with the Plan, (b) that the Plan is consummated, and, if consummated, the MHC Merger Agreement and the Reorganization and Combination Agreement are consummated, in accordance with all applicable law, including, without limitation, the Code, (c) that the tax consequences of the Restructuring, the MHC Merger Agreement and the Reorganization and Combination Agreement to Policyholders are as set forth in the Company Policyholder Information Statement and (d) that the reinsurance pooling agreements, the service agreements and any other material intercompany agreements to which LMIC, LMFIC and EIOW are parties will not be changed or modified in any material respect in connection with the Restructuring or the Global Transaction.

In connection with our review, we have not assumed any responsibility for independent verification of any of the foregoing information (including the information contained in the Plan or the Company Policyholder Information Statement) and have relied on its being complete and accurate in all material respects. With respect to the financial forecasts, we have assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the Company's management as to the future financial performance of the Company. In addition, we have not been requested to make, and have not made, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of the Company or conducted an actuarial review of the Company. Our opinion is necessarily based upon financial, economic, market and other conditions and the legal, tax and regulatory environments as they exist and can be evaluated on the date hereof.

You have not asked our opinion and we do not express any opinion as to: (1) which of the Policyholders are considered members; and (2) the fairness of the Restructuring or the MHC Merger Agreement with respect to any individual Policyholder or class of Policyholders of the Company.

This opinion does not address the decision of the Board of Directors of the Company to proceed with the Restructuring, or any decision of the Board of Directors of the Company to proceed with either or both the MHC Merger Agreement and/or the Reorganization and Combination Agreement, or any decision of the Board of Directors of the Company to proceed with any other potential transaction in which the Company might engage in lieu of, or in addition to, the Restructuring and/or the transactions which comprise the Global Transaction.

We have acted as financial advisor to the Company in connection with the Restructuring. We are also serving as financial advisor to LMIC in connection with the LMIC Reorganization and LMFIC in connection with the LMFIC Reorganization, and expect to act as financial advisor to EIOW MHC in connection with the MHC Merger Agreement and Liberty Mutual Holding Company in connection with those transactions comprising the Global Transaction. We have provided certain investment banking services to affiliates of the Company in the past and on an ongoing basis, for which services we have been compensated.

In the ordinary course of our business, we and our affiliates may actively trade the debt securities of the Company and its affiliates for our and our affiliates' own accounts and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

It is understood that this opinion is for the information of the Board of Directors of the Company in connection with its consideration of the Restructuring and the transactions which comprise the Global Transaction and does not constitute a recommendation to any Policyholder as to how such Policyholder should vote on the proposed Restructuring or the transactions which comprise the Global Transaction. This opinion may not be disclosed, in whole or in part, or summarized, excerpted from or otherwise referred to without our prior written consent, which consent shall not be unreasonably withheld or delayed; provided, however, that our consent shall not be required for inclusion of this opinion in submissions to regulatory authorities, including, without limitation, in conjunction with any regulatory proceeding or hearing. This opinion may be introduced into evidence at any such regulatory hearing or proceeding. Regulatory authorities to whom this opinion is submitted shall be entitled to rely on this opinion and shall not be required to obtain our prior consent for disclosure thereof. Our consent shall not be required with respect to including this opinion in its entirety in the Company Policyholder Information Statement; provided that we have had an opportunity to review and comment upon the Company Policyholder Information Statement prior to its distribution.

Based upon and subject to the foregoing, it is our opinion that: (i) as of the date hereof, the extinguishment of members' equity rights in the Company and the replacement of such equity rights with equity rights in EIOW MHC and the continuance of members' contract rights in Converted EIOW pursuant to the Plan and the MHC Merger Agreement is fair to Policyholders who are members of the Company, taken as a group, from a financial point of view, and (ii) assuming that the MHC Merger Agreement was consummated as of the date hereof in accordance with its terms, the MHC Merger Agreement is fair to Policyholders who are members of EIOW MHC, taken as a group, from a financial point of view.

Very truly yours,

CREDIT SUISSE FIRST BOSTON CORPORATION

By: 

Jonathan Plutzik
Vice Chairman — Credit Suisse First Boston

Report of Independent Auditors

The Board of Directors
Employers Insurance of Wausau A Mutual Company

We have audited the accompanying statutory balance sheets of Employers Insurance of Wausau A Mutual Company (the Company) as of December 31, 2000 and 1999, and the related statutory statements of income, changes in statutory surplus, and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the Company presents its financial statements in conformity with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin, which practices differ from accounting principles generally accepted in the United States. The variances between such practices and accounting principles generally accepted in the United States also are described in Note 1. The effects on the financial statements of these variances are not reasonably determinable but are presumed to be material.

In our opinion, because of the effects of the matter described in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States, the financial position of Employers Insurance of Wausau A Mutual Company at December 31, 2000 and 1999, or the results of its operations or its cash flows for the years then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Employers Insurance of Wausau A Mutual Company at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin.

The signature is written in a cursive, handwritten style. It reads "Ernst & Young LLP". The "E" is large and loops around the "r". The "Y" is also large and loops around the "o". The "LLP" is written in a smaller, more straightforward cursive.

Boston, Massachusetts
May 11, 2001

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company

STATUTORY BALANCE SHEETS
December 31, 2000 and 1999
(dollars in thousands)

	<u>2000</u>	<u>1999</u>
Admitted Assets		
Investments:		
Fixed maturities	\$2,837,241	\$2,372,173
Common and preferred stock	3,768	1,754
Investments in affiliates	5,094	—
Cash and short-term investments	315,231	18,370
Company-occupied properties	40,387	46,406
Other invested assets	<u>86,403</u>	<u>670</u>
Cash and invested assets	3,288,124	2,439,373
Premiums receivable	419,387	278,958
Accrued investment income	39,692	29,968
Funds held with reinsurers	651	181,540
Federal income tax recoverable	438	3,959
Other admitted assets	<u>276,544</u>	<u>273,574</u>
Total admitted assets	<u>\$4,024,836</u>	<u>\$3,207,372</u>
Liabilities and Surplus		
Liabilities:		
Losses unpaid	\$1,975,846	\$1,661,807
Loss adjustment expenses unpaid	412,994	339,739
Unearned premiums	409,430	295,136
Deposits and other liabilities	267,923	229,518
Collateral held for securities loaned	198,052	—
State and other taxes accrued	11,075	7,458
Dividends declared to policyholders	<u>4,974</u>	<u>4,910</u>
Total liabilities	<u>3,280,294</u>	<u>2,538,568</u>
Surplus:		
Surplus notes	220,000	220,000
Segregated surplus and other	51,040	—
Unassigned surplus	<u>473,502</u>	<u>448,804</u>
Total surplus	<u>744,542</u>	<u>668,804</u>
Total liabilities and surplus	<u>\$4,024,836</u>	<u>\$3,207,372</u>

See accompanying notes to statutory financial statements.

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company
STATUTORY STATEMENTS OF INCOME
Years ended December 31, 2000 and 1999
(dollars in thousands)

	<u>2000</u>	<u>1999</u>
Premiums earned	\$1,142,598	\$ 897,572
Losses	875,453	671,420
Loss adjustment expenses	183,759	152,649
Underwriting and other expenses	238,585	183,801
Premium and other taxes	42,548	32,276
Total underwriting expenses	<u>1,340,345</u>	<u>1,040,146</u>
Underwriting loss before dividends	(197,747)	(142,574)
Dividends declared to policyholders	<u>15,007</u>	<u>15,072</u>
Underwriting loss	(212,754)	(157,646)
Net investment income	193,208	145,296
Realized investment gains, net	66,552	6,449
Other income, net	<u>64,413</u>	<u>74,025</u>
Income before income taxes	111,419	68,124
Federal and foreign income taxes	<u>7,120</u>	<u>—</u>
Net income	<u>\$ 104,299</u>	<u>\$ 68,124</u>

See accompanying notes to statutory financial statements.

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company
STATEMENTS OF CHANGES IN STATUTORY SURPLUS
Years ended December 31, 2000 and 1999
(dollars in thousands)

	<u>2000</u>	<u>1999</u>
Statutory surplus, beginning of year	\$668,804	\$575,000
Add (deduct):		
Net income	104,299	68,124
Change in unrealized capital losses	(14,477)	(2,469)
Change in non-admitted assets	(914)	(17,191)
Change in other surplus, net	<u>(13,170)</u>	<u>45,340</u>
Statutory surplus, end of year	<u>\$744,542</u>	<u>\$668,804</u>

See accompanying notes to statutory financial statements.

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company
STATUTORY STATEMENTS OF CASH FLOW
Years ended December 31, 2000 and 1999
(dollars in thousands)

	<u>2000</u>	<u>1999</u>
Cash provided:		
From operations:		
Premiums collected	\$1,107,000	\$1,019,417
Investment income, net	193,639	163,913
Loss and loss adjustment expenses	646,969	247,086
Underwriting and other expenses	81,257	475,343
Net cash provided by operations	<u>572,413</u>	<u>460,901</u>
From investments sold or matured:		
Fixed maturities	239,226	592,445
Other investments	89,212	77,769
Cash provided by investments	<u>328,438</u>	<u>670,214</u>
Transfers from affiliate	117,322	—
Other, net	107,940	93,326
Total cash provided	<u>1,126,113</u>	<u>1,224,441</u>
Cash applied:		
Cost of investments acquired:		
Fixed maturities	712,470	1,171,927
Investment in affiliates	5,094	—
Common and preferred stock	2,519	236
Other	109,169	42
Cash applied to investments	829,252	1,172,205
Transfers to affiliates	—	367,038
Total cash applied	<u>829,252</u>	<u>1,539,243</u>
Increase (decrease) in cash and short-term investments	296,861	(314,802)
Cash and short-term investments, beginning of year	<u>18,370</u>	<u>333,172</u>
Cash and short-term investments, end of year	<u>\$ 315,231</u>	<u>\$ 18,370</u>

See accompanying notes to statutory financial statements.

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company

NOTES TO STATUTORY FINANCIAL STATEMENTS
December 31, 2000 and 1999
(dollars in thousands)

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Employers Insurance of Wausau a Mutual Company (the "Company") is affiliated with Liberty Mutual Insurance Company ("Liberty Mutual"). The Company provides most types of property-casualty insurance, fidelity and surety bonds and insurance-related services for individuals, businesses, government units and associations.

In 1999, the Company sold its National Markets Customer List to Liberty Mutual for \$83,000. The Company has a promissory note due from Liberty Mutual for \$83,000. The note matures on December 17, 2004 and interest is payable at 6.95%.

(b) Basis of Presentation

The accompanying statutory financial statements of the Company have been prepared in conformity with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin, which vary in some respects from accounting principles generally accepted in the United States ("GAAP"). Principal variations include: (1) certain assets designated as "non-admitted assets" are charged to surplus; (2) premium income is taken into earnings on a pro-rata basis over the periods covered by the policies or as loss experience dictates in the case of retrospectively rated policies, whereas related acquisition costs are expensed when incurred; (3) controlling interests in subsidiaries are not consolidated or combined, and the equity in earnings of unconsolidated subsidiaries is recorded in surplus as net unrealized capital gains or losses, with insurance subsidiaries' equity adjusted to a U.S. statutory basis; (4) pension expense is recognized on a modified GAAP basis; (5) the provision for federal income taxes represents estimated amounts payable based upon taxable income reported in the current accounting period; no provision is made for temporary differences between the financial statement and tax bases of assets and liabilities; (6) losses unpaid, loss adjustment expenses unpaid, and unearned premiums are reported net of amounts recoverable from reinsurers; (7) other postretirement benefits and related disclosures are on a modified GAAP basis; (8) bonds are primarily carried at amortized cost without consideration of the Company's investment portfolio activity; (9) unrealized gains on limited partnerships are recorded in surplus; (10) surplus notes are accounted for as a component of surplus (11) guaranty funds are accrued when the Company receives notice that an assessment is payable; and (12) policyholder dividends are accrued only when declared by the Board of Directors. The aggregate effects of such variances on the accompanying statutory financial statements have not been determined.

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known that could impact the amounts reported and disclosed herein.

