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OFFICE OF INSURANCE COMMISSIONER

In the Matter of the Proposed Acquisition
of Control of:

SAFECO INSURANCE COMPANY OF
AMERICA, GENERAL INSURANCE
COMPANY OF AMERICA, FIRST
NATIONAL INSURANCE COMPANY
OF AMERICA, and SAFECO SURPLUS
LINES INSURANCE COMPANY,
Subsidiaries of SAFECO
CORPORATION, a Washington
Corporation,
By LIBERTY MUTUAL HOLDING
COMPANY, INC., LMHC
MASSACHUSETTS HOLDINGS, INC.,
LIBERTY MUTUAL GROUP, INC.,
LIBERTY MUTUAL INSURANCE
COMPANY, LIBERTY INSURANCE
HOLDINGS, INC., and LIH US P&C
CORPORATION.

NO. ~~G2007-12~~

G08-0084 - WJ

Hearings Unit, DIC
Patricia D. Petersen
Chief Hearing Officer

**DECLARATION OF
PATRICK CANTILO**

Patrick Cantilo, under penalty of perjury under the laws of the State of Texas,
declares as follows:

1. I am a principal in the law firm Cantilo & Bennett, L.L.P., ("C&B").
C&B was retained in this matter by the Washington State Office of Insurance
Commissioner ("OIC") through its Company Supervision Division to assist the OIC in
the evaluation of the Form A Statement Regarding the Acquisition of Control of or
Merger With a Domestic Insurer dated May 16, 2008, filed with the OIC by the above-

listed Liberty Mutual companies. I am over the age of eighteen years old and I make this Declaration based upon personal knowledge.

2. Attached hereto as Exhibit "A" is a true and correct copy of C&B's final report to the OIC in this matter including C&B's transmittal letter to the OIC and my curriculum vitae. This report describes and explains the investigation and analysis that C&B conducted and my findings and recommendations to the OIC. I am competent to testify in the matters set forth in this report and hereby incorporate the contents of said report into this Declaration by this reference as though fully set forth herein.

SIGNED this 27th day of August, 2008, at Austin, Texas.


Patrick Cantilo

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August 27, 2008

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2008 SEP -2 A 10 35
H. J. O'DIORNE, OIC
Deputy Insurance Commissioner
Chief Hearing Officer

VIA OVERNIGHT DELIVERY

The Honorable James T. Odiorne
Deputy Insurance Commissioner
Company Supervision
Washington Office of the Insurance Commissioner
5000 Capitol Boulevard
Tumwater, Washington 98501

RECEIVED

AUG 28 2008

INSURANCE COMMISSIONER
COMPANY SUPERVISION

Re: THE PROPOSED ACQUISITION BY LIBERTY MUTUAL OF THE SAFECO ENTITIES; Our File No. 61000-003

Dear Mr. Odiorne:

Cantilo & Bennett, L.L.P. ("C&B") has been engaged by the Office of the Insurance Commissioner of the State of Washington (the "OIC") to assist in the evaluation of a proposed acquisition by Liberty Mutual Holding Company Inc., LMHC Massachusetts Holdings Inc., Liberty Mutual Group Inc., Liberty Mutual Insurance Company, Liberty Insurance Holdings, Inc., and LIH US P&C Corporation (hereinafter "Liberty Mutual" or "the Acquiring Parties") of First National Insurance Company of America, General Insurance Company of America, Safeco Insurance Company of America, and Safeco Surplus Lines Insurance Company (hereinafter "Safeco," or "the Safeco Entities") (collectively, Liberty Mutual and Safeco will be referred to as the "Transaction Parties"). The proposed change of control of Safeco, a Washington domestic insurer, and the Form A seeking its approval (the "Proposed Transaction"), is regulated by the Insurance Commissioner of the State of Washington (the "Commissioner") pursuant to Title 48 of the Revised Code of Washington ("RCW") and under the guidance of Chapter 284-18 of the Washington Administrative Code ("WAC"). Transmitted with this letter is C&B's final report ("Final Report") of the analysis conducted by C&B at the request of the OIC. C&B's Final Report explains the facts and information reviewed by C&B, the context of the analysis, and C&B's conclusions regarding the Proposed Transaction.

LIMITATIONS & QUALIFICATIONS

C&B's Final Report is issued exclusively to the OIC, and only the OIC may rely upon C&B's analysis. Excerpts of C&B's Final Report may not be quoted, in whole or in part, without C&B's

The Honorable James T. Odiorne

August 27, 2008

Page 2

CANTILO & BENNETT, L.L.P.

written consent, with the exception of this cover letter, which may be disclosed to the public in its entirety. Except to the extent expressly agreed upon as part of C&B's initial June 7, 2008 proposal to serve as legal consultant to the OIC for the Proposed Transaction, C&B will have no obligation to "bring down" or update C&B's Final Report after it is first issued.

In conducting its analysis, C&B has relied on the sufficiency and accuracy of the information provided by Liberty Mutual, Safeco, the OIC, the OIC's other consultants or advisors, and other sources. C&B's Final Report evaluates the Proposed Transaction based on information gathered and analyzed through August 15, 2008. A description of the information provided by the Transaction Parties, which has been reviewed by C&B, is provided in Appendix B of the Final Report. In addition, C&B and the other consultants have attended numerous meetings, and participated in numerous telephone calls, with Liberty Mutual's management team, key employees, counsel, and its advisors, Safeco, as well as with state officials and their advisors.

Some of the issues considered in C&B's Final Report relate to prospective events and anticipated conduct and consequences following the Proposed Transaction's hypothetical implementation. C&B has made assumptions regarding these matters that it believes are reasonable in light of the information provided by Liberty Mutual, Safeco, and other sources. If prospective events or anticipated conduct differ materially from that which is assumed in C&B's Final Report, the observations and recommendations provided herein may be less applicable, or inapplicable altogether. Generally, C&B's Final Report is based on the Proposed Transaction's structure as of the date of the Final Report.

To the best of C&B's knowledge and experience, C&B's analysis provides a reasonable evaluation of the relevant issues. C&B's Final Report is based on the law as it existed at the time of the analysis. There can be no assurance that any of the relevant law will not change prior to implementation of the Proposed Transaction, and C&B's analysis may be less applicable, or inapplicable, to the extent of such changes.

In accordance with the requirements promulgated in titles 48 RCW and 284 WAC and other applicable Washington and federal statutes and regulations, review of the Form A materials, the Transaction Parties' confidential documents, independently conducted research, and related discussions with the Liberty Mutual management team and Safeco, the data does not suggest that Liberty Mutual's acquisition of Safeco would be hazardous or prejudicial to the Washington public interest.

C&B appreciates the opportunity to have worked with the OIC on this matter. Please let us know if we can be of any further assistance in the understanding or evaluation of the Proposed Transaction.

Respectfully,



CANTILO & BENNETT, L.L.P.

Enclosures

FINAL REPORT

**REGARDING THE PROPOSED
ACQUISITION BY LIBERTY MUTUAL
OF THE SAFECO ENTITIES**

**CANTILO & BENNETT, L.L.P.
CONSULTANTS
TO THE**

**WASHINGTON STATE
OFFICE OF THE INSURANCE COMMISSIONER
OLYMPIA, WASHINGTON**

August 27, 2008

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I. INTRODUCTION

On May 16, 2008, Liberty Mutual Holding Company Inc. ("LMHC"), LMHC Massachusetts Holdings Inc. ("LMHC MA"), Liberty Mutual Group Inc. ("LMGI"), Liberty Mutual Insurance Company ("LMIC"), Liberty Insurance Holdings, Inc. ("LIHI"), and LIH US P&C Corporation ("LIH US") (hereinafter "Liberty Mutual" or "the Acquiring Parties") filed with the Office of the Insurance Commissioner ("OIC") a Form A statement (the "Form A") describing their proposed acquisition of First National Insurance Company of America, General Insurance Company of America, Safeco Insurance Company of America, and Safeco Surplus Lines Insurance Company (hereinafter "the Domestic Insurers," "Safeco," or the "Safeco Entities") (collectively, Liberty Mutual and Safeco will be referred to as the "Transaction Parties"). The proposed change of control of Safeco, a Washington domestic insurer, and the Form A seeking its approval (the "Proposed Transaction") are governed by the Insurer Holding Company Act ("HCA") in § 48.31B.015 of the Revised Code of Washington ("RCW"), and by Chapter 284-18 of the Washington Administrative Code ("WAC").

The OIC has engaged Cantilo & Bennett, L.L.P. ("C&B") and Rudmose and Noller Advisors, LLC ("RNA," together the "Consultants") to assist in its evaluation of the Form A. This report (the "C&B Report") presents C&B's evaluation¹ of the Proposed Transaction in the context of the requirements promulgated in titles 48 RCW and 284 WAC and other applicable Washington and federal statutes and regulations.

II. SUMMARY

The C&B Report consists of a substantive evaluation of the Proposed Transaction, in light of the six guiding provisions of RCW § 48.31B.015(4)(a). As a part of this process, specific attention will also be given to the four areas identified in the Consultants' July 31, 2008 Interim Report that merited further attention and analysis under the terms of the statute: (1) competition analysis, (2) Liberty Mutual's financing plans and financial condition, (3) recent complaint handling concerns, and (4) future plans.

Based on its analysis of documentation provided in support of the acquisition, C&B concludes that the Proposed Transaction will satisfy the State of Washington's applicable legal requirements. To ensure full compliance with Washington and federal statutes and regulations, and to protect the interests of the State of Washington and the insurance-buying public subsequent to the Proposed Transaction, C&B offers the following recommendations to be implemented during the twenty-four-month period following the acquisition's effective date: (1) schedule periodic meetings and/or status reports with the Transaction Parties addressing key integration measures in the State of Washington pertaining to job consolidations beyond normal attrition rates, office closures, significant changes in the complaint handling structure, complications with systems integration and

¹ Although a superficial financial analysis is included in the C&B Report to address the statutory standards of the HCA, a more detailed financial evaluation can be found in RNA's Final Report.

other pivotal matters that may lend to significant geographic effects, (2) continue dialogue between the Transaction Parties and the OIC relevant to Liberty Mutual's plans to expand and/or restrict lines of business in Washington, and (3) require that material changes regarding executive decisions, projections, or consequent revelations integral to the Proposed Transaction that differ from the information presented for the Consultants' analysis be communicated to the OIC. C&B believes that monitoring key details surrounding the acquisition during and after the critical transition for the following twenty-four months will help alleviate potential negative effects resulting from the integration, all while increasing customer satisfaction. The implementation of this monitoring process should give due regard to the sensitive or confidential nature of at least some of the information it will elicit from the Transaction Parties.

III. BRIEF DESCRIPTION OF THE PROPOSED TRANSACTION

A. THE TRANSACTION

LMHC, a Massachusetts domiciled holding company and the ultimate parent corporation of Liberty Mutual, seeks the OIC's approval for a proposed change of control of the Washington domiciled Safeco Entities. Liberty Mutual contends that the Proposed Transaction will expand Liberty Mutual's business west of the Mississippi and result in a better balanced Agency Markets business mix and a more diversified geographic spread of risk. The Acquiring Parties have negotiated 24 acquisitions over the last ten years.

The purchase of the Safeco Entities is valued at approximately \$6.2 billion. Through the Proposed Transaction, Liberty Mutual will acquire 100% of Safeco's voting stock. Each share of outstanding Safeco common stock will be converted into the right to receive \$68.25 in cash. Liberty Mutual intends to fund the Proposed Transaction with cash on hand, with the assistance of proceeds from liquidating invested assets and net proceeds from the Series C Junior Subordinated Notes issued by LMGI, which will eventually be passed down to LIH US as an investment subsidiary.

Liberty Mutual plans to leverage the Safeco brand nationally with a primary focus on the personal, commercial, and surety business. It does not intend to modify Safeco's reinsurance agreements or relocate the offices of any of the Domestic Insurers. Liberty Mutual does plan to replace the current directors and executive officers of the Domestic Insurers, while retaining the day-to-day management system of business and operations.

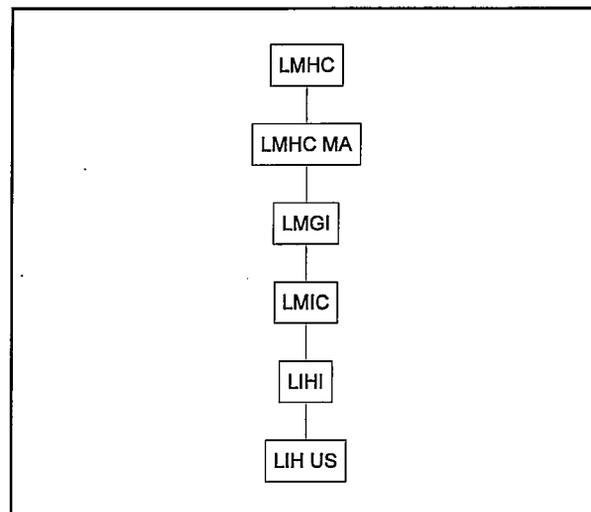
B. THE ACQUIRING PARTIES

Liberty Mutual began operations in 1912. It is now the sixth largest property and casualty insurer in the United States, providing products and services to customers in every state in the United States and operating in 23 countries. The company conducts its insurance business through four similarly sized strategic business units ("SBUs") operating independently, each with its own dedicated sales, underwriting, claims, actuarial, financial and information technology resources. These four SBUs are as follow: (1) Agency Markets, (2) Commercial Markets, (3) Personal

Markets, and (4) International. Safeco's acquired business is expected to be fully subsumed into the Agency Markets SBU.

Domestically, Liberty Mutual ranks eighth in personal lines written premium, and fourth in commercial lines written premium. Liberty Mutual placed 94th among the Fortune 500 industrial/service corporations in the United States based on its year 2007 revenue. The company boasts a rating of A (Excellent) in A.M. Best's 2007 Insurance Reports based upon "the group's strong global franchise, excellent capitalization, and successful risk mitigation and business diversification strategies."² As of December 31, 2007, Liberty Mutual had an estimated \$94.7 billion in consolidated assets, \$82.4 billion in consolidated liabilities, and \$26 billion in annual consolidated revenue.

The following chart depicts the organizational structure of the Acquiring Parties and a brief description of each entity.



- (1) **LMHC** - LMHC, a Massachusetts mutual holding company, was formed in 2001 as part of Liberty Mutual's reorganization into a mutual holding company structure. LMHC is the ultimate parent company of Liberty Mutual.
- (2) **LMHC MA** - LMHC MA, a Massachusetts stock holding company, was also formed in 2001 as part of Liberty Mutual's reorganization into a mutual holding company structure. It is a direct wholly-owned subsidiary of LMHC.

² A.M. BEST CO., BEST'S INSURANCE REPORTS-PROPERTY CASUALTY, US, *Liberty Mutual Insurance Companies* (No. 00060), at 6 (2007 ed. 9-Month Supp.CD-ROM, Version 2007.3).

- (3) **LMGI** - LMGI, a Massachusetts stock holding company, was formed in 2001 as part of Liberty Mutual's reorganization into a mutual holding company structure. It is a direct wholly-owned subsidiary of LMHC MA. LMGI is the primary capital raising company for Liberty Mutual.
- (4) **LMIC** - LMIC, a Massachusetts stock insurance company, was formed in 1912. It is a direct wholly-owned subsidiary of LMGI. LMIC is the largest insurance company in the Liberty Mutual group.
- (5) **LIHI** - LIHI, a Delaware corporation, was acquired by Liberty Mutual in 1999. It is a direct wholly-owned subsidiary of LMIC.
- (6) **LIH US** - LIH US, a Delaware corporation, was also acquired by Liberty Mutual in 1999. It is a direct wholly-owned subsidiary of LIHI. LIH US will be the direct purchaser of Safeco.

C. THE DOMESTIC INSURERS

The Domestic Insurers in the Proposed Transaction are First National Insurance Company of America, General Insurance Company of America, Safeco Insurance Company of America and Safeco Surplus Lines Insurance Company, all domiciled in Washington. Each entity is either directly or indirectly owned by Safeco. Safeco began operations in Seattle, Washington in 1923 and has grown into a leading writer of insurance for individuals and for small and mid-sized businesses, with a strong concentration in the northwest region of the United States.

Safeco has garnered a rating of A (Excellent) in A.M. Best's 2007 Insurance Reports for "Safeco's focus on personal and small commercial lines through restructured operations."³ Safeco is the fourth largest writer of surety coverage and the seventeenth largest property and casualty insurance coverage company in the United States. Safeco employs an independent agent distribution system with a 65% personal, 35% commercial split.

IV. COMPLETENESS

On July 18, 2008, the Consultants provided the OIC a preliminary Interim Report addressing the extent to which the Form A contains all of the information required by the HCA and WAC § 284-18-910. The Interim Report concluded that the Form A could not be deemed complete under the applicable statutory requirements primarily because it did not contain several required financial statements of the Acquiring Parties, and descriptions for each Acquiring Party's last five years of

³ A.M. BEST CO., BEST'S INSURANCE REPORTS-PROPERTY CASUALTY, US, *Safeco Insurance Companies* (No. 00078), at 6 (2007 ed. 9-Month Supp.CD-ROM, Version 2007.3).

business. In addition, the Interim Report noted that certain required information was not contained within the Form A itself, but rather in supporting or collateral documents.

On July 30, 2008, Liberty Mutual provided the Consultants a draft of the amended Form A for review and comment prior to the formal filing. The Consultants outlined additional suggestions for inclusion to meet the requirements set forth in the HCA, as well as substantive comments to clarify areas of ambiguity. On August 1, 2008, Liberty Mutual filed "Amendment 1 to the Form A Statement Regarding the Proposed Acquisition of Control of [the Safeco Entities] by [Liberty Mutual]" (the "Amended Form A").⁴ Following review of the Amended Form A, the Consultants issued a letter to the OIC on August 4, 2008, finding the Form A complete for purposes of RCW § 48.31B.015(2).

V. STATUTORY STANDARDS

The Proposed Transaction is governed by RCW § 48.31B.015(4)(a), the requirements of which can be paraphrased as follows:

(4)(a) The Commissioner shall approve the acquisition of control unless, after a public hearing thereon, he finds that:

(i) After the change of control, Safeco would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed;

(ii) The effect of the acquisition of control would be substantially to lessen competition in insurance in the State of Washington or tend to create a monopoly therein. In applying the competitive standard in (a)(ii) of this subsection:

(A) The informational requirements of RCW § 48.31B.020(3)(a) [preacquisition notification] and the [competitive] standards of RCW § 48.31B.020(4)(b) apply;

(B) The Commissioner may not disapprove the acquisition of control if the Commissioner finds that any of the [redeeming] situations meeting the criteria provided by RCW § 48.31B.020(4)(c) exist; and

(C) The Commissioner may condition the approval of the acquisition on the removal of the basis of disapproval within a specified period of time;

(iii) The financial condition of Liberty Mutual is such as might jeopardize Safeco's financial stability, or prejudice the interest of its policyholders;

⁴ All references to the Form A in this Final Report pertain to the Form A filed on May 16, 2008, as amended by the Amended Form A filed with the OIC on August 1, 2008.

(iv) The plans or proposals that Liberty Mutual has to liquidate Safeco, sell its assets, consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable to Safeco's policyholders and not in the public interest;

(v) The competence, experience, and integrity of those persons who would control Safeco's operation following implementation of the Proposed Transaction are such that it would not be in the interest of its policyholders and of the public to permit the acquisition of control; or

(vi) The acquisition is likely to be hazardous or prejudicial to the insurance-buying public.

VI. REVIEW PROCESS

By July 1, 2008, the Consultants commenced a systematic review of the Proposed Transaction guided principally by the applicable statutory standards and direction provided by the OIC. While the statute enumerates the specific information required to be made part of the statement constituting the Form A,⁵ the review performed by C&B and RNA has included additional information to test the accuracy and reliability of the essential assertions contained in the Form A. This information has taken principally three forms: documents provided by Liberty Mutual and Safeco, documents gathered from collateral sources, and interviews and discussions with representatives of Liberty Mutual and Safeco. In addition, the Consultants have reviewed information provided by the OIC, other state regulators, and other third-party sources. From these materials and information, C&B has generated its own analytical reports and work papers. Illustrative of such analysis has been C&B's examination of the extent to which the Transaction Parties' investment portfolios include non-government guaranteed mortgage backed securities resulting in material exposure to adverse consequences of the "subprime crisis" besetting various segments of the insurance and financial services industries. As discussed below, the examination revealed no basis for material concern along these lines.

The Form A was initially filed on May 16, 2008,⁶ and the Acquiring Parties provided supplemental exhibits to the Form A on June 19 and June 23, 2008. Additional documents were also provided on June 9, 2008, to explain a change in financing options for the proposed change of control. Upon receipt and review of the Form A, the accounting and legal Consultants convened for an initial conference call on June 30, 2008, to discuss the matters presented in Liberty Mutual's Form A and potential areas for concern, and to begin identifying the documents and information they would need in order to evaluate all relevant facets of the Proposed Transaction.

⁵ See RCW § 48.31B.015(2).

⁶ This filing is also treated by the OIC as the preacquisition notification described in RCW § 48.31B.020(3).

As part of this effort, the Consultants presented Liberty Mutual with an initial document request on July 1, 2008, which has been supplemented with three additional requests on July 2, 2008, July 8, 2008, and July 15, 2008, and with a number of specific requests for particular information or individual documents. Approximately 75 requests have been submitted to Liberty Mutual and Safeco for production of material documents, all of which have been received by the Consultants. A number of these documents have been uploaded in an Extranet Room, which is maintained exclusively by Liberty Mutual, and to which the Consultants have constant access (the "Extranet Room").

Some of the documents requested by the Consultants are deemed by Liberty Mutual and Safeco to be highly confidential because they contain competitively sensitive information or forecasts and projections, the revelation of which could have material securities laws implications. In accordance with a Non-Disclosure and Confidentiality Agreement signed by the parties on July 14, 2008 (and approved by the OIC), the Consultants have been provided an opportunity to review, but not retain copies of, these confidential view-only documents. Although conclusions drawn from such review may be made part of the Consultants' reports, C&B and RNA are barred from otherwise disclosing or producing the contents of the view-only documents to other parties, including the OIC.

On July 15 through 17, 2008, representatives of RNA and C&B met with representatives of Liberty Mutual at its Boston home office. Apart from reviewing view-only documents, these meetings enabled the Consultants to discuss specific aspects of the transaction with management. In addition, the Consultants have participated in teleconferences with Liberty Mutual management in the home office and in other offices to discuss other aspects of the Proposed Transaction. As an additional accommodation, Liberty Mutual has also made certain confidential view-only documents available for review at offices of counsel or other representatives of the company in the cities in which the Consultants have their offices.

