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EMPLOYERS INSURANCE OF WAUSAU
A Mutual Company

**POLICYHOLDER INFORMATION STATEMENT RELATING TO PROPOSED
MUTUAL HOLDING COMPANY PLAN**

[November _____, 2000]

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 EMPLOYERS INSURANCE OF WAUSAU A Mutual Company ("EIOW"), a Wisconsin mutual property and casualty insurance company, 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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EMPLOYERS INSURANCE OF WAUSAU A Mutual Company

INTRODUCTION

This Policyholder Information Statement is being furnished to Policyholders of EMPLOYERS INSURANCE OF WAUSAU A Mutual Company ("EIOW"), a Wisconsin mutual property and casualty insurance company, as of [date], who are eligible to vote (the "Eligible Members") at the Special Meeting of Members to be held at 10:00 a.m., Central Standard Time, on [February __, 2001] at the offices of EIOW located at 2000 Westwood Drive, Wausau, Wisconsin 54401 (the "Special Meeting") on the EIOW 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 80.

This information is being provided to you and the actions being proposed are in accordance with and pursuant to the Wisconsin Insurance Code.

This Policyholder Information Statement relates to the proposed restructuring of EIOW, whereby EIOW intends to convert from a Wisconsin mutual company to a Wisconsin stock company under a Wisconsin mutual holding company structure. The Restructuring will be effectuated pursuant to a Mutual Holding Company Plan, dated [date], 2000. **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 this 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 into "Employers Insurance Company of Wausau", a Wisconsin stock property and casualty insurance company ("Converted EIOW");
- EIOW MHC will be issued 100% of the initial shares of 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, if consummated, 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, thereby resulting in the policyholders of EIOW, LMIC and LMFIC becoming members of and having equity rights in Liberty Mutual Holding Company.

This Policyholder Information Statement and the accompanying form of proxy are being mailed on or about [November __, 2000] to EIOW's Policyholders.

THE CONSUMMATION OF THE MUTUAL HOLDING COMPANY PLAN IS SUBJECT TO, AMONG OTHER THINGS, APPROVAL OF MAJORITY OF THOSE ELIGIBLE MEMBERS OF EIOW VOTING AT THE SPECIAL MEETING OF POLICYHOLDERS ("VOTING MEMBERS") AND THE COMMISSIONER.

The date of this Policyholder Information Statement is [November _____, 2000].

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 in Canada. As such, it is subject in part to the laws and regulations of the State of Wisconsin applicable to 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") as well as other state and foreign insurance departments. See "*Regulation*," page 72. EIOW has filed this Policyholder Information Statement with the OCI pursuant to Chapter 644 of the Wisconsin Insurance Code. Policyholders, officers and employees 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. Members of the public may inspect and make copies of this Policyholder Information Statement during normal business hours at the offices of the OCI located at 121 East Wilson Street, Madison, Wisconsin 53707-7873. Any Policyholder who has questions about this Policyholder Information Statement may call [EIOW's Mutual Holding Company Plan toll free telephone number] at [800 number] during normal business hours.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

EIOW's annual statements for the years ended December 31, 1999, 1998, 1997, 1996 and 1995 and the quarterly statutory financial statements ended March 31, 2000 and June 30, 2000, which have been previously filed with the OCI, are incorporated by reference in this Policyholder Information Statement. Any EIOW quarterly statements filed by EIOW with the OCI after the date hereof and prior to the Special Meeting are 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 other documents 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.

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 is a summary of a plan by EIOW to form as its parent company a Wisconsin mutual holding company and to change its current legal structure from a Wisconsin mutual insurance company to a Wisconsin stock insurance company. It is anticipated that EIOW's Mutual Holding Company Plan, if consummated, will be part of a series of transactions that will result in EIOW and one or both of its affiliates, specifically, LMIC and LMFIC, all reorganizing to stock insurance companies under the common ownership of Liberty Mutual Holding Company, thereby resulting in the policyholders of EIOW, LMIC and LMFIC becoming members of and having equity rights in Liberty Mutual Holding Company.

Background on EMPLOYERS INSURANCE OF WAUSAU A Mutual Company

EIOW is a mutual property and casualty insurance company which 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 in Canada. As measured in terms of net premiums written, EIOW is the forty-second largest property and casualty insurance company in the United States, with \$1.1 billion of net written premiums in 1999.

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 intercompany reinsurance pool led by LMIC (the "Liberty Pool"). EIOW has no employees of its own and purchases all operational services from Wausau Service Corporation, a wholly-owned subsidiary of LMIC.

Today, EIOW is part of a larger organization that includes LMIC and LMFIC (collectively, the "Liberty Companies") and other legal entities (collectively, with the Liberty Companies, the "Liberty Mutual Group"). 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 largest provider of workers compensation products and services in the United States and is a recognized world leader in occupational health and safety services. The Liberty Mutual Group ranks among the largest property and casualty insurance groups in the world and ranks 111th on the Fortune 500 list of the largest U.S. corporations. See "*Background on EMPLOYERS INSURANCE OF WAUSAU A*

Mutual Company," page 31. See also "The Global Transaction – Operations of the Liberty Companies," page 45.

EIOW had statutory surplus of \$712 million as of June 30, 2000, comprised of unassigned surplus of \$492 million and surplus notes 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

EIOW will hold a Special Meeting on February [], 2001, at 10 a.m., Central Standard Time, at its offices located at 2000 Westwood Drive, Wausau, Wisconsin. At this meeting, Eligible Members will be asked to consider and vote on a proposal to approve and adopt the Mutual Holding Company Plan. Eligible Members are encouraged to vote by mailing in the enclosed proxy, or by ballot in person at the Special Meeting.

If you are a Member based on EIOW's records on the Resolution Date and Record Date, you are entitled to one vote.

The Mutual Holding Company Plan will be approved upon receipt of the affirmative vote of at least a majority of the Voting Members. The Special Meeting requires a quorum of at least 10 Eligible Members present in person.

What Your Board Recommends

On September 14, 2000, EIOW's Board of Directors unanimously approved and adopted the Mutual Holding Company Plan. The Board of Directors recommends that Eligible Members vote FOR the proposal to approve and adopt the Mutual Holding Company Plan.

The Mutual Holding Company Plan is 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 the Liberty Companies, including EIOW, LMIC and LMFIC, under the common ownership of a single mutual holding company.

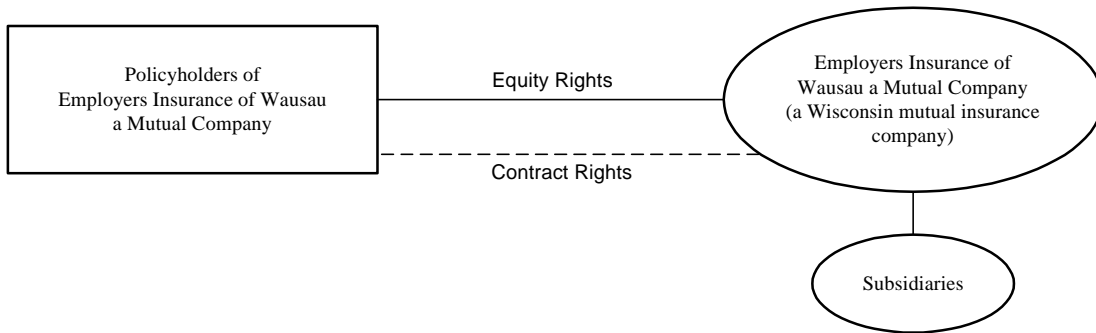
The Mutual Holding Company Plan

The Mutual Holding Company Plan provides for (a) the formation by EIOW of EIOW MHC, a Wisconsin mutual holding company; and (b) the restructuring of EIOW from a Wisconsin mutual insurance company to a Wisconsin stock insurance company.

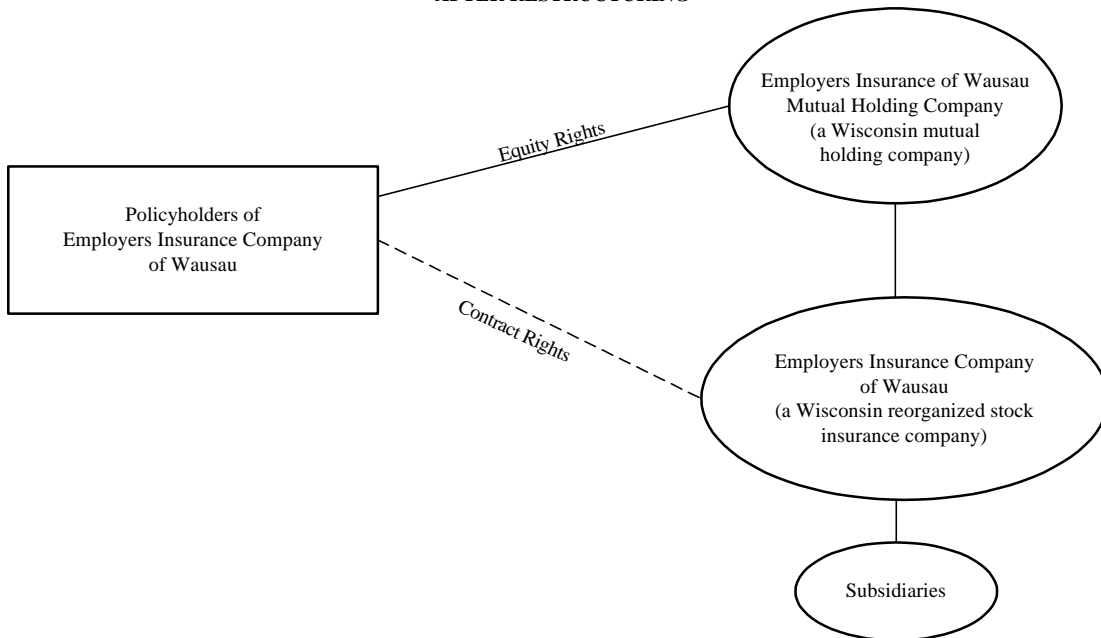
As a result of the Restructuring, EIOW will become a subsidiary of a newly formed Wisconsin mutual holding company and continue its existence as Converted EIOW, a stock property and casualty insurance company organized under the laws of Wisconsin and will continue to be regulated by the OCI. Converted 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



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 "The Global Transaction,"* page 44. 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.

ELIGIBLE MEMBERS ARE BEING ASKED TO VOTE ONLY ON THE MUTUAL HOLDING COMPANY PLAN.

Why Your Board Is Recommending the Restructuring

The Board of Directors of EIOW is recommending a vote FOR the Mutual Holding Company Plan for the following reasons:

(1) *The Global Transaction: Align Legal Structure with the Existing Operating and Economic Structures*

The Mutual Holding Company Plan is the initial step to align the legal structure of the Liberty Companies with their existing operating and economic structures. EIOW, LMIC and LMFIC are distinct legal entities but form a single, integrated insurance enterprise. The Liberty Companies operate under common management and collectively participate in each other's underwriting and operating results by virtue of their participation in the Liberty Pool. See "*The Global Transaction—Intercompany Reinsurance Pool*," page 46. Consequently, each of the Liberty Companies have common economic interests and the same underwriting results. Each shares the same ratings from A.M. Best Company, Standard & Poor's Ratings Services and Moody's Investors Service. In addition, LMIC provides all management and services to EIOW and LMFIC, including employees, operating processes, technology platforms and systems. LMIC and LMFIC have had this relationship for the past 43 years and EIOW has had this relationship since its affiliation with LMIC on December 31, 1998. See "*The Global Transaction – Operations of Liberty Companies*," page 45.

Under the Global Transaction, it is contemplated that, in addition to EIOW's Restructuring: (i) LMIC will reorganize into a Massachusetts stock property and casualty insurance company and form Liberty Mutual Holding Company; (ii) assuming the reorganizations of EIOW and LMIC are consummated, EIOW MHC will merge with Liberty Mutual Holding Company, with Liberty Mutual Holding Company as the surviving mutual entity, pursuant to the terms of a merger agreement between the parties ("MHC Merger Agreement"); and (iii) simultaneously with the effectuation of the MHC Merger Agreement, LMFIC will reorganize into a Massachusetts stock holding company ("Reorganized LMFIC") and then merge with Liberty Insurance Acquisition Corp., a newly-formed Massachusetts stock property and casualty insurance company and a direct, wholly-owned subsidiary of Liberty Mutual Holding Company that Liberty Mutual Holding Company will form solely for the purpose of the transaction, with Reorganized LMFIC as the surviving entity. Assuming consummation of these above-mentioned transactions, Liberty Mutual Holding Company will contribute the shares of Converted EIOW and Reorganized LMFIC to LMG Massachusetts Holdings, which, in turn, will contribute such shares to LMGI. As a result, Converted EIOW, Reorganized LMIC and Reorganized

LMFIC will become indirect, wholly-owned subsidiaries of Liberty Mutual Holding Company.

With this alignment, the separate identities of the Liberty Companies will be preserved. EIOW, LMIC and LMFIC are well-known insurers with long histories and strong name recognition and form a core part of the Liberty Companies' identity. The Restructuring and the other transactions comprising the Global Transaction will maintain their separate brands and identities.

The benefits achieved in this Restructuring and the Global Transaction would not alter or disrupt insurance policy rights and benefits. Existing insurance licenses and corporate identities would remain unchanged and insurance policies and coverages would be unaffected. Other forms of legal restructuring allowed by statute could require relicensing, reissuance of policies and various administrative changes that would be more costly and disruptive to EIOW's Policyholders and business operations.

A vote FOR the Mutual Holding Company Plan, which ultimately will lead to the transactions which comprise the Global Transaction, will align the legal structure of the Liberty Companies with their existing operating and economic structures.

(2) *Maintain 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 to minimize losses when accidents occur. Today, EIOW still believes that working together with EIOW's Policyholders is the best way to do business and is therefore beneficial for the company's Policyholders. This Restructuring will preserve mutuality, which the Board of Directors of EIOW has concluded is important in order to maintain long-term business focus for the benefit of both current and future Policyholders. The mutual holding company structure preserves EIOW's ability to engage in certain mutual-to-mutual company merger and affiliation transactions.

Wisconsin has recognized the need for Wisconsin mutual insurance companies to have a more flexible capital structure, while preserving their mutual form of organization, by specifically authorizing a mutual insurance company to convert into a stock company owned by a non-insurance mutual holding company.