(c) Investment Securities

Investment securities are carried according to valuations promulgated by the National Association of Insurance Commissioners ("NAIC"). Fixed maturity securities are generally carried at cost and adjusted, where appropriate, for amortization of premium or discount, including anticipated prepayments; common and preferred stocks and other investments are carried at market value; investments in affiliates include common stock carried on the statutory equity basis; and short-term investments are carried at cost. Realized gains and losses on sales of investments are recognized in net income using the specific identification method. Changes in unrealized appreciation or depreciation on stocks, certain fixed maturities, and any derivative qualifying as a hedge of an asset that is marked to market are recorded in surplus. Prepayment assumptions for single class mortgage-backed/asset-backed securities and multi-class securities are obtained from internal estimates. These assumptions are consistent with the current interest rate and economic environment. The retrospective adjustment method is used to value all single class mortgage-backed/asset-backed securities and multi-class securities.

(d) Short-Term Investments

Investments with a maturity of one year or less at the time of purchase are reported as short-term investments.

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company

NOTES TO STATUTORY FINANCIAL STATEMENTS — (Continued)
(dollars in thousands)

(e) Fair Values of Financial Instruments

The Company has used the following methods and assumptions in estimating its fair value disclosures of financial instruments: Investment securities:

Fair values for fixed maturity securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or values obtained from independent pricing services. The fair values for equity securities are based on quoted market prices.

Cash and short-term investments: The carrying amounts reported in the balance sheets for these instruments approximate their fair values.

(f) Securities Lending

Securities lending activities consist of lending certain U.S. government and corporate bonds to approved counterparties. All lending transactions are collateralized by securities and cash with a total market value equal to or in excess of at least 102% of the market value of the loaned securities. Short-term investments and cash collateral received are recorded as assets, with a corresponding liability recorded for the return obligation.

(g) Intercompany Pooling Agreement

The Company, Liberty Mutual, Liberty Mutual Fire Insurance Company ("Liberty Fire"), Liberty Insurance Corporation, Golden Eagle Insurance Corporation, Montgomery Mutual Insurance Company, Wausau Business Insurance Company ("WBIC"), Wausau General Insurance Company ("WGIC"), Wausau Underwriters Insurance Company ("WUIC"), Merchants and Business Men's Mutual Insurance Company ("M&B"), LM Insurance Corporation, Montgomery Indemnity Company, The First Liberty Insurance Corporation, Liberty Surplus Insurance Corporation, Liberty Lloyds of Texas Insurance Company, Liberty Insurance Company of America, Liberty Personal Insurance Company (formerly Cumis General Insurance Company), Liberty Insurance Underwriters, Inc., Colorado Casualty Insurance Company, Bridgefield Employers Insurance Company and Bridgefield Casualty Insurance Company (collectively referred to as the "Liberty Companies") share their underwriting operations in a pooling agreement ("the Pool"), with participation being 16.0%, 63.0%, 10.0%, 6.0%, 2.5%, 0.7%, 0.4%, 0.4%, 0.4%, 0.2%, 0.2%, 0.1%, 0.1%, 0.0%, 0.0%, 0.0%, 0.0%, 0.0%, 0.0% and 0.0%, respectively. Liberty Mutual serves as the lead company with all activity ceded to Liberty Mutual and retroceded to the Pool members in their proportionate percentages. In 2000, the Company, M&B and Liberty Mutual reallocated their percentages in the Pool. The Company, M&B and Liberty Mutual had participated in the Pool in 1999 with participation being 13.00%, 0.25% and 65.95%, respectively.

(h) Recognition of Premium Revenues

Premiums are recognized as income on a pro-rata basis over the term of the policies or as loss experience dictates in the case of retrospectively rated policies. Revenue from workers compensation policies is primarily recognized when billed. Unearned premiums represent the unexpired portion of premiums written. Premium adjustments resulting from retrospective rating of experience-rated policies and unbilled audit premiums are estimated and accrued, along with the related expenses associated with acquiring, billing and collecting these premiums and associated taxes. Premiums receivable included accrued retrospective premiums and accrued unbilled audit premiums of \$99,713 and \$71,432 at December 31, 2000 and 1999, respectively. Ten percent has been designated non-admitted and charged to surplus.

(i) Reinsurance

The Company accounts for reinsurance contracts on a basis consistent with the underlying policies. Transactions which do not transfer risk but are retroactive are included in other admitted assets or deposits and other liabilities.

(j) Losses and Loss Adjustment Expenses Unpaid

The Company provides reserves for unpaid insurance losses and loss adjustment expenses which cover events that occurred in 2000 and prior years. These reserves reflect estimates of the total cost of claims reported but not yet paid and the cost of claims not yet reported, as well as the estimated expenses necessary to settle the claims. Reserve estimates

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company

NOTES TO STATUTORY FINANCIAL STATEMENTS — (Continued)
(dollars in thousands)

are based on past loss experience modified for current claim trends, as well as prevailing social, economic and legal conditions. Final claim payments, however, may ultimately differ from the established reserves, since these payments may not occur for several years. Reserve estimates are continually reviewed and updated, and any resulting adjustments are reflected in current operating results.

The Company does not discount reserves other than tabular discounting on the long-term indemnity portion of workers compensation claims and the long-term disability portion of group accident and health claims as permitted by insurance regulations in certain states. Reserves are reduced for estimated amounts of salvage and subrogation, deductibles recoverable from policyholders and amounts recoverable under reinsurance contracts.

(k) Foreign Exchange

The Company converts foreign currencies to U.S. dollars in accordance with Statement of Financial Accounting Standard No. 52, "Foreign Currency Translation", whereby items of income and expense are translated at the average exchange rate for the period while balance sheet items are translated using the spot rate as of the balance sheet date.

(l) Surplus Notes

Surplus notes represent subordinated debt instruments classified as a component of surplus for statutory accounting purposes. Associated debt issuance costs are deferred, non-admitted and amortized using the interest method over the period to maturity. The difference between proceeds received and the face value of the surplus notes is amortized using the interest method over the period to maturity. Interest expense on surplus notes is reported as a component of net investment income.

(m) Reclassifications

Certain reclassifications to the 1999 statutory financial statements have been made to conform to the 2000 presentation.

(2) Investments

(a) Fixed Maturities

The statement and fair values of fixed maturity securities at December 31, 2000 and 1999, were as follows:

<u>December 31, 2000</u>	<u>Statement Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Treasury securities	\$ 281,549	\$ 8,536	\$ (4,848)	\$ 285,237
Mortgage and asset-backed securities of government and corporate agencies	1,058,473	19,300	(5,072)	1,072,701
State and municipal	11,562	652	—	12,214
Corporate and other	<u>1,485,657</u>	<u>25,196</u>	<u>(22,671)</u>	<u>1,488,182</u>
Total fixed maturities	<u>\$2,837,241</u>	<u>\$53,684</u>	<u>\$(32,591)</u>	<u>\$2,858,334</u>
<u>December 31, 1999</u>	<u>Statement Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Treasury securities	\$ 281,092	\$ 315	\$ (8,612)	\$ 272,795
Mortgage and asset-backed securities of government and corporate agencies	934,005	5,251	(26,762)	912,494
State and municipal	3,951	101	—	4,052
Corporate and other	<u>1,153,125</u>	<u>2,941</u>	<u>(40,326)</u>	<u>1,115,740</u>
Total fixed maturities	<u>\$2,372,173</u>	<u>\$8,608</u>	<u>\$(75,700)</u>	<u>\$2,305,081</u>

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company

NOTES TO STATUTORY FINANCIAL STATEMENTS — (Continued)
(dollars in thousands)

The statement and fair values of fixed maturity securities at December 31, 2000, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because some securities may be called or prepaid.

	<u>Statement Value</u>	<u>Fair Value</u>
Due to mature:		
One year or less	\$ 99,958	\$ 100,145
Over one year through five years.....	657,731	660,415
Over five years through ten years	695,505	699,247
Over ten years	325,574	325,826
Mortgage and asset-backed securities.....	1,058,473	1,072,701
Total fixed maturities	<u>\$2,837,241</u>	<u>\$2,858,334</u>

(b) Investment in Affiliate

In 2000, the Company established Wausau Holdings, Inc. The equity in the net assets of Wausau Holdings, Inc. is summarized as follows at December 31, 2000:

	<u>2000</u>
Total assets	\$12,083
Total liabilities	(6,989)
Company's equity in net assets	<u>\$ 5,094</u>

(c) Common and Preferred Stocks

The cost of common and preferred stocks at December 31, 2000 and 1999, was as follows:

	<u>2000</u>	<u>1999</u>
Common stocks.....	\$2,087	\$1,718
Preferred stocks	40	40
	<u>\$2,127</u>	<u>\$1,758</u>

(d) Realized Investment Gains (Losses)

Realized investment gains (losses) were as follows in 2000 and 1999:

	<u>2000</u>	<u>1999</u>
Fixed maturities:		
Gross gains	\$ 1,012	\$7,915
Gross losses	(4,888)	(967)
Other investments:		
Gross gains	70,505	—
Gross losses	(77)	(499)
	<u>\$66,552</u>	<u>\$6,449</u>

Proceeds from sales of fixed maturity investments during 2000 and 1999, were \$103,277 and \$471,480, respectively.

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company

NOTES TO STATUTORY FINANCIAL STATEMENTS — (Continued)
(dollars in thousands)

(e) Net Investment Income

Net investment income for the years ended December 31, 2000 and 1999, consisted of:

	2000	1999
Fixed maturities	\$184,135	\$146,883
Short-term investments	6,864	6,901
Investment in affiliates	—	—
Other	10,982	10,936
Gross investment income	201,981	164,720
Investment and interest expense	(8,773)	(19,424)
Net investment income	<u>\$193,208</u>	<u>\$145,296</u>

(f) Statutory Deposits

At December 31, 2000 and 1999, fixed maturity securities carried at \$373,554 and \$619,362, respectively, were on deposit with regulatory authorities as required by law.

(g) Securities Loaned

At December 31, 2000, the market value of fixed maturity securities loaned was approximately \$244,685. Cash and short-term investments received as collateral in connection therewith at December 31, 2000, was approximately \$198,052, while non-cash collateral received in connection therewith was approximately \$50,741.

(3) Loss and Loss Adjustment Expenses Unpaid

The Company establishes loss and loss adjustment expense reserves, which are estimates of future payments of reported and unreported claims for losses and the related future expenses. The process of establishing loss reserves is subject to uncertainties that are normal, recurring and inherent in the property and casualty insurance business. The process requires reliance upon estimates based on available data that reflects past experience, current trends and other information, and the exercise of informed judgment.

As information develops that varies from past experience, provides additional data or, in some cases, augments data that previously was not considered sufficient for use in determining reserves, changes in the Company's estimate of ultimate liabilities may be required. The effects of these changes are reflected in current operating results.

Activity in the insurance loss and loss adjustment expense reserves of the Company is summarized as follows:

	2000	1999
Balance as of January 1	\$2,001,546	\$1,484,512
Included attributable to:		
Current year	994,275	835,935
Prior years	64,937	(11,866)
Total incurred	1,059,212	824,069
Paid attributable to:		
Current year	441,634	351,731
Prior years	228,809	(44,392)
Total paid	670,443	307,339
Net adjustment due to foreign Exchange	(1,475)	304
Balance as of December 31	<u>\$2,388,840</u>	<u>\$2,001,546</u>

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company

NOTES TO STATUTORY FINANCIAL STATEMENTS — (Continued)
(dollars in thousands)

Incurred attributable to prior years in 2000 increased due to reserve strengthening in the workers compensation and commercial automobile lines.

Incurred attributable to prior years in 2000 and 1999 was favorably impacted by reinsurance transactions with a wholly owned subsidiary as more fully disclosed in Note 5.

The Company does not discount unpaid insurance losses and loss adjustment expenses other than tabular discounting on the long-term indemnity portion of workers compensation claims and group accident and health claims as permitted by insurance regulations in certain states.

The tabular discounting on these workers compensation claims is based upon Unit Statistical Plan tables as approved by the respective states and generally approximates 4.0% (3.5% in 1999). Unpaid losses at December 31, 2000 and 1999, include liabilities of \$789,651 and \$654,572, carried at discounted values of \$619,468 and \$510,203, respectively.

In 2000, the Company changed its discount rate from 3.5% to 4.0%. The change in discount rate affected the discounted liabilities by \$15,585. The amount of discounted liabilities in 1999 using 4.0% would have been \$494,618. The amount of discounted liabilities in 1999 using 3.5% would have been \$510,203.

The tabular discounting on group accident and health claims is based on the 1987 Commissioners Group Disability Table (CGDT) at annual discount rates varying from 5.00% to 6.00% (5.75% in 1999). Unpaid losses at December 31, 2000 and 1999, include liabilities of \$97,777 and \$56,290, carried at discounted values of \$68,152 and \$43,368, respectively.