The Consultants have also engaged in a number of conference calls with representatives of Liberty Mutual and Safeco to address specific concerns and to clarify specific matters raised by the Proposed Transaction. These substantive discussions often resulted in additional confidential view-only document requests for the Consultants' evaluation.

On July 31, 2008, the Consultants submitted a combined Interim Report charting the progress of the Proposed Transaction's evaluation. The Interim Report identified four key areas that the Consultants believed required additional analysis before a conclusion could be rendered as to the extent to which the Proposed Transaction satisfied applicable requirements for approval.

The appendices attached to the C&B Report include a compilation of the Liberty Mutual and Safeco interviews conducted as part of the evaluation and a log of the documents reviewed by the Consultants. In general, the documents reviewed consist of financial statements and projections, minutes of select board of directors meetings, presentations by consultants, regulatory filings, internal company analyses, internal reports, and related memoranda and correspondence.

VII. APPLICATION OF STATUTORY STANDARDS

Below is a reference chart regarding the relevant provisions of RCW § 48.31B.015(4)(a), the information provided by the Transaction Parties or obtained independently by the Consultants to analyze each specific statutory requirement, and C&B's overall conclusions for each statutory element. With the exception of RCW § 48.31B.015(4)(a)(v) regarding competence of management (as to which the OIC received sufficient information and deemed it not to need further investigation), each provision of RCW § 48.31B.015(4)(a) is analyzed in the C&B Report in the context of the Proposed Transaction. The chart also identifies the portion of the C&B Report that addresses each statutory provision.

| Statutory Provision | Information Addressing this Provision | Report Area Addressing this Provision | Analysis |
|---------------------|--|---------------------------------------|--|
| 4(a)(i) | <ol style="list-style-type: none"> 1. Form A materials 2. External company and legal research | Licensing Requirements | <p>The general licensing requirements for an insurer in the State of Washington are that it: (1) be a stock, mutual, or reciprocal insurer, (2) have capital funds above the statutory minimum, (3) only conduct business it is chartered to conduct, and (4) meet any other code requirements. RCW § 48.05.040. Per the analysis conducted, Safeco and Liberty Mutual are properly licensed (and should remain qualified) for all lines of insurance currently written by both. The Proposed Transaction should not have an adverse effect on such qualification.</p> |
| 4(a)(ii) | <ol style="list-style-type: none"> 1. Form A materials under Exhibit 11 2. Statutory guidelines, case law and industry research 3. Conference calls with both Transaction Parties regarding certain lines of business | Competition Analysis | <p>The Form A materials, collateral documents, related discussions with the Liberty Mutual management team, and statutory guidelines, case law, and industry research do not provide reason to believe that the Proposed Transaction will substantially lessen competition or tend to create a monopoly in the State of Washington. However, C&B suggests that the Transaction Parties be required to collaborate with the OIC and communicate future plans regarding expanding or restricting certain lines of business if and when the Proposed Transaction is approved and further decisions are finalized.</p> |

| Statutory Provision | Information Addressing this Provision | Report Area Addressing this Provision | Analysis |
|---------------------|--|--|--|
| 4(a)(iii) | 1. Form A materials under 9-A through 10-B; 2. Additional documents provided by Liberty Mutual, (<i>i.e.</i> , individual financial projections for both Transaction Parties, Safeco and Liberty Mutual combined projections, combined statutory financial statements, RBC ratios, financing options, etc.) | Liberty Mutual's Financing Plans and Financial Condition | The Form A materials, Liberty Mutual's financial documents, collateral documents, and related discussions with the Liberty Mutual management team, do not lead the Consultants to foresee any financial implications from the Proposed Transaction that would jeopardize the insurer, or prejudice the policyholders or the Washington public interest. C&B suggests that the Transaction Parties be required to communicate any material changes to the OIC regarding modified decisions or changes in the financial data or projections from those presented in the Form A and provided materials. The financial analysis of the Proposed Transaction has been performed principally by RNA, whose Final Report should be reviewed for more detail. |
| 4(a)(iv) | 1. Form A materials 2. Additional documents provided by Liberty Mutual upon request, (<i>i.e.</i> , financial projections, opportunity forecasts, and integration timetables) 3. Conversations with Liberty Mutual's management about regarding logistical details surrounding the integration of Safeco into Liberty Mutual, executive management changes, complaints handling, job reductions, and related topics | Future Plans | The Form A indicates Liberty Mutual's intent to acquire 100% of Safeco's stock, and replace Safeco's Board of Directors and executive management with Liberty Mutual's Board of Directors and executive management. The Form A materials and additional documents further express Liberty Mutual's plans to retain Safeco's brand and current operations in the State of Washington. Although the Form A and related documents provide a baseline framework for integration, the Liberty Mutual management team has indicated that a detailed integration timetable and accompanying logistics will not be available in the near future. Nonetheless, the Form A materials, additional documents, and related discussions with the Liberty Mutual management team do not suggest that Liberty Mutual's intended plans will be unfair or unreasonable to policyholders or the Washington public interest. C&B suggests that the Transaction Parties be required to keep the OIC fully informed as they finalize pertinent complex integration details if and when the Proposed Transaction is approved. |

| Statutory Provision | Information Addressing this Provision | Report Area Addressing this Provision | Analysis |
|---------------------|---|---------------------------------------|---|
| 4(a)(v) | 1. Biographical affidavits of all Liberty Mutual directors and executive management at Exhibits 5-A and 5-B 2. Owens Online report regarding the information provided in the biographical affidavits (Note: C&B has not reviewed the contents of this report.) | Not Addressed in Report | C&B has examined the contents of the biographical affidavits of all Liberty Mutual directors and executive management, including those expected to replace the Safeco directors and executive management, and have not found a cause for concern with respect to this statutory provision. Further, Liberty Mutual employed Owens Online to verify the information referenced in the biographical affidavits. The OIC has reviewed Owens Online's findings and observed that, apart from some civil violations which do not justify rejection of the application, there are no material concerns with respect to the Liberty Mutual management team. ⁷ |
| 4(a)(vi) | 1. All Form A materials 2. Additional documents provided by Liberty Mutual upon request 3. Market share and competition analysis 4. Independent research | Entire Final Report | The entirety of C&B's analysis addresses this statutory provision. The review of the Form A materials, Liberty Mutual's additional documents, and related discussions with the Liberty Mutual management team do not suggest the Proposed Transaction would be hazardous or prejudicial to the insurance buying public or the Washington public interest. C&B recommends that the Transaction Parties be required to inform the OIC periodically during the twenty-four-month period following the effective date of the Proposed Transaction regarding material changes in financial projections and progress in the integration of Safeco into Liberty Mutual. |

⁷ Per Liberty Mutual's request, Owens Online gathered investigative information to compare against the biographical affidavits provided for the following parties: Michael J. Babock, Gary C. Butler, Charles I. Clough Jr., James P. Condrin III, Gary L. Countryman, James F. Dore, John D. Doyle, Francis A. Doyle III, Anthony A. Fontanes, Joseph A. Gilles, Scott R. Goodby, Gary R. Gregg, John P. Hamill, Mariann L. Heard, Edmund F. Kelly, Edmund C. Kenealy, Dennis J. Langwell, Dexter R. Legg, David H. Long, Christopher C. Mansfield, John P. Manning, Thomas J. May, Stuart M. McGuigan, Robert T. Muleski, Stephen F. Page, Thomas C. Ramey, Ellen A. Rudick, Helen E. R. Sayles, Martin P. Slark, Stephen G. Sullivan, William C. Van Faasen, Annette M. Verschuren, James E. Tuite, and Laurance H.S. Yahia. The Consultants have since discussed this information with OIC and been informed that the OIC does not require any further analysis or investigation of this area.

VIII. ANALYSIS OF STATUTORY STANDARDS

In the Consultants' Interim Report, four areas were specifically identified as meriting further analysis: (1) competition analysis, (2) Liberty Mutual's financing plans and financial condition, (3) recent complaint handling concerns, and (4) future plans. This report analyzes the issues raised by all the relevant statutory provisions in RCW § 48.31B.015(4)(a), including these four areas. As will be seen, the concerns as to these four areas have been resolved.

A. LICENSING REQUIREMENTS

As detailed below, C&B does not believe that the Proposed Transaction will violate any of the requirements for licensing presented in RCW § 48.31B.015(4)(a)(i).

(1) HCA Requirements

Under RCW § 48.31B.015(4)(a)(i), the Commissioner may deny an acquisition if "[a]fter the change of control, the [acquired] insurer . . . would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed."⁸ RCW § 48.05.040 identifies the basic requirements to qualify for a Certificate of Authority, namely that the insurer: (1) be a stock, mutual, or reciprocal insurer, (2) have capital funds above the statutory minimum, (3) only conduct business the insurer is chartered to conduct, and (4) meet any other code requirements.

As to the first element, the Proposed Transaction will not change the corporate form of the Safeco Entities, each therefore remaining a stock company. LMHC is a mutual holding company, and the other Acquiring Parties are all stock companies.

The second element includes the total capital fund requirements of RCW § 48.05.340 but is also governed in large part by RCW § 48.05.430, *et seq.*, establishing applicable Risk Based Capital ("RBC") requirements. The documents and information offered in support of the Form A establishes that Safeco currently meets, and will continue to meet if acquired by Liberty Mutual, the baseline minimum of \$3 million capital surplus and \$3 million additional surplus to write premiums in multiple lines of business.⁹ The anticipated impact of the Proposed Transaction on Safeco's RBC

⁸ Safeco Insurance Company of America is currently authorized to write the following lines in the State of Washington: Casualty, Marine, Property, Vehicle, and Surety.

⁹ The only requirements which attach by line of business are the Capital & Surplus Requirements of RCW § 48.05.340. Since the Proposed Transaction would involve the issuance of multiple lines of insurance, the paid-in capital stock or basic surplus must be maintained at \$3 million, and the additional surplus must be separately held at \$3 million. RCW § 48.05.340.

ratios is analyzed in more detail in RNA's Final Report. However, the Consultants believe that after the Proposed Transaction is implemented (if approved by the Commissioner), Safeco's RBC would remain substantially above 300% of its Authorized Control Level RBC, as defined in RCW § 48.05.430(11)(c).

Satisfying the third element, nothing in the Proposed Transaction leads C&B to conclude that Safeco will not remain licensed to conduct business in the lines of business it writes currently in Washington. Thus, the first three provisions are easily satisfied.

The fourth element is far less specific, encompassing compliance with the entire insurance code. An analysis to determine whether every aspect of Safeco's operations post-acquisition will comply fully with all aspects of the Washington insurance code would be virtually impossible, necessarily dependent on substantial speculation as to future events. However, nothing has come to the attention of C&B indicating that the Proposed Transaction would cause Safeco to violate the Washington insurance code. In meetings with Liberty Mutual representatives, C&B posed a number of questions intended to identify anticipated changes in Safeco's operations post-acquisition. C&B also reviewed a large number of documents, many provided on a confidential view-only basis, for the same purpose. The information gathered by C&B leads to two salient conclusions. First, Liberty Mutual is committed to compliance with applicable legal requirements to the best of its ability. This corporate attitude is expected to continue post-acquisition, as it has with prior acquisitions by Liberty Mutual. Second, no aspect of Liberty Mutual's plans for Safeco (to the extent they have been made known to C&B) appear to be likely to cause Safeco to violate any applicable requirement of the RCW.

(2) Foreign Insurer Requirements

In the Proposed Transaction, Safeco, a domestic insurer, seeks to be fully acquired by Liberty Mutual, a foreign insurer.¹⁰ The Proposed Transaction should not cause Safeco to lose any of its current licenses and does not contemplate new licenses in Washington for Liberty Mutual. However, C&B believes that Liberty Mutual would comply with the requirements for such licenses if they were necessary. There are two significant requirements, specific to foreign insurers, for qualification of a certificate of authority under RCW § 48.31B.015(4)(a)(i). It is unlikely that either foreign insurer requirement will pose a significant hurdle, in light of Liberty Mutual's present business in the State of Washington and throughout the U.S. and other jurisdictions.

The first requirement is that "[n]o certificate of authority shall be granted to a foreign . . . applicant that has not actively transacted for three years the classes of insurance for which it seeks to be admitted." RCW § 48.05.105. Accordingly, Liberty Mutual would not qualify for a certificate of authority to expand into areas in which it has not actively transacted business. However, Liberty

¹⁰ A foreign insurer is defined as "one formed under the laws of the United States, of a state or territory of the United States other than this state, or of the District of Columbia." RCW § 48.05.010.

Mutual has been active well in excess of three years in all the lines of business relevant to the Form A. Additionally, as can be seen in the following chart, the company writes premiums in all lines of business in the State of Washington in which Safeco currently transacts business, with the exception of two lines - medical malpractice and guaranteed renewable A&H.¹¹ Thus, no impediments are foreseen in this area.¹²

Second, foreign insurers must deposit assets with the Commissioner to protect policyholders. RCW § 48.05.080(1). However, in lieu of a deposit, Liberty Mutual may submit the certification of the insurance commissioner in another state where such a deposit exists. RCW § 48.05.080(2). Considering that Liberty Mutual maintains a similar deposit in Massachusetts where it is domiciled, or in several other states for that matter, this requirement should not cause any material issue.¹³

¹¹ C&B does not foresee Liberty Mutual's lack of involvement in the lines of medical malpractice and guaranteed renewable A&H to be a material concern in the Proposed Transaction, as both business lines are subcategories of areas in which Liberty Mutual does participate.

¹² In the C&B Report, all data representing current active lines of business in the State of Washington, and corresponding market shares for each party, are for 2007 and were obtained from Liberty Mutual's Form A, Exhibit 11, which was independently verified. See Section B(1), *infra*. As used throughout the C&B Report, market share refers to the direct written insurance premium for a line of business, as used in the 2007 NAIC Annual Statements of Liberty Mutual and Safeco. RCW § 48.31B.020(2)(b)(v).

¹³ See *Report of Examination of the Liberty Mutual Insurance Company*, Commonwealth of Massachusetts Division of Insurance, (May 31, 2006) (available at: http://www.mass.gov/Eoca/docs/doi/Companies/Fin_Reports/LibMut123104FinalWebRpt.pdf) (identifying the special deposits maintained by Liberty Mutual in Arizona, Arkansas, California, Delaware, Georgia, Illinois, Indiana, Kansas, Louisiana, Maine, Maryland, Massachusetts, New Hampshire, New Mexico, New York, North Carolina, Oregon, Vermont, Virginia, and in all other jurisdictions totaling over \$2.8 billion in trust throughout the country).

| Current Lines of Business for Liberty Mutual and Safeco in the State of Washington | | | | |
|---|------------------------------------|----------------------------|--|---|
| Line of Business Written by Liberty Mutual and Safeco in 2007 | Liberty Mutual Market Share | Safeco Market Share | License or Certificate of Authority Requirements under RCW § 48.05.040 | Analysis under RCW § 48.31B.015 (4)(a)(i) |
| Fire | 5.52% | 8.20% | The general license requirement for all insurers is that they: (1) be a stock, mutual, or reciprocal insurer, (2) have capital funds above the statutory minimum, (3) only conduct business they are chartered to conduct, and (4) meet any other code requirements. | All current lines of insurance written by both Safeco and Liberty Mutual should meet the requirements for issuance of a license upon the Proposed Transaction's approval. Thus, there is no barrier in this provision to impede the Proposed Transaction. |
| Allied Lines | 2.15% | 6.23% | | |
| Farmowners multiple peril | 6.65% | 8.16% | | |
| Homeowners multiple peril | 2.66% | 8.45% | | |
| Comm multiple peril (non-liab) | 6.22% | 8.77% | | |
| Comm multiple peril (liability) | 8.98% | 10.43% | | |
| Inland Marine | 11.50% | 5.87% | | |
| Medical Malpractice | 0.00% | 0.01% | | |
| Earthquake | 3.79% | 3.77% | | |
| Guaranteed renewable A&H | -0.01% | 0.13% | | |
| Workers compensation | 13.27% | 1.19% | | |
| Other liability | 4.74% | 5.25% | | |
| Products liability | 4.83% | 1.07% | | |
| Priv passenger no-fault | 2.15% | 7.58% | | |
| Other priv passenger liability | 2.19% | 8.68% | | |
| Comm auto no-fault | 5.55% | 7.64% | | |
| Other comm auto liability | 7.98% | 11.29% | | |
| Priv passenger auto physical damage | 2.43% | 6.87% | | |
| Comm auto physical damage | 6.53% | 7.36% | | |
| Fidelity | 1.53% | 0.93% | | |
| Surety | 2.88% | 17.93% | | |
| Burglary and theft | 5.83% | 0.80% | | |
| Boiler and machinery | 0.01% | 0.47% | | |

B. COMPETITION ANALYSIS

(1) Accuracy and Independent Verification of Liberty Mutual's Data

The C&B Report assumes the accuracy of the data and descriptions provided by Liberty Mutual to the OIC in its Form A materials and exhibits, collateral documents, and related discussions. Additionally, an independent comparison of the Washington direct written premium for each line of business in the 2007 NAIC Annual Statements of Liberty Mutual and Safeco to the data provided in the Form A materials did not reveal any inconsistencies.

(2) Federal Antitrust and Competition Review

On May 1, 2008, pursuant to the provisions of the Hart-Scott-Rodino Antitrust Improvements Act (the "HSR"), 15 U.S.C. § 18(a) (2006), Liberty Mutual filed a "Notification and Report Form" (the "HSR Report") with the Federal Trade Commission and the Assistant Attorney General in charge of the Antitrust Division of the Department of Justice (collectively referred to as the "Federal Agencies"). The HSR Report described the proposed acquisition of Safeco by Liberty Mutual, and provided access to relevant financial statements and other material information.¹⁴ In general, the information submitted with the HSR Report consisted of such documents as the balance sheets and other financial data, as well as copies of certain documents that have been filed with the Securities and Exchange Commission.

Upon Liberty Mutual's filing of the HSR Report, the Federal Agencies were required to make an assessment as to whether the proposed acquisition would be in violation of section 7 of the Clayton Act, "where the effect of such acquisition may be substantially to lessen competition, or tend to create a monopoly." 15 U.S.C. § 18 (2006). In assessing the proposed acquisition, the Federal Agencies employed the Horizontal Merger Guidelines, which describe the analytical process for determining whether a horizontal acquisition or merger has potential anticompetitive effect. United States Dep't of Justice & Federal Trade Comm'n, Horizontal Merger Guidelines § 0.2 (1992), as revised (1997) (the "Guidelines").¹⁵ The Guidelines highlight five factors that the Federal Agencies would have evaluated: (1) whether the acquisition would significantly increase concentration and result in a concentrated market; (2) whether the acquisition, in light of market concentration and other factors that characterize the market, raises concern about potential adverse competitive effects; (3) whether entry would be timely, likely and sufficient either to deter or to counteract the competitive effects of concern; (4) whether there are any efficiency gains that reasonably cannot be

¹⁴ Although the information and documentary material filed under the HSR is exempt from public disclosure pursuant to 15 U.S.C. § 18(h) (2006), on July 15, 2008, the Consultants were able to review the majority of the HSR Report and found no information or disclosure therein to be of concern. Additionally, the HSR information that was not made available for review (due to its highly sensitive nature) would probably not have produced a different conclusion.

¹⁵ The Guidelines may be found in their entirety online at http://www.usdoj.gov/atr/public/guidelines/horiz_book/toc.html.

achieved by the parties through other means; and (5) whether, but for the merger, either party to the transaction would be likely to fail, causing its assets to exit the market. Id.

To assess increase in market concentration, the Federal Agencies employed the Herfindahl-Hirschman Index (the “HHI”). Id. at §§ 1.5 and 1.51. The HHI is a calculation of the sum of the squares of the individual market shares of all the participants, giving proportionately greater weight to market shares of the larger firms, in accord with their relative importance in competitive interactions. Id. Under the HHI, numbers which indicate a highly concentrated market can establish a presumption that an acquisition or merger will lessen competition. U.S. v. Baker Hughes Inc., 908 F.2d 981, 982 (D.C. Cir. 1990).

On June 2, 2008, the statutory thirty day waiting period under the HSR expired without extension, requests for more information, or other regulatory action.¹⁶ As a result, the Proposed Transaction can be assumed not to raise material antitrust issues under applicable federal law, as there are no reported cases where the Federal Agencies have approved a merger or acquisition under the HSR and then challenged it under Section 7 of the Clayton Act.¹⁷

(3) Washington Antitrust and Competition Law

In the HCA, the State of Washington furnishes its own analytical framework to assess the anticipated effect of the Proposed Transaction on competition. The relevant statutory provisions are found in RCW § 48.31B.015 (2008), and certain sections of RCW § 48.31B.020, to the extent incorporated by reference in RCW § 48.31B.015. Together, these statutes provide a framework to determine whether the effect of an acquisition would be substantially to lessen competition or tend to create a monopoly. To that end, these statutes provide:

1. “Safe harbor” exemptions from further competitive impact analysis altogether, RCW § 48.31B.020(2)(b)(v);
2. Guidelines to determine when there is evidence of a prima facie violation of competitive standards, under both a “highly concentrated/ non-highly concentrated” market analysis (the

¹⁶ The 30 day waiting period is specified both in the HSR and with greater specificity in the Code of Federal Regulations (16 C.F.R. §§ 803.10-803.11). It is subject essentially to one extension and if the Federal Agencies need more time to review or suspect that the merger or acquisition will violate anticompetitive standards they can then seek a preliminary injunction to halt the merger or acquisition pending a more thorough investigation.

¹⁷ The main purpose of the HSR which was enacted on September 30, 1976, was, in fact, to avoid the substantial costs “to firms, courts, and the marketplace” associated with post-merger suits. H.R. Rep No. 94-1373, at 10 (1976), reprinted in 1976 U.S.C.C.A.N. 2637, 2642. (“To avoid the worst of these protracted exercises in futility is the major purpose of this bill. Merger litigation simply need not always continue for years and even decades—but if it takes place after consummation, it generally will . . .”); see also, Daniel A. Crane, Antitrust Antifederalism, 96 Cal L. Rev. 1, 51-57 (2008) (discussing the impact of the HSR on the pursuit of post-merger suits, their rarity, and the minimal likelihood of success).

- “Market Concentration Analysis”) and a “significant trend toward increased market concentration” analysis (the “Significant Trend Analysis”), RCW § 48.31B.020(4)(b)(iii);
3. Guidelines to establish the absence of anticompetitive effect when there is evidence of a prima facie violation, RCW § 48.31B.020(4)(b)(iv); and
 4. Guidelines to override prima facie violations even with anti-competitive effect when the acquisition will yield substantial economies of scale or substantially increase the availability of insurance, RCW § 48.31B.020(4)(c)(i)-(ii).