Under the Wisconsin Insurance Code, if EIOW MHC decides to sell stock, directly or indirectly, in Converted EIOW, it will be required at all times to retain, directly or indirectly, at least 51% of shares of voting stock of Converted EIOW, thereby preserving mutuality.

A vote FOR the Mutual Holding Company Plan will preserve mutuality.

(3) *Provide Greater Flexibility*

The Mutual Holding Company Plan will allow the Liberty Mutual Group to respond rapidly and more effectively to changes in the insurance and financial services industries by providing greater strategic, operating and financial flexibility. The Liberty Mutual Group faces increasing competition from traditional stock insurance companies, foreign-based insurers, banks and financial services companies. In light of recent financial services deregulation, the mutual holding company structure will permit Liberty Mutual Group to pursue opportunities and business strategies that would otherwise be unavailable to a mutual insurance company. Nontraditional competitors, including niche service providers and internet start-ups, are challenging the more traditional players and changing the competitive environment. The internet and other technologies are changing the way products and services are sold and delivered.

The Board of Directors of EIOW believes the most successful insurance companies in this changing environment will be those with the necessary scale, capital and financial strength to provide competitive products and services that are responsive to the needs of their policyholders. In order to continue competing successfully, the Liberty Mutual Group must have prompt access to the same type of resources and financial tools available to others in the marketplace, when and if it chooses to pursue them.

Access to Capital Markets

At present, EIOW is able to increase its statutory capital principally by retaining earnings derived from its operating results, by issuing surplus notes and/or by divesting all or a portion of interests in subsidiaries or other investments. These methods are limited in the extent to which they can provide a source of permanent capital for EIOW.

If, in the future, there is a need for additional capital and market conditions permit, the Mutual Holding Company Plan will allow Converted EIOW to sell shares of stock to the public and/or other third parties, thereby raising future equity capital. If needed, additional equity capital will give Converted EIOW and its parent company further financial strength to grow and position it to continue to provide competitive products and services to Policyholders. In effect, the Mutual Holding Company Plan will put Converted EIOW on a level playing field with many of its principal competitors by allowing it access to the same capital market tools available to them, when and if Converted EIOW and/or its parent company elects to pursue such opportunities.

Increased Growth and Greater Flexibility in Organizing Future Business Opportunities

The insurance industry is undergoing increasing consolidation. The Board of Directors of EIOW believes that the most successful insurance companies in the future will be those with the scale, capital and financial strength to compete in a mature market with fewer but larger insurers. Increased scale is achieved through organic growth or through acquisitions, or both. The Mutual Holding Company Plan provides greater flexibility to accomplish both.

The mutual holding company structure embodied in the Mutual Holding Company Plan preserves and enhances the ability of Converted EIOW and its parent company to merge and/or affiliate with other mutual insurers. Additionally, through the ability to use stock as an "acquisition currency," Converted EIOW and its parent company will be better positioned to respond to strategic acquisition opportunities. Finally, with access to capital markets Converted EIOW and its parent company will be better able, if necessary, to acquire additional capital to invest in new products and services, and more effective operations, to increase organic growth.

Financial Strength and Claims Paying Ratings

Insurance companies' strengths or weaknesses in claims-paying, financial credit worthiness and financial stability are regularly assessed by independent rating agencies. Superior ratings allow a company to distinguish itself from its competitors and enhance the sale of its products and services.

In addition to the competitive advantages that the mutual holding company structure may provide, this structure also provides additional capital flexibility. Both access to capital markets and the ability to make acquisitions by companies other than insurance companies or insurance company subsidiaries are ways that the overall organization can grow without reducing insurance company capital, while potentially benefitting the financial ratings as a result.

It is anticipated that consummation of the Restructuring, as well as of the Global Transaction, initially will not affect Converted EIOW's or the Liberty Companies' financial ratings by A.M. Best Company, Standard & Poor's Ratings Services and Moody's Investors Service. Over time, the increased flexibility provided could have a positive effect on such ratings; however, there can be no assurances that Converted EIOW's financial and/or claims paying ratings will improve as a result of the Restructuring or the Global Transaction.

A vote FOR the Mutual Holding Company Plan will increase the flexibility Converted EIOW and its parent company need to continue competing successfully in the marketplace and meet the needs of current and future Policyholders. Consummation of the Global Transaction will further enhance that flexibility.

Your Rights as a Policyholder

Each EIOW Policyholder has both Contract Rights under their Policies and Equity Rights in EIOW. Upon consummation of the Mutual Holding Company Plan a Policyholder's Contract Rights will remain in 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 extinguished and replaced with Equity Rights in EIOW MHC. "Equity Rights" are the uncertificated rights in the equity of EIOW, conferred by law, including: (i) 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 of EIOW 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 under the articles of incorporation or bylaws of EIOW, or otherwise provided by law.

The Mutual Holding Company Plan will not result in any change in the Contract Rights of Policyholders or in EIOW's existing business operations. 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 Commissioner under applicable Wisconsin Insurance Code to assure that Policyholders' interests are protected.

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. It is EIOW's intention that its current policies with respect to dividends to Policyholders will not be affected by the Restructuring.

Description of the Global Transaction

General

It is anticipated that EIOW's Restructuring, if consummated, will be part of a series of transactions that will result in EIOW and one or both of its affiliates, specifically, LMIC and LMFIC, being under the common ownership of Liberty Mutual Holding Company. After consummation of the Global Transaction, 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.

Operations of the Liberty Companies

LMIC and LMFIC were organized under the laws of the Commonwealth 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. At June 30, 2000, LMIC had surplus of \$5.5 billion, inclusive of surplus notes in the principal amount of \$1.14 billion and approximately 660,000 Policyholders. At June 30, 2000, LMFIC and EIOW had surplus of \$901 million and \$712 million, inclusive of an EIOW surplus note in the principal amount of \$220 million held by LMIC, respectively, and approximately 1.6 million and 29,000 policyholders, respectively.

These three affiliated mutual property and casualty insurance companies are under the common control and part of a single insurance holding company system. "Control" is defined under applicable insurance laws as one company having the power to direct the management and policies of another 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, while seven of the ten EIOW board members are members of LMIC's senior management.

Notwithstanding this common control element, each of the Liberty Companies is a separate legal entity, with each company's policyholders electing directors separately and each of the Liberty Companies filing separate income tax returns.

From a management and operational perspective, the Liberty Companies are highly integrated acting under common management and sharing the risks and rewards of their property and casualty insurance operations, as described below.

Intercompany Reinsurance Pool

The Liberty Companies enhance the geographic and product risk diversity of their separate property and casualty businesses by participating in the Liberty Pool. The insurance written by pool participants is reinsured by LMIC, the lead company of the reinsurance pool, and each participating company assumes an agreed-upon percentage of the combined underwriting result. LMIC and LMFIC have been pooling their underwriting results for approximately 43 years. EIOW joined the Liberty Pool on December 31, 1998 (effective January 1, 1999), concurrent with its affiliation with LMIC. In this manner, the Liberty Companies share underwriting profits and losses in proportion to their percentage interests in the Liberty Pool. See "*The Global Transaction – Intercompany Reinsurance Pool*," page 46.

Insurance and Investment Operations

The various insurance operations support functions of the 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 have any employees or insurance support operations. The costs of services provided by LMIC are shared through the Liberty Pool intercompany agreement and various management services and investment management agreements.

Investment Portfolio

Although the investment portfolio 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 consists of the following transactions, in addition to the Restructuring:

LMIC Reorganization

LMIC will form: (i) Liberty Mutual Holding Company; (ii) LMG Massachusetts Holdings, a wholly-owned stock subsidiary of Liberty Mutual Holding Company; and (iii) LMGI, a Massachusetts stock holding company that is a wholly-owned subsidiary of LMG

Massachusetts Holdings and will convert to Reorganized LMIC, a stock property and casualty insurer. Liberty Mutual Holding Company will be issued all of the initial shares of voting stock of Reorganized LMIC. Immediately thereafter, Liberty Mutual Holding Company will contribute to LMG Massachusetts Holdings all of the shares of voting stock of Reorganized LMIC. LMG Massachusetts Holdings, in turn, will contribute all of the shares of voting stock of Reorganized LMIC to LMGI (the transactions described above collectively, the "LMIC Reorganization").

MHC Merger

Assuming consummation of EIOW's Restructuring and LMIC's Reorganization to mutual holding company structures, EIOW MHC's board of directors is expected to vote to merge with Liberty Mutual Holding Company, with Liberty Mutual Holding Company being the surviving mutual entity (the "MHC Merger"), pursuant to the terms and conditions of the MHC Merger Agreement. In addition to requiring the approval of the board of directors of EIOW MHC and the Wisconsin Commissioner of Insurance, the MHC Merger Agreement will need to be approved by the board of directors of Liberty Mutual Holding Company, two-thirds of Liberty Mutual Holding Company's members voting at a special meeting called for such purpose and the Massachusetts Commissioner. 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 is expected to be presented for approval to the boards of directors of Liberty Mutual Holding Company and EIOW MHC, once those mutual holding companies are formed, is attached as Annex B to this Policyholder Information Statement.

LMFIC Reorganization

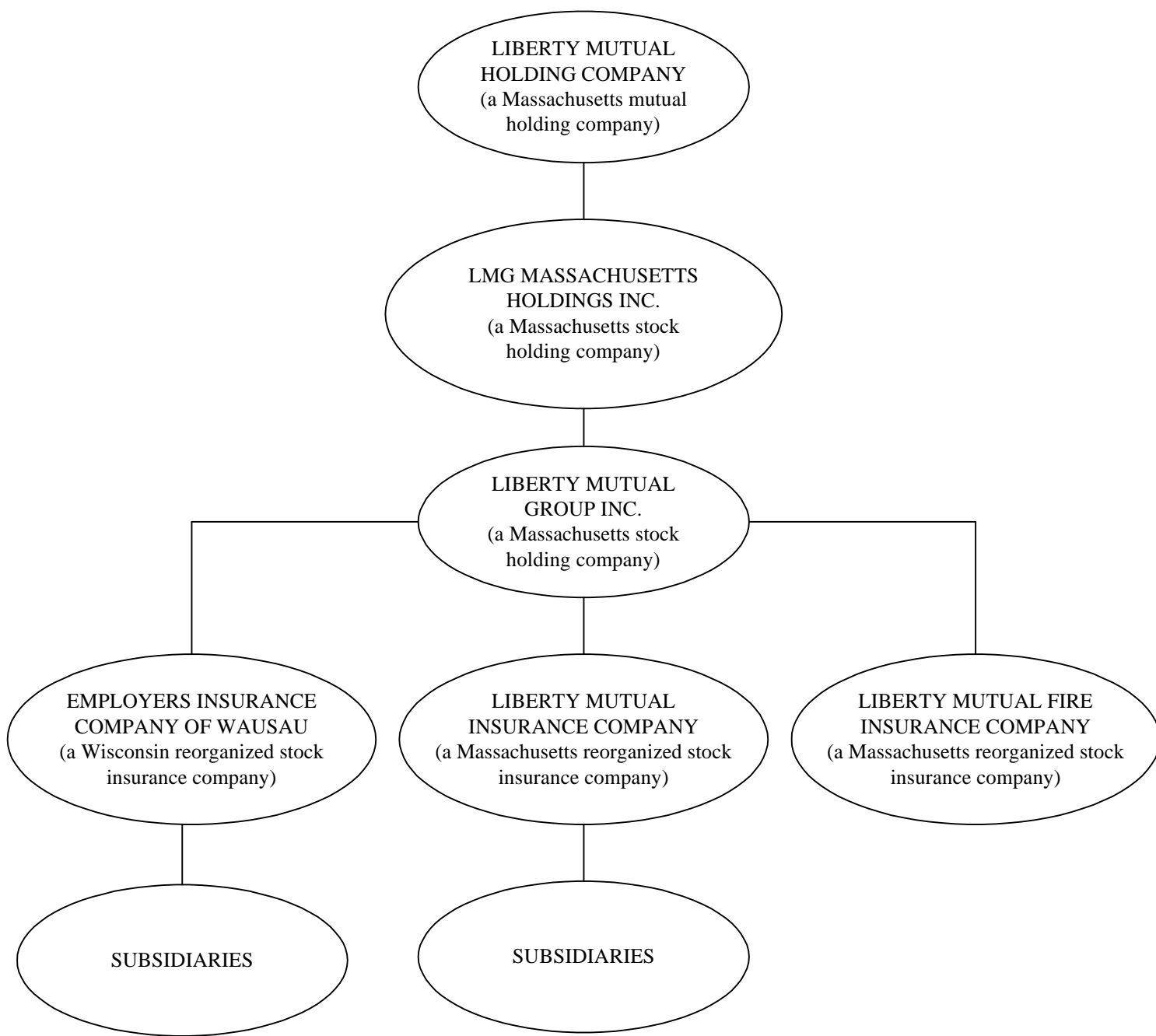
Pursuant to the terms and conditions of the reorganization and combination agreement (the "Reorganization and Combination Agreement") between and among Liberty Mutual Holding Company, LMFIC and Liberty Insurance Acquisition Corp., a newly-formed Massachusetts stock property and casualty insurance company to be formed by Liberty Mutual Holding Company solely for purposes of effectuating the transaction, LMFIC will reorganize from a Massachusetts mutual insurance company to a Massachusetts stock insurance company and merge with Liberty Insurance Acquisition Corp. 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 Combination and Restructuring 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., when these 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 LMG Massachusetts Holdings, which, in turn, will contribute the shares to LMGI. As a result, Converted EIOW, Reorganized LMIC and Reorganized LMFIC will become indirect, wholly-owned subsidiaries of Liberty Mutual Holding Company. 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. See "*Elements of the Global Transaction*," page 47.

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

AFTER GLOBAL TRANSACTION



Benefits of Global Transaction

EIOW's Board of Directors believes that the Mutual Holding Company Plan is fair and equitable to EIOW Policyholders and expected to benefit EIOW Policyholders, with or without regard to consummation of the other transactions comprising the Global Transaction. The Board of Directors of EIOW believes, however, that the Global Transaction, if consummated, will further enhance the benefits accruing to EIOW and its Policyholders by virtue of the Restructuring. These additional benefits include:

Align Legal Structure with Existing Operating and Economic Structures

EIOW, LMIC and LMFIC are distinct legal entities that function today as part of a single, highly integrated insurance enterprise. They act under common management and participate in each other's underwriting and operating results by virtue of their participation in the Liberty Pool. Each of the companies shares common economic interests and the same underwriting results. Each shares the same ratings from A.M. Best Company, Standard & Poor's Ratings Services and Moody's Investors Service. In addition, LMIC and its subsidiaries provide all management and services to EIOW and LMFIC, including employees, operating processes and technology platforms and systems. LMIC and LMFIC have had this relationship for the past 43 years, and EIOW has had this relationship since its affiliation with LMIC on December 31, 1998.