For certain commercial lines of insurance, the Company offers experience-rated insurance contracts whereby the ultimate premium is dependent upon the level of ultimate losses incurred. At December 31, 2000 and 1999, the Company held \$611,793 and \$523,159, respectively, of loss and loss adjustment expense reserves related to experience-rated contracts.

(4) Asbestos and Environmental Reserves

The Company has exposure to asbestos and environmental claims. The Company's exposure arises from the Liberty Companies' sale of general liability insurance and the intercompany pooling arrangement. The Company tries to estimate the full impact of the asbestos and environmental exposures by establishing case basis reserves on all known losses and computing incurred but not reported losses based on previous experience and known changes in the legal and regulatory environment.

The process of establishing reserves for asbestos and environmental claims is subject to significant uncertainties. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure and unresolved legal issues regarding policy coverage. The legal issues concerning the interpretation of various insurance policy provisions and whether asbestos and environmental losses are or were ever intended to be covered are complex. Courts have reached different and sometimes inconsistent conclusions as to when the loss occurred and what policies provide coverage; whether there is an insured obligation to defend; how policy limits are determined; how policy exclusions are applied and interpreted; and whether clean-up costs are covered as insured property damage.

The Company has historically maintained excess of loss reinsurance protection against large or unusual casualty losses. In specific instances and at its discretion based on an analysis of the claims at issue, the Company records reinsurance recoveries for those known claims which are clearly subject to reinsurance. However, the extent of future potential recoveries under reinsurance agreements cannot be fully determined at this time.

Reserve changes on individual asbestos and environmental matters reflect consideration of any newly acquired relevant information that may have an impact on reserve development. Given the complexities and significant uncertainties associated with estimating asbestos and environmental exposures, no assurances can be made as to the future potential impact of such claims upon the Company. As additional information develops that would dictate a reserve change, the Company's estimates of loss and loss adjustment expense associated with asbestos and environmental claims are adjusted accordingly.

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company

NOTES TO STATUTORY FINANCIAL STATEMENTS — (Continued)
(dollars in thousands)

The following tables summarize reserve activity for the Company's asbestos and environmental losses and loss adjustment expense reserves, a component of the Company's total reserves summarized in Note 3, for the years ended December 31, 2000 and 1999:

	2000	1999
Gross Asbestos:		
January 1 reserves:	\$197,152	\$171,310
Incurring activity	54,382	50,205
Paid activity	32,932	24,363
Ending reserves	\$218,602	\$197,152
Net Asbestos:		
January 1 reserves:	\$107,863	\$110,301
Incurring activity	34,755	10,779
Paid activity	22,535	13,217
Ending reserves	\$120,083	\$107,863
	2000	1999
Gross Environmental:		
January 1 reserves:	\$166,504	\$178,549
Incurring activity	(17,549)	7,664
Paid activity	18,426	19,709
Ending reserves	\$130,529	\$166,504
Net Environmental:		
January 1 reserves:	\$103,288	\$116,772
Incurring activity	(20,328)	(1,336)
Paid activity	13,556	12,148
Ending reserves	\$ 69,404	\$103,288

(5) Reinsurance

In the ordinary course of business, the Liberty Companies assume reinsurance and also cede reinsurance to other insurers to reduce overall risk, including exposure to large losses and catastrophic events. The Liberty Companies are also members of various involuntary pools and associations and serve as servicing carriers for residual market organizations. Pursuant to the intercompany pooling agreement, the Company cedes 100% of its insurance risks to Liberty Mutual and assumes 16% (13% in 1999) of the Liberty Companies' net underwriting results in return.

Premiums earned from reinsurance assumed for the years ended December 31, 2000 and 1999, were as follows:

	2000	1999
Premiums earned	\$1,160,225	\$846,014

Premiums earned have been reduced for reinsurance ceded for the years ended December 31, 2000 and 1999, as follows:

	2000	1999
Premiums earned	\$740,814	\$699,089

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company

NOTES TO STATUTORY FINANCIAL STATEMENTS — (Continued)
(dollars in thousands)

Unearned premiums and the reserve for unpaid losses and loss adjustment expenses have been reduced for reinsurance ceded as follows:

	2000	1999
Unpaid losses and loss adjustment expenses	\$3,653,912	\$3,717,118
Unearned premiums	146,089	145,439

In connection with the intercompany pooling agreement, the Company has a funds held asset of \$651 and 181,540 as of December 31, 2000 and 1999, respectively, due from Liberty Mutual. Interest is accrued on the unpaid balance at a rate of 6.28% and 6.50%, respectively.

At December 31, 2000, the balances in unsecured aggregate amounts of unearned premium and losses paid and unpaid, including losses incurred but not reported, recoverable from individual unaffiliated reinsurers (excluding syndicates, pools, and associations) which exceed 3% of surplus were as follows:

Nationwide Indemnity	\$1,091,778	
Skandia Insurance Company		26,847

The Liberty Companies remain contingently liable in the event reinsurers are unable to meet the obligations for paid and unpaid loss recoverables and unearned premiums ceded under reinsurance agreements. The Company did not have any material balances accrued for contingent, sliding scale or other profit sharing commissions related to reinsurance contracts.

In 2000, the Company assumed a retroactive benefit from Liberty Mutual relating to Liberty Mutual's participation in retroactive reinsurance treaty with an unaffiliated entity. Under the terms of the intercompany agreement, the Company transferred loss and loss adjustment expense reserves of \$73,600 and recognized a gain through other income of \$51,040. The gain was recorded as segregated surplus. The Company had consideration paid of \$22,560. The balance will be transferred to unassigned surplus upon settlement of the claims ceded under the agreement.

Liberty Mutual entered into a reinsurance agreement effective January 1, 1998, with Liberty Life Assurance Company of Boston ("Liberty Life"), an indirect, wholly owned subsidiary of the Liberty Companies, whereby Liberty Life ceded 100% of long and short-term disability business on a funds withheld basis. Liberty Mutual assumed premiums earned of \$261,704 and \$176,000 in 2000 and 1999, respectively; and loss and loss adjustment expense reserves of \$542,559 and \$440,504 as of December 31, 2000 and 1999, respectively. The transaction resulted in a net loss of \$2,348 and \$3,234 in 2000 and 1999, respectively after the effects of intercompany pooling.

The Company, WBIC, WGIC, and WUIC entered into commutation agreements in 2000 and 1999 with several unaffiliated reinsurers. Loss and loss expense reserves of \$143,974 and \$248,114, respectively, were returned along with cash of \$97,100 and \$191,586, in 2000 and 1999, respectively. The transaction resulted in a net statutory loss of \$4,875 and \$4,778 after intercompany pooling, in December 31, 2000 and 1999, respectively.

Liberty Mutual entered into intercompany reinsurance agreements with a wholly owned unconsolidated subsidiary in 2000 and 1999 whereby the Company ceded \$195,983 and \$188,063 of loss and loss adjustment expense reserves in exchange for premium of \$147,591 and \$137,920, respectively. The transaction resulted in net statutory income of \$5,033 and \$4,550, respectively, after intercompany pooling, with no impact upon statutory surplus. The Company received regulatory approval to use prospective reinsurance accounting.

(6) Surplus Notes

Surplus notes represent subordinated debt instruments classified as a component of surplus for statutory accounting purposes. At December 31, 2000 and 1999, the Company had the following surplus note outstanding:

	2000	1999
4.52%, \$220,000 Notes due December 31, 2005	\$220,000	\$220,000

Payments for interest on or principal of the notes are expressly subordinate to all policyholder claims and other obligations of the Company. Accordingly, interest and principal payments are contingent upon prior approval of the

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company

NOTES TO STATUTORY FINANCIAL STATEMENTS — (Continued)
(dollars in thousands)

Commissioner of Insurance of the State of Wisconsin. Interest paid was \$4,972 and \$9,143 for the years ended December 31, 2000 and 1999.

(7) Federal and Foreign Income Taxes

The Company's federal income tax return is consolidated with Wausau Holdings, Inc. and Wausau (Bermuda) Ltd. The Company paid \$3,598 and recovered \$25,277 of federal and foreign income taxes in 2000 and 1999, respectively. Total amount of federal income taxes included and available for recoupment through the use of alternative minimum taxes credits is \$3,530 from the current year and \$3,929 from the first preceding year. The amount of net losses carried forward and available to offset future net income subject to federal income taxes are as follows:

Current year	2000	\$ —
First preceding year	1999	—
Second preceding year	1998	18,581
Third preceding year	1997	—
Fourth preceding year	1996	41,044
Fifth preceding year	1995	33,483

Federal income taxes incurred for financial statement purposes are provided based upon the manner in which income and deductions are reported for tax purposes. Effective tax rates differ from the current statutory rate of 35%, principally due to the effects of tax-exempt interest, dividends-received deductions, discounting of reserves for unpaid losses and loss adjustment expenses, an unearned premium adjustment, alternative minimum taxes and revisions to prior years' estimates.

(8) Benefit Plans

Significant benefit plans are sponsored by Liberty Mutual and the associated costs are shared by members of the Pool. Liberty Mutual's sponsored plans are summarized as follows:

(a) Pension Plans and Postretirement Benefits

Liberty Mutual sponsors noncontributory defined benefit pension plans ("the Plans") covering substantially all U.S. and Canadian employees. The benefits and eligibility are based on years of service and the employee's compensation, as more fully defined in the Plans.

Assets of the Plans consist primarily of investments in life insurance company separate accounts and a collective investment trust fund, which invests primarily in fixed income and Standard & Poor's Index of 500 equity securities. At December 31, 2000 and 1999, assets of the Plans totaling \$2,301,358 and \$2,090,854, respectively, were held in separate accounts managed by Liberty Life.

Liberty Mutual also provides certain health care and life insurance benefits ("postretirement") for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age and have ten years of service working for the Liberty Companies. Alternatively, retirees may elect certain prepaid health care benefit plans. Life insurance benefits are based upon a participant's final compensation subject to the plan maximum.

Under the intercompany pooling agreement, \$2,071 and \$1,456 of the pension expense and \$5,657 and \$4,675 of postretirement expense was charged to the Company in 2000 and 1999, respectively.

(b) Thrift-Incentive Plan

Liberty Mutual sponsors defined contribution savings plans for employees who meet certain eligibility requirements. During 2000 and 1999, employees were permitted to contribute a percentage of their annual compensation on a combined before-tax and after-tax basis, subject to certain limitations imposed by the Tax Reform Act of 1986. In 2000 and 1999, the Liberty Companies made matching contributions of \$54,000 and \$60,000 in 2000 and 1999, respectively. Under the

EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company

NOTES TO STATUTORY FINANCIAL STATEMENTS — (Continued)
(dollars in thousands)

intercompany pooling agreement \$8,640 and \$7,800 of expense was charged to operations in 2000 and 1999, respectively.

(9) Commitments and Contingent Liabilities

The Liberty Companies periodically purchase annuity contracts from various life insurance companies to settle claims. When the contract is purchased, the corresponding loss reserve is eliminated. The primary liability for future claim payments resides with the life insurance company, but in certain instances, the Liberty Companies remain contingently liable in the event the life insurer is unable to meet its obligation. These annuities were primarily purchased from Liberty Life. At December 31, 2000 and 1999, the contingent liabilities amounted to \$556,024 and \$572,683, respectively, and represent the statutory reserves of the annuities as reported by the issuing companies. Under the intercompany pooling agreement, the Company's share of this contingent liability at December 31, 2000 and 1999, were \$88,964 and \$74,449, respectively.

Various lawsuits against the Company have arisen in the normal course of business. Contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the financial position of the Company.

(10) Permitted Statutory Accounting Practices

The Company's statutory-basis financial statements are prepared in accordance with accounting practices prescribed or permitted by the Office of the Commissioner of Insurance of the State of Wisconsin. Currently, "prescribed" statutory accounting practices are interspersed throughout the state insurance law and regulations, the *Accounting Practices and Procedures Manual* of the NAIC and a variety of other NAIC publications.

The NAIC revised the Accounting Practices and Procedures Manual in a process referred to as Codification. The revised manual will be effective January 1, 2001. The revised manual has changed, to some extent, prescribed statutory accounting practices and will result in changes to the accounting practices that the Companies' use to prepare its statutory-basis financial statements. The cumulative effect of changes in accounting principles adopted to conform to the revised *Accounting Practices and Procedures Manual* will be reported as an adjustment to surplus as of January 1, 2001. Management believes the impact of these changes will not result in a significant reduction in the Companies' statutory-basis surplus as of adoption.