However, in determining the appropriate standards, the Commissioner is not necessarily limited only to the guidelines provided in the Washington statute, and may additionally consider sources such as the Guidelines, including the HHI. See RCW § 48.31B.020(4)(b)(iv) (noting that the relevant factors in making a determination of anticompetitive effect include, but are not limited to, those enumerated); Premera v. Kreidler, 131 P.3d 930, 949 (Wash. Ct. App. 2006) (upholding commission’s reliance on expert testimony that utilized in part the market definitions contained in the Guidelines).¹⁸

(4) Application of Washington Antitrust and Competition Law

(a) “Safe Harbor” Exemptions

Washington’s statutory framework provides a number of “safe harbor” exemptions which preclude further competitive impact review for a line of business. Specifically, under the Washington statute, there is no need for further anticompetitive review if, as an immediate result of the acquisition:

- (A) In no market would the combined market share of the involved insurers exceed five percent of the total market;
 - (B) There would be no increase in any market share; or
 - (C) In no market would:
 - (I) The combined market share of the involved insurers exceed twelve percent of the total market; and
 - (II) The market share increase by more than two percent of the total market.
- RCW § 48.31B.020(2)(b)(v).

¹⁸ In Premera, the court evaluated the economic impact of a proposed conversion for a non-profit health insurer to a for-profit insurer under RCW § 48.31B.015(4)(a)(ii), the same section under which the Proposed Transaction is being evaluated. Premera, 131 P.3d at 937-38. In ruling that there was no error in the expert’s use of federal standards, the court stated that the agency’s definition of the market, for purposes of determining anticompetitive effect, is the sort of matter in which the court will “grant great deference to agency views.” Id. at 951.

Applying these “safe harbor” exemptions to the Proposed Transaction narrows down the scope of further competitive impact review to the following seventeen lines of business:¹⁹

| Lines of Business Which Do Not Qualify as “Safe Harbor” Exemptions | | |
|---|---|---|
| Line of Business | Combined Market Share²⁰ | Market Share Increase²¹ |
| Allied Lines | 8.38% | 2.15% |
| Comm Auto No-Fault | 13.19% | 5.55% |
| Comm Auto Physical Damage | 13.89% | 6.53% |
| Comm Multiple Peril (Liability) | 19.41% | 8.98% |
| Comm Multiple Peril (Non-Liab) | 14.99% | 6.22% |
| Earthquake | 7.56% | 3.77% |
| Farmowners Multiple Peril | 14.80% | 6.65% |
| Fire | 13.72% | 5.52% |
| Homeowners Multiple Peril | 11.11% | 2.66% |
| Inland Marine | 17.38% | 5.87% |
| Other Comm Auto Liability | 19.28% | 7.89% |
| Other Liability | 9.99% | 4.74% |
| Other Priv Passenger Liability | 10.66% | 2.19% |
| Priv Passenger Auto Physical Damage | 9.30% | 2.43% |
| Priv Passenger No-Fault | 9.73% | 2.15% |
| Surety | 20.81% | 2.88% |
| Workers Compensation | 14.46% | 1.19% |

¹⁹ Almost all the lines of business which do not warrant further competitive impact review have combined market shares that either are non-existent or less than 5%. Also, products liability and burglary and theft are exempt from further competitive impact review because the combined market share of the Transaction Parties would exceed 5% but not increase total market share by more than 2%.

²⁰ “Combined Market Share” in this table refers to the combined market share of Liberty Mutual and Safeco as a result of the Proposed Transaction.

²¹ “Market Share Increase” in this table refers to the increase in Safeco’s market share as a result of the Proposed Transaction. Under RCW § 48.31B.020(2)(b)(v), a line of business is not exempt if the Combined Market Share exceeds twelve percent or if it exceeds five percent and the Market Share Increase is greater than two percent.

(b) Guidelines to Determine Prima Facie Violations of Competitive Standards

Washington's statutory framework provides both the Market Concentration Analysis and the Significant Trend Analysis to determine when there is prima facie evidence of violation of competitive standards. RCW § 48.31B.020(4)(b)(iii).

(i) Market Concentration Analysis

Under the Market Concentration Analysis, there would be prima facie evidence of violation of competitive standards if the Transaction Parties were competing in the same market and possessed more market share than set statutory thresholds, which are lower for highly concentrated markets as opposed to non-highly concentrated markets.

In a highly concentrated market (*i.e.*, when the market share of the four largest insurers is seventy-five percent or more of the market), there would be evidence of a prima facie violation of competitive standards if in an acquisition the insurers involved possessed the following shares of the market prior to the acquisition (the insurer with the larger market share would be "Insurer A"):

| Insurer: <u>A</u> | <u>B</u> |
|-------------------|------------|
| 4% | 4% or more |
| 10% | 2% or more |
| 15% | 1% or more |

RCW § 48.31B.020(4)(b)(i).

In a non-highly concentrated market (*i.e.*, when the market share of the four largest insurers is less than seventy-five percent), there would be evidence of a prima facie violation of competitive standards if in an acquisition the involved insurers possessed the following shares of the market prior to the acquisition (the insurer with the larger market share would be "Insurer A"):

| Insurer: <u>A</u> | <u>B</u> |
|-------------------|------------|
| 5% | 5% or more |
| 10% | 4% or more |
| 15% | 3% or more |
| 19% | 1% or more |

RCW § 48.31B.020(4)(b)(ii).

Application of the Market Concentration Analysis to the Proposed Transaction produces only one line of business, workers compensation, that would be defined as a highly concentrated market (*i.e.*, the shares of the four largest insurers in the Washington workers compensation market

aggregate to 79% of the market).²² However, because Liberty Mutual and Safeco only have 13.27% and 1.19% of the market share, respectively, there is no prima facie violation. RCW § 48.31B.020(4)(b)(i).²³

In contrast, the Market Concentration Analysis does produce nine lines of business in non-highly concentrated markets as to which the result of the Proposed Transaction would be prima facie violations of competitive standards:

| Prima Facie Violations Under Market Concentration Analysis | | |
|--|-------------------------------|-----------------------|
| Line of Business | Liberty Mutual's Market Share | Safeco's Market Share |
| Comm Auto No-Fault | 5.55% | 7.64% |
| Comm Auto Physical Damage | 6.53% | 7.36% |
| Comm Multiple Peril (Liability) | 8.98% | 10.43% |
| Comm Multiple Peril (Non-Liability) | 6.22% | 8.77% |
| Farmowners Multiple Peril | 6.65% | 8.16% |
| Fire | 5.52% | 8.20% |
| Inland Marine | 11.50% | 5.87% |
| Other Comm Auto Liability | 7.98% | 11.29% |
| Surety | 2.88% | 17.93% |

(ii) Significant Trend Analysis

Under the Significant Trend Analysis, there is evidence of a prima facie violation of competitive standards if:

- (A) There is a significant trend toward increased concentration in the market;
- (B) One of the insurers involved is one of the insurers in a grouping of such large insurers showing the requisite increase in the market share; and

²² In 2007, the four largest insurers were: (1) Seabright Insurance with market share of 31.2%; (2) Delphi Financial Group with market share of 19.3%; (3) American International Group with market share of 15.2%; and (4) Liberty Mutual with a market share of 13.3%.

²³ Under the HHI, there is a similar result. The HHI indicates that the workers compensation market in Washington is highly concentrated, as the HHI is above 1800 at 1,874.91. However, because the HHI increase is less than 50 at 32, the Guidelines state that it is still unlikely that there will be adverse competitive consequences. Guidelines §§ 1.5 and 1.51; see also the HHI discussion at Section B(2), *supra*.

(C) Another involved insurer's market is two percent or more.

RCW § 48.31B.020(4)(b)(ii).

A "significant trend toward increased concentration" is further defined as occurring when the aggregate market share of a grouping of the largest insurers in the market, from the second largest to the eighth largest, increases by seven percent or more over a period of five years before the acquisition.²⁴ Id.

Applying the Significant Trend Analysis to the Proposed Transaction results in eight lines of business in which the acquisition would produce prima facie violations of competitive standards:

| Prima Facie Violations under Significant Trend Analysis | | | |
|---|-------------------------------------|----------------------------------|--|
| Line of Business | Market Share Increase ²⁵ | Safeco's Ranking in Market Share | Liberty Mutual's Ranking in Market Share |
| Allied Lines | 9.7% | No. 5 at 6.2% | 2.15% |
| Comm Auto Physical Damage | 10.5% | No. 3 at 7.36% | No. 5 at 6.53% |
| Comm Multiple Peril (Liability) | 10.2% | No. 2 at 10.4% | No. 3 at 9.0% |
| Farmowners Multiple Peril | 9.7% | No. 6 at 8.16% | No. 7 at 6.65% |
| Fire | 7.2% | No. 3 at 8.20% | No. 7 at 5.52% |
| Inland Marine | 18.7% | No. 6 at 5.87% | No. 2 at 11.50% |
| Other Comm Auto Liability | 9.8% | No. 2 at 11.29% | No. 3 at 7.98% |
| Surety | 21.2% | No. 2 at 17.93% | No. 10 at 2.88% |

Collectively all ten lines of business in which the Proposed Transaction would produce prima facie violations under either the Market Concentration Analysis and/or the Significant Trend Analysis are as follows: allied lines, commercial auto no fault, commercial auto physical damage,

²⁴ RCW § 48.31B.020(4)(b) specifically defines a significant trend toward increased concentration as "when the aggregate market share of a grouping of the largest insurers in the market, from the two largest to the eight largest, has increased by seven percent or more of the market over a period of time extending from a base year five to ten years before the acquisition up to the time of the acquisition."

²⁵ "Market Share Increase" in this table refers to the increase in aggregate market share from 2003 and 2007 for the second largest insurer to the eight largest insurer.

commercial multiple peril (liability), commercial multiple peril (non-liability), farmowners multiple peril, fire, inland marine, other commercial auto liability, and surety (the "Prima Facie Violations").²⁶

(c) Guidelines to Establish the Absence of Anticompetitive Effect when there is a Prima Facie Violation²⁷

Under the Washington statute, prima facie violations are only considered evidence of anticompetitive effect that can be subsequently rebutted by substantial evidence of other factors, which include, but are not limited to: market shares, volatility of ranking of market leaders, number of competitors, concentration, trend of concentration in the industry, and ease of entry and exit into the market. RCW § 48.31B.020(4)(b)(iv). Additionally, the Commissioner is not limited to the anticompetitive framework provided under the Washington statute, and may consider other sources such as the Guidelines, including the HHI. Premera, 131 P.3d at 949; see also discussion in Section B(2) and fn. 18, *supra*.

(i) Explanation of the HHI

The Guidelines divide the spectrum of market concentration as measured by the HHI into three broad categories, which can be summarized as follows:

(1) Unconcentrated markets (the HHI below 1000). Acquisitions resulting in unconcentrated markets are unlikely to have adverse competitive effects and ordinarily require no further analysis.

(2) Moderately concentrated markets (the HHI between 1000 and 1800). When the increase in the HHI is less than 100 points, acquisitions resulting in moderately concentrated markets are unlikely to have adverse competitive effects and ordinarily require no further analysis. However, acquisitions with an increase in the HHI of more than 100 potentially raise significant competitive concerns.

²⁶ Of the Prima Facie Violations, allied lines was only a prima facie violation under the Significant Trend Analysis and commercial multiple peril (non-liability) and commercial auto no fault were prima facie violations only under the Market Concentration Analysis. All other Prima Facie Violations were violations under both of these tests.

²⁷ There are also similar guidelines for the Commissioner to establish anticompetitive effect when there is not a prima facie violation of competitive standards. RCW § 48.31B.020(4)(b)(iv). Nonetheless, none of the lines of business in which there are not prima facie violations (*i.e.*, earthquake, homeowners multiple peril, other liability, other private passenger liability, private passenger auto physical damage, private passenger no-fault, and workers compensation), present sufficient evidence to signal further concern or analysis. The following general observations can be made concerning the market for all of these lines: (1) there is ample evidence of low barriers to entry and expansion; (2) between 2003 and 2007, there has been significant volatility and competition among the top ten Washington market leaders; (3) between 2003 and 2007, there has been no trend toward market concentration, as the relative market shares of the market leaders appear consistent; and (4) there are no additional concerns raised by application of the HHI. See also fn. 23, *supra*, which discusses specifically the HHI for workers compensation.

(3) Highly concentrated markets (the HHI above 1800). Acquisitions producing an increase in the HHI of less than 50 points, even in highly concentrated markets, are unlikely to have adverse competitive effect and ordinarily require no further analysis.

As these numerical divisions suggest greater precision than is possible, cases falling just above or below a threshold in the HHI present comparable competitive issues, with all other things being equal.

Guidelines §§ 1.5 and 1.51; see also Federal Trade Commission v. H.J. Heinz Co., 246 F.3d 708, 716 n. 9 (D.C. Cir. 2001) (explaining the HHI and the significance of increase in the HHI).

(ii) Application of the HHI to Prima Facie Violations

Applying the HHI to the Prima Facie Violations indicates that only three have any potential significant anticompetitive effect:

| Prima Facie Violations Which Potentially Have Adverse Competitive Effect under the HHI | | | |
|---|-----------------------------|---------------------------------------|----------------------------|
| Line of Business | Post-Acquisition HHI | Moderately Concentrated Market | Increase in the HHI |
| Surety | 1205 | Yes | 104 |
| Farmowners Multiple Peril | 1147 | Yes | 108 |
| Inland Marine | 994 | Borderline | 136 |

Under the HHI, these Prima Facie Violations raise potential significant competitive concern because they are within moderately concentrated markets and have an increase in the HHI of over 100. Although the HHI for inland marine is below 1000, at 994, all other things being equal, it would pose similar anticompetitive concerns as if it were just above 1000. Guidelines § 1.5. Similarly, for the surety and farmowners multiple peril markets, the increase in the HHI should not be overemphasized too much because in both cases it is just slightly above 100. Id.

In the other seven remaining lines for which Prima Facie Violations have been identified, the HHI indicates that all are clearly within unconcentrated markets, are thus unlikely to have adverse competitive effects, and ordinarily should require no further analysis.

| Prima Facie Violations Which Are Unlikely to Have Adverse Competitive Effect under the HHI | | | |
|--|----------------------|--------------------------------|---------------------|
| Line of Business | Post-Acquisition HHI | Moderately Concentrated Market | Increase in the HHI |
| Comm Multiple Peril (Liability) | 745 | No | 187 |
| Other Comm Auto Liability | 725 | No | 181 |
| Comm Auto Physical Damage | 711 | No | 96 |
| Fire | 748 | No | 90 |
| Comm Auto No-Fault | 915 | No | 84 |
| Comm Multiple Peril (Non-Liability) | 778 | No | 109 |
| Allied Lines | 802 | No | 26 |

(d) Further Analysis of Prima Facie Violations

Most of the additional analysis will focus on Prima Facie Violations that require additional scrutiny under the HHI (*i.e.*, surety, farmowners multiple peril, and inland marine). However, analysis will also be made of the other Prima Facie Violations, including commercial multiple peril (liability), other commercial auto liability, and commercial auto physical damage, in which Liberty Mutual will emerge as the market share leader after the Proposed Transaction, as well as of the remaining less significant Prima Facie Violations (*i.e.*, fire, commercial multiple peril (non-liability), commercial auto no fault, and allied lines).

As this analysis is considered, it is useful to distinguish between market share, market power and market dominance. Market share is the level of sales, shipments, or production of a given firm in an identified market, and is “just the starting point for assessing market power”. Guidelines §§ 1.41 and 2; Hunt-Wesson Foods, Inc. v. Ragu Foods, Inc., 627 F.2d 919, 925 (9th Cir. 1980). Market power in contrast is the “ability profitably to maintain prices above competitive levels for a significant period of time. Market power may be exercised, however, not only by raising price, but also, for example, by reducing quality or slowing innovation.” United States Dep’t of Justice & Federal Trade Comm’n, Commentary on the Horizontal Merger Guidelines, Introduction (2006). Market dominance or monopoly power is determined on a case by case basis but generally is a more pervasive possession of market power typically requiring more than 50% share of the market, combined with the power to control prices or unreasonably restrict competition. See, e.g., Case-Swayne Co. v. Sunkist Growers, Inc., 369 F.2d 449, 452, 458 (9th Cir. 1966), rev’d on other grounds, 389 U.S. 384 (1967) (finding market dominance where market power is between 67-70%, and expressing doubt whether 50% share of the market is sufficient).

In short, while an insurer may have a significant share of a given market, it may not have enough influence in that market to set prices or other factors in the face of meaningful competition. Such an insurer would face immediate increases in the market share of participants and loss in its own market share if it raised rates or reduced coverage or benefits because its competitors would immediately increase their writings upon more favorable terms. As explained by the Ninth Circuit:

Significant market share is only sufficient as a matter of law to support a finding of market power if entry barriers are high and competitors are unable to expand their output in response to supracompetitive pricing... A mere showing of substantial or even dominant market share alone cannot establish market power sufficient to carry out a predatory scheme. The plaintiff must show that new rivals are barred from entering the market and show that existing competitors lack the capacity to expand their output to challenge the predator's high price.

Rebel Oil Co., Inc. v. Atlantic Richfield Co., 51 F.3d 1421, 1438-1439 (9th Cir. 1995).

Thus, key factors affecting market power are the presence of other large competitors and low barriers to entry and expansion. Id.; see also Oahu Gas Service, Inc. v. Pacific Resources Inc., 838 F.2d 360, 366-367 (9th Cir. 1988) (explaining that factors such as low entry barriers or efficiencies resulting from the merger can successfully rebut accusations of an anticompetitive increase in market power). As will be seen, even where the Proposed Transaction produces a significant increase in market share, it falls short of the levels required for meaningful market power, let alone market dominance. The presence of other large competitors and absence of significant barriers to entry or expansion negate the prospect of market power that would cause concern.

(e) Further Analysis of Prima Facie Violations which Require Additional Scrutiny under the HHI

In the surety, farmowners multiple peril, and inland marine markets the Proposed Transaction would produce prima facie violations, both under the Market Concentration Analysis and under the Significant Trend Analysis. Additionally, under the HHI, these markets are deemed to have a potential for anticompetitive effect because they are moderately concentrated and have increases in the HHI of over 100.²⁸ Nonetheless, considerations of other relevant factors, such as other large market participants and ease of entry and expansion into the market constitute evidence that there will be no significant anticompetitive effect or exercise of market power for any of these lines of business.

²⁸ It should be noted that for the surety and farmowners multiple peril lines of business, the increase in the HHI is barely over 100, the threshold indicating cause for concern. Additionally, Inland Marine is only on the borderline of a moderately concentrated market. See discussion of the HHI in Section B(4)(c), *supra*.

(i) Surety

Other Large Market Participants. After the Proposed Transaction, Liberty Mutual would be ranked second with 20.81% share of the Washington market, and would still have to compete with Washington market participants such as: (1) Travelers Group, with 23.3% of the market, (2) Zurich Insurance Group, with 7.7% of the market, (3) Chubb & Son Group, with 6.1% of the market, and (4) CNA Insurance Group, with 5.8% of the market.

Additionally, surety is a unique specialty line of business that has a broader, national marketplace than Washington State alone. Consequently, any analysis of the potential competitive impact in Washington State should take into account the broader market.²⁹ As an illustration, Liberty Mutual's management explained that in 2007, only 33% of its Washington premium was produced by its Seattle office, with the remaining premium originating from Liberty Mutual's other nationwide offices. In 2006, only 25% of its Washington premium came from its Seattle office. In discussions with Liberty Mutual's management, it was suggested that similar national distribution patterns would apply to other market participants in the surety line of business as well.

Thus, within the context of the national marketplace, Liberty Mutual should also have continued competitive pressure from such nationwide market leaders as: (1) Travelers Group, with 18.8% of the market, (2) Zurich Insurance Group, with 8.4% of the market, (3) CNA Insurance Group, with 8.1% of the market, (4) Chubb & Son Group, with 5.5% of the market, (5) Hartford Fire & Casualty Group, with 4.2% of the market, (6) HCC Insurance Holding Group, with 3.8% of the market, (7) Arch Capitol Group, with 2.4% of the market, and (8) ACE Ltd. Group, with 2.2% of the market. Liberty Mutual explained that in the construction side of the surety business,³⁰ there is a great deal of nationwide competition, especially from such market participants as Zurich Insurance Group, Chubb & Son Group, and Hartford Fire & Casualty Group. Finally, two top ten nationwide market leaders, Arch Capital Group and ACE Ltd. Group, are not currently in the Washington top ten market markets, and thus could be viewed as potential candidates for expansion into the Washington market.

²⁹ In the absence of evidence to the contrary, the relevant geographical market is assumed to be the State of Washington. RCW § 48.31B.020(4)(b)(iii). However, when presented with sufficient evidence, the Commissioner shall also give due consideration to other factors including information submitted by the parties to the acquisition. Id.; cf. United States v. Pabst Brewing Co., 384 U.S. 546, 557 (1966) (explaining that under federal antitrust law, the appropriate geographic area in which to examine the effects of an acquisition is the area in which the parties to an acquisition compete, and around which there exist economic barriers that significantly impede the entry of new competitors).

³⁰ Surety bonds are frequently used in the construction industry (*e.g.*, in order to obtain a contract to build a project, the general contractor must provide the owner a bond for its performance of the terms of the contract). Liberty Mutual's management explained that competition on bids for such bonds is often national in scope. Surety bonds are also used in other situations, such as to secure the proper performance of fiduciary duties by persons in positions of private or public trust.

Ease of Entry and Expansion into the Market. In addition to the presence of other large Washington and nationwide competitors in the surety market, there is also evidence that the barriers to entry and expansion are relatively low. In the Washington market alone, there are currently fifteen other Washington market participants which have at least 1% of the market share and which could potentially expand that share.

Additionally, analysis of the Washington's top ten market leaders from 2003 to 2007 shows volatility among Washington's market leaders, with the four new participants (*i.e.*, Accredited Surety and Casualty Col., Inc., Liberty Mutual, Alleghany Group, and HCC Insurance Holdings Group) entering into Washington's top ten market leaders between 2004 and 2007.

Within the context of new entrants into surety, Liberty Mutual's management provided some anecdotal evidence concerning competitors entering and expanding into the market. Liberty Mutual noted that W.R. Berkley Group's has recently opened a line of business in surety and that Hanover Insurance Group is also currently expanding into the national market.

Finally, for the entry of new nationwide competitors into the Washington market, it can be assumed that most, if not all, would already be licensed or alternatively already have the requisite three years experience needed to qualify under Washington's seasoning statute, RCW § 48.05.105.