The Global Transaction will align the legal structures of the Liberty Companies with their existing operating and economic structures, resulting in more streamlined and efficient governance and administrative processes that will replace the separate and redundant tasks required by the current legal structures.

Enhanced Access to Capital Markets

The Liberty Companies have no current plan to demutualize or to issue stock to third parties, either through an initial public offering or private sale of stock to a third party. However, if there ever were a need to access capital markets, the larger, more diverse organization resulting from the Global Transaction will have the capacity to raise more capital, as a whole, and to raise it more efficiently, than the sum of capital that potentially could be raised through the demutualizations or initial public offerings of the individual Liberty Companies.

Contract 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	A. Policy benefits are obligations of EIOW.	All Policy obligations remain obligations of Converted EIOW. Converted EIOW is the same company except it is reorganized 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.	Same as "After Restructuring."
	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.	EIOW's current policies with respect to dividends or other refunds of premiums to Policyholders will not be affected by the Restructuring.	Same as "After Restructuring."
Equity Rights	A. One vote per Member.	One vote per Member.	Same as "After Restructuring", except that policyholders of Converted EIOW, Reorganized LMIC and Reorganized LMFIC will have equity rights in Liberty Mutual Holding Company.
	B. Policyholders share in EIOW's net worth in the event of liquidation, dissolution or conversion proceedings.	Members of EIOW MHC share in EIOW MHC's net worth in liquidation, dissolution proceedings or conversion proceedings.	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.
	C. Policyholders, as Members of EIOW, have no right to dividends declared by the board of directors of EIOW.	Policyholders, as Members of EIOW MHC, have no right to dividends declared by the board of directors of EIOW MHC.	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.

ELIGIBLE 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 THESE AGREEMENTS WILL BE TAKEN UNTIL SUCH TIME AS THE BOARDS ARE ESTABLISHED. MOREOVER, EVEN IF THE BOARDS OF DIRECTORS OF EIOW MHC AND LIBERTY MUTUAL HOLDING COMPANY ARE ESTABLISHED, THERE CAN BE NO ASSURANCES THAT THE TERMS AND CONDITIONS OF THE MHC MERGER AGREEMENT AND OF THE REORGANIZATION AND COMBINATION AGREEMENT, IF AND WHEN FINALIZED, WILL BE THE SAME AS THE ONES SET FORTH IN THE FORM OF MHC MERGER AGREEMENT AND REORGANIZATION AND COMBINATION AGREEMENT ATTACHED TO THIS POLICYHOLDER STATEMENT. FINALLY, THERE CAN BE NO ASSURANCES THAT EVEN IF BOTH AGREEMENTS ARE CONSUMMATED THAT THE POTENTIAL BENEFITS OF THE GLOBAL TRANSACTION, DESCRIBED ABOVE, WILL BE REALIZED.

Special Considerations Regarding the Mutual Holding Company Plan

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

- The Mutual Holding Company Plan contemplates the extinguishment of Policyholders' Equity Rights in EIOW and the replacement of such Equity Rights with Equity Rights in EIOW MHC. Other than Equity Rights in EIOW MHC, Members will receive no consideration in the form of stock or cash for their Equity Rights in EIOW, as they would if EIOW were to demutualize.
- 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.
- EIOW MHC will own 100% of the shares of voting stock of Converted EIOW. In the event of an initial public offering or the sale of shares of Converted EIOW to third parties, the Wisconsin Insurance Code requires that EIOW MHC will at all times own, directly or indirectly, at least 51% of the shares of voting stock of Converted EIOW. Accordingly, only a minority voting interest in Converted EIOW may be directly or indirectly available for sale to the public. The inability of public investors to acquire

a controlling interest may adversely affect the value and/or marketability of any stock sold.

- There can be no assurance that the business strategies of EIOW MHC and/or of Converted EIOW following the Restructuring, which depend in large part upon the skill and judgment of EIOW's current and future management, will be successful.
- Certain activities that are regulated by the Commissioner under the mutual company structure may not be regulated, or may be regulated differently, under the mutual holding company structure. Moreover, uncertainty will exist regarding how EIOW MHC will be regulated upon consummation of the Restructuring, since no Wisconsin mutual insurance company has undergone a mutual holding company reorganization under Wisconsin Insurance Code. Also, depending on its future business activities, EIOW MHC may become subject to various federal laws and come under the authority of federal regulators. If the interests of federal regulators and state insurance regulators conflict, Members' Equity Rights in Liberty Mutual Holding Company could be adversely affected.
- Wisconsin Insurance Code provides that the Commissioner may issue regulations to implement the mutual holding company law and establish applicable procedures thereunder. Although no regulations or procedures have been promulgated or proposed to date, the Commissioner may at some future point adopt regulations or procedures to implement Wisconsin's mutual holding company law. There can be no assurances that any regulations adopted by the Commissioner will not affect EIOW's Mutual Holding Company Plan, including its conditions to effectiveness and the contemplated timing for consummation of the Mutual Holding Company Plan.
- There can be no assurances that the plans of reorganization of LMIC and LMFIC or the MHC Merger Agreement or the Reorganization and Combination Agreement will be consummated. To the extent that LMFIC's plan of reorganization is consummated, but either EIOW's Mutual Holding Company Plan or the MHC Merger Agreement is not, Liberty Mutual Holding Company and LMFIC would intend to consummate the Reorganization and Combination Agreement. If the Reorganization and Combination Agreement is not consummated, then EIOW MHC and its subsidiaries will remain a Wisconsin mutual holding company structure.

- Certain mutual insurance companies that have reorganized or proposed to reorganize to a mutual holding company structure have been sued by certain policyholders alleging 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 expected to benefit the Policyholders. See "*Special Considerations Regarding the Mutual Holding Company Plan*," page 54.

Special Considerations Regarding the Global Transaction

Consummation of the Global Transaction is dependent upon a variety of factors, including consummation of the Mutual Holding Company Plan, consummation of both LMIC's and LMFIC's plans of reorganization and consummation of the MHC Merger Agreement and the Reorganization and Combination Agreement. Should the MHC Merger Agreement not be consummated, Liberty Mutual Holding Company and LMFIC may nonetheless decide to consummate the Reorganization and Combination Agreement. Should the Reorganization and Combination Agreement not be consummated, Liberty Mutual Holding Company and EIOW MHC may nonetheless decide to consummate the MHC Merger Agreement. To the extent that the Reorganization and Combination Agreement and the MHC Merger Agreement are not consummated, EIOW MHC will remain a Wisconsin mutual holding company.

Other considerations regarding the Global Transaction include the sufficiency of consideration to members for their equity rights in Liberty Mutual Holding Company and the dilution of the voting rights of members of Liberty Mutual Holding Company. See "*Special Considerations Regarding the Global Transaction*," page 57.

Structural Alternatives to the Mutual Holding Company Plan

Aside from forming a Wisconsin mutual holding company and restructuring into a Wisconsin stock insurance company, the principal structural alternatives to the Mutual Holding Company Plan available under Wisconsin Insurance Code for EIOW are: (1) to remain a mutual insurance company; (2) to merge with one or both of the other Liberty Companies; (3) or to demutualize.

(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. The internet and other technologies are changing the way financial products and services will be 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 and 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 recognition of certain competitive disadvantages involving the mutual insurance company form of ownership, the largest mutual insurers in many foreign countries have reorganized to stock form of ownership. Within the United States, many of the large mutual life insurance companies have either demutualized or reorganized into a mutual holding company structure, or announced their intention to do so. During the past 10 years, approximately 16 mutual life companies have reorganized to mutual holding companies and approximately 9 mutual life companies have demutualized. While EIOW is one of the first mutual property and casualty companies to propose reorganizing to a mutual holding company structure, the trend and legal form has been well established.

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

(2) *Merger with other Liberty Companies*

Although a merger among EIOW and both of its affiliates, specifically LMIC and LMFIC, would align the legal and operational structures of the Liberty Companies, any such merger would result in disadvantages for the Liberty Company (or 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, in addition to the disruption that any such merger would cause to the policyholders involved. 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) *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:

- Members would be entitled to receive cash or stock or other forms of consideration for the extinguishment of their Equity Rights in EIOW MHC.
- Demutualization would provide the opportunity to use stock of the demutualized EIOW or EIOW MHC as "acquisition currency."
- Demutualization overcomes certain potential conflicts of interest between policyholders and shareholders that a mutual holding company structure may create in the event of a sale of stock.
- 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 Regarding the Mutual Holding Company Plan," page 54.*

Demutualization as a structural alternative to the mutual holding company structure may include certain potential disadvantages to EIOW MHC and for the Policyholders of Converted 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 long-term business focus for the benefit of both current and future Policyholders.
- Demutualization involves a decision by a mutual insurance company (or a mutual holding company) to forfeit its mutuality and the benefits that mutuality confers including, but not limited to, the ability of a mutual insurer or mutual holding company to engage in certain merger or affiliation transactions with other mutual insurers and potentially other mutual holding companies.

- Demutualization may not result in EIOW MHC receiving the best or even a good price with respect to the sale of shares of Converted EIOW, since EIOW MHC has limited control of the timing of any public equity 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, allowing it to maximize the value received in the offerings. 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.
- [Given its reliance on the management, employees, services and systems of LMIC, the board of directors of EIOW has determined that it would not be in the best interests of EIOW to undertake a demutualization.]

Board Recommendation on Structural Alternatives

A change in structure, whether to a mutual holding company structure or to a stock holding company structure, involves certain risks. However, those risks must be measured against the benefits of a structural change and the risks associated with maintaining the status quo while competitors with greater access to capital set the benchmarks for critical mass even higher.

The Board of Directors of EIOW believes that the mutual holding company structure embodied in the Mutual Holding Company Plan as well as the Global Transaction provides the best opportunity for EIOW to compete in the rapidly changing insurance and financial services marketplace. The mutual holding company structure contemplated by the Mutual Holding Company Plan will preserve and enhance the ability of Converted EIOW and its affiliates to merge or affiliate with other mutual insurers. This advantage of the mutual holding company structure is especially critical to EIOW in that, after consummation of the Restructuring, it will allow the other transactions contemplated in the Global Transaction to take place, thereby further positioning the Liberty Mutual Group to compete most effectively in the insurance marketplace and financial services marketplaces. See "*Benefits of the Global Transaction*," page 51.

For these reasons, among others, including the importance of preserving mutuality, the Board of Directors of EIOW has concluded that the Restructuring is fair and equitable to EIOW's Policyholders and expected to benefit Policyholders and should therefore be undertaken as authorized by Wisconsin Insurance Code.

Certain U.S. Federal Income Tax Considerations

The Mutual Holding Company Plan will not become effective unless on or prior to the Effective Date EIOW shall have obtained (i) a private letter ruling from the IRS that is in force on the Effective Date or (ii) an opinion of special tax counsel to EIOW, in either case, substantially to the effect that, for U.S. federal income tax purposes, the formation of EIOW MHC and the conversion of EIOW from a mutual company into a stock company will qualify under sections 368(a) or 351(a) of the Code. *See "Certain U.S. Federal Income Tax Consequences of the Restructuring, the MHC Merger and the LMFIC Reorganization,"* page 68.

Fairness Opinion

The Board of Directors of EIOW has examined various strategic alternatives. To assist in this process, management has retained Credit Suisse First Boston Corporation ("CSFB") as its financial advisor.

In examining strategic alternatives, the Board of Directors considered the opinion of CSFB, dated September 14, 2000, that (i) as of the date of the opinion, the extinguishment of Members' Equity Rights in EIOW and the replacement of such Equity Rights in EIOW MHC and the continuance of their Contract Rights in Converted EIOW pursuant to the Mutual Holding Company Plan 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. Although CSFB's opinion was provided to the Board of Directors in connection with the Board's consideration of the Mutual Holding Company Plan, it is not a recommendation to any Eligible Member as to how such Eligible Member should vote at the Special Meeting on the proposed Mutual Holding Company Plan. CSFB has provided certain investment banking services to EIOW affiliates in the past and on an ongoing basis, for which services CSFB has been or will be compensated. A copy of CSFB's Fairness Opinion is included as Annex D 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 acting as financial advisor to the boards of directors of LMIC and LMFIC in connection with their reorganizations. It is contemplated that CSFB will act as financial advisor to the boards of directors of EIOW MHC and Liberty Mutual Holding Company (when the respective entities are formed) in connection with the MHC Merger and to the board of directors of Liberty Mutual Holding Company and LMFIC in connection with the LMFIC Reorganization.

Conditions to Consummation of the Mutual Holding Company Plan

The effectiveness of the Mutual Holding Company Plan is also subject to the satisfaction of several other conditions. See "*Conditions to Consummation of the Mutual Holding Company Plan*," page 73. Assuming that all of the conditions to the effectiveness to the Mutual Holding Company Plan are satisfied, EIOW anticipates that the Effective Date of the Restructuring will occur sometime during the first quarter of 2001. However, no assurance can be given that these conditions will be satisfied or that this timetable will be met. If the Mutual Holding Company Plan is not consummated, EIOW will remain in its current form as a Wisconsin mutual property and casualty insurance company.

Selected Financial Information

The selected financial information set out below for EIOW, as of and for each of the three years ended December 31, 1997 through 1999, is derived from the audited statutory financial statements of EIOW. The selected financial information at and for the six months ended June 30, 2000 and 1999 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 E hereto.

Because the financial statements of EIOW MHC after consummation of the Restructuring, prepared on a GAAP or SAP basis, will not differ materially from the financial statements of EIOW prepared on a GAAP or SAP basis, respectively, no pro forma financial information for EIOW MHC is presented in this Policyholder Information Statement.

Selected financial information is also set out below for Liberty Mutual Group as of and for the years ended December 31, 1998 and 1999 and is based on the audited GAAP financial statements for Liberty Mutual Group. The selected financial information for Liberty Mutual Group as of and for the six months ended June 30, 2000 and 1999 is derived from unaudited quarterly GAAP financial information for Liberty Mutual Group. This financial information should be read in conjunction with the audited GAAP financial statements attached as Annex F hereto.