(11) Restructuring Charge

During 1999, the Liberty Companies announced a restructuring of certain commercial operations in order to streamline operations and eliminate distribution channel conflicts from the acquisition of the Company. Implementation began in the third quarter of 1999 and is expected to be completed by the end of 2001. The Liberty Companies recorded a restructuring liability of \$130,000 of which \$50,000, recorded as a direct charge to surplus, was attributed to the affiliation of the Company and the acquisition of its insurance subsidiaries. The \$80,000 charge to income was pooled under the intercompany pooling agreement with \$10,400 being charged to the Company. The restructuring liability primarily represents the severance costs associated with the elimination of jobs, the present value of future lease payments for discontinued leases and certain integration costs associated with the restructuring plan.

Under the terms of the intercompany pooling agreement, the Company paid \$18,176 in restructuring charges and the restructuring accrual was \$2,624 as of December 31, 2000.

Report of Independent Auditors

The Board of Directors
Liberty Mutual Insurance Company
Liberty Mutual Fire Insurance Company
Employers Insurance of Wausau a Mutual Company

We have audited the accompanying combined balance sheets of Liberty Mutual Group as of December 31, 2000 and 1999, and the related combined statements of income, policyholders' surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Liberty Mutual Group at December 31, 2000 and 1999, and the combined results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Boston, Massachusetts
May 3, 2001,
except for Note 2, as to which the date is
June 4, 2001

LIBERTY MUTUAL GROUP
COMBINED BALANCE SHEETS
(dollars in millions)

	December 31,	
	2000	1999
Assets		
Investments:		
Fixed maturities	\$33,690	\$32,799
Equity securities	2,640	2,921
Other invested assets	2,380	2,765
Short-term investments	699	319
	39,409	38,804
Cash and cash equivalents	3,309	2,417
Premium and other receivables, net	3,667	3,170
Recoverables from reinsurers, net	6,822	6,437
Reinsurance deposit receivable	—	167
Accrued investment income	528	515
Deferred income taxes	715	702
Deferred policy acquisition costs	1,184	1,366
Deferred distribution costs	169	154
Intangible assets	1,133	903
Other assets	1,980	1,975
Separate account assets	6,611	5,641
Total assets	\$65,527	\$62,251
Liabilities, Minority Interest and Policyholders' Surplus Liabilities:		
Unpaid losses and loss adjustment expenses	\$23,876	24,737
Reserve for unearned premiums	3,877	3,475
Future policy benefits	14,773	14,455
Funds held under reinsurance treaties	224	85
Current income taxes payable	218	209
Debt outstanding	2,021	1,961
Payable for investments purchased and loaned	2,024	1,163
Guaranty fund reserve	236	282
Dividends to policyholders	190	213
Other liabilities	3,189	2,394
Separate account liabilities	6,568	5,578
Total liabilities	57,196	54,552
Minority interest	443	360
Policyholders' Surplus:		
Unassigned Surplus	6,781	6,620
Accumulated other comprehensive income	1,107	719
Total policyholders' surplus	7,888	7,339
Total liabilities, minority interest and policyholders' surplus	\$65,527	\$62,251

See accompanying notes to the combined financial statements

LIBERTY MUTUAL GROUP
COMBINED STATEMENTS OF INCOME
(dollars in millions)

	Years Ended December 31,	
	2000	1999
Revenue:		
Net premiums earned	\$10,016	\$ 9,483
Net investment income	1,826	1,817
Fee income	277	262
Net realized investment gains	44	448
Other revenue	84	133
Total revenue	12,247	12,143
Losses, Benefits and Expenses:		
Losses and loss adjustment expenses	8,540	8,069
Policyholder benefits	467	375
Interest credited to policyholders	74	50
General and administrative expenses	1,621	1,477
Policy acquisition costs	1,336	1,380
Dividends to policyholders	98	130
Interest expense	121	136
Total losses, benefits and expenses	12,257	11,617
(Loss) income from continuing operations before income taxes and minority interest	(10)	526
Federal and foreign income taxes:		
Current	(77)	92
Deferred	(2)	65
Total federal and foreign income taxes	(79)	157
Income from continuing operations before minority interest	69	369
Minority interest	2	(1)
Income from continuing operations	71	368
Discontinued operations (Note 2):		
Income from discontinued operations (less applicable income taxes of \$43 in 2000 and \$39 in 1999)	90	71
	90	71
Net income	\$ 161	\$ 439

See accompanying notes to the combined financial statements

LIBERTY MUTUAL GROUP
COMBINED STATEMENTS OF POLICYHOLDERS' SURPLUS
(dollars in millions)

	<u>Unassigned Surplus</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Policyholders' Surplus</u>
Balance, January 1, 1999	\$6,181	\$ 1,775	\$ 7,956
Comprehensive income			
Net income	439		439
Other Comprehensive income (loss), net of taxes:			—
Unrealized gains on securities		(723)	(723)
Less: reclassification adjustment for gains and losses included in net income, net of taxes		(264)	(264)
Foreign currency translation adjustments	<u> </u>	<u>(69)</u>	<u>(69)</u>
Other Comprehensive loss, net of taxes	<u>—</u>	<u>(1,056)</u>	<u>(1,056)</u>
Total comprehensive loss	<u> </u>	<u> </u>	<u>(617)</u>
Balance, December 31, 1999	<u>6,620</u>	<u>719</u>	<u>7,339</u>
Comprehensive income			
Net income	161		161
Other Comprehensive income (loss), net of taxes:			—
Unrealized gains on securities		468	468
Less: reclassification adjustment for gains and losses included in net income, net of taxes		(16)	(16)
Foreign currency translation adjustments	<u> </u>	<u>(64)</u>	<u>(64)</u>
Other Comprehensive income, net of taxes	<u>—</u>	<u>388</u>	<u>388</u>
Total comprehensive income	<u> </u>	<u> </u>	<u>549</u>
Balance, December 31, 2000	<u>\$6,781</u>	<u>\$ 1,107</u>	<u>\$ 7,888</u>

See accompanying notes to the combined financial statements

LIBERTY MUTUAL GROUP
COMBINED STATEMENTS OF CASH FLOWS
(dollars in millions)

	<u>Year Ended December 31,</u>	
	<u>2000</u>	<u>1999</u>
Cash flows from operating activities:		
Net income	\$ 161	\$ 439
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	129	157
Net realized investment gains	(24)	(406)
Realized foreign exchange gains	(7)	(10)
Interest credited to policyholders	613	577
Net amortization on investments	38	52
Undistributed limited partnership investment income	(32)	(99)
Changes in operating assets and liabilities, net of acquisition of business:		
Accrued investment income	2	3
Premium and other receivables	(263)	(4)
Recoverables from reinsurers	(484)	(36)
Deferred policy acquisition costs and distribution costs	(70)	(16)
Unpaid losses and loss adjustment expenses	(656)	(523)
Taxes payable, net of deferred	(120)	204
Future policy benefits	308	(150)
Reserve for unearned premiums	340	41
Net change in other assets and liabilities	<u>907</u>	<u>849</u>
Total adjustments	<u>681</u>	<u>639</u>
Net cash provided by operating activities	<u>842</u>	<u>1,078</u>
Cash flows from investing activities:		
Purchase of available for sale bonds and equity securities	(9,620)	(11,138)
Sales and maturities of available for sale bonds and equity securities	9,915	12,397
Property, plant and equipment purchased, net	(14)	(53)
Acquisition of businesses, net of cash received	(295)	(1,228)
Other investing activities	<u>(264)</u>	<u>211</u>
Net cash (used in) provided by investing activities	<u>(278)</u>	<u>189</u>
Cash flows from financing activities:		
Net activity in policyholder accounts	(401)	(1,055)
Proceeds from issuance of debt	89	113
Repayments of debt outstanding	(40)	(70)
Net security lending activity	785	505
Other financing activity	<u>(105)</u>	<u>(26)</u>
Net cash provided by financing activities	<u>328</u>	<u>(533)</u>
Net increase in cash and cash equivalents	892	734
Cash and cash equivalents, beginning of year	<u>2,417</u>	<u>1,683</u>
Cash and cash equivalents, end of year	<u>\$ 3,309</u>	<u>\$ 2,417</u>
Supplemental disclosure of cash flow information:		
Income taxes recovered	<u>\$ (34)</u>	<u>\$ (11)</u>

See accompanying notes to the combined financial statements

LIBERTY MUTUAL GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2000 and 1999
(dollars in millions)

(1) Summary of Significant Accounting Policies

Principles of Combination

The accompanying combined financial statements of Liberty Mutual Group ("LMG" or "Companies") include the accounts of the Liberty Mutual Insurance Company ("Liberty Mutual"), Liberty Mutual Fire Insurance Company ("Liberty Fire"), Employers Insurance of Wausau a Mutual Company ("EIOW"), Montgomery Mutual Insurance Company ("Montgomery") and Merchants and Business Men's Mutual Insurance Company ("M&B") and subsidiaries. All material intercompany accounts and transactions have been eliminated.

Basis of Presentation

The accompanying combined financial statements have been prepared on the basis of accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Property and Casualty Insurance Operations

The property and casualty insurance companies within LMG write substantially all lines of property and casualty insurance. One or more of these companies is licensed to write substantially all of these lines in all states of the United States and in 13 foreign countries. Domestic property and casualty insurance operations comprise 73% and 75% of the Companies' revenue for the years ended December 31, 2000 and 1999, respectively. Premiums are earned primarily on a pro rata basis over the term of the related coverage. The reserve for unearned premiums represents the portion of premiums written relating to the unexpired terms of coverage.

Deferred policy acquisition costs are the costs of acquiring new business which vary with, and are primarily related to, the production of new business, principally commissions, premium taxes and certain other underwriting expenses. Deferred policy acquisition costs are amortized over the terms of the insurance policies. The Companies consider anticipated investment income in determining if a premium deficiency exists with respect to short-duration contracts. The Companies reduce deferred policy acquisition costs to the extent a premium deficiency is present.

The Companies provide reserves for unpaid insurance losses and loss adjustment expenses covering events that occurred in 2000 and prior years. These reserves reflect estimates of the total cost of claims reported but not yet paid and the cost of claims not yet reported, as well as the estimated expenses necessary to settle the claims. Reserve estimates are based on past loss experience modified for current claim trends, as well as prevailing social, economic and legal conditions. Final claim payments, however, may ultimately differ from the established reserves, since these payments may not occur for several years. Reserve estimates are continually reviewed and updated, and any resulting adjustments are reflected in current operating results.

The Companies do not discount reserves other than tabular discounting on the long-term indemnity portion of workers compensation claims and the long-term disability portion of group accident and health claims as permitted by insurance regulations in certain states. Reserves are reduced for estimated amounts of salvage and subrogation and deductibles recoverable from policyholders.

Life Insurance Operations

The life insurance subsidiaries within LMG offer a wide range of traditional insurance and financial and investment products. Life insurance operations comprise 8% and 6% of the Companies' revenues for the years ended December 31, 2000 and 1999, respectively. Premiums on traditional life insurance policies are recognized as revenues when due. Benefits and expenses are associated with premiums so as to result in the recognition of profits over the life of the policies. This association is accomplished by providing liabilities for future policy benefits and the deferral and subsequent amortization of acquisition costs. Revenues for universal life policies represent investment income from the related invested assets and amounts assessed against policyholders. Included in such assessments are mortality charges, surrender charges paid and administrative fees. Policy account balances consist of consideration received plus credited interest, less accumulated policyholder charges, assessments and withdrawals. Credited interest rates ranged from 5.25% to 6.3% in 2000 and 1999.

LIBERTY MUTUAL GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)
(dollars in millions)

The Companies write certain annuity and structured settlement contracts without mortality risk which are accounted for as investment contracts. Revenues from investment contracts consist of investment income from related invested assets, with profits recognized to the extent investment income exceeds the amount credited to the contract. Policy account balances consist of consideration received plus credited interest less policyholder withdrawals. Credited interest rates for annuity contracts were between 5.25% and 7.5% in 2000 and 5.0% and 6.55% in 1999.

Liabilities for future policy benefits for traditional life policies have been computed using the net level premium method based on estimated future investment yield, mortality and withdrawal experience. Interest rate assumptions were between 4.5% and 10.25% for all years of issue. Mortality assumptions have been calculated principally on an experience multiple applied to commonly accepted mortality tables, depending on year of issue. Withdrawal assumptions generally are based on the Companies' experience.