(ii) Farmowners Multiple Peril

Other Large Market Participants. After the Proposed Transaction, Liberty Mutual will be ranked second with 14.81% share of the market, but will still have to compete with other large market participants that would have greater or comparable market shares including: (1) Mutual of Enumclaw Group, with 18.6% of the market; (2) Country Insurance & Financial Services Group, with 14.4% of the market; (3) Grange Insurance Group, with 10.5% of the market; and (4) Travelers Group, with 9.5% of the market. If they decided to do so, these market participants could expand through aggressive advertising and marketing in response to the Proposed Transaction.

Ease of Entry and Expansion into the Market. Currently there are thirteen other market participants in farmowners multiple peril which have at least 1% of the market share and which could potentially expand in the Washington market. Moreover, a review of the top ten Washington markets leaders from 2003 to 2007 shows that there was volatility among the market leaders in farmowners multiple peril, with three new participants (*i.e.*, Travelers Group, Liberty Mutual, and QBE Insurance Group) joining Washington's top ten market leaders between 2004 and 2007.

Evidence of the competitive nature of the farmowners multiple peril market can be seen from the emergence of these three new participants. For instance, Liberty Mutual had .1% of the market in 2003 but was able to increase its share to 6.6% by 2007. Similarly, Travelers Group was able to increase its 6.0% share of the market in 2004 to 9.5% by 2007. Finally, QBE Insurance Group, a more recent competitive player, emerged in 2007 with a 5.2% share of the market, in part due to a recent acquisition of a U.S. farm insurance unit of White Mountain Insurance Group.

Additionally, the relative profitability over the last five years in farmowners multiple peril has also been another incentive for more participants to enter the market.

Finally, there is also some potential for more nationwide competition. Currently, Nationwide Group and American Family Insurance Group, are in the nationwide top ten market leaders but not in the Washington top ten. Nationwide Group and American Family Insurance Group could expand into the Washington market through aggressive marketing and advertising, if they decided to do so.

(iii) Inland Marine

Other Large Market Participants. After the Proposed Transaction, Liberty Mutual will be ranked second with 17.38% share of the market in inland marine, but will still have to compete with at least FM Global Group, which is ranked first with 20.3% of the market. FM Global Group should be capable of expanding its market share through aggressive advertising and marketing in response to the Proposed Transaction.

Ease of Entry and Expansion into the Market. There are currently twenty-six Washington participants which have at least 1% of the market share in inland marine and which could potentially expand in the Washington market. Moreover, a review of the top ten market leaders from 2003 to 2007 shows that there was volatility among the top ten market leaders, with three new participants (*i.e.*, Travelers Group, ACE Ltd. Group, and Liberty Mutual Group) joining Washington's top ten market leaders between 2004 and 2007.

Finally, American International Group and Assurant Inc. Group are in the top ten nationwide market leaders, but not currently in the Washington top ten market leaders. Presumably, American International Group and Assurant Inc. Group could expand in Washington State through aggressive advertising and marketing, if they decided to do so.

(f) Further Analysis to Prima Facie Violations in Which Liberty Mutual Will Become Market Leader

The Combined market shares produced by the Proposed Transaction in the commercial multiple peril (liability), other commercial auto liability, and commercial auto physical damage lines, are prima facie violations under both under the Market Concentration Analysis and the Significant Trend Analysis. Moreover, as a result of the Proposed Transaction, Liberty Mutual will become the market leader in Washington in all three of these markets. Nonetheless, under the HHI, all of these lines of business are within unconcentrated markets,³¹ and as such are deemed unlikely to have adverse competitive effect. Furthermore, considerations of other relevant factors such as other large

³¹ Both commercial multiple peril (liability) and other commercial auto liability will have an increase in the HHI of around 180. However, as these markets are clearly unconcentrated, this is not in and of itself a relevant indicator of potential anticompetitive effect. Guidelines § 1.51.

market participants and ease of entry and expansion into the market indicate that there is not substantial evidence of anticompetitive effect or threat of market power.

(i) Commercial Multiple Peril (Liability)

Other Large Market Participants. After the Proposed Transaction, although Liberty Mutual will be ranked first with 19.27% share of the market, it will still have to compete with a number of other strong market participants including: (1) Zurich Insurance Group with 10.7% of the market, (2) Contractors Bonding & Insurance Co, with 7.4% of the market, (3) Travelers Group, with 5.5% of the market, and (4) WR Berkley Group, with 5.1% of the market. In particular, from 2003 to 2007, Zurich Insurance Group has been a strong market competitor in the commercial multiple peril (liability) market and should be able to expand its market share in response to rate increases or reductions in coverage by Liberty Mutual following the Proposed Transaction.

Ease of Entry and Expansion into the Market. There are currently nineteen Washington participants in the commercial multiple peril (liability) line of business that have at least 1% share of the market and which could further expand, if they decided to do so. Moreover, a review of the top ten market leaders in Washington from 2003 to 2007 shows that there was some volatility among this group, with three new participants (*i.e.*, Travelers Group, Chubb & Son Group, and WR Berkley Group) joining Washington's top ten market leaders between 2004 and 2007.

Finally, there are three nationwide top ten market leaders (*i.e.*, Chubb & Son Group, State Farm IL Group, and Philadelphia Consolidated Insurance Group), not currently in the Washington top ten market leaders, that could compete in the Washington market, if they decided to do so.

(ii) Other Commercial Auto Liability

Other Large Market Participants. After the Proposed Transaction, although Liberty Mutual will be ranked first with 19.41% share of the market, it will still have to compete with strong insurers such as Zurich Insurance Group with 12.0% of the market, Travelers Group with 7.7% of the market, and Progressive Group with 6.1% of the market. In particular, Zurich Insurance Group has been a strong market competitor in the other commercial auto liability market from 2003 to 2007, and should be able to expand its market share in response to rate increases or reductions in coverage by Liberty Mutual following the Proposed Transaction.

Ease of Entry and Expansion into the Market. There are currently twenty-four Washington participants in the commercial auto liability line of business that have at least a 1% share of the market and which should be viewed as capable of further expansion. Moreover, a review of the top ten market leaders from 2003 to 2007 shows that there was volatility among the top competitors, with three new participants (*i.e.*, Travelers Insurance Group, Nationwide, QBE Insurance Group) becoming part of Washington's top ten market leaders between 2004 and 2007.

Finally, there are three nationwide top ten market leaders (*i.e.*, American International Group, Hartford Fire & Casualty Group, and Kingsway Group), not currently in the Washington top ten market leaders, that could further expand in the Washington market if they decided to do so.

(iii) Commercial Auto Physical Damage

Other Large Market Participants. After the Proposed Transaction, although Liberty Mutual will be ranked first with 13.89% share of the market, it will have strong competition from at least two other market participants with comparable market shares, including: (1) Balboa Insurance Group with 13.1% of the market and (2) Zurich Insurance Group with 12.6% of the market. Balboa Insurance Group and Zurich Insurance Group could expand their market shares in response to rate increases or reductions in coverage by Liberty Mutual following the Proposed Transaction.

Ease of Entry and Expansion into the Market. There are currently twenty-eight Washington participants in the commercial auto physical damage line of business that have at least 1% share of the market and which could potentially expand in the Washington market. Moreover, a review of the top ten market leaders from 2003 to 2007 shows that there was volatility among the top ten market leaders, with four new participants (*i.e.*, Travelers Insurance Group, State National Group, QBE Insurance Group, Nationwide) joining Washington's this top tier between 2004 and 2007.

Finally, there are three nationwide top ten market leaders (Auto Carriers Group, Old Republic Group, and American Financial Insurance Group), not currently in the Washington top ten market leaders, that could further expand in the Washington market, if they decided to do so.

(g) Further Analysis to Less Significant Prima Facie Violations

The fire market presents a prima facie violation under the Market Concentration Analysis and the Significant Trend Analysis. The commercial auto no-fault and commercial multiple peril (non-liability) markets present prima facie violations only under the Market Concentration Analysis. The allied lines market presents a prima facie violation only under the Significant Trend Analysis. Nonetheless, under the HHI, all of these lines of business are within unconcentrated markets and as such are deemed unlikely to have adverse competitive effect. Moreover, consideration of other relevant factors such as other large market participants and ease of entry into the market indicate that there is little evidence that there will be any significant anticompetitive effect as a result of the Proposed Transaction.

(i) Fire

Other Large Market Participants. After the Proposed Transaction, Liberty Mutual will be ranked second in the fire line of business with 13.72% share of the market, but will still have to compete with two insurers with greater or comparable market share: (1) American International

Group with 15.2% of the market and (2) FM Global Group with 12.9% of the market. American International Group and FM Global Group could expand their market share in response to rate increases or reductions in coverage by Liberty Mutual following the Proposed Transaction.

Ease of Entry and Expansion into the Market. There are currently twenty-three Washington participants in the commercial auto physical damage line of business that have at least 1% share of the market and which could potentially expand in the Washington market. Moreover, a review of the top ten market leaders from 2003 to 2007 shows that there was significant volatility among these leaders, with five participants (*i.e.*, Travelers Insurance Group, ACE Ltd. Group, Mutual of Enumclaw Group, SCOR Reinsurance Group, and USAA Group) joining Washington's top ten market leaders between 2004 and 2007.

Finally, there are four nationwide top ten market leaders (Balboa Insurance Group, Allianz Insurance Group, Auto Owners Group, and Alleghany Group), not currently in the Washington top ten market leaders, that could further expand in the Washington market if they decided to do so.

(ii) Commercial Auto No Fault

Other Large Market Participants. After the Proposed Transaction, Liberty Mutual will be ranked fourth with 13.19% share of the market, but will still have to compete with three insurers of greater market share: (1) Zurich Insurance Group with 15.3% of the market, (2) Progressive Group with 14.3% of the market, and (3) Mutual of Enumclaw Group with 13.4% of the market. These other larger market participants could easily expand their market share in response to rate increases or reductions in coverage by Liberty Mutual following the Proposed Transaction.

Ease of Entry and Expansion into the Market. There are currently seventeen Washington participants in the commercial auto physical damage line of business that have at least 1% share of the market and which could potentially expand in the Washington market. Moreover, a review of the top ten market leaders from 2003 to 2007 shows that there was significant volatility among these top competitors, with five new participants (*i.e.*, Travelers Group, ACE Ltd. Group, Nationwide Group, Old Republic Group, and QBE Insurance Group) becoming part of Washington's top ten market leaders between 2004 and 2007.

Finally, there are four nationwide top ten market leaders (*i.e.*, American Transit Insurance Company, Cherokee Insurance Company, Auto Owners Group, and Hereford Insurance Company), not currently in Washington's top ten market leaders, that could further expand in the Washington market, if they decided to do so.

(iii) Commercial Multiple Peril (Non-Liability)

Other Large Market Participants. After the Proposed Transaction, Liberty Mutual will be ranked second with 14.99% of the market and will have to compete with at least Zurich Insurance

Group with a 17.7% share. Zurich Insurance Group could easily expand its share in response to rate increases or reductions in coverage by Liberty Mutual following the Proposed Transaction.

Ease of Entry and Expansion into the Market. There are currently twenty Washington participants that have at least 1% of the market and which could potentially expand in the Washington market. Moreover, a review of the top ten markets leaders from 2003 to 2007 shows that there was volatility among these largest players with Travelers Group, Allstate Insurance Group, and QBE Insurance Group joining this top rank between 2004 and 2007. Finally, there are three nationwide top ten market leaders (*i.e.*, Allianz Insurance Group, CNA Insurance Group, Cincinnati Financial Group), not currently in Washington's top ten market leaders, that could further expand in the Washington market, if they decided to do so.

(iv) Allied Lines

Other Large Market Participants. After the Proposed Transaction, Liberty Mutual will be ranked third with only 8.38% of the market and will have to compete with at two insurers with greater market share: (1) FM Global with 19.2% of the market and (2) American International Group with 13.3% of the market. FM Global and American International Group could easily expand their market share in response to rate increases or reductions in coverage by Liberty Mutual following the Proposed Transaction.

Ease of Entry and Expansion into the Market. There are currently twenty-one Washington participants that have at least 1% share of the market and which could potentially expand in the Washington market. Moreover, a review of the top of this market from 2003 to 2007 shows that there was volatility among the top ten market leaders, with four new participants (*i.e.*, Travelers Group, CNA Insurance Group, Wells Fargo Group, and USAA Group) joining Washington's this top tier between 2004 and 2007. Finally, there are a four nationwide top ten market leaders (*i.e.*, Assurant Inc. Group, Balboa Insurance Group, ACE Ltd. Group, and Alleghany Group), not currently in the Washington top ten market leaders, that could further expand in the Washington market, if they decided to do so.

Given the results of the foregoing competitive impact analysis, it is the view of C&B that the combined market shares produced by the Proposed Transaction, even in the lines of business that present *prima facie* violations, are unlikely to result in lessening of competition in insurance in Washington or tend to create a monopoly therein. Nor have other aspects of the Proposed Transaction come to the attention of C&B that are likely to have those consequences.

C. LIBERTY MUTUAL'S FINANCING PLANS AND FINANCIAL CONDITION

(1) General Financing Conditions

The nominal purchase price of the proposed acquisition of Safeco is \$6.2 billion, although approximately \$6.35 billion is anticipated to be needed to complete the transaction. The following

monetary sources will facilitate Liberty Mutual acquisition of Safeco: (1) approximately \$1.42 billion of cash on hand, (2) approximately \$250 million of projected additional cash flow, (3) approximately \$3.46 billion in proceeds from liquidating invested assets, and (4) approximately \$1.22 billion in net proceeds from the Series C Junior Subordinated Notes issued by LMGI, which will be contributed down to LIH US as an investment. After reviewing the financial documents presented by Liberty Mutual and analyzing future projections, it is expected that Liberty Mutual will have sufficient assets to finance the Proposed Transaction.

Discussions with Liberty Mutual's management team and review of the documents indicate that LMHC's debt is primarily long-term with fixed interest rates. Material principal maturity dates do not take effect until years 2013 and 2014. The company's management remains confident in being able to meet debt service requirements, which are expected to be \$452 million in 2008 and \$508 million annually thereafter until 2012. A review of Liberty Mutual's financial documents corroborates the company's confidence in likely satisfying debt service requirements.

Other areas central to the Consultants' financial analysis have been financial leverage and risk based capital ("RBC") ratios. The Consultants' review reveals that Liberty Mutual's financial leverage ratio is relatively higher than those of its peers. Nonetheless, the financial leverage ratio is deemed to be acceptable. Similarly, Liberty Mutual's risk based capital ratio is expected to remain above those of its peers after the Proposed Transaction and in a range to be considered acceptable. A more detailed analysis of Liberty Mutual's financial leverage ratio and RBC ratio, as well as other financial matters that merit further examination, is provided in RNA's Final Report.

(2) Dividend Analysis

Item 4 of Liberty Mutual's Form A states that as of August 1, 2008, all "dividends have been either approved, deemed approved, or not disapproved, as the case may be, by the relevant state insurance regulators; all such dividends have been paid." Below is a list of ordinary dividends and extraordinary dividends filed by Liberty Mutual and the status of approval in each state. C&B's analysis of the dividend state statutes and approval requirements confirms that all filed dividends comply with the regulatory hurdles in each state in which they were filed.

Ordinary Dividends. The statutes in California, Illinois, Indiana, Michigan, and Oregon require the insurer to give notice to the respective insurance commissioner within five (5) business days following the declaration of an ordinary dividend. If the Commissioner does not disapprove the dividend within 10 business days of receipt of the notice, it is deemed approved. CAL. INS. CODE § 1215.4(f) (West 2008); ILL. ADMIN. CODE tit.50, § 855.30(a)(1) (2008); IND. CODE § 27-1-23-1.5(a) (2003); MICH. COMP. LAWS § 500.1343(4) (2002); OR. REV. STAT. § 732.554 (2007). Ohio requires notice within five (5) business days of the declaration, but only enforces a waiting period of 10 calendar days. OHIO REV. CODE ANN. § 3901.34(c) (West 2008). Wisconsin has no notice requirement if the dividend is no more than 15% larger than the same period in the previous year. WIS. STAT. § 617.22(3) (2006). If the dividend is larger than the 15% threshold, there is a notice requirement and a 30-day waiting period. WIS. STAT. § 617.22(3) (2006). If the respective

commissioner does not disapprove, or has approved, the dividend within 30 business days of receipt of the notice, the dividend is deemed approved and may be paid. Id. All ordinary dividends appear to comply with the statutory standards set forth by each state.

Extraordinary Dividends. Although the definitions for extraordinary dividends differ among the states in question,³² all seven states require that the insurer give notice to the respective commissioner within five (5) business days following the declaration of an extraordinary dividend. If the respective commissioner does not disapprove the dividend within 30 business days of receipt of the notice, it is deemed approved and may be paid. The respective commissioner may also approve the dividend prior to the end of the 30-day period. CAL. INS. CODE § 1215.5(g) (West 2008); 215 ILL. COMP. STAT. 5/131.20a(2) (2008); ILL. ADMIN. CODE TIT.50, § 855.30(a)(2) (2008); IND. CODE § 27-1-23-4(g) (2003); MICH. COMP. LAWS § 500.1343(5)-(6) (2002); OHIO REV. CODE ANN. § 3901.34(c) (West 2008); OR. REV. STAT. § 732.576 (2007); WIS. STAT. § 617.225 (2006). All extraordinary dividends appear to comply with the statutory standards set forth by each state.

³² In California, Illinois, Indiana, and Ohio, extraordinary dividends are defined as any distribution to shareholders that, when added to the previous 12 months of distributions, exceeds the greater of: (1) 10% of the surplus as of the immediately preceding December 31st, or (2) the net income of the insurer for the 12 month period ending with the immediately preceding December 31st. CAL. INS. CODE § 1215.5(g) (West 2008); 215 ILL. COMP. STAT. 5/131.20a(2) (2008); IND. CODE § 27-1-23-4(g) (2003); OHIO REV. CODE ANN. § 3901.34(c) (West 2008). Michigan explicitly excludes realized capital gains from the net income calculation. MICH. COMP. LAWS § 500.1343(6) (2002). Additionally, Oregon's 10% threshold is measured against the combined capital and surplus, not just surplus. OR. REV. STAT. § 732.576 (2007). Wisconsin defines extraordinary dividends as any distribution to shareholders that, when added to the previous 12 months of dividends either paid or credited, is greater than the lesser of the following: (1) 10% of the surplus as of the immediately preceding December 31st, (2) the greater of (a) the net income of the insurer for the 12 month period ending with the immediately preceding December 31st minus realized capital gains, or (b) the aggregate of the net income of the insurer for the three (3) calendar years preceding minus realized capital gains and minus dividends paid or credited within the first two (2) of those preceding three (3) years. WIS. STAT. § 600.03(19) (2006).

| State | Amount of Dividend | Company | Filing Date/Notice Date | Status |
|-------|--------------------|--|-------------------------|-------------------|
| CA | \$32,473,184 | Golden Eagle Insurance Corp. (ordinary) | 5/23/2008 | Deemed approved |
| | \$65,000,000 | Golden Eagle Insurance Corp. (extraordinary) | 5/23/2008 | Approval received |
| | \$6,323,610 | San Diego Insurance Company (ordinary) | 5/23/2008 | Deemed approved |
| | \$80,011,891 | LM Property and Casualty Insurance Company (extraordinary) | 6/16/2008 | Approval received |
| IL | \$54,694,838 | Liberty Insurance Corporation (ordinary) | 5/23/2008 | Approval received |
| | \$55,000,000 | Liberty Insurance Corporation (extraordinary) | 5/23/2008 | Approval received |
| IN | \$2,428,043 | Consolidated Insurance Company (ordinary) | 5/23/08 | Deemed approved |
| | \$34,572,349 | Indiana Insurance Company (ordinary) | 5/23/08 | Deemed approved |
| | \$20,000,000 | Indiana Insurance Company (extraordinary) | 5/23/08 | Approval received |
| | \$21,387,642 | West American Insurance Company (ordinary) | 5/23/2008 | Deemed approved |
| | \$12,011,891 | LM Property and Casualty Insurance Company (ordinary) | 5/23/2008 | Deemed approved |
| | \$68,000,000 | LM Property and Casualty Insurance Company (extraordinary) | 5/23/08 | Approval received |
| MI | \$1,350,193 | Liberty Personal Insurance Company (ordinary) | 5/23/2008 | Deemed approved |
| OH | \$3,568,807 | American Fire and Casualty Company (ordinary) | 5/27/2008 | Deemed approved |
| | \$5,987,509 | Ohio Casualty New Jersey, Inc. (ordinary) | 5/27/2008 | Deemed approved |
| | \$141,832,863 | The Ohio Casualty Insurance Company (ordinary) | 5/27/2008 | Deemed approved |
| | \$130,000,000 | The Ohio Casualty Insurance Company (extraordinary) | 5/27/2008 | Approval received |
| OR | \$9,009,422 | Liberty Northwest Insurance Corporation (ordinary) | 5/23/2008 | Deemed approved |
| WI | \$4,940,835 | Wausau Underwriters Insurance Company (ordinary) | 5/23/2008 | Deemed approved |
| | \$3,012,385 | Wausau General Insurance Company (ordinary) | 5/23/2008 | Deemed approved |