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

EMPLOYERS INSURANCE OF WAUSAU A Mutual Company
SAP Financial Information
(\$ in millions)

	Year Ended December 31,			Six Months Ended June 30,	
	1997	1998	1999	1999	2000
Premiums earned	\$ 1,309	\$ 1,094	\$ 898	\$ 456	\$ 547
Investment income, net	150	156	145	69	106
Realized investment gains	4	346	89	6	7
Other, net	(6)	(4)	(9)	–	(6)
Total Revenue	1,457	1,592	1,123	531	654
Losses and loss expenses	1,030	1,123	824	411	484
Other underwriting expenses	347	238	216	105	141
Policyholder Dividends	14	12	15	7	9
Total Expenses	1,391	1,373	1,055	523	634
Pre-tax income	66	219	68	8	20
Income taxes	(8)	(24)	–	–	–
Net income	\$ 74	\$ 243	\$ 68	\$ 8	\$ 20
Total Assets	\$ 3,039	\$ 2,837	\$ 3,207	\$ 3,291	\$ 3,796
Total Liabilities	2,514	2,262	2,538	2,701	3,084
Surplus	525	575	669	590	712

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

Combined GAAP information

	Year Ended December 31,		Six Months Ended June 30,	
	1998	1999	1999	2000
Premiums earned	\$ 7,509	\$ 9,483	\$ 4,382	\$ 4,810
Investment income, net	2,312	2,627	1,224	1,499
Realized investment gains	193	406	106	132
Other, net	832	846	441	422
Total Revenue	<u>10,846</u>	<u>13,362</u>	<u>6,153</u>	<u>6,863</u>
Losses and loss expenses	6,375	8,069	3,732	3,968
Benefits and expenses	3,718	4,512	2,013	2,313
Policyholder Dividends	41	130	64	63
Total Expenses	<u>10,134</u>	<u>12,711</u>	<u>5,809</u>	<u>6,344</u>
Pre-tax income	712	651	344	519
Income taxes	230	212	107	161
Net income	<u>\$ 482</u>	<u>\$ 439</u>	<u>\$ 237</u>	<u>\$ 358</u>
Total Assets	\$ 58,627	\$ 62,251	\$ 61,482	\$ 63,540
Total Liabilities	50,671	54,912	53,764	56,113
Surplus	7,956	7,339	7,718	7,427

POLICYHOLDER INFORMATION STATEMENT

Introduction

This Policyholder Information Statement is being furnished to Policyholders of EIOW, as of [date], who are eligible to vote at the Special Meeting of Members to be held at 10:00 a.m., Central Standard Time, on [February __, 2001] at the offices of EIOW located at 2000 Westwood Drive, Wausau, Wisconsin 54401 on the EIOW Mutual Holding Company Plan, which is attached hereto as Annex A.

BACKGROUND ON EMPLOYERS INSURANCE OF WAUSAU A MUTUAL COMPANY

EIOW is a mutual property and casualty insurance company which was organized under the laws of the State of Wisconsin in 1911. EIOU is licensed to write property and casualty insurance in all fifty states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and in Canada. As measured in terms of net premiums written, EIOU is the forty-second largest property and casualty insurance company in the United States, with \$1.1 billion of net written premiums in 1999.

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

Today, EIOU 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 largest provider of workers compensation products and services in the United States and is a recognized world leader in occupational health and safety services. The Liberty Mutual Group ranks among the largest property and casualty insurance groups in the world and ranks 111th on the Fortune 500 list of the largest U.S. corporations.

EIOU had statutory surplus of \$712 million as of June 30, 2000, comprised of unassigned surplus of \$492 million and surplus notes of \$220 million. As a member of the Liberty Pool, EIOU'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

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.

Voting at the Special Meeting

The Special Meeting of Eligible Members will be held on [February __, 2001] at 10:00 a.m., Central Standard Time, at EIOW's office located at 2000 Westwood Drive, Wausau, Wisconsin. Each Eligible Member will be entitled to one vote. Eligible Members are encouraged to vote by ballot in person at the Special Meeting, or by proxy.

The affirmative vote of at least a majority of the Voting Members is required to approve the Mutual Holding Company Plan.

A quorum is required at the Special Meeting and shall consist of at least 10 Eligible Members present in person at the Special Meeting.

Description of Proxy Enclosed with Policyholder Information Statement

Enclosed along with this Policyholder Information Statement is a proxy. The proxy allows Eligible Members to authorize management of EIOW or someone other than management of EIOW to cast the Eligible Member's vote.

Eligibility to Vote

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

- Such Member was listed on the records of EIOW as the Policyholder of one or more Policies on the Resolution Date (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. A Policy will be deemed to be In Force on a given day if it has been issued and has

not been cancelled or otherwise terminated. Whether or not a Policy is In Force will be determined based upon EIOW's records.

How To Vote

Each Eligible Member shall be entitled to vote either by ballot in person at the Special Meeting, or by proxy. If an Eligible Member elects to vote by proxy, the proxy should be returned by mail to [].

A postage pre-paid envelope is enclosed for your use. Mailed proxies must be received by 5:00 p.m., Central Standard Time, on [January __, 2001] in order to be counted. Eligible Members who want to cast their votes in person may do so at the Special Meeting to be held at the offices of EIOW, beginning at 10:00 a.m. Central Standard Time on [February __, 2001].

An Eligible Member's ballot or 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 a ballot or proxy contains a vote both FOR and AGAINST the Mutual Holding Company Plan, such ballot or proxy will not be voted and will not be cast. If the ballot or proxy is executed but no choice is indicated, the Policies represented by the ballot or proxy will be voted FOR the approval of the Mutual Holding Company Plan.

BOARD OF DIRECTORS' RECOMMENDATION FOR APPROVAL

The Board of Directors of EIOW unanimously adopted the Mutual Holding Company Plan on September 14, 2000. 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 Mutual Holding Company Plan is 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 a single mutual holding company. Policyholders of EIOW, LMIC and LMFIC will become members of the single mutual holding company.

The Board of Directors of EIOW has been examining various strategic alternatives. To assist in this process, management has retained CSFB as financial advisor and Skadden, Arps, Slate, Meagher & Flom LLP as outside legal counsel.

In examining strategic alternatives, the Board of Directors considered the opinion of CSFB, dated September 14, 2000, that (i) as of the date of the opinion, the extinguishment of Members' Equity Rights in EIOW and the replacement of such Equity Rights in EIOW MHC and the continuance of their Contract Rights in Converted EIOW pursuant to the Mutual Holding Company Plan 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. Although CSFB's opinion was provided to the Board of Directors in connection with the Board's consideration of the Mutual Holding Company Plan, it is not a recommendation to any Eligible Member as to how such Eligible Member should vote at the Special Meeting on the proposed Mutual Holding Company Plan. CSFB has provided certain investment banking services to EIOW affiliates in the past and on an ongoing basis, for which services CSFB has been or will be compensated. A copy of CSFB's Fairness Opinion is included as Annex D 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 acting as financial advisor to the boards of directors of LMIC and LMFIC in connection with their reorganizations. It is contemplated that CSFB will act as financial advisor to the boards of directors of EIOW MHC and Liberty Mutual Holding Company (when the respective entities are formed) in connection with the MHC Merger and to the board of directors of Liberty Mutual Holding Company and LMFIC in connection with the LMFIC Reorganization.

THE RESTRUCTURING

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

General

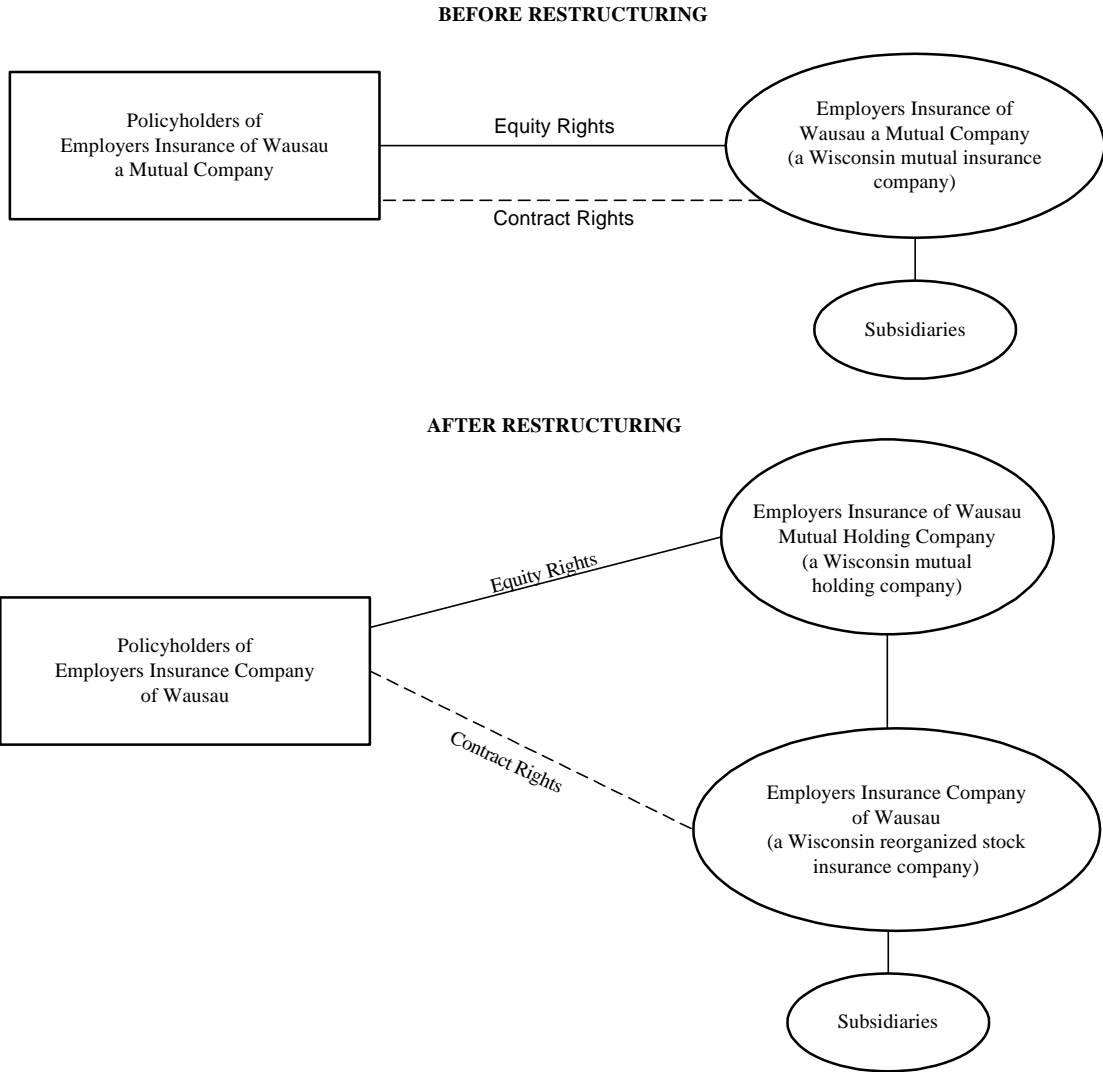
The Mutual Holding Company Plan provides that EIOW will form as its parent company a Wisconsin mutual holding company and convert into a Wisconsin stock insurance company. A copy of the Mutual Holding Company Plan is attached to this Policyholder Information Statement as Annex A. The Restructuring will 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 Insurance Code.

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

- EIOW will form EIOW MHC, a Wisconsin mutual holding company;
- EIOW will convert into Converted EIOW, a Wisconsin stock property and casualty insurance company;
- EIOW MHC will be issued 100% of the initial shares of voting stock of Converted EIOW; and
- All 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:



ELIGIBLE MEMBERS ARE BEING ASKED TO VOTE ONLY ON THE MUTUAL HOLDING COMPANY PLAN.

REASONS FOR AND POTENTIAL BENEFITS OF THE RESTRUCTURING

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 insurers did not have the same

capital-raising options as stock companies. A number of states (including Wisconsin and Massachusetts) recently passed mutual holding company laws whereby a mutual insurance company can reorganize into a stock insurance company owned by a non-insurance mutual holding company. A mutual holding company reorganization allows eligible members to receive equity rights in the mutual holding company, upon the extinguishment of their equity rights in the mutual insurance company while their contract rights will remain with the reorganized stock insurance company into which the mutual insurance company will be reorganized upon consummation of the reorganization.

The enactment of state mutual holding company laws can be viewed as an integral part of a trend of deregulation and consolidation of the insurance and financial services industries. In order for mutual insurance companies to be able to diversify and compete in global insurance and financial services, several state legislatures have recognized the need for flexibility of capital structures, while preserving the mutual form of organization.

These developments present EIOW with a unique opportunity, since EIOW is faced with significant changes in the insurance and financial services marketplaces that have affected and will continue to affect its businesses. Rapid technological change forces many insurers to invest in new products and technological change, to meet changing insurance and investment needs and customer service expectations. The current environment may give insurance companies larger than EIOW a competitive advantage because they are able to spread product development, distribution and technology costs across large books of business. In addition, strong financial and claims paying ratings, which are critical to a company's future success, are predicated today on an insurer's ability to achieve high levels of profitable growth. Further, insurers face increased competition for the consumers' financial services dollars from banks, mutual funds and retail brokerage firms.

As a mutual insurance company, EIOW has limited access to the capital markets and no stock to be used as acquisition currency. EIOW's ability to compete effectively may be impaired if EIOW's mutual corporate structure unnecessarily restricts its ability to respond to changing market conditions and policyholder needs. EIOW believes the mutual holding company structure and the access to capital it potentially provides, will better enable it to develop innovative products, to invest in technology and to achieve economies of scale that are expected to lower operating costs for policyholders and expand the range of products and services offered, while continuing to maintain the benefits of mutuality. The potential benefits of the Restructuring to EIOW include the following:

(1) The Global Transaction: Align Legal Structure with the Existing Operating and Economic Structures

The Mutual Holding Company Plan is designed to align the legal structure of the Liberty Companies with their existing operating and economic structures. EIOW, LMIC

and LMFIC are distinct legal entities, the policyholders of which are members and part of a single, integrated insurance enterprise. The Liberty Companies act under common management and collectively participate in each other's underwriting and operating results by virtue of their participation in the Liberty Pool. Consequently, each of the Liberty Companies shares common economic interests and the same underwriting results. Each shares the same ratings from A.M. Best Company, Standard & Poor's Ratings Services and Moody's Investors Service. In addition, LMIC provides all management and services to EIOW and LMFIC, including employees, operating processes, technology platforms and systems. LMIC and LMFIC have had this relationship for the past 43 years and EIOW has had this relationship since its affiliation with LMIC on December 31, 1998.