The liability for future policy benefits with respect to structured settlement contracts with life contingencies and single premium group annuities (group pension) is determined based on interest crediting rates between 6.1% and 11.4%, and the mortality assumptions are based on the 1971 GAM and IAM tables, reflective of the Companies' experience.

Deferred policy acquisition costs are the costs of acquiring new business which vary with, and are primarily related to, the production of new business. Such costs include commissions, costs of policy underwriting and variable agency expenses. Deferred policy acquisition costs related to traditional and group life insurance and certain long-duration group accident and health insurance, to the extent recoverable from future policy revenues, are amortized over the premium-paying period of the related policies using assumptions consistent with those used in computing policy benefit reserves. Costs relating to group life and disability insurance policies are amortized straight-line over a five-year period. For universal life insurance, annuity and investment products, to the extent recoverable from future group profits, deferred policy acquisition costs are amortized generally in proportion to the present value of expected gross profits from surrender charges and investment, mortality and expense margins. Deferred policy acquisition costs are adjusted for amounts relating to unrealized gains and losses on fixed maturity and equity securities the Companies have designated as available for sale. This adjustment, net of tax, is included with the net unrealized gains or losses that are reflected in accumulated other comprehensive income. Deferred policy acquisition costs were increased by \$33 and \$244, respectively, at December 31, 2000 and 1999, relating to this adjustment.

Participating life insurance policies issued by Liberty Life Assurance Company of Boston (Liberty Life) approximate 23% and 26% of ordinary life insurance in force at December 31, 2000 and 1999, respectively, and 7% and 10% of ordinary insurance premium revenue in 2000 and 1999, respectively. The major portion of earnings from participating policies inures to the benefit of the participating policyholders. Undistributed earnings of the participating block of business is included in other liabilities in the accompanying combined balance sheets.

Investments

Investments in debt and equity securities classified as available for sale are carried at current market values, and unrealized gains and losses (net of adjustments to deferred policy acquisition costs, value of insurance in force, and income taxes) are reported as a separate component of policyholders' surplus. The cost basis of securities is adjusted, by charges to income, for declines in value that are considered to be other than temporary. Realized gains and losses on sales of investments are recognized in net income using either the specific identification method or first-in first-out basis, net of adjustment for amortization of deferred policy acquisition costs.

For mortgage-backed fixed maturity securities, the Companies recognize income using a constant effective yield based on anticipated prepayments over the economic life of the security. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments and any resulting adjustment is included in investment income.

Amounts classified as cash and cash equivalents include cash on hand, money market instruments and other debt issues with maturities of three months or less when purchased.

Short-term investments, consisting primarily of money market instruments and other debt issues purchased with an original maturity of over 90 days to one year, are considered available for sale and carried at fair value which approximated amortized cost.

LIBERTY MUTUAL GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)
(dollars in millions)

Other invested assets, principally investments in limited partnerships, are accounted for using the equity method. Unrealized gains in limited partnerships are recorded in net investment income.

Derivatives

The Companies use interest rate swap and cap agreements to manage interest rate risk and call options and futures on the Standard & Poor's 500 Composite Stock Price Index ("S&P 500 Index") are used to hedge its obligations to provide annuity returns based upon this index. In addition, the Companies use equity swaps to serve as a hedge against potential losses on its equity holdings during a market decline.

The interest rate swap agreements ("swap agreements") and interest rate cap agreements ("cap agreements") match assets more closely to liabilities. Swap agreements are agreements to exchange with a counterparty interest rate payments of differing character (e.g., fixed-rate payments exchanged for variable-rate payments) based on an underlying principal balance (notional principal) to hedge against interest rate changes. The Companies currently utilize swap agreements to reduce asset duration and to better match interest rates earned on longer-term fixed rate assets with interest rates credited to policyholders. The Companies also utilize total return swap agreements to hedge its obligation related to certain separate account liabilities. A total return swap agreement is an agreement to exchange payments based upon an underlying notional balance and changes in variable rate and total return indices.

Cap agreements are agreements with a counterparty which require the payment of a premium for the right to receive payments for the difference between the cap interest rate and a market interest rate on specified future dates based on an underlying principal balance (notional principal) to hedge against rising interest rates.

Hedge accounting is applied after the Companies determine that the items to be hedged expose it to interest rate or price risk, designate the instruments as hedges and assess whether the instruments reduce the indicated risks through the measurement of changes in the value of the instruments and the items being hedged at both inception and throughout the hedged period. From time to time, interest rate swap agreements, cap agreements, call options and futures are terminated. If the terminated position was accounted for as a hedge, realized gains and losses are deferred and amortized over the remaining lives of the hedged assets or liabilities. Conversely, if the terminated position was not accounted for as a hedge, or the assets and liabilities that were hedged no longer exist, the position is "marked to market" and realized gains and losses are immediately recognized in income.

The net differential to be paid or received on interest rate swap agreements is recognized as a component of net investment income. The net differential to be paid or received on total return swaps is recognized as a component of separate account fees. Premiums paid for interest rate cap agreements are deferred and amortized to net investment income on a straight-line basis over the terms of the agreements. The unamortized premium is included in other invested assets. Amounts earned on interest rate cap agreements are recorded as an adjustment to net investment income. Interest rate swap agreements and cap agreements hedging investments designated as available for sale are adjusted to fair value with the resulting unrealized gains and losses included in policyholders' surplus. Total return swap agreements hedging certain separate account liabilities are adjusted to fair value with the resulting unrealized gains and losses included in policyholders' surplus.

Premiums paid on call options are amortized to net investment income over the terms of the contracts. The call options are included in other invested assets and are carried at amortized cost plus intrinsic value, if any, of the call options as of the valuation date. Changes in intrinsic value of the call options are recorded as an adjustment to interest credited to policyholders. Futures are carried at fair value and require daily cash settlement. Changes in the fair value of futures that qualify as hedges are deferred and recognized as an adjustment to the hedged asset or liability. Call options and futures that do not qualify as hedges are carried at fair value; changes in value are immediately recognized in income.

The Companies are party to derivative contracts in the form of equity swap contracts. The purpose of the equity swap contracts is to exchange rates of return of a specified set of common stocks for rates of return consistent with the broad equity markets as represented by the S&P 500 Index. The Companies agree with counterparties to exchange, at specified intervals, the net performance differential of the S&P 500 Index and notional portfolio of common stocks. A single net payment is made by one counterparty at each due date. The Companies are exposed to potential credit loss with respect to only the net differential payments in the event of nonperformance by the counterparties. The fair value of the equity swaps is recorded as the net differential to be settled quarterly. Changes in fair value are immediately recognized in income.

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NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)
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Securities Lending

Securities lending activities consist of lending certain U.S. government and corporate bonds to approved counterparties. All lending transactions are collateralized by securities and cash with a total market value of at least 102% of the market value of the loaned securities. Short-term investments and cash collateral received are recorded as assets, with a corresponding liability recorded for the return obligation.

Reinsurance

All assets and liabilities related to reinsurance ceded contracts are reported on a gross basis in the combined balance sheets. The combined statements of income reflect premiums, benefits and settlement expenses net of reinsurance ceded.

Reinsurance premiums, commissions, expense reimbursements, benefits and reserves related to reinsured business are accounted for on bases consistent with those used in accounting for original policies issued and the terms of the reinsurance contracts.

Intangible Assets

Intangible assets consist of goodwill and certain identifiable intangible assets arising from business combinations accounted for as a purchase. Amortization is provided on a straight-line basis over estimated lives of the acquired intangibles which range from 5 to 30 years. The Companies evaluate the carrying value of goodwill and other intangible assets when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Any impairments would be recognized when the expected future cash flows derived from such goodwill and other intangible assets are less than their carrying value.

Separate Account Assets and Liabilities

The assets and liabilities resulting from variable annuities, variable life policies and certain separate institutional accounts are segregated in separate accounts. Separate account assets consist principally of investments in mutual funds and fixed maturities and are carried at fair value. Investment income and changes in mutual fund asset values are allocated to the policyholders, and therefore, do not affect the operating results of the Companies. The Companies earn separate account fees for providing administrative services and bearing the mortality risk related to these contracts. The difference between investment income and interest earned on the institutional accounts is reported as separate account fee income. The assets of each account are legally segregated and are not subject to claims which arise out of any other business of the Companies.

Future Policy Benefits

Future policy benefits consist of deposits received plus interest credited, less accumulated policyholder charges, assessments, and withdrawals related to deferred annuities and single premium whole life policies. Policy benefits that are charged to expense include benefit claims incurred in the period in excess of related policy account balances.

Translation of Foreign Currencies

Financial statement accounts expressed in foreign currencies are translated into U.S. dollars in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, *Foreign Currency Translation*. Under SFAS 52, functional currency assets and liabilities are translated into U.S. dollars, generally using current rates of exchange. The related translation adjustments are recorded as a separate component of comprehensive income, net of any related taxes. Functional currencies are generally the currencies of the local operating environment. Income statement items are translated using average rates while balance sheet items are translated using the spot rate as of the balance sheet date. Exchange gains and losses resulting from foreign currency transactions are recorded in income currently.

Income Taxes

Federal income taxes have been provided using the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes*. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their

LIBERTY MUTUAL GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)
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respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced by a valuation allowance if, based on available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Accounting Standards

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This statement standardizes the accounting for derivative instruments and the derivative portion of certain other contracts that have similar characteristics by requiring that an entity recognize those instruments on the balance sheet at fair value. This statement also requires a new method of accounting for hedging transactions, prescribes the type of items and transactions that may be hedged, and specifies detailed criteria to be met to qualify for hedge accounting. In June 1999, the FASB issued SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133*. SFAS 137 defers the effective date of SFAS No. 133 until fiscal years beginning after June 15, 2000. Upon adoption, the Companies will be required to record a cumulative effect adjustment to reflect this accounting change.

The cumulative effect, reported after tax and net of related effects of deferred policy acquisition costs, upon adoption of the Statement at January 1, 2001 is expected to decrease net income and stockholder's equity by approximately \$55.0 million. The adoption of the Statement may increase volatility in future reported income due, among other reasons, to the requirements of defining an effective hedging relationship under the Statement as opposed to certain hedges the Company believes are effective economic hedges. The Company anticipates that it will continue to utilize its current risk management philosophy, which includes the use of derivative instruments.

Comprehensive Income

Comprehensive income (loss) consists of net income, foreign currency translation adjustments and unrealized gains and losses on certain investments in debt and equity securities. The components of accumulated other comprehensive income, net of related tax and including other comprehensive income from discontinued operations, are as follows:

	2000	1999
Unrealized gains on securities	\$1,252	\$800
Foreign currency translation adjustments	(145)	(81)
Accumulated other comprehensive income	<u>\$1,107</u>	<u>\$719</u>

Reclassification

Certain reclassifications have been made to the 1999 financial statements to conform with the 2000 financial statements presentation.

(2) Discontinued Operations

On November 1, 2000, Liberty Financial ("LFC") a 71% indirectly owned subsidiary of Liberty Mutual, announced that it had retained an investment banking firm to help review its strategic alternatives, including a possible sale of the company. On May 3, 2001, LFC reached a definitive agreement to sell its annuity and bank marketing businesses for \$1.7 billion in cash. Additionally, on June 4, 2001, LFC reached a definitive agreement to sell its asset management business for \$900 in cash and the buyer's assumption of approximately \$110 in revolving debt. Based on current estimates, Liberty Mutual expects to record an after-tax gain of approximately \$123. The transactions are expected to close in the second half of 2001. LFC's operating results have qualified as discontinued operations for the periods ended December 31, 2000 and 1999.