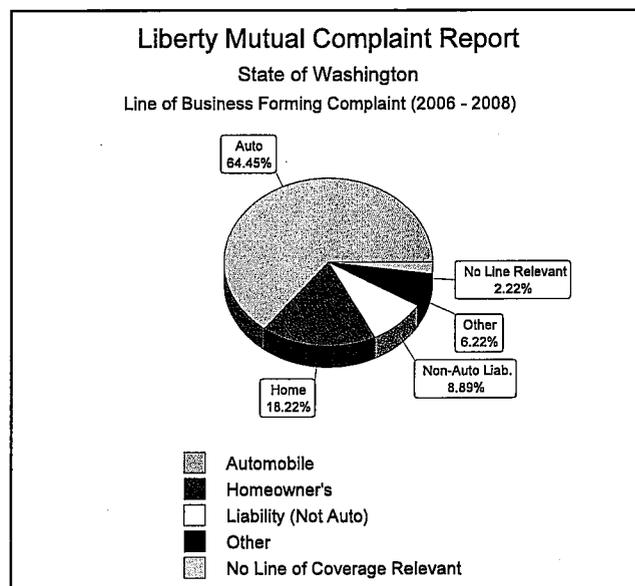
D. RECENT COMPLAINT HANDLING CONCERNS

(1) Liberty Mutual Complaint Analysis

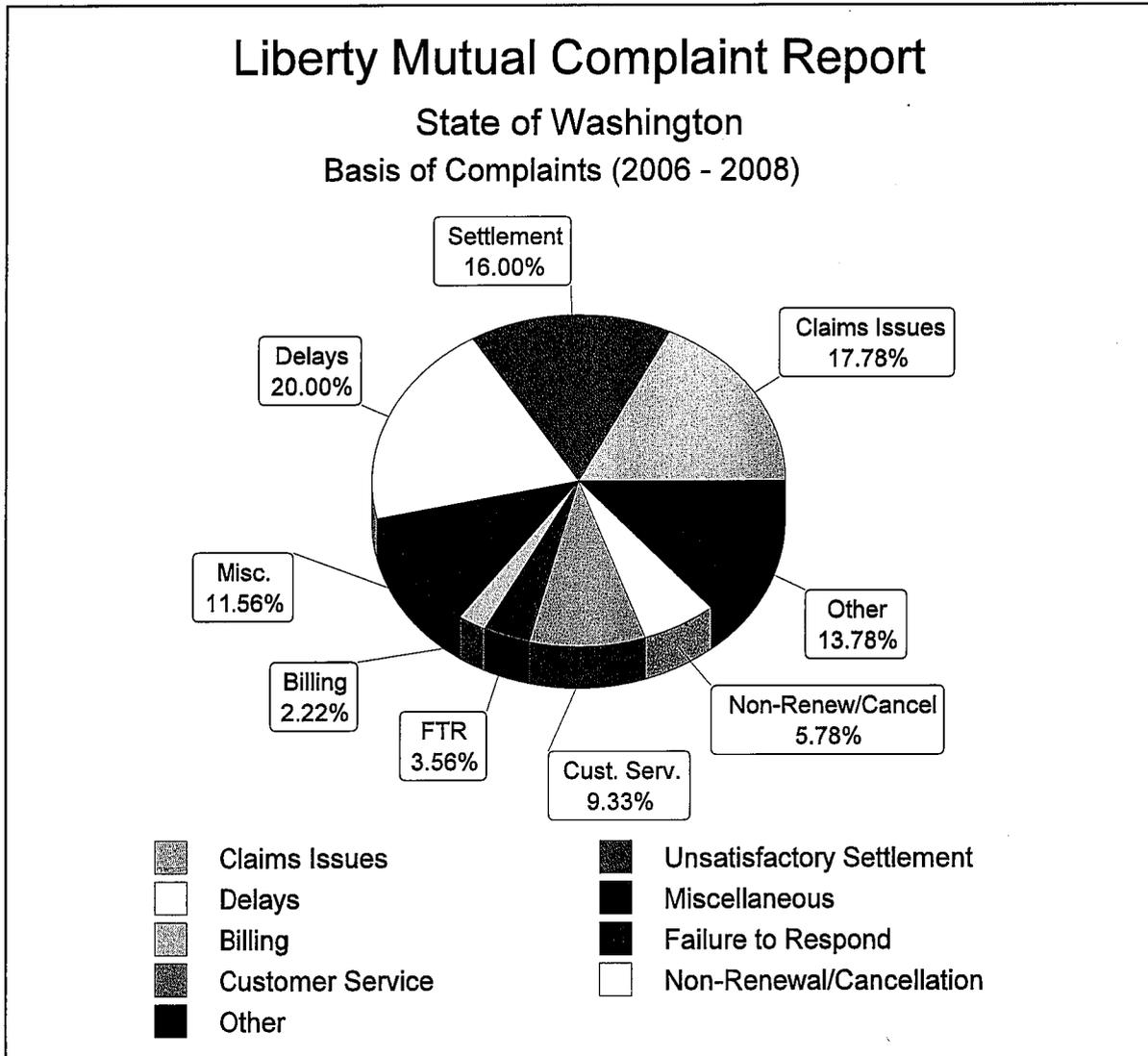
As a part of the analysis of the Proposed Transaction, the Consultants initially requested complaint logs from both Liberty Mutual and Safeco, which were provided in the Extranet Room on July 11, 2008, and July 14, 2008. The Washington complaint logs, together with several nationwide market conduct examinations, initially indicated a potential reason for concern with the increase in complaint levels over the past few years. The Consultants raised this issue with Liberty Mutual and requested more data from the company regarding the key processes it plans to employ to alleviate the complaint levels and enhance customer satisfaction. Initial information was provided in a July 25, 2008 conference call with Liberty Mutual, which is summarized below. Additional integration details are also discussed below, gleaned from the Amended Form A that Liberty Mutual filed on August 1, 2008.

The 2006, 2007, and 2008 data provided in the Liberty Mutual complaint logs has been compiled to illustrate the rise in complaints each year and the main areas of concern. From January 1, 2006, to July 2, 2008, Liberty Mutual received a total of 225 complaints within the Washington State market. These complaints were largely concentrated in three areas: (1) personal and commercial automobile, which comprised 64.45% of all complaints, (2) homeowner's, which comprised 18.22% of all complaints from years 2006 to 2008, and (3) non-automobile liability, which comprised 8.89% of all complaints. Other complaints (approximately 6.22% of the total) arose from a number of other forms of insurance (*i.e.*, group short-term disability, workers' compensation, dwelling fire, property, flood, and individual life insurance). Finally, 2.22% of the reported complaints were not directed at a particular line of business nor any particular underwriting member of Liberty Mutual. In short, the majority of complaints for this time period were directed towards the automobile and homeowner's lines.

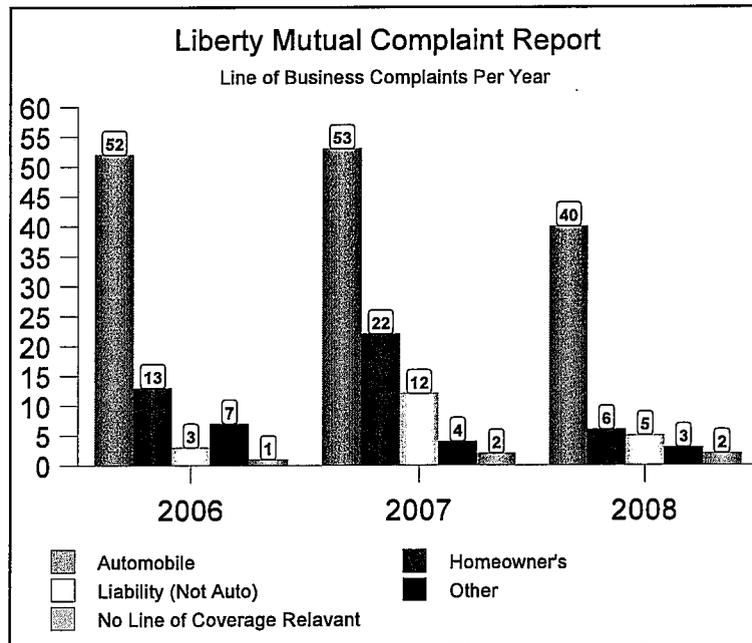
Each of the 225 complaints received by Liberty Mutual in the State of Washington from January 1, 2006, to July 2, 2008, were categorized by complaining parties under a host of reasons. The three main areas receiving complaints were: (1) delays, which includes general delays and payment delays, and comprised 20.00% of all complaints, (2) claims issues, which include denial of claims and general claims procedure, and comprised 17.78% of all complaints, and (3) unsatisfactory settlement, which includes unsatisfactory



offers and unsatisfactory final settlements, and comprised 16.00% of all claims. The charts illustrate these distributions.³³



³³ All the charts in the C&B Report have been prepared by C&B from Liberty Mutual data, which includes all complaints received by Liberty Mutual from the Department of Insurance and other sources.

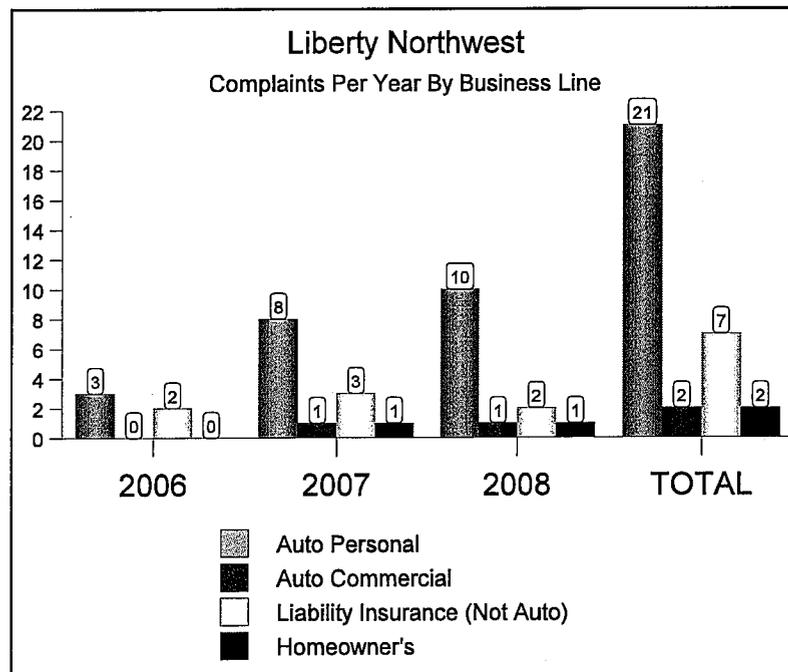


These figures represent the allocation of the 225 complaints for each of Liberty Mutual's lines of business between January 1, 2006, and July 2, 2008. The table below also tracks the increases and decreases in the number of complaints during the same time frame.

| Lines of Business | Complaints in 2006 | Complaints in 2007 | Complaints in 2008 |
|------------------------------|--------------------|--------------------|--------------------|
| Automobile | 52 | 53 | 40 |
| Homeowner's | 13 | 22 | 6 |
| Liability (Not Auto) | 3 | 12 | 5 |
| Other | 7 | 4 | 3 |
| No Line of Coverage Relevant | 1 | 2 | 2 |

For all Liberty Mutual entities in the State of Washington, the increase in automobile complaints can be tracked from 52 complaints in year 2006, to 53 complaints in year 2007, and 40 complaints thus far in year 2008 (with a projection of 80 total complaints for the year). The increase in homeowners complaints for the State of Washington is harder to illustrate with 13 complaints in year 2006, 22 complaints in year 2007, and six complaints thus far in year 2008 (leading to projection of 12 complaints for 2008). These results tally the complaint levels for all Liberty Mutual entities in the State of Washington.

In line with the OIC's concern for Liberty Northwest ("LNW"), increases in the automobile and homeowner's lines are more visibly apparent. For the auto personal line, three complaints were reported for 2006, in comparison to eight complaints for 2007, and a total of ten complaints thus far for 2008 (20 complaints therefore being projected for the year). The auto commercial line also reflects a slight increase in complaints, with no complaints in 2006, one complaint in 2007, and one complaint thus far in 2008



(projecting two for the year). Similarly, the homeowner's line also reflects a slight increase, with no complaints in 2006, one complaint in 2007, and one complaint thus far in year 2008 (two thus being expected for the year).

| Lines of Business | Complaints in 2006 | Complaints in 2007 | Complaints in 2008 |
|--------------------------------|--------------------|--------------------|--------------------|
| Auto Personal | 3 | 8 | 10 |
| Auto Commercial | 0 | 1 | 1 |
| Liability Insurance (Non-Auto) | 2 | 3 | 2 |
| Homeowner's | 0 | 1 | 1 |

(2) July 25, 2008 Conference Call with Liberty Mutual

In response to the rise in complaints and the OIC's concern with this area, a conference call was scheduled with Liberty Mutual to address the complaint issue on July 25, 2008. Liberty Mutual identified the two prevalent increased complaint areas: LNW and Liberty Mutual's Personal Markets business unit. The conference call primarily addressed root causes for the complaints as well as current measures in place for handling complaints.

According to Liberty Mutual, complaint levels were unusually low for Liberty Mutual in year 2006 and thus Liberty Mutual suggested that 2006 might not be good gauge against which to

measure complaint levels for 2007 and 2008. To test this suggestion, the Consultants requested and Liberty Mutual provided complaints for LNW for years 2004 and 2005. C&B confirms that complaint levels for 2004 and 2005 are more similarly aligned with the Department of Insurance complaints for year 2007, and that 2006 charted significantly lower complaint levels. The reason for lower complaints in 2006 could not be ascertained by Liberty Mutual.

LNW also professed to place a high priority on customer service and fair claims handling. Illustrating such efforts, its representatives explained its customer survey program, which targets 50% of first-party claimants. LNW reported high recommendation rates from its survey results, with over 90% of respondents stating they would recommend the company. With respect to the personal lines business, Liberty Mutual explained its internal telephone survey process which randomly samples 9,500 customers annually with 30 questions to determine overall satisfaction with claims and spot trends in responses.

Liberty Mutual provided the results from LNW's customer surveys from years 2007 and 2008. As documented in the chart below, of the six questions asked regarding LNW's prompt, courteous, and satisfactory claims handling, each question had over a 93% favorable response rate for both years. 2,050 responses were received in year 2007, and 1,159 responses have been received thus far in year 2008. The data corroborated LNW's position of focusing heavily on customer service.

LNW Customer Service Surveys for Claims in 2007 and 2008

| Questions | 2007 (% of favorable responses) | 2008 (% of favorable responses) |
|---|--|--|
| 1. Did a LNW representative contact you promptly? | 97.9% | 95.1% |
| 2. Was your LNW representative courteous? | 99.4% | 98.2% |
| 3. Was the claim procedure clearly explained? | 97.5% | 93.8% |
| 4. Were you paid within a satisfactory time? | 97.4% | 93.1% |
| 5. Overall, were our services satisfactory? | 97.9% | 94.6% |
| 6. Would you recommend LNW to a friend? | 97.7% | 96.1% |
| Number of Responses | 2,050 | 1,159 |

With respect to LNW, an increase in complaints in 2008 was partially attributed to moving the company's claims center to Denver in February 2008, in efforts to segment claims to the appropriate experience level for consistent handling. LNW explained that this transition required an adjustment period for streamlining integral processes.

Liberty Mutual also explained their centralized claims handling structure with a Presidential Services Team that monitors trends, handles variations in statistics, and enforces reporting requirements.³⁴

(3) Integration Plans Focused on Complaint Handling

In light of the OIC's concern for Liberty Mutual's increased complaints, and the data indicating a rise in complaint levels for year 2008, the Consultants have engaged in a candid dialogue with the Liberty Mutual's management as to how complaint levels will be addressed and alleviated through the course of the Proposed Transaction. Liberty Mutual reports that it is taking several measures to facilitate a seamless integration and enhance customer satisfaction. Below are a list of such actions being taken, or expected to be taken, by Liberty Mutual:

1. Designate one person to address all Safeco-related complaints through the transition;
2. Counsel Safeco on Liberty Mutual corporate complaint handling requirements to ensure uniformity;
3. Examine Safeco's complaint trends to track potential issues that could arise through the transition;
4. Notify regulatory authorities to send Safeco-related complaints to Liberty Mutual;
5. Consider staffing additions for potential complaint increases once Safeco customers are added to the Liberty Mutual customer base;
6. Monitor complaint activity on a biweekly basis to assess transition issues or operating deficiencies;
7. Share evaluation reports with key managers involved in the transition process;
8. Consolidate Safeco's complaint tracking in the Presidential Service Team's database by January 1, 2009;
9. Train Safeco's complaint administrators on how to use Liberty Mutual's complaint database system; and
10. Flag time sensitive issues and provide follow up communication on cases being transferred to a new handler.

Although C&B is cognizant of the increase in complaint levels for years 2007 and 2008, Liberty Mutual has acknowledged key concerns, provided explanations for the trends, outlined new procedures in place, and explained initiatives they plan to take to control complaints during the proposed acquisition and integration. In light of these actions described, and assuming Liberty Mutual acts on the future initiatives they have outlined, C&B believes that Liberty Mutual is addressing the trends and possible trouble areas during the integration process. Thus, C&B does not expect the handling of complaints to be of such great concern as to warrant rejection of the Proposed Transaction.

³⁴ Liberty Mutual noted that its nationwide operations experienced an 8% decrease in complaints between 2006 and 2007, and a 2% decrease in complaints between years 2007 and 2008.

(4) Market Conduct Examination Reports

Some recent market conduct examination reports for Liberty Mutual also illustrate of trends in complaint areas. Detailed below are the findings for some of the more problematic of these reports which were also discussed with Liberty Mutual on July 25, 2008, and Liberty Mutual's responses. After discussing these reports with the company, C&B has no further questions or concerns regarding the market conduct examination reports.

Liberty Mutual provided for the Consultants' review the company's written responses to the state insurance departments for the June 30, 2006, Rhode Island Market Conduct Examination of Liberty Mutual Fire Insurance Company (the "Rhode Island Examination Report") and the August 31, 2006, Report on Market Conduct Examination of Golden Eagle Insurance Corporation, The Netherlands Insurance Company, and Peerless Insurance Company, by the California Department of Insurance, Market Conduct Division (the "California Examination Report"). The Consultants were able to review procedures and training initiatives that were implemented to address the documented shortcomings identified in the examinations. C&B reiterates its earlier conclusion that there appear to be no reasons for concern in these market conduct examinations.

Further, although these market conduct reports have been included to illustrate problems with Liberty Mutual's operations in other jurisdictions, it is noted that several market conduct reports, including the April 22, 2008, Market Conduct Examination Report for Liberty Mutual Insurance Company by the Texas Department of Insurance (the "Texas Examination Report"), and the December 31, 2005, Report of Target Market Conduct Examination of Liberty Northwest Insurance Company by the Oregon Department of Consumer and Business Services, Insurance Division (the "LNW Oregon Examination Report"), are void of citations and resulted in minimal sanctions by state regulators.

(a) Rhode Island Examination Report

The Rhode Island Examination Report addresses the following areas: (1) homeowners paid claims, (2) homeowners claims closed without payment, (3) private passenger automobile cancellations, (4) private passenger automobile nonrenewals, and (5) homeowners cancellations and nonrenewals. As a brief synopsis, the following areas were most problematic: (1) failure to acknowledge the receipt of a claim notification in writing within ten days, (2) failure to provide written notice of a claim denial to the insured within fifteen days of receiving a proof of loss, (3) failure to include a mandatory Financial Security statement, (4) failure to supply the mandatory Financial Security statement in at least twelve-point font, and (5) failure to provide a thirty day notice of cancellation period to the insured. The overall umbrella recommendations for all cited violations were to: (1) monitor the processing of each area to ensure compliance with the applicable Rhode Island state regulation, and (2) advise all personnel involved in the processing of each area to ensure compliance with the applicable Rhode Island state regulation.

This market conduct report was specifically discussed with Liberty Mutual. In response to the report, Liberty Mutual stated it has automated the ten day claim notification receipt to ensure compliance, has emphasized the thirty day notice of cancellation period to the underwriters, and has corrected the twelve point font size on the mandatory Financial Security statement. The company's answer to the Rhode Island Insurance Division regarding remedial efforts and initiatives implemented in response was also provided for review. C&B does not anticipate any reason for continued concern regarding the findings in this report.

(b) California Examination Report

The California Examination Report cited the following two lines of business as most prevalent for citations: (1) 116 total citations under commercial automobile, and (2) thirty-three total citations under commercial multiple peril. Under the commercial automobile line of business, the following were cited as the being the most frequent violations: (1) twenty-seven instances of failure to provide the insured with the Auto Body Repair Consumer Bill of Rights, (2) fifteen instances of failure to include license fees and annual fees in the settlement, (3) twelve instances of attempting to settle the claim for an unreasonably low amount, and (4) seven instances of failure to maintain all documents and work papers in the claims file. Under the commercial multiple peril line of business, the following were cited as the being the most frequent violations: (1) eight instances of failure to adopt and implement reasonable standards for investigating and processing claims, and (2) four instances of failure to maintain all documents and work papers in the claims file.

Although the California Examination Report provided the companies' responses for the citations, no recommendations for rectifying the problems were discussed in the report. With respect to the Liberty Mutual's responses, most of the citations were attributed to documentation errors or human error. Most of the companies' responses stated that training was provided for employees regarding the specific regulations and that such training would continue throughout the year. Further, the companies noted that processes were changed where necessary, and that the results of the California Examination Report would be shared with employees.

The California Examination Report was specifically discussed with Liberty Mutual, which explained that it shares the results of such reports with the immediately affected company units as well as systemwide to avoid recurrence in other areas. The company's answer to the State of California's Department of Insurance Market Conduct Division regarding remedial efforts and initiatives implemented in response was also provided for review. C&B does not anticipate any reason for continued concern related to the Proposed Transaction from this report.

(c) Satisfactory Market Conduct Report Examinations

Although the discussions above express areas of concern, it is acknowledged that not all of Liberty Mutual's market conduct reports indicate that complaints are an area for concern. Below are discussed two reports that received complimentary remarks and minimal citations.

(i) The Texas Examination Report

Texas Examination Report cited no problem areas. With respect to thirty-four consumer complaints reviewed during this period, the Texas Department of Insurance only found three complaints to be justified. No exceptions were noted with respect to: (1) agents' licensing, (2) marketing materials, (3) underwriting and ratings practices, and (4) claims practices.

(ii) The LNW Oregon Examination Report

The LNW Oregon Examination Report also showcased satisfactory results. For the underwriting procedures and eight state regulatory standards that require compliance, all eight standards were found to be satisfied. With respect to premium audits and the applicable regulatory standards, Oregon regulators noted overall satisfactory compliance and two instances of 97% compliance and 91% compliance, for which it was stated that failure rates of 3% and 9% did not suggest a pattern of noncompliance. Thus, no recommendations were issued.