Under the Global Transaction, it is contemplated that, in addition to EIOW's Restructuring: (i) LMIC will form Liberty Mutual Holding Company and reorganize into a Massachusetts stock property and casualty insurance company; (ii) assuming the reorganizations of EIOW and LMIC are consummated, EIOW MHC and Liberty Mutual Holding Company will merge, with Liberty Mutual Holding Company as the surviving entity, pursuant to the terms and conditions of the MHC Merger Agreement; and (iii) simultaneously with the effectuation of the MHC Merger Agreement, LMFIC will reorganize into a Massachusetts stock holding company and then merge with and into Liberty Insurance Acquisition Corp., with Reorganized LMFIC as the surviving mutual entity. Assuming consummation of these above-mentioned steps, Liberty Mutual Holding Company will contribute the shares of Converted EIOW and Reorganized LMFIC to LMG Massachusetts Holdings, which, in turn, will contribute such shares to LMGI. As a direct result, Converted EIOW, Reorganized LMIC and Reorganized LMFIC will become indirect, wholly-owned subsidiaries of Liberty Mutual Holding Company.

With this alignment, the separate identities of the Liberty Companies will be preserved. EIOW, LMIC and LMFIC are well-known insurers with long histories and strong name recognition and are a core part of the Liberty Companies' identity. The Restructuring and other transactions comprising the Global Transaction will maintain their separate brands and identities.

The benefits achieved in this Restructuring and the Global Transaction would not alter or disrupt insurance rights and benefits. Existing insurance licenses and corporate identities would remain unchanged and insurance policies and coverages would be unaffected. Other forms of legal restructuring allowed by statute could require relicensing, reissuance of policies and various administrative changes that would be more costly and disruptive to EIOW's Policyholders and business operations.

(2) *Maintain 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 to minimize losses when accidents occur. Today, EIOW believes that working together with EIOW's Policyholders is the best way to do business and is therefore beneficial for the company's Policyholders. This Restructuring will preserve mutuality, which the Board of Directors of EIOW has concluded is important in order to maintain long-term business focus for the benefit of both current and future Policyholders. The mutual holding company structure preserves EIOW's ability to engage in certain mutual-to-mutual company merger or affiliation transactions.

Wisconsin has recognized the need for Wisconsin mutual insurance companies to have a more flexible capital structure, while preserving their mutual form of organization, by specifically authorizing a mutual insurance company to reorganize into a stock company owned by a non-insurance mutual holding company.

Under Wisconsin Insurance Code, if EIOW MHC ever decides to sell stock in Converted EIOW, it will be required at all times to retain, directly or indirectly, at least 51% of the shares of voting stock of Converted EIOW, thereby preserving mutuality.

(3) *Provide Greater Flexibility*

The Mutual Holding Company Plan will allow the Liberty Mutual Group to respond rapidly and more effectively to changes in the insurance and financial services industries. The Liberty Mutual Group faces increasing competition from traditional stock insurance companies, foreign-based insurers, banks and financial services companies. In light of recent financial services deregulation, the mutual holding company structure will permit Liberty Mutual Group to pursue opportunities and business strategies that would otherwise be unavailable to a mutual insurance company. Nontraditional competitors, including niche service providers and internet start ups, are challenging the more traditional players and changing the competitive environment. The internet and other technologies are changing the way products and services are sold and delivered.

EIOW's Board of Directors believes the most successful insurance companies in this changing environment will be those with the necessary scale, capital and financial strength to provide competitive products and services that are responsive to the needs of their policyholders. In order to continue competing successfully, EIOW needs to have access to the same type of resources and financial tools available to others in the marketplace, when and if it chooses to pursue them.

Access to Capital Markets

The Mutual Holding Company Plan will allow Converted EIOW to sell shares of stock to the public or to other third parties and thereby raise future equity capital as the needs occur and as market conditions permit. Additional equity capital has the potential to increase Converted EIOW's and its parent company's financial strength, to support additional growth, including growth through strategic acquisitions and to enable Converted EIOW to continue to provide competitive products and services to Policyholders.

EIOW does not currently intend to raise capital by selling shares of stock or issuing debt securities concurrent with the Restructuring. Future consideration of the sale of capital stock or debt securities of any company within the mutual holding company structure 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 the organization and the interests of the Policyholders of Converted EIOW. There can be no assurance as to if or when 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, including Converted EIOW. However, EIOW believes it is highly desirable to be part of a larger mutual holding company organization that is positioned to raise equity capital or to issue debt securities for the benefit of Converted EIOW and other subsidiaries of EIOW MHC once the Restructuring is consummated. Various potential future actions made possible by the Restructuring (including, for example, realignment of subsidiaries, acquisitions and efforts to raise capital by Converted EIOW), subject to any required regulatory approval, could be promptly undertaken at any time after the Restructuring by the board of directors of the respective companies involved in the Restructuring if they deem such action to be appropriate.

Compete More Effectively in Insurance Marketplace

The Wisconsin Insurance Code governing mutual holding company structures allows easier access to the capital markets, which may position Converted EIOW and its parent company to be better able to respond to strategic acquisition opportunities as the financial services industry continues its trend of consolidation. To the extent that shares of Converted EIOW are issued to the public or other third parties, EIOW MHC, of which Converted EIOW will be a subsidiary, may have greater ability and flexibility to acquire additional books of business, thereby gaining economies of scale that could allow for more cost-effective operations and/or providing EIOW MHC with growth opportunities, in addition to retaining the ability to engage in mutual to mutual transactions. The ability to use stock, as opposed to solely cash, to consummate strategic acquisitions could increase such acquisition opportunities. Therefore, and through less costly capital or by using stock

as an "acquisition currency," Converted EIOW will be better able to compete among fewer but larger financial services competitors.

Increased Growth and Greater Flexibility in Organizing Future Business Opportunities

The insurance industry is undergoing increasing consolidation. The Board of Directors of EIOW believes that the most successful insurance companies in the future will be those with the scale, capital and financial strength to compete in a mature market with fewer and larger insurers. Increased scale is achieved through organic growth or through acquisitions, or both. The Mutual Holding Company Plan provides greater flexibility to accomplish both.

The mutual holding company structure preserves and enhances the ability of Converted EIOW and its parent company to merge and/or affiliate with other mutual insurers. Additionally, through the ability to use stock as an "acquisition currency," Converted EIOW and its parent company will be better positioned to respond to strategic acquisition opportunities. Finally, with access to capital markets Converted EIOW and its parent company will be better able, if necessary, to acquire additional capital to invest in new products and services, and more effective operations, and thereby increase organic growth, which would be enhanced by consummation of the transactions comprising the Global Transaction.

Financial Strength and Claims Paying Ratings

Insurance companies are assessed by independent rating agencies based upon factors relevant to policyholders. Ratings provide both industry participants and insurance consumers meaningful information on specific insurance companies. Higher ratings generally indicate financial stability and a strong ability to pay claims.

At present, EIOW is able to increase its statutory capital principally by retaining earnings derived from its operations, by issuing surplus notes, and/or through divesting all or a portion of interests in subsidiaries or other investments. These methods, however, are limited as to the extent to which they can provide a source of permanent capital to enable EIOW to develop new and enhanced products and services and to provide greater financial strength and protection for Policyholders.

In addition to the competitive advantage that the mutual holding company structure may provide to Converted EIOW, this structure also provides additional capital flexibility. Access to capital markets and the ability to make acquisitions by companies other than insurance companies or insurance company subsidiaries are methods by which Liberty Mutual Group can grow without reducing insurance company capital, and thereby benefit

the financial ratings as a result. Despite these benefits, there can be no assurances that Converted EIOW's ratings will improve as a result of the Restructuring or the Global Transaction.

EFFECTS OF THE RESTRUCTURING

General. It is anticipated that the Restructuring will have no 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 72.*

Members of EIOW have both Contract Rights and Equity Rights by virtue of being Policyholders. The principal Contract Right of Members, as insureds, is 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 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 of EIOW 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 under the articles of incorporation or bylaws 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. Existing Contract Rights will remain with Converted EIOW. Each person who becomes the 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, so long as his or her Policy or Policies remain In Force. Certificates evidencing the Equity Rights in EIOW MHC will not be issued and, 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. It is the intention of EIOW that its 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 proposed articles of incorporation and bylaws of EIOW MHC, copies of which are attached as Schedule A, 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 or termination 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 and obligations of EIOW MHC or any of its subsidiaries or subject to assessments of any kind.

CORPORATE GOVERNANCE

As a mutual insurance company, EIOW has no authority to issue stock and, thus, 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. In the event that Converted EIOW issues stock to third parties, EIOW MHC will continue to control the outcome of most 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.

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 in accordance with Sections 644.28(5) and 645.72(4) of the Wisconsin Insurance Code. Stockholders of Converted EIOW will have no liquidation or other rights with respect to EIOW MHC in their capacities as such.

THE GLOBAL TRANSACTION

General

It is anticipated that EIOW's Restructuring, if consummated, will be part of a series of transactions (the "Global Transaction") that will result in EIOW and one or both of its affiliates, specifically, LMIC and LMFIC, being under the common ownership of Liberty Mutual Holding Company. Furthermore, policyholders of each of Converted EIOW, Reorganized LMIC and Reorganized LMFIC will become members of and have equity rights in Liberty Mutual Holding Company.

Operations 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. At June 30, 2000, LMIC had surplus of \$5.5 billion, inclusive of surplus notes in the principal amount of \$1.14 billion and approximately 660,000 Policyholders. At June 30, 2000, LMFIC and EIOW had surplus of \$901 million and \$712 million, inclusive of an EIOW surplus note in the principal amount of \$220 million held by LMIC, respectively, and approximately 1.6 million and 29,000 policyholders, respectively.

EIOW, LMIC and LMFIC are under common control and part of a single insurance holding company system. "Control" is defined under applicable insurance laws as one company having the power to direct the management and policies of another 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, while seven of the ten EIOW board members are members of LMIC's senior management.

Notwithstanding this common control element, each of the Liberty Companies is a separate legal entity with each company's policyholders electing directors separately and each of the Liberty Companies filing separate income tax returns.

Despite their separate legal existence, from a management and operational perspective, the Liberty Companies are highly integrated, function under common management and share in the risks and rewards of their property and casualty insurance underwriting operations, as described below.

Property and Casualty Insurance

The Liberty Mutual Group's core business is property and casualty insurance. Based on net written premiums, the Liberty Mutual Group is the ninth largest property and casualty insurer in the United States, with \$8.2 billion of net written premiums in 1999. Collectively, the insurance companies within the Liberty Mutual Group are licensed to write property and casualty insurance coverages in all 50 states, the District of Columbia, Puerto Rico and the Virgin Islands and through branch offices in Canada, Australia and Japan.

Intercompany Reinsurance Pool

EIOW and the other Liberty Companies enhance the geographic and product risk diversity of their separate property and casualty businesses by participating in the Liberty Pool. The insurance written by 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 this participation in the Liberty Pool, the Liberty Companies share underwriting profits and losses in proportion to their percentage interests in the intercompany reinsurance pool. LMIC and LMFIC have been pooling their underwriting results for approximately 43 years. EIOW joined the Liberty Pool on December 31, 1998 (effective January 1, 1999) concurrent with its affiliation with LMIC.

LMIC is the lead company in the Liberty Pool with a 65.95% participation in 1999 (decreased to 63% in 2000). The Liberty Pool had total net written premiums of \$6.9 billion in 1999 and includes LMFIC (10% participation in both 1999 and 2000), EIOW (13% participation in 1999 – increased to 16% in 2000) and various other insurer subsidiaries and affiliates of LMIC (11.05% aggregate participation in 1999 and 11% in 2000).

LMIC also operates a separate wholly owned property casualty reinsurance pool ("LIH") comprised of entities acquired in 1999 through the acquisition of Guardian Royal Exchange's United States property and casualty insurance businesses. The LIH pool had net written premiums of \$1.2 billion in 1999 and represents the majority of LMIC's independent agency distributed property and casualty products that comprise Liberty Mutual Group's Regional Agency Markets business.

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 have any employees or insurance support operations. The costs of services provided by LMIC are shared through the Liberty Pool intercompany agreement and various management services and investment management agreements.

Investment Portfolio

Although the investment portfolio 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.

International Operations

LMIC's international operations ("Liberty International") commenced in 1993, and in 1999 had \$1.3 billion of revenue from operations in thirteen countries, predominantly in South America and the United Kingdom. Liberty International's operations comprise global risk operations consisting of reinsurance and excess insurance operations in the United Kingdom, Canada, United States and Australia. Additionally, its primary insurance operations consist of traditional personal and commercial lines products provided to individuals and businesses, in the United Kingdom, Canada, Australia, Brazil, Venezuela, Argentina, Colombia, Mexico, Ireland, Japan, Singapore, Hong Kong and Bermuda.

Financial Services

At June 30, 2000, LMIC indirectly owned approximately 71% of Liberty Financial Companies, Inc. ("Liberty Financial"). Liberty Financial is a publicly traded asset accumulation and management company offering retirement oriented insurance products and investment management products to individuals and institutions through Keyport Life Insurance Company, a specialist in single premium fixed, indexed and variable annuities; Liberty Funds Group, including the Stein Roe and Colonial mutual funds; and Newport Pacific Management, Inc., an investment advisor to mutual funds and institutional accounts specializing in Asian equity markets, as well as other operating subsidiaries. At June 30, 2000 LMIC's financial services business had over \$66 billion of assets under management. Further, on June 14, 2000 Liberty Financial entered into a definitive agreement to acquire Wanger Asset Management (the Acorn family of mutual funds) with over \$8 billion of assets under management, for a purchase price of \$280 million with profit incentives that could ultimately increase the purchase price to \$450 million.