LIBERTY MUTUAL GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)
(dollars in millions)

Operating results of discontinued operations for the periods ended December 31, 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
Revenues	\$1,370	\$1,219
Income before income taxes and minority interest	\$ 188	\$ 154
Federal and foreign income taxes:		
Current	102	(10)
Deferred	(41)	65
Total federal and foreign income taxes	<u>61</u>	<u>55</u>
Income before minority interest	127	99
Minority interest	(37)	(28)
Net income	<u>\$ 90</u>	<u>\$ 71</u>

As of December 31, 2000 and 1999, total assets and liabilities of the discontinued operations, which are included in the balance sheets, consisted of:

	<u>2000</u>	<u>1999</u>
Assets:		
Investments:		
Fixed maturities	\$10,668	\$10,516
Equity securities	76	38
Policy loans	621	600
Other invested assets	<u>867</u>	<u>1,041</u>
Total investments	<u>12,232</u>	<u>12,195</u>
Cash and cash equivalents	1,891	1,233
Accrued investment income	164	162
Deferred policy acquisition costs	548	739
Deferred distribution costs	169	154
Intangible assets and value of insurance in force	598	385
Other assets	336	142
Separate account assets	<u>4,213</u>	<u>3,363</u>
Total assets	<u>\$20,151</u>	<u>\$18,373</u>
Liabilities:		
Future policy benefits	\$11,969	\$12,110
Notes payable to affiliates	200	—
Notes payable	563	552
Payable for investments purchased and loaned	1,365	755
Other liabilities	428	453
Separate account liabilities	<u>4,167</u>	<u>3,301</u>
Total liabilities	<u>\$18,692</u>	<u>\$17,171</u>

(3) Foreign Operations

Certain subsidiaries operate solely outside of the United States. Their assets and liabilities are located principally in the countries where the insurance risks are written. In addition, certain domestic companies have branch operations in foreign countries. Certain countries have restrictions on the conversion of funds which generally cause a delay in the

LIBERTY MUTUAL GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)
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outward remittance of such funds. Approximately five percent of the combined assets at December 31, 2000 and 1999, and 10% and 11% of the Companies' revenues for the years ended December 31, 2000 and 1999, respectively, were located in or derived from foreign operations.

(4) Acquisitions

Effective May 11, 1999, Liberty Mutual acquired the U.S. property and casualty operations of Guardian Royal Exchange (renamed Liberty Insurance Holdings, Inc.), including its wholly owned insurance subsidiaries and affiliates. The purchase method was used and the consideration was \$1,465. The transaction resulted in the goodwill of \$255 which is being amortized over 20 years.

On September 29, 2000, LFC completed the acquisition of Wanger Asset Management, L.P. ("Wanger"), a registered investment advisor with approximately \$9.4 billion in assets under management as of that date. The purchase price for this transaction was approximately \$277 million in cash, including transaction costs. In addition, the Company has agreed to make additional payments over the next five years of up to \$178 million in cash, with \$170 million contingent upon the attainment of certain earnings objectives and an \$8.0 million 3-year note payable to WAM Rights Partnership bearing interest at the rate of 7.00%. This transaction was accounted for as a purchase and resulted in the recording of \$133 million of intangible assets which will be amortized over 13 years and \$146 million of goodwill which will be amortized over 25 years. Since the date of the acquisition and as discussed in Note 2, LFC's results are considered part of discontinued operations.

(5) Investments

(a) Fixed Maturities

The gross unrealized gains and losses and fair values of fixed maturities at December 31, 2000 and 1999 are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2000				
U.S. Treasury securities	\$ 2,313	\$ 118	\$ (26)	\$ 2,405
Mortgage and asset-backed securities of government and corporate agencies	12,336	300	(95)	12,541
State and municipal	2,194	125	(2)	2,317
Corporate and other	<u>16,534</u>	<u>275</u>	<u>(382)</u>	<u>16,427</u>
Total fixed maturities	<u>\$33,377</u>	<u>\$818</u>	<u>\$ (505)</u>	<u>\$33,690</u>
December 31, 1999				
U.S. Treasury securities	\$ 2,613	\$ 59	\$ (47)	\$ 2,625
Mortgage and asset-backed securities of government and corporate agencies	12,321	90	(403)	12,008
State and municipal	2,938	68	(29)	2,977
Corporate and other	<u>15,618</u>	<u>201</u>	<u>(630)</u>	<u>15,189</u>
Total fixed maturities	<u>\$33,490</u>	<u>\$418</u>	<u>\$ (1,109)</u>	<u>\$32,799</u>

During the years ended December 31, 2000 and 1999, proceeds from sales of fixed maturities available for sale were \$6,671 and \$9,704, respectively. The gross realized gains and (losses) on such sales totaled \$70 and \$(125) in 2000 and \$178 and \$(174) in 1999, respectively.

At December 31, 2000 and 1999, fixed maturities carried at \$4,723 and \$4,675, respectively, were on deposit with regulatory authorities as required by law.

LIBERTY MUTUAL GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)
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The amortized cost and fair value of fixed maturities at December 31, 2000 by contractual maturity, are set forth as follows. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due to Mature:		
One year or less	\$ 970	\$ 975
Over one year through five years	6,889	6,935
Over five years through ten years	7,816	7,890
Over ten years	5,366	5,349
Mortgage and asset-backed securities	<u>12,336</u>	<u>12,541</u>
	<u>\$33,377</u>	<u>\$33,690</u>

(b) *Derivatives*

Outstanding derivatives are as follows:

<u>December 31</u>	<u>Notional Amounts</u>		<u>Assets (Liabilities)</u>			
	<u>2000</u>	<u>1999</u>	<u>2000</u>		<u>1999</u>	
			<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Interest rate swap agreements	\$2,798	\$2,917	\$(34)	\$(34)	\$41	\$41
Total return swap agreements	1,032	500	24	24	38	36
Interest rate cap agreements	—	50	—	—	—	—
Equity swaps	383	373	(52)	(52)	31	31
S&P 500 Index call options	—	—	<u>338</u>	<u>358</u>	<u>701</u>	<u>803</u>

The interest rate and total return swap agreements expire in 2001 through 2029. The interest rate cap agreement expires in 2000. The S&P 500 Index call options maturities range from 2001 to 2008.

At December 31, 2000 and 1999, the Companies had approximately \$115 and \$129, respectively, of unamortized premium in call option contracts.

Fair values for swap and cap agreements are based on current settlement values. The current settlement values are based on quoted market prices and brokerage quotes, which utilize pricing models or formulas using current assumptions. Fair values for call options are based upon quoted market prices.

There are risks associated with some of the techniques the Companies use to match its assets and liabilities. The primary risk associated with swap, cap and call option agreements is the risk associated with counterparty nonperformance. The Companies believe that the counterparties to its swap, cap and call option agreements are financially responsible and that the counterparty risk associated with these transactions is minimal. Futures trade on organized exchanges and, therefore, have minimal credit risk.

(6) Losses and Loss Adjustment Expenses Unpaid

The Companies establish loss and loss adjustment expense reserves, which are estimates of future payments of reported and unreported claims for losses and the related future expenses. The process of establishing loss reserves is subject to uncertainties that are normal, recurring and inherent in the property and casualty insurance business. The process requires reliance upon estimates based on available data that reflects past experience, current trends and other information, and the exercise of informed judgment.

As information develops that varies from past experience, provides additional data or, in some cases, augments data that previously was not considered sufficient for use in determining reserves, changes in the Companies estimate of

LIBERTY MUTUAL GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)
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ultimate liabilities may be required. The effects of these changes are reflected in current operating results. Activity in the insurance loss and loss adjustment expense reserves of the Companies is summarized as follows:

	<u>2000</u>	<u>1999</u>
Balance as of January 1	\$24,737	\$24,082
Less: unpaid reinsurance recoverables	<u>6,031</u>	<u>5,694</u>
Net balance as of January 1	18,706	18,388
Balance attributable to acquisitions, affiliations and dispositions	(12)	1,114
Incurred attributable to:		
Current year	8,169	8,058
Prior years	<u>371</u>	<u>11</u>
Total incurred	8,540	8,069
Paid attributable to:		
Current year	3,626	3,198
Prior years	<u>5,476</u>	<u>5,645</u>
Total paid	9,102	8,843
Net adjustment due to foreign exchange	(27)	(22)
Add: unpaid reinsurance recoverables	<u>5,771</u>	<u>6,031</u>
Balance as of December 31	<u>\$23,876</u>	<u>\$24,737</u>

Incurred attributable to prior years in 2000 increased due to reserve strengthening in the workers' compensation and commercial auto lines offset by the effects of the change in discount rate from 3.5% to 4% (approximately \$120 million)

The Companies do not discount unpaid insurance losses and loss adjustment expenses other than tabular discounting on the long-term indemnity portion of workers compensation claims and the Companies accident and health claims as permitted by insurance regulations in certain states.

The tabular discounting on these workers compensation claims is based upon Unit Statistical Plan tables as approved by the respective states and generally approximates 4.0% (3.5% in 1999). Unpaid losses at December 31, 2000 and 1999 include liabilities of \$4,935 and \$5,035 at discounted values of \$3,872 and \$3,925, respectively.

The tabular discounting on the Companies accident and health claims is based on the 1987 Commissioners Companies Disability Table (CGDT) at annual discount rates varying from 5.00% to 6.00% (5.75% in 1999). Unpaid losses at December 31, 2000 and 1999 include liabilities of \$611 and \$433 carried at discounted values of \$426 and \$334, respectively.

For certain commercial lines of insurance, the Companies offer experience-rated insurance contracts whereby the ultimate premium is dependent upon the level of ultimate losses incurred. At December 31, 2000 and 1999, the Companies held \$4,067, and \$4,276, respectively, of loss and loss adjustment expense reserves related to experience-rated contracts.

The Companies have exposure to asbestos and environmental claims. The Companies' exposure arises from the sale of general liability insurance. The Companies try to estimate the full impact of the asbestos and environmental exposures by establishing case basis reserves on all known losses and computing incurred but not reported losses based on previous experience and known changes in the legal and regulatory environment.

The process for establishing reserves for asbestos and environmental claims is subject to significant uncertainties. Among the complications are lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure and unresolved legal issues regarding policy coverage. The legal issues concerning the interpretation of various insurance policy provisions and whether asbestos and environmental losses are or were ever intended to be covered are complex. Courts have reached different and sometimes inconsistent conclusions as to when the loss occurred and what policies provide coverage, whether there is an insured obligation to defend, how policy limits are determined, how policy exclusions are applied and interpreted, and whether clean-up costs are covered as insured property damage.

LIBERTY MUTUAL GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)
(dollars in millions)

Reserve changes on individual asbestos and environmental matters reflect consideration of any newly acquired relevant information that may have an impact on reserve development. Given the complexities and significant uncertainties associated with estimating asbestos and environmental exposures, no assurances can be made as to the future potential impact of such claims upon the Companies. As additional information develops which would dictate a reserve change, the Companies estimates of losses and loss adjustment expenses associated with asbestos and environmental claims are adjusted accordingly.

(7) Reinsurance

In the ordinary course of business, the Companies assume and cede reinsurance with other insurers to reduce overall risk, including exposure to large losses and catastrophic events. The Companies are also members of various involuntary pools and associations and serve as servicing carriers for residual market organizations.

A summary of reinsurance financial data reflected within the combined statements of income is presented below:

	2000		1999	
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>
Direct	\$11,630	\$11,291	\$11,192	\$10,567
Assumed	583	546	469	456
Ceded	<u>1,858</u>	<u>1,821</u>	<u>1,599</u>	<u>1,540</u>
Net premiums	<u>\$10,355</u>	<u>\$10,016</u>	<u>\$10,062</u>	<u>\$ 9,483</u>

The Companies remain contingently liable in the event reinsurers are unable to meet the obligations for paid and unpaid loss recoverables and unearned premiums ceded under reinsurance agreements. The Companies do not have any material balances accrued for contingent commissions, sliding scale or other profit sharing commissions related to reinsurance contracts.

The Companies entered into commutation agreements in 2000 and 1999 with several unaffiliated reinsurers. Loss and loss adjustment reserves and cash of \$167 and \$293, respectively, were returned resulting in no impact on net income.

The Companies have reinsurance recoverables from Nationwide Indemnity Company in the amount of \$1,124 as of December 31, 2000. The reinsurance recoverable is guaranteed by Nationwide Mutual Insurance Company.

In 2000, the Companies entered into a retroactive reinsurance treaty with an unaffiliated entity. The Companies transferred loss and loss adjustment expense reserves of \$460 and deferred a gain of \$319. The gain will be recognized over the estimated settlement period of the liabilities reinsured.

LIBERTY MUTUAL GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)
(dollars in millions)

(8) Debt Outstanding

Debt outstanding at December 31, 2000 and 1999 includes the following:

	<u>2000</u>	<u>1999</u>
8.2% surplus notes due 2007	\$ 250	\$ 250
6.75% notes due 2008	300	300
8.50% surplus notes, due 2025	150	150
7.87% surplus notes, due 2026	250	250
7.63% debentures due 2028	150	150
7.70% surplus notes, due 2097	500	500
Medium term notes	151	163
Commercial paper	171	106
Revolving credit facilities	112	105
	<u>2,034</u>	<u>1,974</u>
Unamortized discount	<u>(13)</u>	<u>(13)</u>
Total outstanding debt	<u>\$2,021</u>	<u>\$1,961</u>

Payments of interest and principal of the surplus notes are expressly subordinate to all policyholder claims and other obligations of Liberty Mutual. Accordingly, interest and principal payments are contingent upon prior approval of the Commissioner of Insurance of the Commonwealth of Massachusetts.