(5) Safeco's Complaint Levels and Market Conduct Examination Reports

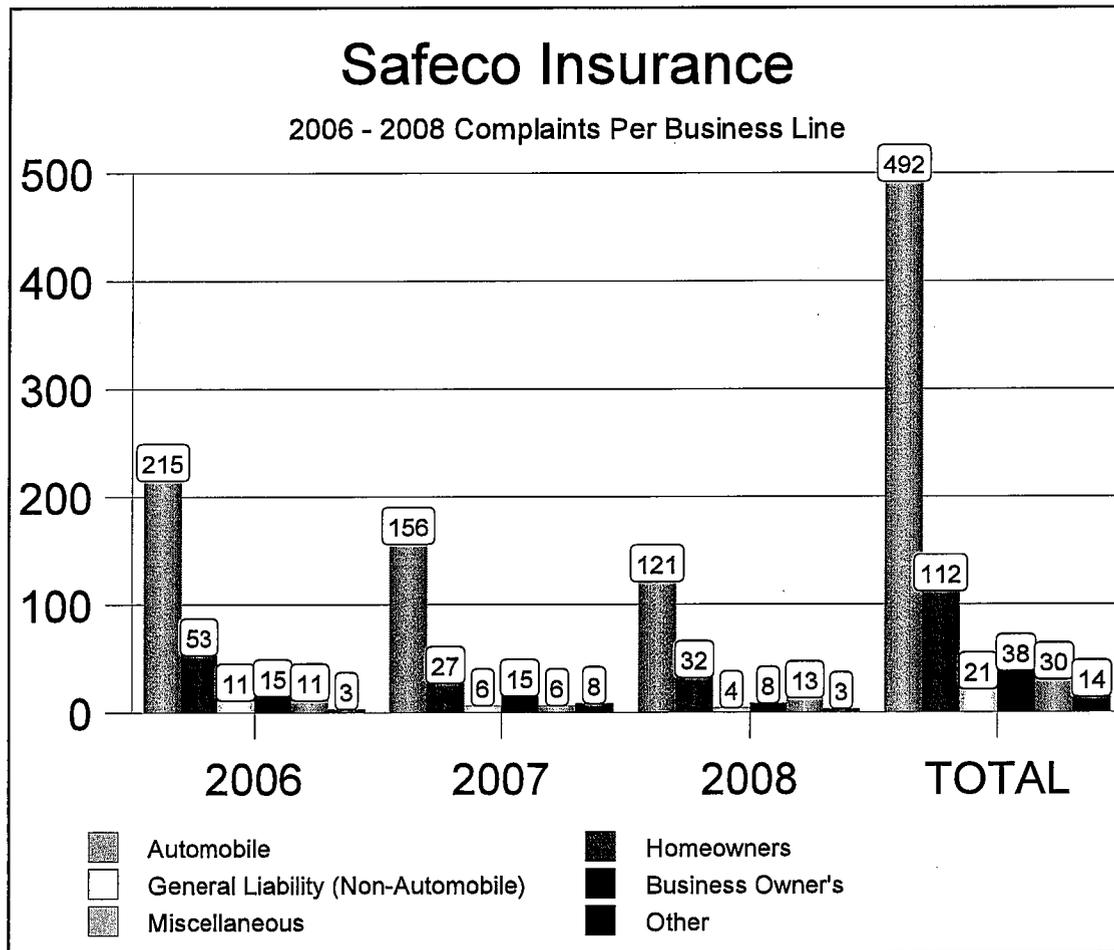
(a) Safeco's Complaint Levels

Safeco's complaint levels have also increased in recent years. Specifically, Safeco's complaint log for the State of Washington, provided by Safeco to Liberty Mutual, includes 29 pages of complaints filed from 2006 to the present. The following table summarizes Safeco the data.

| Business Line | 2006 Complaints | 2007 Complaints | 2008 Complaints | Total Complaints |
|------------------------------|-----------------|-----------------|-----------------|------------------|
| Automobile | 215 | 156 | 121 | 492 |
| Homeowner's | 53 | 27 | 32 | 112 |
| General Liability (Non-Auto) | 11 | 6 | 4 | 21 |
| Business Owner's | 15 | 15 | 8 | 38 |
| Miscellaneous | 11 | 6 | 13 | 30 |
| Other | 3 | 8 | 3 | 14 |
| Total | 308 | 218 | 181 | 707 |

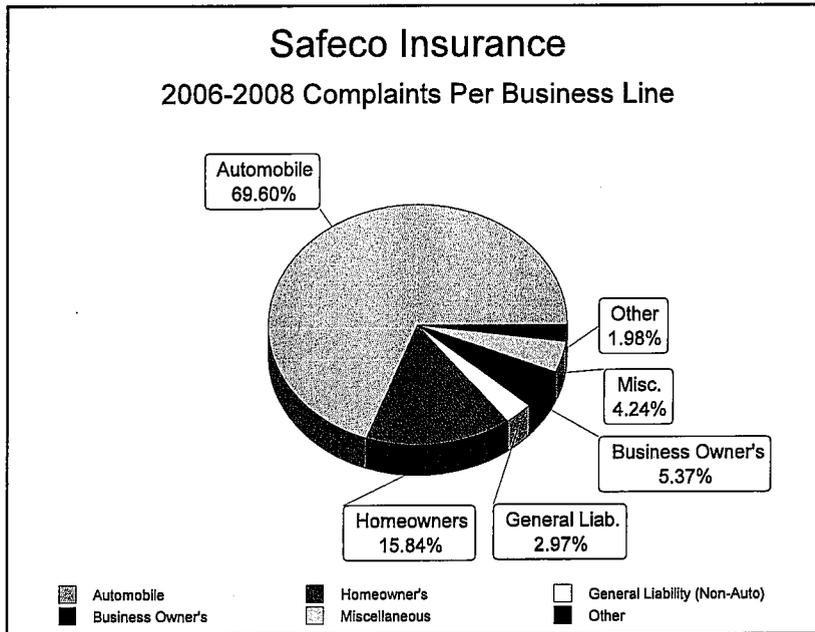
The data from years 2006 and 2007, and up to July 11, 2008, indicate that Safeco received a total of 707 complaints during this time period. The data further indicate that a majority of the complaints

arise from the automobile and homeowners lines of business. The following chart illustrates the rise in complaints each year by line of business.³⁵

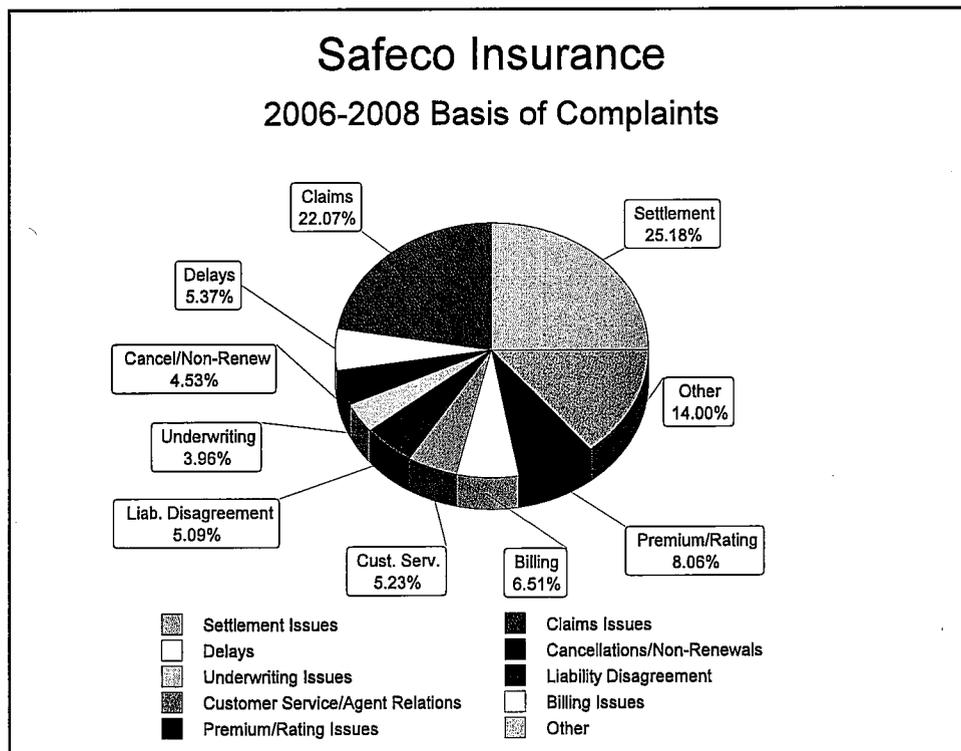


The automobile line received the most complaints with a projected rate of 242 automobile complaints for 2008. Although the increase in the homeowners line is not projected to be quite as drastic, Safeco is expected to reach a projected mark of 64 homeowners related complaints for the year. Observation of the data also indicates a decrease in complaints in 2007, with a total of 308 complaints in 2006, 218 complaints in 2007, and 181 complaints thus far for a projected 362 complaints for 2008. The chart below consolidates the data for the three year period.

³⁵ All charts have been prepared by C&B from Safeco data provided to Liberty Mutual which includes all complaints received by Safeco from the Washington Department of Insurance and other sources.



C&B also reviewed the data as to the nature of the complaints received by Safeco. The following chart segregates the complaints received by Safeco from 2006 to 2008 by basis of dissatisfaction.

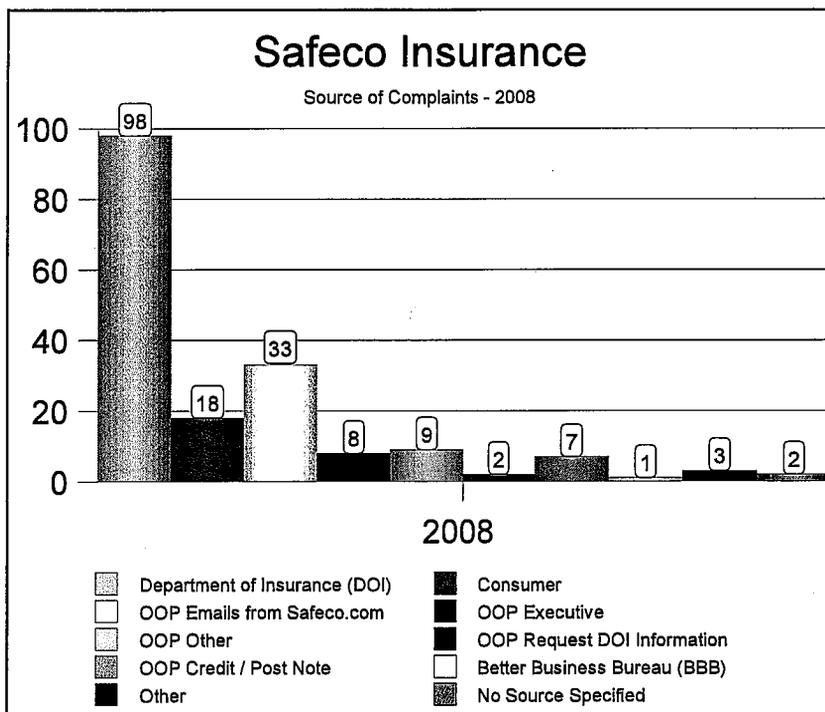


The majority of the complaints were due either to issues arising out of an unsatisfactory settlement offer or valuation, or complaints related to the denial of a claim or unsatisfactory claim procedures. For the years 2006 to present, 25.18% of all Safeco complaints have been related to settlement, while 22.07% of all complaints have been focused on claims issues.

(b) July 30, 2008 Conference Call with Safeco

On July 30, 2008, the Consultants scheduled a conference call with DeAnn Work, senior associate general counsel for Safeco, to discuss the spike in Safeco's complaint levels in 2008. The company confirmed an increase in Washington complaints in 2008, but attributed the rise to the creation of a new department in early 2008 focused towards registering informal complaints (*i.e.*, complaints received through email, internet, telephone, etc.). Safeco further explained that it never previously captured informal complaints for tracking purposes. To verify this assertion, C&B analyzed Safeco's sources of complaints from the complaint log provided for year 2008. The distribution of Safeco's complaint sources can be seen in the chart, highlighting that only 98 of the 181 complaints were reported through the Washington Department of Insurance for year 2008, with significant numbers being filtered in from informal sources (*i.e.*, 33 email complaints from Safeco's website).

With respect to the substance of the recent complaints, Safeco noted that five (5) complaints in 2007 and six (6) complaints in early 2008 were due to Safeco overnotifying consumers about their line of credit via a poorly drafted notice, which subsequently resulted in more questions. In response to the confusion, Safeco launched a clearer notification format that has reduced the number of similar complaints for the second quarter of 2008.



As for the pool of complaints regarding unsatisfactory settlement offers, Safeco stated it implemented more training for claims personnel to provide better responses and help consumers

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understand the factors comprising the settlements. Safeco also affirmed a slight increase in automobile complaints in 2008 related to premiums.

With respect to some Safeco market conduct examinations that reported similar trends in complaints, the Consultants posed specific questions regarding the findings in the following reports: (1) State of Maryland Insurance Administration Market Conduct Examination Report No. 852-02 for January 1, 2001 - December 31, 2002, (2) Commonwealth of Pennsylvania Report of Market Conduct Examination of Safeco Insurance Company of Indiana - November 14, 2006, (3) State of Missouri Department of Insurance Market Conduct Examination of Safeco Insurance Group - June 27, 2006, and (4) Illinois Department of Financial and Professional Regulation Division of Insurance for Safeco Insurance Company of America - August 16, 2005.

Safeco provided responses for the issues raised by the Consultants and addressed initiatives that have been taken to rectify the findings in the reports. Specifically, Safeco developed internal compliance audits for the following actions to mitigate the reports' concern areas: (1) to monitor notice requirements associated with nonrenewals, cancellations, and new business, (2) to verify that producer licenses are current, (3) to promptly return customer calls, and (4) to ensure timely claims investigations. Safeco also implemented additional training for issuing time sensitive forms and providing proper documentation in the files.

As shown in the documents reviewed and in discussions with Safeco, C&B does not expect the increased complaint levels of Safeco to be of such great concern to warrant rejection of the Proposed Transaction.

E. FUTURE PLANS

(1) Integration Plans

As a part of the review, the Consultants inquired about future plans of the Acquiring Parties with regard to the operations of Safeco. Liberty Mutual and Safeco have begun strategizing the integration of the two insurers. Although the Consultants have requested detailed integration plans to evaluate the possible effect of such plans on policyholders, claimants, agents, employees, and the public, the fact remains that detailed integration plans do not yet exist, according to the Transaction Parties. Nonetheless, a description and analysis of the basic integration details which have been provided to the Consultants will be discussed below.

Item 5(c) in the Amended Form A presents further insight into the future operations once the Proposed Transaction is approved and consummated. With the caveat that it cannot provide detailed transition plans until it obtains full access to information post-closing, Liberty Mutual anticipates "no material change in the method and manner in which the Domestic Insurers' insurance products are marketed and distributed through an independent agent system." Item 5(b) of the Form A further expresses the intent to not "make any other material change in any of the Domestic Insurers' investment policy, business, corporate structure, or management." Liberty Mutual has articulated a

plan to “leverage the ‘Safeco’ brand nationally to strengthen the Liberty Mutual Agency Markets personal lines operations and ... maintain a significant presence in Washington.” No intention exists to relocate the home office or corporate records for the Domestic Insurers, providing further support for retaining heavily concentrated operations in the State of Washington.

In the Form A, Liberty Mutual commits to using a joint integration team with Liberty Mutual and Safeco representatives to handle claims matters, customer communications, underwriting, and all other essential services, with the ultimate goal of “combining the best of both organizations to create a stronger Liberty Mutual Agency Markets.” The Form A indicates Liberty Mutual’s intent to acquire 100% of Safeco’s stock, and replace Safeco’s Board of Directors and executive management with Liberty Mutual’s Board of Directors and executive management. However, the Acquiring Parties expect to retain certain members of Safeco’s management to contribute to a long term strategic vision for the Agency Markets division.

In an effort to gain an overall understanding and perspective of the Proposed Transaction, the Consultants also discussed details surrounding the integration process with Safeco. Its representatives explained that the Transaction Parties have actively discussed merging details, including how Safeco’s tracking and logging processes will combine with Liberty Mutual’s existing system. No further details were provided beyond stating that decisions and processes were yet to be finalized, with Liberty Mutual being the final decision maker. Safeco additionally mentioned that its independent agents have had favorable reactions to the Proposed Transaction.

Although the integration details do not provide a complete picture of the transition process, they do offer perspective on the issues Liberty Mutual has considered and the matters it deems to require special attention. It also provides perspective on the actions that the Acquiring Parties intend to take during the transition process and preliminary discussions between the Transaction Parties to work towards a seamless integration.

(2) Potential Job Reductions

To evaluate potential job loss in Washington, the Consultants reviewed organizational charts and Safeco’s employment figures in the State of Washington, as well as Liberty Mutual’s job positions in Washington and Oregon. Safeco has more employees in the State of Washington than in any other state with a total of nine different staff locations.

In a confidential view-only context, Liberty Mutual provided a synopsis of its full time employees by location and department area in Washington and Oregon. Although the Consultants cannot fully disclose the details of this document, the highest concentration of Liberty Mutual jobs in the State of Washington were present in Bothell, Vancouver, and Bellevue, in declining order of concentration. LNW’s employment concentration was primarily in Bothell and Spokane, on the eastern side of the state. Additionally, approximately 40% of all the Liberty Mutual Washington jobs are within the personal markets division.

Discussions with Liberty Mutual's management have clarified that, as result of the Proposed Transaction, it expects to eliminate some additional jobs during in the next 18 months, although it could not specify: (1) which departments will experience job reductions, (2) which company will experience more job reductions, and (3) which geographic areas will be most affected by such job reductions. Liberty Mutual acknowledges the probability of job redundancies between the Transaction Parties' current structures in Washington (although it was unable to provide further details until it has had full access to the Safeco operations post-closing), and noted that job reductions may be experienced equally by Liberty Mutual's existing work force and Safeco employees. Liberty Mutual also stated its intentions to use the Safeco brand name as Liberty Mutual's agency markets personal lines platform, which suggests a plan to retain a significant number of existing Safeco employees in the Washington state area.

With respect to the duplication of corporate and employee services and office locations that exist between Liberty Mutual and Safeco, Liberty Mutual's Form A details a plan to evaluate such issues carefully before making crucial decisions and to "design any transition in a manner that minimizes disruption" to policyholders, agents, and employees. In the Form A, Liberty Mutual alludes to the possible reassignment of employees company-wide, including possibly those associated with Safeco, to other LMHC entities to achieve greater efficiencies. In such scenarios, Liberty Mutual promises to assure that "all employees of the Domestic Insurers are treated consistently with similarly situated employees of Liberty Mutual and its affiliates impacted by such moves."

While some job loss is an inevitable consequence of the Proposed Transaction, and one of Liberty Mutual's expected efficiencies, the data available to the Consultants fall far short of what would be required to quantify this result. Although it remains difficult to assess the full impact of the Proposed Transaction on the State of Washington without more concrete integration details, Liberty Mutual has preliminarily estimated the number of full-time equivalent positions to be eliminated over the next three years. From these estimates, it can be concluded that the forecasted job reductions are not disproportionate for the size of the Proposed Transaction.

(3) Investment Management Agreements

As originally drafted, the Investment Management Agreements between Liberty Mutual and Safeco (the "Liberty Mutual IMAs") absolved Liberty Mutual from liability "for any acts or omissions by [Liberty Mutual], its employees and agents... except by reasons of acts or omissions constituting gross negligence, willful misconduct or fraud on the part of [Liberty Mutual], including its employees." The Liberty Mutual IMAs further provided that Liberty Mutual would be indemnified by Safeco for any loss, liability or expense resulting from other conduct other than gross

negligence, willful misconduct, or fraud (*i.e.*, essentially Safeco would be required to indemnify Liberty Mutual for Liberty Mutual's ordinary negligence).³⁶

As part of its review of the Proposed Transaction, C&B discussed the gross negligence standard in the Liberty Mutual IMAs with Richard Quinlan, Liberty Mutual's Deputy General Counsel and Senior Vice President, and requested that Liberty Mutual revise these agreements to incorporate an ordinary negligence standard (*i.e.*, so that liability would be triggered by ordinary negligence and that Safeco would not have to indemnify Liberty Mutual for Liberty Mutual's ordinary negligence). After further discussion, Liberty Mutual accepted the Consultants' request. The Consultants have since reviewed Liberty Mutual's revised language which satisfactorily incorporates the ordinary negligence standard into the Liberty Mutual IMAs to absolve the Acquiring Parties against "any loss, liability or expense, including, without limit, reasonable counsel fees, incurred on the part of [Liberty Mutual] ... as well as the costs and expenses of defending against any claim or liability ... unless such loss, liability or expense is the result of acts or omissions by [Liberty Mutual] constituting negligence, willful misconduct or fraud."

C&B does not expect any other aspect of the Liberty Mutual IMAs to cause further concern or to warrant rejection of the Proposed Transaction. C&B further notes that on August 22, 2008, Liberty Mutual substituted its gross negligence standard with an ordinary negligence equivalent in all other proposed intercompany agreements for the Proposed Transaction, *i.e.*, applicable management services agreements.

IX. CONCLUSION AND RECOMMENDATIONS

In the Interim Report, the Consultants identified four areas that required additional analysis: (1) competition analysis, (2) Liberty Mutual's financing plans and financial condition, (3) recent complaint handling concerns, and (4) future plans. For this Final Report, C&B has completed its evaluation of all documents provided and requested, analyzed all five relevant provisions of the governing statute, and addressed in further detail the four areas of further concern mentioned in the Interim Report.

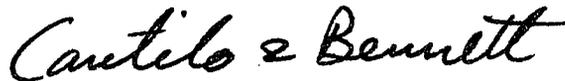
Gauged by the salient provisions of the controlling Washington statute, the data produced by review of the Form A materials, the Transaction Parties' view-only confidential documents, research conducted independently, and related discussions with Liberty Mutual and Safeco management, does not suggest that Liberty Mutual's acquisition of Safeco would be hazardous or prejudicial to the Washington public interest.

³⁶ In contrast to the Liberty Mutual IMAs, the Consultants have reviewed and ascertained that a generic Investment Management Agreement template which is used within the Safeco Entities does not contain a similar all-consuming blanket provision for liability and indemnification for all actions short of gross negligence, willful misconduct, or fraud.

To ensure compliance with Washington and federal statutes and regulations, and to continue to protect the interests of the State of Washington and its insurance-buying public subsequent to the proposed acquisition, C&B offers the following recommendations if and when the Proposed Transaction is approved, for a defined twenty-four-month period: (1) schedule periodic meetings and/or status reports with the Transaction Parties addressing key integration measures in the State of Washington pertaining to job consolidations beyond normal attrition rates, office closures, significant changes in the complaint handling structure, complications with systems integration, and other pivotal matters that may lend to significant geographic effects, (2) continue dialogue between the Transaction Parties and the OIC relevant to Liberty Mutual's plans to expand and/or restrict certain lines of business in Washington, and (3) require that material changes regarding decisions, projections, or consequent revelations integral to the Proposed Transaction that differ from the information presented for the Consultants' analysis be communicated to the OIC. C&B believes that monitoring key details surrounding the Proposed Transaction during and after the critical transition for the following twenty-four months will help alleviate concern areas, increase customer satisfaction, and decrease potential negative effects resulting from the integration of Liberty Mutual and Safeco. The implementation of this monitoring process should give due regard to the sensitive or confidential nature of at least some of the information it will elicit from the Transaction Parties.

The foregoing analysis does not reveal any issue which, based on the information provided, suggests that the Proposed Transaction should not be approved.

Respectfully submitted,

A handwritten signature in black ink that reads "Cantilo & Bennett". The signature is written in a cursive, flowing style.