ELEMENTS OF THE GLOBAL TRANSACTION

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

Reorganization of LMIC

LMIC will reorganize to a Massachusetts mutual holding company structure pursuant to Sections 175:19F to 19W, inclusive of the Massachusetts General Laws. LMIC will form: (i) Liberty Mutual Holding Company, a Massachusetts mutual holding company; (ii) LMG Massachusetts Holdings, a wholly-owned stock subsidiary of Liberty Mutual Holding Company; and (iii) LMGI, a Massachusetts stock holding company that is a wholly-owned subsidiary of LMG Massachusetts Holdings and convert to a stock

property and casualty insurer. Liberty Mutual Holding Company will be issued all of the initial shares of voting stock of Reorganized LMIC. Immediately thereafter, Liberty Mutual Holding Company will contribute to LMG Massachusetts Holdings all of the shares of voting stock of Reorganized LMIC. LMG Massachusetts Holdings, in turn, will contribute all of the shares of voting stock of Reorganized LMIC to LMGI.

MHC Merger

Assuming the EIOW Restructuring and LMIC Reorganization are consummated, all necessary regulatory approvals have been obtained, and all other conditions necessary to consummation regarding the EIOW and LMIC mutual holding company reorganizations are met, EIOW MHC's board of directors is expected to vote to merge with and into Liberty Mutual Holding Company pursuant to the terms and conditions of the MHC Merger Agreement and subject to approval of the regulatory authorities, two-thirds of Liberty Mutual Holding Company's members voting at a special meeting for such purpose and the boards of directors of both EIOW MHC and Liberty Mutual Holding Company. The MHC Merger Agreement sets forth the rights, duties and obligations of the parties to the agreements. Pursuant to the terms of the MHC Merger Agreement, the Equity Rights of Converted EIOW Policyholders in EIOW MHC will be extinguished and replaced with equity rights in Liberty Mutual Holding Company. The Contract Rights of Converted 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 shares of voting stock of Converted EIOW. In the event that there is an initial public offering or a sale of the stock of LMG 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 shares of voting stock of Converted EIOW.

LMFIC Reorganization

Assuming that the plan of reorganization of LMIC is consummated and that all necessary regulatory approvals have been obtained and that all other conditions necessary to consummation of the reorganization are met, Liberty Mutual Holding Company, LMFIC and Liberty Insurance Acquisition Corp. will enter into the Reorganization and Combination Agreement, subject to approval of the regulatory authorities and the boards of directors of the parties to the agreement. The Reorganization 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 property and casualty insurer pursuant to Chapter 175 Section 19T of the Massachusetts General Laws and merge with Liberty Insurance Acquisition Corp., with Reorganized LMFIC as the surviving entity.

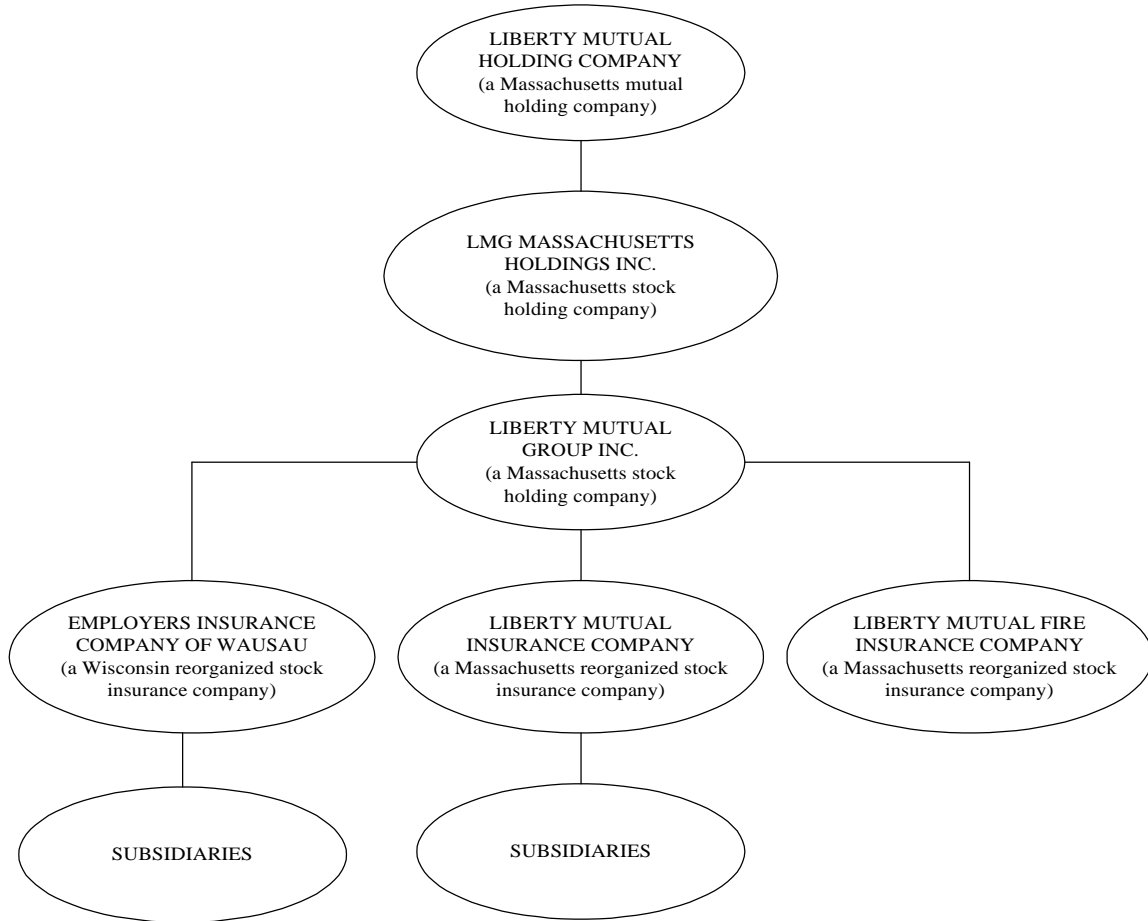
Upon consummation of the Reorganization and Combination Agreement, policyholders of Reorganized LMFIC will receive equity rights in Liberty Mutual Holding Company in exchange for all of Reorganized LMFIC's voting stock. The contract rights of LMFIC policyholders will continue to exist after consummation of the Reorganization and Combination Agreement with Reorganized LMFIC. Liberty Mutual Holding Company will own 100% of the shares of 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 LMG Massachusetts Holdings, LMGI or of Reorganized LMFIC, Liberty Mutual Holding Company will be required to own at all times, directly or indirectly, at least 51% of the shares of 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 LMG Massachusetts Holdings which, in turn, will contribute such shares to LMGI. As a result, Converted EIOW, Reorganized LMIC and Reorganized LMFIC will become indirect, wholly-owned subsidiaries of Liberty Mutual Holding Company. The policyholders of each 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

Align Legal Structure with Existing Operating and Economic Structures

EIOW, LMIC and LMFIC are distinct legal entities that function today as part of a single, highly integrated insurance enterprise. They act under common management and participate in each other's underwriting and operating results by virtue of their participation in the Liberty Pool. Each of the companies shares common economic interests and the same underwriting results. Each shares the same ratings from A.M. Best Company, Standard & Poor's Ratings Services and Moody's Investors Service. In addition, LMIC and its subsidiaries provide all management and services to EIOW and LMFIC, including employees, operating processes and technology platforms and systems. LMIC and LMFIC have had this relationship for the past 43 years, and EIOW has had this relationship since its affiliation with LMIC on December 31, 1998.

The Global Transaction will bring Converted EIOW, Reorganized LMIC and Reorganized LMFIC under the common ownership of Liberty Mutual Holding Company. This will result in more streamlined and efficient governance and administrative processes that will replace the separate and redundant tasks required by the current legal structures.

A single legal entity, whose directors are elected by a single body of policyholders, will have ultimate responsibility for the management and direction of the business.

The Global Transaction will also further allow Liberty Mutual Holding Company and its subsidiaries to combine with other mutual insurance companies and mutual holding companies in a manner that will allow these companies to retain their separate identities and operations within the Liberty Mutual Group, much the same way Converted EIOW, Reorganized LMIC and Reorganized LMFIC will retain their separate brands and operating identities as subsidiaries of Liberty Mutual Holding Company. In addition, Liberty Mutual Holding Company and its subsidiaries will have greater ability and flexibility to take advantage of opportunities to acquire other companies or to acquire additional books of business, thereby gaining economies of scale that could allow for more cost-effective operations and/or providing Liberty Mutual Holding Company with strategic growth opportunities. Such flexibility will allow Liberty Mutual Holding Company to better organize its businesses, gain advantages in management and financial reporting and ultimately maximize the overall value of Converted EIOW as well as the Liberty Companies as a whole.

Enhanced Access to Capital Markets

Converted EIOW, Reorganized LMIC and Reorganized LMFIC will be able to get access to capital through future issuance of debt securities or capital stock of any or all of the companies under Liberty Mutual Holding Company. This flexibility will also allow

Liberty Mutual Holding Company to potentially further increase the Liberty Companies' financial strength, support further organic growth, take advantage of favorable market conditions and also create a cost-effective combination of debt and equity financing. When and if such access to capital markets is deemed necessary or appropriate, the Restructuring as well as the Global Transaction will provide the Liberty Companies with enhanced flexibility to access the capital markets.

Financial Ratings

Insurance companies' strengths or weaknesses in claims-paying, financial credit worthiness and financial stability are regularly assessed by independent rating agencies. Superior ratings allow a company to distinguish itself from its competitors and enhance the sale of its products and services.

In addition to the competitive advantages that the mutual holding company structure may provide, this structure also provides additional capital flexibility. Both access to capital markets and the ability to make acquisitions by companies other than insurance companies or insurance company subsidiaries are ways that the overall organization can grow without reducing insurance company capital and benefit the financial ratings as a result.

It is anticipated that the Global Transaction, like the Restructuring, initially will not affect EIOW's or the Liberty Companies' financial ratings by A.M. Best Company, Standard & Poor's Ratings Services and Moody's Investors Service. Over time, the increased flexibility provided could have a positive effect; however, there can be no assurances that Converted EIOW's financial and/or claims paying ratings will improve as a result of the Restructuring or the Global Transaction.

EFFECTS OF THE GLOBAL TRANSACTION

Equity Rights and Contract Rights

On the effective date of the MHC Merger, the Equity Rights held by Members of EIOW MHC will be extinguished and replaced with equity rights in Liberty Mutual Holding Company. Each Policyholder of Converted EIOW on and after the effective date of the MHC Merger will automatically become a member of Liberty Mutual Holding Company and have equity rights in Liberty Mutual Holding Company, so long as his or her Policy or Policies remain In Force. Certificates evidencing the equity rights in Liberty Mutual Holding Company will not be issued. Instead, a list of members will be maintained on the books and records of Liberty Mutual Holding Company.

Members of Liberty Mutual Holding Company will be entitled to vote at annual and special meetings, in the election of directors of Liberty Mutual Holding Company and on such other matters as may be presented to them from time to time by the board of directors of Liberty Mutual Holding Company in accordance with the articles of organization and bylaws of Liberty Mutual Holding Company or as otherwise provided by law. The voting rights of the members of Liberty Mutual Holding Company will be equal and each member will be entitled to one vote.

Equity rights in Liberty Mutual Holding Company are not transferable by members of Liberty Mutual Holding Company. A member's equity rights in Liberty Mutual Holding Company will automatically terminate upon the cancellation or termination of the Converted EIOW Policy from which such equity rights are derived. No member of Liberty Mutual Holding Company, in his or her capacity as a member, will be personally liable for the debts, liabilities and obligations of Liberty Mutual Holding Company or subject to assessments of any kind.

The Contract Rights of a Policyholder will remain in Converted EIOW and be unchanged even after the Global Transaction.

Corporate Governance

Immediately upon consummation of the MHC Merger, Liberty Mutual Holding Company will be able to control the outcome of all matters presented to stockholders of Converted EIOW for resolution by vote, including the election of members to the board of directors of Converted EIOW. In the event the intermediate stock holding companies issue stock to third parties, Liberty Mutual Holding Company will control the outcome of most 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.

A copy of the proposed articles of organization and bylaws of Liberty Mutual Holding Company, LMG Massachusetts Holdings and LMGI is included as Annex G to this Policyholder Information Statement.

Information regarding the proposed board of directors and officers of Liberty Mutual Holding Company, LMG Massachusetts Holdings and LMGI is included as Annex H to this Policyholder Information Statement.

Regulation

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 OCI.

Liberty Mutual Holding Company, as a Massachusetts mutual holding company, will be subject to regulation by the Commissioner of Insurance in the Commonwealth of Massachusetts (the "Massachusetts Commissioner"). The Massachusetts Commissioner retains jurisdiction at all times over Liberty Mutual Holding Company to assure that the interests of Policyholders of Converted EIOW 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.

SPECIAL CONSIDERATIONS 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

The Mutual Holding Company Plan contemplates the extinguishment of Policyholders' Equity Rights in EIOW and the replacement of such Equity Rights for Equity Rights in EIOW MHC. Other than Equity Rights in EIOW MHC, no consideration in the form of cash or stock or other forms of consideration will be distributed to Policyholders. By contrast, if EIOW were to undergo a demutualization, Members of EIOW would receive stock, cash, or other forms of consideration in exchange for the extinguishment of their Equity Rights in EIOW.

Potential Conflict of Interests Between Members and Shareholders

The duties and obligations of the board of directors of EIOW MHC will be to act in the best interests of its Members. These will be similar to the duties and obligations that EIOW's Board of Directors currently has to its Policyholders. If, however, Converted EIOW decides to undertake an initial public offering or other issuance of stock, the obligations and duties of the board(s) will extend to outside investors in addition to the

Members of EIOW MHC. The EIOW Board of Directors has concluded that there may be some potential for conflicting interests between EIOW MHC and outside investors. Among these potential conflicts may be issues regarding Converted EIOW Policyholders' interests in receiving insurance at the lowest cost and shareholders' interests in receiving the highest return on their investment. Additionally, there may be conflicts over how the growth of and profit from Converted EIOW's business should be apportioned between the Policyholders and the shareholders.

Marketability of Stock

EIOW MHC will own 100% of the shares of 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 shares of 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.

Market Conditions

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.

Holding Company Structure Limitations on Shareholder Dividends

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. The payment of stockholder dividends from the Converted EIOW to its parent company will be regulated under the Wisconsin Insurance Code. Converted EIOW would need the Commissioner's prior approval to pay a stockholder dividend which exceeds certain statutory levels.