Medium term notes outstanding are non callable. As of December 31, 2000, \$151 of medium-term notes were outstanding with maturity dates ranging from 2002 to 2013 at interest rates ranging from 6.76% to 8.10% after consideration of two put options. Interest expense on these notes was \$12 and \$13 for 2000 and 1999, respectively.

At December 31, 2000, the principal maturity schedule of medium term notes is as follows:

Current Maturities	\$ —
2002	12
2003	51
2004	—
Thereafter	<u>88</u>
	<u>\$151</u>

The Companies issue commercial paper to meet short term operating needs and provide bridge financing. Commercial paper issued and outstanding at December 31, 2000 and 1999 was \$171 and \$106, respectively. Interest rates ranged from 5.45% to 7.13% in 2000 and 4.71% to 6.4% in 1999. Interest expense on the commercial paper was \$13 and \$6 for 2000 and 1999, respectively.

Liberty Financial Companies, Inc. (LFC) has a \$150 revolving credit facility (the "Facility") which is utilized to finance sales commissions paid in connection with the distribution of mutual funds shares sold with 12b-1 distribution fees and contingent deferred sales charges. The Facility was established in April 1999 and replaced a \$60 revolving credit facility which was used for the same purpose. This five year Facility is secured by such 12b-1 distribution fees and contingent deferred sales charges. Interest accrues on the outstanding borrowings under the Facility at a rate determined by sales of highly rated commercial paper backed in part by the security interest in such fees and charges. At December 31, 2000, the interest paid on borrowings under the Facility was at the rate of 6.65% per annum.

Total interest paid by the Companies, for the years ended December 31, 2000 and 1999, was \$162 and \$151, respectively.

LIBERTY MUTUAL GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)
(dollars in millions)

(9) Federal and Foreign Income Taxes

Liberty Mutual, LFC, Liberty Fire, EIOW, Montgomery, M&B and National Insurance Association each file separate federal income tax returns. Each of the companies file consolidated federal income tax returns with their respective eligible subsidiary companies. Pursuant to intercompany federal income tax allocation agreements between each of these companies and their respective subsidiaries, net operating losses and tax credits generated by subsidiaries and used to reduce the consolidated tax liability are reimbursed only as utilized by the subsidiaries on a separate-return basis. Intercompany tax balances are settled quarterly. Provision is made, where applicable, for taxes on foreign branch operations. The components for the provision for federal and foreign income taxes related to continuing operations are:

<u>Year ended December 31,</u>	<u>2000</u>	<u>1999</u>
Current expense:		
United States Federal	\$(83)	\$ 68
Foreign	<u>6</u>	<u>24</u>
Total current taxes	<u>(77)</u>	<u>92</u>
Deferred expense (benefit):		
United States Federal	—	76
Foreign	<u>(2)</u>	<u>(11)</u>
Total deferred taxes	<u>(2)</u>	<u>65</u>
Total federal and foreign income tax (benefit) expense	<u>\$(79)</u>	<u>\$157</u>

The income tax on pre-tax income varies from the tax computed at the prevailing corporate federal income tax rate and is summarized as follows:

<u>Year ended December 31,</u>	<u>2000</u>	<u>1999</u>
Expected federal income tax expense	\$ (4)	\$178
Tax effect of:		
Nontaxable investment income	(54)	(72)
Change in valuation allowance	3	8
Revisions to estimates	(42)	34
Other	<u>18</u>	<u>9</u>
Actual federal and foreign income tax (benefit) expense	<u>\$(79)</u>	<u>\$157</u>

LIBERTY MUTUAL GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)
(dollars in millions)

Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws. The significant components of the net deferred tax asset as of December 31, 2000 and 1999 are summarized as follows:

	<u>2000</u>	<u>1999</u>
Deferred tax assets:		
Unpaid losses	\$ 897	\$1,090
Unearned premium reserves	219	196
Net operating losses	107	190
Employee benefits	165	148
Other	616	300
Less: valuation allowance	<u>(76)</u>	<u>(160)</u>
Total deferred tax assets	<u>1,928</u>	<u>1,764</u>
Deferred tax liabilities:		
Deferred acquisition costs	360	406
Investments	789	502
Other	64	154
Total deferred tax liabilities	<u>1,213</u>	<u>1,062</u>
Net deferred tax assets	<u>\$ 715</u>	<u>\$ 702</u>

In the opinion of management, it is more likely than not that a portion of the deferred tax asset will not be realized. Accordingly, a valuation allowance has been established. As of December 31, 2000, the Companies had Federal and foreign net operating loss carryforwards related to certain of the tax filing groups of \$449 expiring in 2001 through 2020. Use of some of these loss carryforwards is or may become limited under current tax law.

Taxes are not provided on unremitted earnings of subsidiaries outside the United States where such earnings are permanently reinvested. At December 31, 2000, unremitted earnings of foreign subsidiaries were \$284. If these earnings were distributed in the form of dividends or otherwise, the Companies would be subject to U.S. income taxes less an adjustment for applicable foreign tax credits.

(10) Benefit Plans

Employees of the Companies are covered under various noncontributory pension plans (“pension plans”). Eligibility requirements for participation in the plans is based on either completion of a specified period of service, age or a combination of both. Benefits under the plans are computed based upon a formula which considers years of service, compensation levels for specified years and an offset for social security benefits.

Assets of the Plans consist primarily of investments in life insurance company separate accounts and a collective investment trust fund, which invests primarily in fixed income and Standard’s and Poor’s Index of 500 equity securities. At December 31, 2000 and 1999, assets of the Plans totaling \$2,301 and \$2,091, respectively, were held in separate accounts managed by Liberty Life Assurance Company of Boston (Liberty Life).

The Companies have also adopted supplemental retirement programs for certain executives to provide pension benefits above the levels provided by the pension plans without regard to the statutory earnings limitations of qualified defined benefit pension plans. Currently the supplemental plans are unfunded.

The Companies also provide certain health care and life insurance benefits (“postretirement”) for retired employees of certain subsidiaries. A significant portion of domestic employees may become eligible for these benefits. Alternatively, retirees may elect certain prepaid health care benefit plans. Life insurance benefits are based upon a participant’s final compensation subject to the plan maximum.

LIBERTY MUTUAL GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)
(dollars in millions)

The following table sets forth the assets, obligations and assumptions associated with the various pension plan and post-retirement benefits. The amounts are recognized in the accompanying balance sheets as of December 31, 2000 and 1999 or statements of income for the years then ended:

	Pension Benefits		Postretirement Benefits	
	2000	1999	2000	1999
Benefit obligation	\$1,769	\$1,585	\$ 378	\$ 355
Fair value of plan assets	2,459	2,560	25	25
Funded status	<u>\$ 690</u>	<u>\$ 975</u>	<u>\$(353)</u>	<u>\$(330)</u>
Prepaid (accrued) benefit cost recognized	\$ (13)	\$ 35	\$(301)	\$(286)
Weighted average assumptions:				
Discount rate	7.25%	7.75%	7.25%	7.75%
Expected return on plan assets	9.00%	9.00%	7.15%	7.00%
Rate of compensation increase	5.20%	5.70%	—	—
Benefit cost	\$ —	\$ 17	\$ 37	\$ 38
Employer contribution	3	2	21	24
Benefits paid	110	83	23	24

The health care cost trend rates were 7.75% (graded to 5% in 2003) in 2000 and 10% (graded to 6% in 2013) in 1999. Health care cost trend rate assumptions have a material impact on postretirement benefit obligation. An assumed change in health care cost trend rates by one percentage point increase or decrease in each year would impact the postretirement benefit obligation as of December 31, 2000 by an increase or a decrease of \$21 and the estimated eligibility cost and interest cost components of the net periodic postretirement benefit cost for 2000 by an increase or decrease of \$3.

The Companies sponsor defined contribution savings plans for substantially all domestic employees who meet certain eligibility requirements (a 401K plan). During 2000 and 1999, employees were permitted to contribute a percentage of their annual compensation on a combined before-tax and after-tax basis, subject to certain limitations imposed by the Tax Reform Act of 1986. In 2000 and 1999, the Companies made matching contributions of \$54 and \$59, respectively.

(11) Fair Value of Financial Instruments

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments* requires disclosure of fair value information about financial instruments, as defined therein, for which it is practicable to estimate such fair value. All financial instruments may not be recognized in the combined balance sheets. In the measurement of the fair value of certain of the financial instruments, quoted market prices were not available and other valuation techniques were utilized. These derived fair value estimates are significantly affected by the assumptions used. SFAS 107 excludes certain financial instruments, including those related to insurance contracts.

The following methods and assumptions were used in estimating the fair value of the financial instruments presented:

Cash and short term investments: The carrying amounts reported in the consolidated balance sheet for these instruments approximate fair values.

Fixed maturities: Fair values for fixed maturities were generally based upon quoted market prices. For certain fixed maturities securities for which quoted market prices were not available, fair values were estimated using values obtained from independent pricing services, or, in the case of private placements, were determined by discounting expected future cash flows using a current market rate applicable to the yield, credit quality, and maturity of the securities.

Equity securities: Fair values for equity securities were based upon quoted market prices.

Future policy benefits: Fair values for deferred annuity contracts are equal to current net surrender value. Fair values of liabilities under investment-type insurance contracts, including individual and group annuities, are estimated using discounted cash flow calculations at current pricing rates.

LIBERTY MUTUAL GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)
(dollars in millions)

Debt Outstanding: Fair values of commercial paper and short term borrowings approximate carrying value. Fair values of notes payable were either estimated based upon quoted market prices or using discounted cash flow analyses based on the Companies' incremental borrowing rate.

The fair values and carrying values of the Companies' financial instruments at December 31, 2000 and 1999 are as follows:

	2000		1999	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed maturity securities	\$33,690	\$33,690	\$32,799	\$32,799
Equity securities	2,640	2,640	2,921	2,921
Short-term investments	699	699	319	319
Cash and cash equivalents	3,309	3,309	2,417	2,417
Future policy benefits	14,773	14,382	14,455	13,747
Debt outstanding	2,021	2,011	1,961	2,062
Separate account assets	6,611	6,611	5,641	5,641
Separate account liabilities	6,568	6,568	5,578	5,578

(12) Commitments and Contingent Liabilities

Various lawsuits against the Companies have arisen in the normal course of business. Contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the financial position of the Companies.

The Companies lease certain office facilities and equipment from others under operating leases expiring in various years through 2009. Rental expense amounted to \$159 and \$174 for the years ended December 31, 2000 and 1999, respectively. Future minimum rental payments under non-cancelable leases with terms in excess of one year are estimated to be \$149 for 2001, \$124 for 2002, \$103 for 2003, \$79 for 2004 and \$195 for 2005 and thereafter. It is expected that as leases expire they will be replaced by new leases.

(13) Restructuring Charge

During 1999, the Companies announced a restructuring of certain commercial operations in order to streamline operations and reduce distribution channel conflicts resulting from affiliation with EIOW. Implementation began in the third quarter of 1999 and is expected to be completed in 2001. The Companies recorded a restructuring liability during 1999 of \$77 of which \$55 was included as a purchase price adjustment. The restructuring liability primarily represents the severance costs associated with the elimination of jobs, the present value of future lease payments for discontinued leases and certain integration costs associated with the restructuring plan.

During 2000, the Companies paid \$69 in restructuring charges and as of December 31, 2000, the restructuring accrual was \$8 and is considered adequate to cover any remaining restructuring costs.

(14) Mutual Holding Company and Reorganization

On September 13, 2000, the Boards of Directors of Liberty Mutual and Liberty Fire each unanimously approved and adopted Plans of Reorganization. On September 14, 2000, the Board of Directors of EIOW unanimously approved and adopted a Mutual Holding Company Plan.

Each of the Plans are contemplated as first steps in a series of transactions resulting in the Global Transaction.