Cantilo & Bennett, L.L.P.

**APPENDIX A
MEETING COMPILATION LOG**

Although there have been numerous unscheduled or less formal discussions with representatives of the Transaction Parties, the following table identifies the most important of these discussions.

| Date of Call | Participants | Topic of Call |
|--------------|--|--|
| 7/2/2008 | Patrick Cantilo, Arati Bhattacharya, Dana Rudmose, Mark Noller, Richard Quinlan, Michael Fallon, Ed Kenealy, Nick Potter, Tim Parker, Melvin Sorenson, Helen O' Rourke | Overview of Liberty Mutual, rationale for proposed acquisition, and targeted timetable for completion |
| 7/11/2008 | Patrick Cantilo, Richard Quinlan | Terms of the Non-Disclosure and Confidentiality Agreement |
| 7/15/2008 | Patrick Cantilo, Arati Bhattacharya, Dana Rudmose, Mark Noller, Richard Quinlan, Dennis Langwell, Michael Fallon, Helen O'Rourke, and other LM representatives | On-site visit: Discussion related to view-only documents and integration measures being taken by Liberty Mutual |
| 7/21/2008 | Patrick Cantilo, Arati Bhattacharya, Dana Rudmose, Mark Noller, Richard Quinlan, Helen O' Rourke, Jennifer Duffy | Followup on status of requested information and documents |
| 7/25/2008 | Patrick Cantilo, Arati Bhattacharya, Peter Martin, Isaiah Samaniego, Dana Rudmose, Mark Noller, Richard Quinlan, Krista Young, Gary Kenter, Martin Nevrla, Mark Plesha | Liberty Mutual's response to increased complaint levels and market conduct examination reports |
| 7/25/2008 | Patrick Cantilo, Arati Bhattacharya, Peter Martin, Isaiah Samaniego, Dana Rudmose, Mark Noller, Richard Quinlan, David Carey, David Kaiser, Melvin Sorensen | The surety and farmowners multiple peril lines of business and related effects on competition in the State of Washington |
| 7/30/2008 | Patrick Cantilo, Arati Bhattacharya, Peter Martin, Dana Rudmose, Mark Noller, DeAnn Work | Safeco's increased complaint levels and the surety and farmowners multiple peril lines of business |
| 8/4/2008 | Patrick Cantilo, Arati Bhattacharya, Peter Martin, Dana Rudmose, Mark Noller, Richard Quinlan, Dennis Langwell, John Doyle, Michael Fallon, James Pugh, Helen O'Rourke, and other LM representatives | Financial questions for Liberty Mutual related to projected risk based capital, loss ratios, and financial leverage analysis |

| Date of Call | Participants | Topic of Call |
|--------------|--|--|
| 8/8/2008 | Patrick Cantilo, Arati Bhattacharya, Peter Martin, Dana Rudmose, Mark Noller, Richard Quinlan, Helen O' Rourke | Status of completing the Proposed Transaction's analysis and potential hearing dates |
| 8/21/2008 | Patrick Cantilo, Dana Rudmose, Mark Noller, Richard Quinlan | Finalizing Review issues, review of report |
| 8/21/2008 | Patrick Cantilo, Richard Quinlan | Discussion of the liability and indemnification standards in Liberty Mutual's investment management agreements |

**APPENDIX B
DOCUMENT REQUEST LOG**

| DOCUMENT TITLE | DOCUMENT DATE |
|---|---------------|
| Form A Statement Regarding the Proposed Acquisition of Control of the Safeco Entities by Liberty Mutual and Subsidiaries and Attached Exhibits | 5/16/08 |
| Amendment to the Form A Statement Regarding the Proposed Acquisition of Control of the Safeco Entities by Liberty Mutual and Subsidiaries and Attached Exhibits | 8/1/08 |
| Letter from Liberty Mutual to the OIC Re: Specific Inquiries Concerning the Form A Filings in Other States | 6/23/08 |
| Audited Liberty Mutual Insurance Company Pool Combined Statutory Basis Balance Sheets for December 31, 2003 and 2002 | 2/27/04 |
| Audited Liberty Mutual Insurance Company Pool Combined Statutory Basis Balance Sheets for December 31, 2004 and 2003 | 5/18/05 |
| Audited Liberty Mutual Insurance Company Pool Combined Statutory Basis Balance Sheets for December 31, 2005 and 2004 | 5/12/06 |
| Audited Liberty Mutual Insurance Company Pool Combined Statutory Basis Balance Sheets for December 31, 2006 and 2005 | 5/23/07 |
| Audited Liberty Mutual Insurance Company Pool Combined Statutory Basis Balance Sheets for December 31, 2007 and 2006 | 5/9/08 |
| Washington Complaint Report for Liberty Mutual from 2006 through 2008 | 7/2/08 |
| Washington Complaint Log for Safeco from 2006 through 2008 | 7/11/08 |
| LMHC First Quarter 2008 Consolidated Financial Statements | 3/31/08 |
| Safeco Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended March 31, 2008 | 5/6/08 |
| Report of Association Examination of America First Insurance Company, New Hampshire, as of December 31, 2004 | 6/21/06 |
| Examination Report of America First Lloyds Insurance Company, Texas, as of December 31, 2004 | 2/23/06 |
| Report of Association Examination of Excelsior Insurance Company, New Hampshire, as of December 31, 2004 | 6/21/06 |
| Report of Examination of the Golden Eagle Insurance Corporation, California, as of December 31, 2004 | 7/5/06 |

| DOCUMENT TITLE | DOCUMENT DATE |
|---|----------------------|
| Report of Examination of Mid-American Fire and Casualty Company, Ohio, as of December 31, 2004 | 5/30/06 |
| Report of Examination of Hawkeye-Security Insurance Company, Wisconsin, as of December 31, 2004 | 4/14/06 |
| Notice of Entry of Order on Examination of the Indiana Insurance Company, Indiana, as of December 31, 2004 | 8/2/06 |
| Montgomery Mutual Insurance Company Examination, Maryland, as of December 31, 2004 | 5/11/06 |
| Report of Association Examination of Peerless Insurance Company, New Hampshire, as of December 31, 2004 | 6/21/06 |
| Adopted Report of Examination of Peerless Indemnity Insurance Company, Illinois, as of December 31, 2004 | 7/13/06 |
| Report of Association Examination of The Netherlands Insurance Company, New Hampshire, as of December 31, 2004 | 6/21/06 |
| Examination Report of America First Lloyds Insurance Company, Texas, as of December 31, 2005 | 1/12/07 |
| Report on Examination of Bridgefield Casualty Insurance Company, Florida, as of December 31, 2006 | 6/29/07 |
| Report on Examination of Bridgefield Employers Insurance Company, Florida, as of December 31, 2006 | 6/29/07 |
| Adopted Report of Examination of American Ambassador Casualty Company, Illinois, as of December 31, 2004 | 7/13/06 |
| Filed Report of Examination of Golden Eagle Insurance Corporation, California, as of December 31, 2004 | 7/5/06 |
| Filed Report of Examination of San Diego Insurance Company, California, as of December 31, 2004 | 6/30/06 |
| Report of Association Financial Examination of Colorado Casualty Insurance Company, Colorado, as of December 31, 2003 | 1/4/05 |
| Report of Examination of Employers Insurance Company of Wausau, Wisconsin, as of December 31, 2004 | 7/1/06 |
| Incomplete Report on Examination of Bridgefield Casualty Insurance Company, Florida, as of December 31, 2006 | 6/29/07 |
| Examination Report of LM Insurance Corporation, Iowa, as of December 31, 2004 | 5/11/06 |
| Examination Report of The First Liberty Insurance Corporation, Iowa, as of December 31, 2004 | 5/11/06 |
| Report of Examination of Liberty Insurance Corporation, Illinois, as of December 31, 2004 | 6/1/06 |

| DOCUMENT TITLE | DOCUMENT DATE |
|---|----------------------|
| Report of Examination of Liberty Insurance Company of America, Illinois, as of December 31, 2004 | 6/1/06 |
| Report of Association Examination of Consolidated Insurance Company, Indiana, as of December 31, 2004 | 5/26/06 |
| Notice of Opportunity to Make Written Submission or Rebuttal for Examination of the Indiana Insurance Company, Indiana, as of December 31, 2004 | 5/30/06 |
| Notice of Entry of Order on Examination of Liberty Mutual Property and Casualty Insurance Company, Indiana, as of December 31, 2005 | 6/25/07 |
| Notice of Entry of Order on Examination of National Insurance Association, Indiana, as of December 31, 2004 | 6/30/06 |
| Report of Examination of Liberty Life Assurance Company of Boston, Massachusetts, as of December 31, 2004 | 5/31/06 |
| Report of Examination of Liberty Mutual Fire Insurance Company, Massachusetts, as of December 31, 2004 | 5/31/06 |
| Report of Examination of Liberty Mutual Insurance Company, Massachusetts, as of December 31, 2004 | 5/31/06 |
| Financial Examination of Liberty Personal Insurance Company, Michigan, as of December 31, 2005 | 1/12/07 |
| Report of Examination of Liberty Surplus Insurance Corporation, New Hampshire, as of December 31, 2004 | 6/30/06 |
| Report of Examination of Globe American Casualty Company, Ohio, as of December 31, 2004 | 5/30/06 |
| Report of Examination of The Midwestern Indemnity Company, Ohio, as of December 31, 2004 | 5/30/06 |
| Report of Examination of the Merchants Business Men's Mutual Insurance Company, Pennsylvania, as of December 31, 2004 | 6/9/06 |
| Examination Report of America First Lloyds Insurance Company, Texas, as of December 31, 2005 | 12/12/06 |
| Examination Report of Liberty County Mutual Insurance Company, Texas, as of December 31, 2002 | 2/14/04 |
| Examination Report of Liberty Lloyds of Texas Insurance Company, Texas, as of December 31, 2002 | 2/14/04 |
| Report of the Examination of Wausau Business Insurance Company, Wisconsin, as of December 31, 2004 | 4/12/06 |
| Report of the Examination of Wausau General Insurance Company, Wisconsin, as of December 31, 2004 | 4/12/06 |

| DOCUMENT TITLE | DOCUMENT DATE |
|---|----------------------|
| Report of the Examination of Wausau Underwriters Insurance Company, Wisconsin, as of December 31, 2004 | 4/12/06 |
| Public Report of the Market Conduct Examination of Golden Eagle Insurance Corporation, The Netherlands Insurance Company, and Peerless Insurance Company, California, as of August 31, 2006 | 8/10/07 |
| Targeted Market Conduct Examination of Liberty Life Assurance Company of Boston | 9/23/05 |
| Targeted Market Conduct Examination of Liberty Life Assurance Company of Boston | 10/7/05 |
| Comprehensive Market Conduct Examination of Liberty Life Assurance Company of Boston, Massachusetts, as of December 31, 2004 | 6/12/07 |
| Comprehensive Market Conduct Examination of Liberty Mutual Insurance Company of Boston, Massachusetts, as of December 31, 2004 | 6/12/07 |
| Report of Target Market Conduct Examination of Liberty Northwest Insurance Corporation, Oregon, as of December 31, 2005 | 2/2/07 |
| Final Market Conduct Examination Report for Liberty Mutual Fire Insurance Company, Rhode Island, as of June 30, 2006 | 4/11/07 |
| Targeted Market Conduct Examination for Liberty County Mutual Insurance Company, Texas, as of October 31, 2007 | 4/22/08 |
| Adopted Report of Examination of Safeco Insurance Company of Illinois, Illinois, as of December 31, 2005 | 7/25/07 |
| Report of Examination of American Economy Insurance Company, Indiana, as of December 31, 2005 | 3/16/07 |
| Report of Examination of American States Preferred Insurance Company, Indiana, as of December 31, 2005 | 3/16/07 |
| Report of Examination of American States Insurance Company, Indiana, as of December 31, 2005 | 3/16/07 |
| Report of Examination of Safeco Insurance Company of Indiana, Indiana, as of December 31, 2005 | 3/16/07 |
| Report of Financial Examination for Safeco National Insurance Company, Missouri, as of December 31, 2005 | 7/5/07 |
| Financial Examination of Safeco Insurance Company of Oregon, Oregon, as of December 31, 2005 | 12/4/06 |
| Financial Examination of Safeco Surplus Lines Insurance Company, Washington, as of December 31, 2005 | 6/8/07 |

| DOCUMENT TITLE | DOCUMENT DATE |
|--|----------------------|
| Examination Report of American States Lloyds Insurance Company, Texas, as of December 31, 2005 | 6/28/07 |
| Examination Report of American States Insurance Company of Texas, Texas, as of December 31, 2005 | 6/21/07 |
| Examination Report of Safeco Lloyds Insurance Company, Texas, as of December 31, 2005 | 7/5/07 |
| Financial Examination of First National Insurance Company of America, Washington, as of December 31, 2005 | 6/8/07 |
| Financial Examination of General Insurance Company of America, Washington, as of December 31, 2005 | 6/8/07 |
| Adopted Report of Examination of Insurance Company of Illinois, Illinois, as of December 31, 2005 | 7/25/07 |
| Financial Examination of Safeco Insurance Company of America, Washington, as of December 31, 2005 | 6/8/07 |
| Targeted Market Conduct Examination for Safeco Insurance Company of America, Arizona, as of December 31, 2004 | 11/30/05 |
| Targeted Market Conduct Examination for Safeco Insurance Company of Illinois, Arizona, as of December 31, 2005 | 11/21/06 |
| Special Investigation Compliance Review Office Exit Review Report for Safeco Insurance Company of America | 8/16/05 |
| Market Conduct Examination Report for Safeco Insurance Company of America, Colorado, as of June 30, 2004 | 8/1/05 |
| Target Market Conduct Final Examination Report of General Insurance Company of America, Florida | 11/10/05 |
| Target Market Conduct Draft Examination Report of First National Insurance Company of America, Florida | 3/17/06 |
| Target Market Conduct Draft Examination Report of American Economy Insurance Company, Florida | 3/17/06 |
| Target Market Conduct Draft Examination Report of American States Insurance Company, Florida | 4/1/06 |
| Target Market Conduct Draft Examination Report of General Insurance Company of America, Florida | 3/17/06 |
| Target Market Conduct Draft Examination Report of Safeco Insurance Company of America, Florida | 4/6/06 |
| State of Nevada Report of Compliance Audit of First National Insurance Company of America Workers | 11/27/07 |

| DOCUMENT TITLE | DOCUMENT DATE |
|--|---------------|
| Stipulation and Consent Order for Safeco Property and Casualty Insurance Companies, Washington | 3/13/06 |
| Report of the Target Market Conduct Examination of Safeco Insurance Company of America, Washington | 12/6/05 |
| Order Adopting the Kansas Insurance Department's Market Conduct Examination, Kansas | 6/21/07 |
| Report of Limited Scope Examination of Safeco Group of Companies for Years 1999-2004 | 9/8/06 |
| Maryland Market Conduct Examination Report of Safeco Insurance Company of America, Safeco Insurance Company of Illinois, and First National Insurance Company of America | 6/4/04 |
| Missouri Market Conduct Examination of Safeco Insurance Group | 6/30/06 |
| District of Columbia Limited Scope Market Conduct Examination Report on the Privacy Practices for the Safeco Insurance Companies | 7/26/05 |
| Report on Market Conduct Examination of the General Insurance Company of America, Washington | 1/19/07 |
| Compliance Audit of General Insurance Company of America Worker's Compensation Files, Nevada | 6/29/07 |
| New York Market Conduct Investigation of Safeco Insurance Group, American States Insurance Company, Safeco Insurance Company of America | 3/3/04 |
| Report of Examination of Safeco Insurance Company of America, Oklahoma | 11/23/05 |
| Report of Market Conduct Examination of Safeco Insurance Company of Indiana, Pennsylvania, as of November 14, 2006 | 1/11/07 |
| Market Conduct Examination of Safeco Lloyds Insurance Company, Texas, Adopted August 24, 2004 | 12/13/04 |
| Liberty Mutual Insurance Company Statutory Quarterly Financial Statement for the Quarter ended March 31, 2008 | 5/5/08 |
| California Form A | 5/16/08 |
| Illinois Form A | 5/16/08 |
| Indiana Form A | 5/16/08 |
| Missouri Form A | 5/16/08 |
| Oregon Form A | 5/16/08 |
| Texas Form A | 5/16/08 |
| Washington Supplemental Form A | 6/9/08 |
| Massachusetts Form D | 6/5/08 |

| DOCUMENT TITLE | DOCUMENT DATE |
|--|----------------------|
| New Hampshire Form D | 5/23/08 |
| Missouri Form D | 7/1/08 |
| Ohio Form D | 5/23/08 |
| Texas version of Form D: Affiliated Transactions Pursuant to Section 823.103 | 6/5/08 |
| Wisconsin Form D | 6/5/08 |
| LMIC Form D Filing | 6/5/08 |
| LMFIC and EICOW Form D Filing | 6/5/08 |
| Safeco National Insurance Company Form D Filing | 6/30/08 |
| Alaska Form E | 5/14/08 |
| Arizona Form E | 5/14/08 |
| Arkansas Form E | 5/14/08 |
| Delaware Form E | 5/14/08 |
| Georgia Form E | 5/14/08 |
| Hawaii Form E | 5/14/08 |
| Idaho Form E | 5/14/08 |
| Illinois Form E | 5/14/08 |
| Indiana Form E | 5/14/08 |
| Kentucky Form E | 5/14/08 |
| Maryland Form E | 5/14/08 |
| Minnesota Form E | 5/14/08 |
| Missouri Form E | 5/14/08 |
| Nevada Form E | 5/14/08 |
| New Hampshire Form E | 5/14/08 |
| New Jersey Form E | 5/14/08 |
| North Dakota Form E | 5/14/08 |
| Pennsylvania Form E | 5/14/08 |
| South Carolina Form E | 5/14/08 |

| DOCUMENT TITLE | DOCUMENT DATE |
|--|---------------|
| South Dakota Form E | 5/14/08 |
| Tennessee Form E | 5/14/08 |
| Virginia Form E | 5/14/08 |
| Washington Form E | 5/14/08 |
| Washington, DC Form E | 5/14/08 |
| Safeco Internal Audit Reports List | 2006-2008 |
| Liberty Mutual Indenture with Bank of New York Trust Company as Trustee, Series C Junior Subordinated Notes | 5/29/08 |
| Big Apple Regulatory Status Chart | 7/15/08 |
| Certificate of Incorporation and Articles of Incorporation for Big Apple Merger Corporation | 4/21/08 |
| Response Letter to Baker Daniels Request for Form A Information | 7/17/08 |
| Liberty Mutual Group Business in the State of Washington During the Year 2007, Exhibit of Premiums and Losses | 2008 |
| Liberty Mutual Management's Discussion & Analysis of Financial Condition and Results of Operations for Quarter Ended June 30, 2008 | 6/30/08 |
| Liberty Mutual Management's Discussion & Analysis of Financial Condition and Results of Operations for Quarter Ended March 31, 2008 | 3/31/08 |
| Liberty Mutual Earnings Release for the Year Ending December 31, 2003 | 3/23/04 |
| Liberty Mutual Management's Discussion & Analysis of Financial Condition and Results of Operations for Quarter Ended December 31, 2004 | 12/31/04 |
| Liberty Mutual Management's Discussion & Analysis of Financial Condition and Results of Operations for Quarter Ended December 31, 2005 | 12/31/05 |
| Liberty Mutual Management's Discussion & Analysis of Financial Condition and Results of Operations for Quarter Ended December 31, 2006 | 12/31/06 |
| Liberty Mutual Management's Discussion & Analysis of Financial Condition and Results of Operations for Quarter Ended December 31, 2007 | 12/31/07 |
| Bylaws of Big Apple Merger Corporation | N/A |
| Quarterly Statement of the Employers Insurance Company of Wausau for the Quarter Ended March 31, 2008 | 5/5/08 |

| DOCUMENT TITLE | DOCUMENT DATE |
|--|----------------------|
| Quarterly Statement of the Liberty Mutual Fire Insurance Company for the Quarter Ended March 31, 2008 | 5/5/08 |
| Quarterly Statement of the Liberty Mutual Insurance Company for the Quarter Ended March 31, 2008 | 5/5/08 |
| Washington Complaint Numbers for Liberty Northwest for 2004-2005 | N/A |
| Liberty Northwest Customer Survey Results for 2007-2008 | N/A |
| Illustrations of Increasingly Strong Competitors in the Surety and Farmowners Multiple Peril Lines in Washington | N/A |
| Rate Filings: American Fire & Casualty Company | 1/12/06- 4/29/08 |
| Rate Filings: Employers Insurance Company of Wausaw | 2/7/06-4/7/08 |
| Rate Filings: First Liberty Insurance Corporation | 2/24/06- 3/17/08 |
| Rate Filings: Liberty Insurance Corporation | 1/31/06- 2/15/08 |
| Rate Filings: Liberty Insurance Underwriters, Inc. | 7/19/06- 7/31/07 |
| Rate Filings: Liberty Mutual Fire Insurance Company | 1/31/06- 3/21/08 |
| Rate Filings: Liberty Mutual Insurance Company | 1/31/06- 2/15/08 |
| Rate Filings: Liberty Northwest Insurance Corporation | 1/9/06-4/10/08 |
| Rate Filings: Liberty Mutual Insurance Company | 2/24/06- 2/15/08 |
| Rate Filings: North Pacific Insurance Company | 12/30/05- 5/16/08 |
| Rate Filings: Oregon Automobile Insurance Company | 1/1/06-4/25/08 |
| Rate Filings: The Ohio Casualty Insurance Company | 1/12/06- 4/29/08 |

| DOCUMENT TITLE | DOCUMENT DATE |
|---|----------------------|
| Rate Filings: Wausau Business Insurance Company | 2/7/06-6/24/08 |
| Rate Filings: Wausau Underwriters Insurance Company | 2/7/06-6/24/08 |
| Rate Filings: West American Insurance Company | 1/12/06- 4/29/08 |
| Rate Filings: American Economy Insurance Company | 2/16/06- 4/21/08 |
| Rate Filings: American States Insurance Company | 2/17/06- 4/21/08 |
| Rate Filings: American States Preferred Insurance Company | 2/23/06- 1/25/08 |
| Rate Filings: First National Insurance Company of America | 2/22/06- 4/21/08 |
| Rate Filings: General Insurance Company of America | 2/22/06- 5/20/08 |
| Rate Filings: Safeco Insurance Company of America | 2/22/06- 5/20/08 |
| Rate Filings: Safeco Insurance Company of Illinois | 5/5/06-5/20/08 |
| Safeco Group Business in the State of Washington During the Year 2007, Exhibit of Premiums and Losses | 2008 |
| Confidential Documents/Exhibits Redacted from Washington's Form A Filing | 5/16/08 |
| 2008 to 2010 Projected Consolidated GAAP Financial Statements for LMHC | N/A |
| Liberty Mutual's Analysis of Debt Services Requirements for 2008 for LMHC | N/A |
| Pro Forma Analysis Requirements for 2008 for LMHC | N/A |
| Liberty Mutual's PowerPoint Presentations to A.M. Best, Moody's, Fitch, and S&P | 1/08-7/08 |
| Liberty Mutual's Management and Advisors Analysis and Presentations | 11/14/07- 4/22/08 |
| Liberty Mutual's Redacted Hart-Scott-Rodino Filing | 5/1/08 |
| Letter to Washington State Insurance Department Re: Owens Online Findings | 7/11/08 |