Change in Regulations

Certain activities that are regulated by the Commissioner under the present structure may not be regulated, or may be regulated differently, under the mutual holding company structure. Uncertainty in this area is heightened by the fact that 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. If the interests of federal regulators and state insurance regulators conflict, Members' Equity Rights in EIOW MHC could be adversely affected.

Absence of Implementing Regulations

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

Reliance on Management

The success of Converted EIOW's strategy will depend, in large part, upon the skill and judgment of the 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 the company for the benefit of policyholders.

Movement of Subsidiaries

The Mutual Holding Company Plan does not contemplate any reorganization of EIOW's subsidiaries. Converted EIOW, however, at any time following the Restructuring, may choose to reorganize one or more of its existing direct or indirect subsidiaries, either by sale or as dividends. Such a sale or dividend would need the prior approval of the Commissioner if it exceeds certain statutory limitations. However, there can be no assurance that any future movement of subsidiaries would not be detrimental to the financial condition of Converted EIOW.

Global Transaction may not be Consummated

There can be no assurances that the Mutual Holding Company Plan, the plan of reorganization of LMIC or the MHC Merger Agreement will be consummated. To the extent that LMIC's plan of reorganization is consummated, but either the Mutual Holding Company Plan or the MHC Merger Agreement is not, Liberty Mutual Holding Company and LMFIC would have the option of consummating the Reorganization and Combination Agreement. If LMFIC's plan of reorganization and the Reorganization and Combination Agreement are not consummated, then Liberty Mutual Holding Company will remain a Massachusetts mutual holding company.

Litigation Concerning Mutual Holding Company Restructuring

Certain mutual insurance companies that have reorganized or proposed to reorganize to a mutual holding company structure have been sued by certain policyholders alleging that such 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 expected to benefit Policyholders.

SPECIAL CONSIDERATIONS REGARDING THE GLOBAL TRANSACTION

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

Dependence on Completion of Preliminary Transactions

Consummation of the Global Transaction is predicated on the consummation of the MHC Merger Agreement and the Combination and Restructuring 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 would merge out of existence and both Converted EIOW and Reorganized LMFIC would become wholly-owned reorganized stock subsidiaries of Liberty Mutual Holding Company along with Reorganized LMIC;

(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 the Restructuring, EIOW MHC would remain a Wisconsin mutual holding company and the parent of Converted EIOW;

(iii) The MHC Merger Agreement is consummated but the Reorganization and Combination Agreement is not. In this scenario, EIOW MHC would merge out of existence and Converted EIOW would become a wholly-owned stock subsidiary of Liberty Mutual Holding Company. LMFIC would remain a Massachusetts mutual insurer; and

(iv) Neither the MHC Merger Agreement nor the Reorganization and Combination Agreement are consummated. In this scenario, EIOW MHC and Liberty Mutual Holding Company would remain individual mutual holding companies in Wisconsin and Massachusetts, respectively. LMFIC would remain a Massachusetts mutual insurance company. If neither the EIOW nor the LMIC reorganizations was consummated, then LMIC and LMFIC would remain Massachusetts mutual insurance companies, while EIOW would remain a Wisconsin mutual insurance company.

Dilution of Voting Rights

Prior to the Global Transaction, Members of EIOW MHC are entitled to one vote, regardless of the number of policies or amount of insurance owned, in all matters requiring a vote of the Members of EIOW MHC. After 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. 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.

No Consideration Distributed to Members

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 in the form of cash, stock or other form of consideration to Members of EIOW MHC. 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 would not, however, preclude 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 Commissioner approves the conversion.

Reliance on 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' strategy will depend, in large part, upon the skill and judgment of management.

ELIGIBLE 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 THESE AGREEMENTS 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 ASSURANCES THAT THE TERMS AND CONDITIONS OF THE MHC MERGER AGREEMENT AND OF THE REORGANIZATION AND COMBINATION AGREEMENT, IF AND WHEN FINALIZED, WILL BE THE SAME AS SET FORTH IN THE FORM OF MHC MERGER AGREEMENT AND REORGANIZATION AND COMBINATION AGREEMENT ATTACHED TO THIS POLICYHOLDER INFORMATION STATEMENT. FINALLY, THERE CAN BE NO ASSURANCES THAT EVEN IF BOTH AGREEMENTS ARE CONSUMMATED THAT THE POTENTIAL BENEFITS OF THE GLOBAL TRANSACTION (DESCRIBED ABOVE) WILL BE REALIZED.

STRUCTURAL ALTERNATIVES TO MUTUAL HOLDING COMPANY PLAN

Aside from restructuring into a Wisconsin stock insurance company subsidiary of a Wisconsin mutual holding company, the principal structural alternatives to the Mutual Holding Company Plan available under the Wisconsin Insurance Code are for EIOW to (1) remain a mutual insurance company; (2) merge with one or both of the other Liberty Companies; or (3) 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. 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 insurance companies in this changing environment will be those with the necessary scale, capital and 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 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, Principal 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 and Prudential Insurance Company of America either have demutualized, or propose 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 consummating the transactions comprising the Global Transaction 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 its affiliates, specifically 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 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, in addition to the disruption that any such merger would cause to the policyholders involved. Consummation of EIOW's Mutual Holding Company Plan as well as the Global Transaction would 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) *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 in their capacities as Members of EIOW would receive cash, stock or other form of consideration in exchange for their Equity Rights in EIOW, which they will not receive in the Restructuring.
- Demutualization would provide the opportunity to use stock of demutualized EIOW or EIOW MHC 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 Converted EIOW, in their capacity as Members of EIOW MHC are exchanged for cash, stock or other consideration 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.

Demutualization as a structural alternative to the mutual holding company structure also presents certain potential disadvantages to the 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 long-term business focus for the benefit of both current and future Policyholders.
- Demutualization eliminates a mutual insurer's practical ability to merge with another mutual insurer (or mutual holding company) except through acquisition of another mutual insurer in a sponsored demutualization. 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 in exchange for their equity rights in the mutual insurer.
- 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, thereby allowing it to maximize the value received in the offerings. 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.
- Historically, demutualizations are more difficult to structure, more time consuming and a more expensive process than mutual holding company reorganizations.
- [Given its reliance on the management, employees, services and systems of LMIC, the board of directors of EIOW has determined that it would not be in the best interests of EIOW to undertake a demutualization.]

It is important to note that the Mutual Holding Company Plan does not preclude a subsequent demutualization of EIOW MHC.

Board Recommendation on Structural Alternatives

The Board of Directors of EIOW believes that the Restructuring, as well as the consummation of the transactions comprising the Global Transaction, should help to increase the value available to Members of EIOW MHC in the event of a demutualization. Any such subsequent demutualization could only occur if EIOW MHC's board of directors then determined that such a transaction was appropriate or desirable and the approvals, among others, of the Members of EIOW MHC and the Commissioner were obtained. No such subsequent demutualization is, however, currently contemplated and a demutualization may never occur.

For these reasons, among others, including the importance to the Board of Directors of EIOW of preserving mutuality, the Board of Directors of EIOW has concluded that the Restructuring is fair and equitable to EIOW's Policyholders and expected to benefit the Policyholders and should be undertaken as authorized by Wisconsin Insurance Code after all conditions to consummation are satisfied.

MANAGEMENT

General. It is intended that the board of directors and officers of EIOW MHC will not be substantially different from EIOW's current board of directors and officers.

I. *Directors and Officers of EIOW MHC.*

A. Applicable Charter Provisions

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.

B. 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 38. 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.

TERRYL CONNER. Age 54. 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.

DWIGHT E. DAVIS. Age 55. Director, EIOW since September 1996. President and Chief Operating Officer, EIOW, from September 1996 to July 2000. Member of the Board of Directors 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 45. 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 44. Vice Chairman, EIOW since February 1999 and Director, EIOW since December, 1998. 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 55. Chairman, EIOW since February 1999 and Chief Executive Officer and Director, EIOW since December, 1998. 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. Director of Citizens Financial Group, Inc.

CHRISTOPHER C. MANSFIELD. Age 50. Director, EIOW since December, 1998. Senior Vice President and General Counsel, LMIC, since 1987. Senior Vice President and General Counsel, LMFIC since April, 2000. From 1985 to 2000 Vice President and General Counsel LMFIC. From 1985 to 1987, Vice President and General Counsel, LMIC.

JAMES J. MCINTYRE. Age 42. Director, EIOW since July 2000. President and Chief Operating Officer of EIOW since July 2000; Executive Vice President, Commercial Insurance Markets, EIOW, from March 1998 to July 2000; Senior Vice President, Standard/Custom Accounts, EIOW, from May 1997 to March 1998; Vice President, Standard Accounts-Western Division, EIOW, from April 1996 to May 1997.

JEFFREY S. PADNOS. Age 52. 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 59. Director, EIOW since January 1999. President, 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.

C. Officers of EIOW MHC

The names, ages, positions and biographical information of each of the individuals who are intended to constitute the initial officers of EIOW MHC are 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 53. Position: Vice President - General Counsel and Secretary, EIOW, since February 1999; Vice President - Associate General Counsel and Assistant Secretary, EIOW, from May 1995 to February 1999; Vice President - Government Affairs and Counsel, EIOW, from February 1985 to May 1995.

ELLIOT J. WILLIAMS. Age 61. 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.

II. *Directors and Officers of Converted EIOW.*

A. Applicable Bylaw Provisions

Pursuant to Reorganized EIOW's bylaws, the Board of Directors of Converted EIOW shall consist of not fewer than seven nor more than ten members 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.

B. Board of Directors of Converted EIOW

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

Same as "Board of Directors of EIOW MHC," page 64.

C. 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 is set forth below.

Same as "Officers of EIOW MHC," page 66.

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

The following is a general discussion of certain U.S. federal income tax consequences of the Restructuring, the MHC Merger and the LMFIC Reorganization. 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 Internal Revenue Code of 1986, as amended, 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, the MHC Merger and the LMFIC Reorganization 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 (i) a private letter ruling from the IRS that is in force on the Effective Date or (ii) an opinion of special tax counsel to EIOW, in either case, substantially to the effect that, for U.S. federal income tax purposes, the formation of EIOW MHC and the conversion of EIOW from a mutual company into a stock company will qualify under sections 368(a) or 351(a) of the Code.

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 is intended to qualify as a non-recognition transfer under sections 368(a) and 351(a) of the Code. This discussion of U.S. federal income tax consequences of the Restructuring assumes that the formation of EIOW MHC and the conversion of EIOW from a mutual company to a stock company will qualify under sections 368(a) or 351(a) of the Code. The Members of EIOW whose Equity Rights in EIOW are extinguished and replaced with Equity Rights in EIOW MHC in the Restructuring will not recognize gain or loss for U.S. federal income tax purposes. The tax basis of the Equity Rights in EIOW MHC received by Members whose Equity Rights in EIOW are extinguished in the Restructuring will be zero. EIOW will not recognize gain or loss for U.S. federal income tax purposes for 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

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 or (ii) an opinion of special tax counsel to EIOW, in either case, substantially to the effect that, for U.S. federal income tax purposes the MHC Merger will qualify as a reorganization under section 368(a) of the Code.

The MHC Merger is intended to qualify as a reorganization under section 368(a) of the Code. This discussion of U.S. federal income tax consequences of the MHC Merger assumes that the MHC Merger will qualify as a reorganization under section 368(a) of the Code. The Members of EIOW MHC on the effective date of the MHC Merger whose Equity Rights in EIOW 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. The tax basis of the equity rights in Liberty Mutual Holding Company received by Members of EIOW MHC whose Equity Rights in EIOW MHC are extinguished in the MHC Merger will be zero. EIOW MHC will not recognize gain or loss for U.S. federal income tax purposes in the MHC Merger.

The LMFIC Reorganization

It is a condition to the consummation of the LMFIC Reorganization that LMFIC obtain (i) a private letter ruling from the IRS that is in force on the effective date of the LMFIC Reorganization or (ii) an opinion of special tax counsel to LMFIC, in either case, substantially to the effect that, for U.S. federal income tax purposes, the LMFIC Reorganization will qualify as a reorganization under section 368(a) of the Code.

The LMFIC Reorganization is intended to qualify as a reorganization under section 368(a) of the Code. This discussion of U.S. federal income tax consequences of the LMFIC Reorganization assumes that the LMFIC Reorganization will qualify as a reorganization under section 368(a) of the Code. The members of Liberty Mutual Holding Company on the effective date of the LMFIC Reorganization will not have their Equity Rights in Liberty Mutual Holding Company extinguished or replaced pursuant to the LMFIC Reorganization and, therefore, will not recognize gain or loss for U.S. federal income tax purposes. Liberty Mutual Holding Company will not recognize gain or loss for U.S. federal income tax purposes on the issuance of equity rights in Liberty Mutual Holding Company upon the extinguishment of LMFIC's members' equity rights in LMFIC pursuant to the LMFIC Reorganization.

**[CERTAIN CANADIAN INCOME TAX
CONSEQUENCES OF THE RESTRUCTURING, THE MHC MERGER AND
THE LMFIC REORGANIZATION]¹**

The following is a general summary of certain Canadian federal income tax consequences of the Restructuring, the MHC Merger and the LMFIC Reorganization. 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 EIOW MHC on the extinguishment of their Equity Rights in EIOW, deal at arm's length with EIOW, EIOW 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 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

¹ This section will be removed prior to printing and is presented here for informational purposes only.

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 would be expected, however, that the fair market value of equity rights in Liberty Mutual Holding Company would be de minimis, if not zero, in light of the nontransferability, the temporary nature (i.e., equity rights will continue only so far as the Policy from which such rights are derived remains In Force), and Liberty Mutual Holding Company's plan to pay no dividends or any other distributions to its Members following the MHC Merger.

A Canadian Member will be required to include two-thirds 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.

The LMFIC Reorganization

A Canadian Member will not realize a gain or loss for purposes of the Canadian Tax Act as a result of the LMFIC Reorganization. Liberty Mutual Holding Company will not realize a gain or loss on its equity rights for Canadian federal income tax purposes as a result of the issuance of its equity rights in Liberty Mutual Holding

Company of the extinguishment of the LMFIC members' equity rights in LMFIC pursuant to the LMFIC Reorganization.

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 Insurance Code relating to stock (as opposed to mutual) property and casualty insurance companies as well as the applicable provisions of Chapter 644 of the Wisconsin Insurance Code.