Under the Global Transaction, it is contemplated that (i) Liberty Mutual will form Liberty Mutual Holding Company ("LMHC"), a Massachusetts mutual holding company and reorganize into a Massachusetts stock insurance company ("Reorganized LMIC") and subsidiary of LMHC (ii) EIOW, a Wisconsin mutual property and casualty insurance company, will form Employers Insurance of Wausau Mutual Holding Company ("EIOW MHC"), a Wisconsin mutual holding company and reorganize into a Wisconsin stock property and casualty insurance company ("Reorganized EIOW") and subsidiary of

LIBERTY MUTUAL GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)
(dollars in millions)

EIOW MHC; (iii) assuming the reorganizations of Liberty Mutual and EIOW are consummated, EIOW MHC and LMHC will merge, with LMHC as the surviving corporation, pursuant to the terms of a merger agreement between the parties (“MHC Merger Agreement”); and (iv) simultaneously with the effectuation of the MHC Merger Agreement, Liberty Fire will reorganize into a Massachusetts stock insurance company (“Reorganized LMFIC”) and then merge with and into Liberty Insurance Acquisition Corporation a Massachusetts stock insurance company and a direct, wholly-owned subsidiary of LMHC, with LMHC as the surviving corporation. Assuming consummation of these above-mentioned steps, LMHC will contribute the shares of Reorganized EIOW and Reorganized LMFIC to Liberty Mutual Group, Inc., a wholly owned intermediate holding company. As a result, Reorganized EIOW and Reorganized LMFIC and Reorganized LMIC will become indirect, wholly-owned subsidiaries of LMHC.

Report of Independent Auditors on Other Financial Information

The Board of Directors
Liberty Mutual Insurance Company
Liberty Mutual Fire Insurance Company
Employers Insurance of Wausau a Mutual Company

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying combining balance sheets and combining statements of income and changes in policyholders' surplus are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in our audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Ernst + Young LLP

Boston, Massachusetts
May 3, 2001

LIBERTY MUTUAL GROUP
COMBINING BALANCE SHEET
December 31, 2000
(dollars in millions)

	<u>Statutory LMIC</u>	<u>Statutory Fire</u>	<u>Statutory EIOW</u>	<u>GAAP and Consolidating Entries</u>	<u>GAAP Combined</u>
Assets					
Investments:					
Fixed maturities	\$ 8,522	\$1,892	\$2,837	\$20,439	\$33,690
Equity securities	1,942	317	4	377	2,640
Investment in affiliates	4,724	91	5	(4,820)	—
Other invested assets	460	74	127	1,719	2,380
Short-term investments	—	—	—	699	699
Cash and short-term investments	<u>490</u>	<u>106</u>	<u>315</u>	<u>(911)</u>	<u>—</u>
	16,138	2,480	3,288	17,503	39,409
Cash and cash equivalents	—	—	—	3,309	3,309
Premium and other receivables, net	1,433	250	419	1,565	3,667
Recoverables from reinsurers, net	—	—	1	6,821	6,822
Reinsurance deposit receivable	472	—	—	(472)	—
Accrued investment income	143	29	40	316	528
Deferred income taxes	—	—	—	715	715
Deferred policy acquisition costs	—	—	—	1,184	1,184
Deferred distribution costs	—	—	—	169	169
Intangible assets	—	—	—	1,133	1,133
Other assets	975	69	277	659	1,980
Separate account assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,611</u>	<u>6,611</u>
Total assets	<u>\$19,161</u>	<u>\$2,828</u>	<u>\$4,025</u>	<u>\$39,513</u>	<u>\$65,527</u>
Liabilities, Minority Interests and Policyholders' Surplus					
Liabilities:					
Unpaid losses and loss adjustment expenses	\$ 9,406	\$1,493	\$2,389	10,588	\$23,876
Reserve for unearned premiums	1,612	256	409	1,600	3,877
Future policy benefits	—	—	—	14,773	14,773
Funds held by companies under reinsurance treaties	—	—	—	224	224
Current income taxes payable	289	10	—	(81)	218
Debt outstanding	—	—	—	2,021	2,021
Deposits and other liabilities	2,201	128	268	(2,597)	—
Collateral held for securities loaned	115	44	198	1,667	2,024
Guaranty fund reserve	—	—	—	236	236
Dividends to policyholders	20	3	5	162	190
Other liabilities	—	—	11	3,178	3,189
Separate account liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,568</u>	<u>6,568</u>
Total liabilities	13,643	1,934	3,280	38,339	57,196
Minority interest	—	—	—	443	443
Policyholders' Surplus					
Surplus notes	1,141	—	220	(1,361)	—
Segregated surplus and other funds	202	33	51	(286)	—
Accumulated translation adjustment	(11)	—	—	11	—
Unassigned surplus	4,186	861	474	1,260	6,781
Accumulated other comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,107</u>	<u>1,107</u>
Total surplus	5,518	894	745	731	7,888
Total liabilities, minority interest and surplus	<u>\$19,161</u>	<u>\$2,828</u>	<u>\$4,025</u>	<u>\$39,513</u>	<u>\$65,527</u>

LIBERTY MUTUAL GROUP
COMBINING STATEMENT OF INCOME
December 31, 2000
(dollars in millions)

	<u>Statutory LMIC</u>	<u>Statutory Fire</u>	<u>Statutory EIOW</u>	<u>GAAP and Consolidating Entries</u>	<u>GAAP Combined</u>
Revenues:					
Net premiums earned	\$4,499	\$714	\$1,143	\$3,660	\$10,016
Net investment income	584	139	193	910	1,826
Fee income	—	—	—	277	277
Net realized investment gains	232	38	67	(293)	44
Other revenue	<u>147</u>	<u>34</u>	<u>64</u>	<u>(161)</u>	<u>84</u>
Total revenue	5,462	925	1,467	4,393	12,247
Losses, Benefits and Expenses:					
Losses and loss adjustment expenses	4,171	662	1,059	2,648	8,540
Policyholder benefits	—	—	—	467	467
Interest credited to policyholders	—	—	—	74	74
General and administrative expenses	938	149	239	295	1,621
Policy acquisition costs	—	—	—	1,336	1,336
Premium and other taxes	166	27	43	(236)	—
Dividends to policyholders	59	9	15	15	98
Interest expense	<u>—</u>	<u>—</u>	<u>—</u>	<u>121</u>	<u>121</u>
Total losses, benefits and expenses	5,334	847	1,356	4,720	12,257
Income from continuing operations before income taxes and minority interest	128	78	111	(327)	(10)
Federal and foreign income taxes:					
Current	4	11	7	(99)	(77)
Deferred	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2)</u>	<u>(2)</u>
Total federal and foreign income taxes	4	11	7	(101)	(79)
Income from continuing operations before minority interest	124	67	104	(226)	69
Minority interest	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>	<u>2</u>
Income from continuing operations	124	67	104	(224)	71
Discontinued operations (Note 2):					
Income from discontinued operations (less applicable income taxes of \$43)	<u>—</u>	<u>—</u>	<u>—</u>	<u>90</u>	<u>90</u>
Net income	<u>\$ 124</u>	<u>\$ 67</u>	<u>\$ 104</u>	<u>\$ (134)</u>	<u>\$ 161</u>

LIBERTY MUTUAL GROUP
COMBINING BALANCE SHEET
December 31, 1999
(dollars in millions)

	<u>Statutory LMIC</u>	<u>Statutory Fire</u>	<u>Statutory EIOW</u>	<u>GAAP and Consolidating Entries</u>	<u>GAAP Combined</u>
Assets					
Investments:					
Fixed maturities	\$ 9,258	\$1,727	\$2,372	\$19,442	\$32,799
Equity securities	2,181	372	2	366	2,921
Investment in affiliates	4,506	49	—	(4,555)	—
Other invested assets	560	60	1	2,144	2,765
Short-term investments	—	—	—	319	319
Cash and short-term investments	<u>509</u>	<u>133</u>	<u>18</u>	<u>(660)</u>	<u>—</u>
	17,014	2,341	2,393	17,056	38,804
Cash and cash equivalents	—	—	—	2,417	2,417
Premium and other receivables, net	1,420	218	279	1,253	3,170
Recoverables from reinsurers, net	—	—	—	6,437	6,437
Reinsurance deposit receivable	372	—	182	(387)	167
Accrued investment income	153	28	30	304	515
Recoverable income taxes	—	—	4	(4)	—
Deferred income taxes	—	—	—	702	702
Deferred policy acquisition costs	—	—	—	1,366	1,366
Deferred distribution costs	—	—	—	154	154
Intangible assets	—	—	—	903	903
Other assets	920	222	319	514	1,975
Separate account assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,641</u>	<u>5,641</u>
Total assets	<u>\$19,879</u>	<u>\$2,809</u>	<u>\$3,207</u>	<u>\$36,356</u>	<u>\$62,251</u>
Liabilities, Minority Interests and Policyholders'					
Surplus Liabilities:					
Unpaid losses and loss adjustment expenses	\$10,154	\$1,540	\$2,001	11,042	\$24,737
Reserve for unearned premiums	1,497	227	295	1,456	3,475
Future policy benefits	—	—	—	14,455	14,455
Funds held by companies under reinsurance treaties	—	—	—	85	85
Current income taxes payable	202	10	—	(3)	209
Debt outstanding	—	—	—	1,961	1,961
Deposits and other liabilities	2,236	123	230	(2,589)	—
Collateral held for securities loaned	216	48	—	899	1,163
Guaranty fund reserve	—	—	—	282	282
Dividends to policyholders	25	4	5	179	213
Other liabilities	—	—	7	2,387	2,394
Separate account liabilities	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,578</u>	<u>5,578</u>
Total liabilities	<u>14,330</u>	<u>1,952</u>	<u>2,538</u>	<u>35,732</u>	<u>54,552</u>
Minority interest	<u>—</u>	<u>—</u>	<u>—</u>	<u>360</u>	<u>360</u>
Policyholders' Surplus					
Surplus notes	1,141	—	220	(1,361)	—
Segregated Surplus and other funds	1	1	—	(2)	—
Accumulated translation adjustment	8	—	—	(8)	—
Unassigned surplus	4,399	856	449	916	6,620
Accumulated other comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>719</u>	<u>719</u>
Total surplus	<u>5,549</u>	<u>857</u>	<u>669</u>	<u>264</u>	<u>7,339</u>
Total liabilities, minority interest and surplus ..	<u>\$19,879</u>	<u>\$2,809</u>	<u>\$3,207</u>	<u>\$36,356</u>	<u>\$62,251</u>

LIBERTY MUTUAL GROUP
COMBINING STATEMENT OF INCOME
December 31, 1999
(dollars in millions)

	<u>Statutory LMIC</u>	<u>Statutory Fire</u>	<u>Statutory EIOW</u>	<u>GAAP and Consolidating Entries</u>	<u>GAAP Combined</u>
Revenues:					
Net premiums earned	\$4,553	\$690	\$ 898	\$3,342	\$ 9,483
Net investment income	598	136	145	938	1,817
Fee income	—	—	—	262	262
Net realized investment gains	354	44	6	44	448
Other revenue	<u>(55)</u>	<u>(7)</u>	<u>74</u>	<u>121</u>	<u>133</u>
Total revenue	5,450	863	1,123	4,707	12,143
Losses, Benefits and Expenses:					
Losses and loss adjustment expenses	4,188	635	824	2,422	8,069
Policyholder benefits	—	—	—	375	375
Interest credited to policyholders	—	—	—	50	50
General and administrative expenses	932	141	184	220	1,477
Policy acquisition costs	—	—	—	1,380	1,380
Premium and other taxes	164	25	32	(221)	—
Dividends to policyholders	77	12	15	26	130
Interest expense	<u>—</u>	<u>—</u>	<u>—</u>	<u>136</u>	<u>136</u>
Total losses, benefits and expenses	<u>5,361</u>	<u>813</u>	<u>1,055</u>	<u>4,388</u>	<u>11,617</u>
Income from continuing operations before income taxes and minority interest	89	50	68	319	526
Federal and foreign income taxes:					
Current	(84)	11	—	165	92
Deferred	<u>—</u>	<u>—</u>	<u>—</u>	<u>65</u>	<u>65</u>
Total federal and foreign income taxes	<u>(84)</u>	<u>11</u>	<u>—</u>	<u>230</u>	<u>157</u>
Income from continuing operations before minority interest	173	39	68	89	369
Minority interest	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1)</u>	<u>(1)</u>
Income from continuing operations	173	39	68	88	368
Discontinued operations (Note 2):					
Income from discontinued operations (less applicable income taxes of \$39)	<u>—</u>	<u>—</u>	<u>—</u>	<u>71</u>	<u>71</u>
Net income	<u>\$ 173</u>	<u>\$ 39</u>	<u>\$ 68</u>	<u>\$ 159</u>	<u>\$ 439</u>