In addition, EIOW MHC, as a Wisconsin mutual holding company, will be subject to regulation by the Commissioner. Specifically, the Commissioner retains jurisdiction at all times over EIOW MHC to assure that the interests of Converted EIOW's Policyholders 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 Converted EIOW, EIOW MHC will be required, at all times, to retain direct or indirect ownership and control of at least 51% percent of the outstanding shares of voting stock of Converted EIOW.

Furthermore, the Wisconsin Insurance Code provides that a mutual holding company, such as EIOW MHC: (i) shall not engage in the insurance business; (ii) shall file with the 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 Insurance Code; (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; and (vi) may not dissolve, liquidate or wind-up without the prior written approval of the Commissioner or the court pursuant to proceedings brought pursuant to Section 181.1430 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 OCI.

Liberty Mutual Holding Company. Liberty Mutual Holding Company, as a Massachusetts mutual holding company, will be subject to regulation by the Massachusetts Commissioner. The Massachusetts Commissioner retains jurisdiction at all times over Liberty Mutual Holding Company to assure that the interests of Policyholders of Converted EIOW 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.

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 Commissioner; (2) the Mutual Holding Company Plan must be approved by at least a majority of the Voting Members; (3) the articles of incorporation of EIOW MHC and the amended and restated articles of incorporation of EIOW must be approved by the Commissioner; (4) EIOW must receive certain opinions or letters on tax and securities matters; (5) EIOW and its subsidiaries must make all reasonably necessary filings with Governmental Entities and obtain all requisite regulatory approvals that may be reasonably required from those states where EIOW and its subsidiaries are domiciled or transact insurance business; (6) all conditions to consummation of the LMIC Reorganization have been satisfied; and (7) LMFIC has obtained LMFIC policyholder and Massachusetts Commissioner approvals for the LMFIC Reorganization; although, with respect to conditions set forth in (6) and (7), subject to waiver by the Board.

Approval of the Commissioner

In order for the Mutual Holding Company Plan become effective, it must be approved by the Commissioner after the Public Hearing. The Public Hearing, which will be held at [] on [, 2001] by the Commissioner or a hearing examiner designated by the Commissioner, will be open to the public.

In accordance with the Public Hearing procedures as the Commissioner or the designated hearing examiner may prescribe, any Policyholder on the Resolution Date and any commissioner of any jurisdiction where EIOW is authorized to do any business, may present written or oral statements at the Public Hearing and may present written statements within a period (to be prescribed by the Commissioner) after the Public Hearing is held. The Commissioner shall take statements presented by such Policyholders, or any commissioner of any jurisdiction where EIOW is authorized to do any business, into consideration in making a determination 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 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 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 Commissioner may also take into consideration any conclusions and recommendations on the subject of restructuring published by recognized organizations of professional insurance actuaries. The Commissioner may by rule establish standards applicable to a restructuring under Chapter 644 of the Wisconsin Insurance Code.

Approval of Policyholders

In order for the Mutual Holding Company Plan to be become effective, it must be approved by no less than a majority of the Eligible Members voting thereon at the Special Meeting.

Certain U.S. Federal Income Tax Matters

This Mutual Holding Company Plan shall not become effective unless, on or prior to the Effective Date, EIOW shall have obtained (i) a private letter ruling from the IRS that is in force on the Effective Date or (ii) an opinion of special tax counsel to EIOW, in either case substantially to the effect that, for U.S. federal income tax

purposes, the formation of EIOW MHC and the conversion of EIOW from a mutual company into a stock company will qualify under sections 368(a) or 351(a) of the Code.

Securities Law Matters

The Mutual Holding Company Plan shall not become effective unless EIOW shall have (i) obtained 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 (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 and have obtained the approvals from Canadian securities regulators necessary to permit the issuance of Equity Rights in EIOW MHC to Members who reside in Canada and to Canadian Policyholders who are issued Policies by Converted EIOW after the Effective Date.

Other Regulatory Approvals

Another condition to effect the Mutual Holding Company Plan is that EIOW and its subsidiaries make all required filings with Governmental Entities and obtain all necessary regulatory approvals that they are required to obtain in those jurisdictions where they are domiciled or where they conduct insurance business. It is anticipated that the other regulatory filings reasonably required to be obtained with respect to the Restructuring consist of (i) change-of-name filings; and (ii) filings for requalification of licenses in certain states.

EFFECTIVE DATE OF THE MUTUAL HOLDING COMPANY PLAN

If Eligible Members approve the Mutual Holding Company Plan, and all other conditions to the effectiveness of the Mutual Holding Company Plan are met, the Commissioner will issue a new certificate of authority to Converted EIOW and a certificate of incorporation to EIOW MHC.

Assuming all the conditions to the effectiveness of the Mutual Holding Company Plan are met, the Restructuring is expected to occur sometime during the first 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 company.

AMENDMENTS AND WITHDRAWAL OF 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 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 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.

SELECTED FINANCIAL INFORMATION

The selected financial information set out below for EIOW, as of and for each of the three years ended December 31, 1997 through 1999, is derived from the audited statutory financial statements of EIOW. The selected financial information at and for the six months ended June 30, 2000 and 1999 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 E hereto.

Because the financial statements of EIOW MHC after consummation of the Restructuring, prepared on a GAAP or SAP basis, will not differ materially from the financial statements of EIOW prepared on a GAAP or SAP basis, respectively, no pro forma financial information for EIOW MHC is presented in this Policyholder Information Statement.

Selected financial information is also set out below for Liberty Mutual Group as of and for the years ended December 31, 1998 and 1999 and is based on the audited GAAP financial statements for Liberty Mutual Group. The selected financial information for Liberty Mutual Group as of and for the six months ended June 30, 2000 and 1999 is derived from unaudited quarterly GAAP financial information for Liberty Mutual Group. This financial information should be read in conjunction with the audited GAAP financial statements attached as Annex F hereto.

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

EMPLOYERS INSURANCE OF WAUSAU A Mutual Company
SAP Financial Information
(\$ in millions)

	Year Ended December 31,			Six Months Ended June 30,	
	1997	1998	1999	1999	2000
Premiums earned	\$ 1,309	\$ 1,094	\$ 898	\$ 456	\$ 547
Investment income, net	150	156	145	69	106
Realized investment gains	4	346	89	6	7
Other, net	(6)	(4)	(9)	–	(6)
Total Revenue	1,457	1,592	1,123	531	654
Losses and loss expenses	1,030	1,123	824	411	484
Other underwriting expenses	347	238	216	105	141
Policyholder Dividends	14	12	15	7	9
Total Expenses	1,391	1,373	1,055	523	634
Pre-tax income	66	219	68	8	20
Income taxes	(8)	(24)	–	–	–
Net income	\$ 74	\$ 243	\$ 68	\$ 8	\$ 20
Total Assets	\$ 3,039	\$ 2,837	\$ 3,207	\$ 3,291	\$ 3,796
Total Liabilities	2,514	2,262	2,538	2,701	3,084
Surplus	525	575	669	590	712

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

Combined GAAP information

	Year Ended December 31,		Six Months Ended June 30,	
	1998	1999	1999	2000
Premiums earned	\$ 7,509	\$ 9,483	\$ 4,382	\$ 4,810
Investment income, net	2,312	2,627	1,224	1,499
Realized investment gains	193	406	106	132
Other, net	832	846	441	422
Total Revenue	<u>10,846</u>	<u>13,362</u>	<u>6,153</u>	<u>6,863</u>
Losses and loss expenses	6,375	8,069	3,732	3,968
Benefits and expenses	3,718	4,512	2,013	2,313
Policyholder Dividends	41	130	64	63
Total Expenses	<u>10,133</u>	<u>12,711</u>	<u>5,809</u>	<u>6,344</u>
Pre-tax income	712	651	344	519
Income taxes	230	212	107	161
Net income	<u>\$ 482</u>	<u>\$ 439</u>	<u>\$ 237</u>	<u>\$ 358</u>
Total Assets	\$ 58,627	\$ 62,251	\$ 61,482	\$ 63,540
Total Liabilities	50,671	54,912	53,764	56,113
Surplus	7,956	7,339	7,718	7,427

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.

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 of Directors	The board of directors of EIOW.
Commissioner	The Commissioner of Insurance for the State of Wisconsin.
Contract Rights	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 in accordance with the terms and provisions of the Policyholder's Policy.
Converted EIOW	Employers Insurance Company of Wausau, a Wisconsin domestic stock property and casualty insurer into which EIOW will be converted on the Effective Date pursuant to the provisions of the Mutual Holding Company Plan.
Dividends	The distribution described in §631.51(2) of the Wisconsin Insurance Code as a payment made to Policyholders as determined by the Board.
Effective Date	The date upon which the Restructuring becomes effective, which will be the date upon which the Commissioner issues the certificate of authority to Converted EIOW unless a later time is designated in the Mutual Holding Company Plan.

EIOW	EMPLOYERS INSURANCE OF WAUSAU A Mutual Company, a Wisconsin property and casualty mutual insurer that intends to reorganize to a mutual holding company structure under the laws of the State of Wisconsin.
EIOW MHC	Employers Insurance of Wausau Mutual Holding Company, a Wisconsin mutual holding company to be formed by EIOW as part of the Restructuring.
Eligible Member	A Member on the Resolution Date and the Record Date, based on EIOW's records and who therefore is entitled to vote at the Special Meeting.
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.
GAAP	United States generally accepted accounting principles.
Global Transaction	The reorganizations of EIOW, LMIC, LMFIC, consummation of the MHC Merger Agreement and the Reorganization and Combination Agreement and the contribution of the shares of Reorganized LMFIC and Converted EIOW 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 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 Insurance Acquisition Corp.	Liberty Insurance Acquisition Corporation, a newly-formed Massachusetts stock property and casualty insurance company Liberty Mutual Holding Company will form for the sole purpose of merging with and into Reorganized LMFIC, with Reorganized LMFIC as the surviving entity.
Liberty Companies	EIOW, LMIC and LMFIC, collectively.
Liberty Mutual Group	Prior to the Restructuring, EIOW and its subsidiaries, LMIC and its subsidiaries and LMFIC, collectively. Upon consummation of the Global Transaction, Liberty Mutual Group shall mean Liberty Mutual Holding Company and its subsidiaries.
Liberty Mutual Holding Company	Liberty Mutual Holding Company, a Massachusetts mutual holding company that LMIC will form pursuant to the provisions of Chapter 175 Sections 19F to 19W, inclusive, of the Massachusetts General Laws and which must at all times own, directly or indirectly, at least 51% of the shares of voting stock of Reorganized LMIC.
LMFIC	Liberty Mutual Fire Insurance Company, a Massachusetts mutual property and casualty company that will, pursuant to Chapter 175 Section 19T of the Massachusetts General Laws, to (i) reorganize to a Massachusetts stock property and casualty company and (ii) become a wholly owned subsidiary of Liberty Mutual Holding Company.

LMFIC Reorganization	The proposed reorganization of LMFIC to a 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.
LMGI	Liberty Mutual Group Inc., a Massachusetts intermediate stock holding company that LMIC will form pursuant to Massachusetts General Laws and that will be a wholly owned subsidiary of LMG Massachusetts Holdings.
LMG Massachusetts Holdings	LMG Massachusetts Holdings Inc., a Massachusetts intermediate stock holding company that LMIC will form as part of the reorganization and a direct, wholly owned subsidiary of Liberty Mutual Holding Company.
LMIC	Liberty Mutual Insurance Company, a Massachusetts mutual property and casualty insurance company that will reorganize to a mutual holding company structure pursuant to Chapter 175 Sections 19F to 19W, inclusive, of the Massachusetts General Laws.
LMIC Reorganization	The proposed reorganization of LMIC to a 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.
Massachusetts Commissioner	The commissioner of insurance in the Commonwealth of Massachusetts.
Massachusetts General Laws	The general laws 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 Insurance Code and the articles of incorporation and bylaws of EIOW, including the right to vote for the board of directors and the right to vote on any plan of conversion, voluntary dissolution or amendment of the articles of incorporation. On and after the Effective Date of the Restructuring, Membership Interests means the voting rights of a Member arising under the Wisconsin Insurance Code and the articles of incorporation and bylaws of the EIOW MHC, including the right to vote for the board of directors and the right to vote on any plan of conversion, voluntary dissolution or amendment of the articles of incorporation. Membership Interests does not include any Members' Rights in Surplus, if any.
MHC Merger	The merger of EIOW MHC and Liberty Mutual Holding Company, with Liberty Mutual Holding Company as the surviving mutual entity.
MHC Merger Agreement	The agreement between EIOW MHC and Liberty Mutual Holding Company 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 which agreement is subject to approval of all regulatory authorities and approval of the board of directors of both EIOW MHC and Liberty Mutual Holding Company.
Mutual Holding Company Plan	The Mutual Holding Company Plan of EIOW, attached hereto as Annex A.
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, associ-

ation, 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 holder of a Policy.

Policyholder Information Statement

This Policyholder Information Statement, including all annexes hereto.

Public Hearing

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

Record Date

The date established by the Board for the vote by Eligible Members for approval of the Mutual Holding Company Plan.

Reorganization and Combination Agreement

The agreement between and among Liberty Mutual Holding Company, LMFIC and Liberty Insurance Acquisition Corp., pursuant to which LMFIC will reorganize to a stock insurance company under Chapter 175 Section 19T of the Massachusetts General Laws and then merge with Liberty Insurance Acquisition Corp., with Reorganized LMFIC as the surviving entity, and with such agreement subject to approval of all regulatory authorities and the approval of the board of directors of the parties to the agreement.

Reorganized LMFIC

Liberty Mutual Fire Insurance Company, a Massachusetts stock property and casualty insurer into

which LMFIC will reorganize into pursuant to Chapter 175 Section 19T of the Massachusetts General Laws.

Reorganized LMIC

Liberty Mutual Insurance Company, a Massachusetts stock property and casualty insurer into which LMIC will reorganize on the effective date of LMIC's plan of reorganization.

Resolution Date

September 14, 2000, the date the Board passed a resolution to the effect that the Restructuring is fair and equitable to Policyholders and expected to benefit Policyholders.

Restructuring

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

SAP

The statutory accounting principles and practices prescribed or permitted by the domiciliary state of the relevant Person.

Special Meeting	The special meeting of Eligible Members of EIOW to vote on the Mutual Holding Company Plan, and at any adjournments, postponements or continuations thereof.
Voting Member	An Eligible Member who actually votes at the Special Meeting, whether by ballot in person or by proxy.
Wisconsin Insurance Code	The insurance laws of Wisconsin.