| DOCUMENT TITLE | DOCUMENT DATE |
|---|----------------------|
| Letter to Missouri Department of Insurance Re: Owens Online Findings | 6/16/08 |
| Lehman Brother's Fairness Opinion Re: the Safeco Acquisition | 4/23/08 |
| Liberty Mutual's Response to Division's Corporate Governance Survey | 1/3/08 |
| Minutes from Liberty Mutual's Board of Directors Meetings | 11/14/07- 4/22/08 |
| Liberty Mutual's June 30, 2008 Financial Statements | 6/30/08 |
| Liberty Mutual's Synopsis of SFAS 155 Hybrid Financial Instruments | 6/30/08 |
| Liberty Mutual's Synopsis of SFAS 157 Impact, Including Significant Changes in Level 2 and 3 Assets | 6/30/08 |
| Detail and Description of Other Liabilities as of March 31, 2008 | 3/31/08 |
| Explanation of Contingent Liabilities and Armstrong Litigation | N/A |
| Roll-forward of Reserve Activity for Q1 and Q2 2008 | N/A |
| Explanation of Expected Adjustments to Liberty Mutual's Goodwill in 2008 | N/A |
| Discussion of Existing Long-term Debt and Replacement Capital Covenants | N/A |
| Reconciliation of Consolidated GAAP Equity of LMHC to the Statutory Equity of the Liberty Combined Pool as of December 31, 2007 | N/A |
| Liberty Mutual's Explanation of Q1 2008 Operating Performance of Four SBU's Before Considering Cat Exposure | N/A |
| Update on Q2 Operating Performance for the Four SBU's | N/A |
| Explanation of the Q3 2007 and Q3 2006 Loss Reserve Re-estimation Process and Effects Expected for Q3 2008 | N/A |
| Liberty Mutual's Strategic and Operational Reasons for the Movement of the WAUSAU Group from Agency to Commercial Markets and the WAUSAU Group Operations's Impact on Consolidated Operations | N/A |
| Explanation and Update on Liberty Mutual's Reserves | N/A |
| March 31, 2008 LMIC Financial Statement | 3/31/08 |
| The Peerless and OCAS Pool Audited Financial Statements | 12/31/07 |

| DOCUMENT TITLE | DOCUMENT DATE |
|--|---------------------|
| The Split of Integration Costs vs. Savings as Summarized in the Pro Forma Statements | N/A |
| Source of Cash and Dividends for Acquisition | N/A |
| Year 2007 Annual Report for Liberty Mutual | 2/15/08 |
| Rating Agency Press Release Re: Hybrid | N/A |
| Rating Agency Press Release Re: Safeco | N/A |
| EICOW, LMVIC, and LMIC Individual and Combined Q1 Statements | N/A |
| Explanation of Ordinary Dividend Filing | N/A |
| Explanation of Variances Between LMHC Financials vs. LMGI and LMHC Mass Holdings | N/A |
| Comparison of Investment Bucket 1 vs. Bucket 3 for Q1 2007 and 2008 | N/A |
| Explanation of Push Down for LMGI Debt | N/A |
| Letter from Zack Stamp Re: Acquisition of Safeco - II and II Insurance Company of II by LMHC | 6/18/08 |
| Letters from Owens Online Re: Investigation of Backgrounds and Produced Report | 6/16/08, 7/11/08 |
| Mystic Re II Ltd. Offering Document and Final Terms | 5/23/07 |
| Transaction Structure for Cat Bond | N/A |
| \$150,000,000 Series 2007 Principal-at-Risk Variable Rate Notes | 5/23/07 |
| Explanation of LMIC Pool - Collateralized Mortgage Obligations | 7/16/08 |
| Illinois Amendment to Form A | 7/16/08 |
| Form 990-PF Return of Private Foundation of Safeco Insurance Foundation and Related Documents | 12/31/06 |
| MA Correspondence to Division's Corporate Governance Survey | N/A |
| Explanation of AE Exposure Solely Contributed to Agency Markets | N/A |
| Statutory-Basis Combined Financial Statement for The Ohio Casualty Insurance Company and its Affiliated Property and Casualty Insurers | 12/31/07 |
| Statutory-Basis Financial Statement for Ohio Casualty of New Jersey, Inc. | 12/31/07 |
| Standard & Poor's Research Update: Liberty Mutual Group Inc. Ratings Placed on CreditWatch Negative | 4/23/08 |

| DOCUMENT TITLE | DOCUMENT DATE |
|---|----------------------|
| Scenario Stress Testing on RBC | N/A |
| Explanation of Structure and Operations for Liberty Mutual's Nominating and Executive Committees | N/A |
| Washington Complaint Log Information for 2004 and 2005 for Liberty Northwest | N/A |
| Summary of Customers Survey Results for Liberty Northwest | N/A |
| Liberty Mutual's Response Letter to the 2006 Rhode Island Market Conduct Examination | N/A |
| Illustration of Competitor Movements in Both the Surety and Farmer Owners Multiple Peril Lines in WA | N/A |
| Liberty Mutual's Employment Organization Structure for Full Time Equivalents in Washington and Oregon | N/A |
| CA-GEIC 2004 Exam Notes and Explanation of the New Procedures That Have Been Implemented | N/A |
| Liberty Mutual's Written Response to the 2005 AFLIC Exam by the TX Department of Insurance | N/A |
| Liberty Mutual's Written Response to the MD Montgomery Mutual 2004 Exam Findings | N/A |
| Liberty Mutual's Written Response to the PA Merchants and Business Men's Mutual 2004 Exam Findings | N/A |
| June 30, 2008 Surplus Forward | N/A |
| June 30, 2008 Combined Pro Forma Debt to Capital Ratio | N/A |
| IRIS Ratio #9 - June 30, 2008 vs. December 31, 2007 | N/A |
| Safeco Discussion Materials on Market Environment, Potential Strategic Buyers, Key Drivers of Consolidation Activity, and Related Items | 2/28/08 |
| Safeco's Management and Advisors Analysis and Presentations | 2/22/08- 3/26/08 |
| Safeco Presentation to the Board of Directors on Conditions to Closing | 4/22/08 |
| Presentations to Safeco Board from Advisors | N/A |
| Minutes from Safeco Board of Directors Meetings | 11/19/07- 4/22/08 |

| DOCUMENT TITLE | DOCUMENT DATE |
|---|---------------|
| Safeco Organizational Chart and Full Time Equivalents Count Listing | N/A |
| Hart-Scott-Rodino Filing by Safeco | 4/30/08 |
| Letter from the Greenling Institute to the OIC | 5/1/08 |
| Liberty Mutual's Synopsis of Status of Litigations Relating to the Merger | N/A |
| Investment Management and Accounting Services Agreement Between Safeco Corporation and Safeco Insurance Company of America and Blackrock Financial Management, Inc. | 5/24/07 |
| Form 990-PF Return of Private Foundation of Safeco Insurance Foundation | 12/31/07 |

APPENDIX C
RÉSUMÉS FOR CANTILO & BENNETT, L.L.P.

RÉSUMÉ OF PATRICK H. CANTILO

Mr. Cantilo received a Bachelor of Arts degree with Honors from the University of Texas in 1977, and a Juris Doctorate degree from the University of Texas School of Law in 1980, and was admitted to practice law in the State of Texas in 1980. He has since been admitted to practice in all Texas Courts, the United States District Courts for the Eastern, Northern, Southern, and Western Districts of Texas, the United States Courts of Appeals for the Fourth and the Fifth Circuits, and the United States Supreme Court.

Patrick Cantilo is currently a member of the Travis County Bar Association (Litigation Section) Austin, Texas, the American Bar Association (Litigation and Tort & Insurance Sections), and the State Bar of Texas (Litigation Section). He was a Principal Charter Member of the Society of Insurance Receivers, now the International Association of Insurance Receivers, which has accorded him the designation of Certified Insurance Receiver - Multi-Lines. He has also been a member of the International Association of Insurance Receivers Health Care Task Force, and the National Association of Managed Care Regulators, as well as its predecessor, the National Association of HMO Regulators ("NAHMOR"). A list of some of his publications, presentations, and professional affiliations is contained below.

Mr. Cantilo has also served as Counsel to the Receiver, as Special Deputy Receiver, Deputy Receiver, Deputy Liquidator, or in comparable capacities, in literally dozens of insurance and managed care insolvencies. Mr. Cantilo has taken the lead in the rehabilitation and liquidation of a wide variety of entities, ranging from a small trust company to a multi-billion dollar life insurance company, and including a number of health maintenance organizations, life insurance companies, accident and health insurance companies, property and casualty insurance companies, title insurance companies, insurance agencies, premium finance companies, and related entities. He has negotiated the formation and commutation of reinsurance agreements, developed plans for the collection of agents' balances, collected reinsurance recoverables, negotiated agreements with guaranty funds and other regulators, negotiated with federal authorities on such matters as insurance claims disputes, tax claims and related matters, developed and implemented complex plans for the rehabilitation or liquidation of a large variety of managed care organizations, insurers and insurance related entities, and written and lectured numerous times on related topics. This area of practice continues to occupy a major part of his time as Mr. Cantilo continues to play the lead role in the rehabilitation of a multi-billion dollar life insurer, the receivership of a household name casualty insurer, the wind-down of a health maintenance organization, and more limited roles in other insurance insolvencies. At the same time, C&B continues to devote much of its attention to complex transactional work and a broad array of regulatory and civil litigation matters. While its recent practice has been concentrated on the reorganization of health services corporations (Blue Cross Blue Shield plans), and in the area of insurance regulation, rehabilitation and liquidation, C&B's experience is far more diverse. In addition to the above, other varied experience includes reinsurance contracting disputes and

litigation, insurance litigation, regulation of third-party administrators, general civil litigation (state and federal courts), federal bankruptcy as related to insurance insolvency, professional malpractice defense, mediation, and general business law.

Mr. Cantilo has also served as lead counsel in cases involving injunction against the presentation of letters of credit, licensing of child care facilities, revocation of physician privileges, landlord tenant disputes, medical malpractice actions, construction negligence, wrongful lien, insurance fraud, regulatory jurisdiction, commercial lending, deceptive trade practices, defense of a variety of insurance claims, employment issues, liability of officers and directors, bankruptcy, insurance insolvency, and a host of other matters.

Much of Mr. Cantilo's law practice has been devoted to the area of civil litigation, including cases in the State and Federal Courts, both at the trial and appellate levels. His litigation experience includes relatively straight-forward matters like the prosecution or defense of insurance claims and very complex matters such as major bankruptcy reorganizations and insurance rehabilitations. Demonstrative of this experience are the roles played by Mr. Cantilo as lead counsel for Texas Insurance regulators in the Maxicare Bankruptcy (reported at In re Family Health Services, Inc., 101 B.R. 618 (Bankr. C.D. Cal. 1989)) and in the bankruptcy proceeding involving an insurance holding company and its affiliates. (See In re First Financial Enterprises, Inc., 99 B.R. 751 (Bankr. W.D. Tex. 1989)).

Receivership Experience

Mr. Cantilo has participated in a substantial number of rehabilitations, liquidations, and reorganizations of insurers and health maintenance organizations throughout the United States and has also participated in a number of other relevant transactions involving insurers and health maintenance organizations, such as acquisitions, changes of control, and the like. He has extensive experience in virtually every aspect of the liquidation and rehabilitation of an insurer. For example, he has designed, negotiated, and implemented rehabilitation plans; negotiated, commuted and litigated reinsurance relationships; collected agents' balances; designed and implemented claims adjudication and processing systems; engaged in extensive claims litigation; participated in insurance insolvency-related bankruptcies; litigated insurance insolvency jurisdictional issues; participated in extensive transactional work involved in the rehabilitation of insurers including securities, tax, and related issues; worked in the areas of pension plan, ERISA, employee benefits, human resources, and employment law; conducted asset marshaling litigation ranging from collection of small notes to billion dollar complex cases; preparation and principal responsibility for rehabilitation plan confirmation litigation; regulatory and licensing proceedings; and virtually every other aspect of insurance company management and wind-down.

Mr. Cantilo began his legal career more than two decades ago as a staff attorney in the Liquidation Division of the Texas State Board of Insurance (now the Texas Department of Insurance). After leaving the department, he has continued representing insurance regulators, or

serving as Deputy Receiver, in a number of insolvencies throughout the country. His experience with MCO insolvencies includes:

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| Texas Prepaid Health Plans (1980): | The first Texas HMO receivership. He served as counsel to the Liquidation Division of the Texas State Board of Insurance. |
| Group Health of El Paso (1981): | The second Texas HMO receivership. Again, he served as counsel to the Liquidation Division of the Texas State Board of Insurance. |
| MetroCare (1981): | The third Texas HMO receivership. He served as counsel to the Liquidation Division of the Texas State Board of Insurance and also managed the day-to-day affairs of the receivership. |
| East Texas Health Plans (1987): | He served as outside counsel for the Texas Conservator. Rehabilitation efforts were unsuccessful, and the plan was eventually liquidated. |
| Maxicare North Texas, Inc. (1988): | He served as special counsel for the Texas Insurance Department in jurisdictional dispute with the debtor-in-possession in bankruptcy. |
| Maxicare Virginia (1988): | He served as outside counsel for the Virginia Bureau of Insurance in its liquidation. |
| Medcenters HMO (1988): | He served as Special Deputy Commissioner for the North Dakota Department of Insurance. |
| Foundation Health Plan New Jersey (1990): | He served as Deputy Liquidator for the New Jersey Department of Insurance. |
| Harvard Pilgrim (2000): | He served as outside counsel for the Maine Bureau of Insurance in connection with non-domiciliary receivership issues. |
| Tufts New England (2000): | He served as outside counsel for the Maine Bureau of Insurance in connection with non-domiciliary receivership issues. |

Some of Mr. Cantilo's most significant insurance receivership experience includes:

Baldwin United Companies (early 1980s): He served as counsel to the Liquidation Division of the Texas State Board of Insurance, involved with the affairs of Baldwin-United and its troubled insurance subsidiaries, National Investors Life Insurance Company, National Investors Pension Insurance Company, College Life Insurance Company, University Life Insurance Company, and their affiliates.

Executive Life Insurance Company (1991): He was part of a team retained by the California Insurance Commissioner to evaluate the condition of Executive Life Insurance Company and to recommend appropriate regulatory action. Later, Mr. Cantilo was retained to represent the Commissioner as Conservator.

Fidelity Bankers LIC (1991): He was retained by the Virginia State Corporation Commission and its Bureau of Insurance to serve as Special Deputy Receiver for Fidelity Bankers Life Insurance Company and continues to spearhead the successful rehabilitation of that company.

Home Owners Warranty Corp. (1994): He was retained by the Virginia State Corporation Commission and its Bureau of Insurance to serve as Special Deputy Receiver for Home Owners Warranty Corporation.

National Association of Insurance Commissioners

Over the last two decades, Mr. Cantilo has also been active with the National Association of Insurance Commissioners ("NAIC"). In the early and mid-1980s, he was active in the Joint NAIC- NAHMOR task force and contributed to the development of the current Model HMO Act and related regulations. He has also participated in the deliberations of the NAIC's Special Committee on Blue Cross Plans, including two formal presentations, one in the December 1995 NAIC Meeting in San Antonio, Texas, and the other in a special meeting in April 1996 in Dallas, as well as a less formal role in other meetings of the Special Committee. He has also provided informal assistance to the NAIC's Mutual Holding Company (EX4) Working Group. In particular, he contributed to the drafting of the "White Paper" distributed under date of December 7, 1998, entitled "Mutual Insurance Holding Company Reorganizations."

Blue Cross Conversion Experience

SEE QUALIFICATIONS SECTION ABOVE.

Publications

“Texas Health Maintenance Organizations: Lessons from Insolvency”, Texas Health Law Reporter, Vol. 1, Nos. 4 and 5, October and December 1984;

“Insurer Insolvency: A Primer for Malpractice Insureds”, Texas Health Law Reporter, Vol. 2, No. 5, December 1985;

“What To Do If You Believe Your Malpractice Carrier Is Insolvent”, Texas Medicine, Vol. 83, No. 3, March 1987;

“New Legislation Affects Fees, Taxes for Texas Third-Party Administrators”, Houston Insurance News, December 1, 1987;

“Health, HMO and Related Entity Insolvencies”, American Bar Association, Tort and Insurance Practice Section, Law and Practice of Life Insurance Company Insolvency, June 1993, 1996; and

“Rehabilitation of Managed Care Organizations: A Thumbnail Sketch of Certain Key Considerations”, The Insurance Receiver, International Association of Insurance Receivers, Winter 1999.

Presentations and Lectures

“HMO Issues: A Seminar for State Regulators”, (Bureau of HMOs, U.S. Department of Health and Human Services) 1982, 1983, 1984 and 1986;

“How to Examine HMO Financial Viability”, seminars (N.A.H.M.O.R and O.H.M.O.-D.H.H.S.) 1981;

“HMOs: What Do We Know?”, seminar (N.C.H.S.R., Texas Departments of Health and Insurance and Texas Senate) 1981;

Seminar on Agent's Liability, Texas Association of Life Underwriters Convention, 1985;

Group Health Institute, (Group Health Association of America, Inc., and N.A.H.M.O.R.) 1986;

“The Regulator's Response to the New Competitive Environment”, (American Medical Care and Review Association and N.A.H.M.O.R.) 1986;

“Current HMO Issues: A Seminar for Regulators”, (N.A.I.C. and N.A.H.M.O.R.) 1986;

“HMO Issues 1987: A Seminar for State Regulators”, (N.A.H.M.O.R. and O.P.H.C.) 1987;

“HMO Issues 1988: A Seminar for State Regulators”, (N.A.H.M.O.R. and O.P.H.C.) 1988;

“HMO Issues 1989: A Seminar for State Regulators”, (N.A.H.M.O.R. and O.P.H.C.) 1989;

HMO REGULATIONS: THE LATEST TRENDS IN STATE ISSUES--“Bankruptcy: A Federal or State Problem?”, Group Health Institute 1989, June 15, 1989, Atlanta Georgia;

“A Guide to Insurer Insolvency”, State Bar of Texas Professional Development Program entitled DEALING WITH THE FAILED INSURER, October 1989, Austin and Dallas, Texas;

“HMO Insolvency: State or Federal Jurisdiction?”, National Conference of Insurance Legislators, Austin, Texas, November 1989;

“1988 HMO Law Update”, National Health Lawyers Association Meeting, Chicago, December 1989;

“N.A.H.M.O.R. Education Foundation Advanced Seminar”, San Diego, California, April 27, 1990;

“NAIC/N.A.H.M.O.R. Committee and Industry Advisory Group”, Arlington, Virginia, October 2, 1990;

“HMO Issues 1991: Defining Managed Care”, N.A.H.M.O.R. Annual Meeting, Indianapolis, Indiana, June 6, 1991;

“LOMA Group Insurance Administration Committee”, Guest Speaker, Austin, Texas, March 3, 1992;

“Legal Issues Involved in the Liquidation of Insolvent Insurers”, Texas Department of Insurance, Guest Speaker, Austin, Texas, August 15, 1992;

“Receivership Appeal Procedures”, National Association of Insurance Commissioners/Society of Insurance Receivers, Guest Speaker, Orlando, Florida, February 18-19, 1993;

“Health, HMO and Related Entity Insolvencies”, American Bar Association National Institute on Life Insurer Insolvency, Guest Speaker, Chicago, Illinois, June 19-20, 1993;

“Mock Takeover”, Society of Insurance Receivers, Guest Speaker, New Orleans, Louisiana, December 3, 1994;

“Legal Issues in Managed Care Regulation”, National Association of Managed Care Regulators, Guest Speaker, San Antonio, Texas, May 1, 1995;

(EX) Special Committee on Blue Cross Plans, 1995 NAIC Winter National Meeting, San Antonio, Texas, December 4, 1995;

“HMOs, Warranty Insurers, and Other “Special” Receiverships”, National Association of Insurance Commissioners and the Society of Insurance Receivers Insolvency Workshop, Albuquerque, New Mexico, January 25, 1996;

“Risk Retention Groups”, National Association of Insurance Commissioners Federal Preemption of State Insurance Laws, Detroit, Michigan, March 23, 1996;

Interim Meeting of the Special Committee on Blue Cross Blue Shield Plans, Dallas, Texas, April 26, 1996;

“Health, HMO, and Related Entity Insolvencies”, American Bar Association National Program, Insurance Regulation of Health Care Arrangements, New York, New York, June 2, 1996;

“Insolvency Issues, Historical Perspective”, (HCFA), Negotiated Rulemaking Committee on PSO Solvency Standards, Arlington, Virginia, October 22, 1997;

“Insurer Restructuring: A Framework for Regulatory Analysis”, (NAAG), National Training Conference for Regulators - Health Care Conversions and Acquisitions, Boston, Massachusetts, July 19, 1998;

“Blue Cross Blue Shield Conversions”, (NAMCR), 1998 Fall Conference, Managed Care's Future, Washington Perspective, Washington, D.C., October 26, 1998;

“Troubled Managed Care Organizations: A Return to Bad Old Times?”, (NAMCR), HMO Insolvency Seminar, San Antonio, Texas, February 18-20, 1999;

“Troubled Managed Care Organizations: Back to the Future!”, (NAMCR), HMO Insolvency Seminar, Charleston, South Carolina, November 3-4, 1999;

“Managed Care: a Different Millennium Bug” IAIR/NAIC Insolvency Workshop; Tuscon, Arizona, January 20-21, 2000;

“HMO Insolvencies and Their Impact: Provider, Patient, Legal, and Financial Issues”, Mealey’s Insurance Insolvency & Reinsurance Roundtable, Scottsdale, Arizona, April 13-15, 2000;

“Collaboration: The Future of Healthcare”, National Association of Managed Care Regulators, Albuquerque, New Mexico, May 17, 2000;

“Managed Care Insolvencies: Just When You Thought it Was Safe to Go Back in the Water”, Society of Financial Examiners 2000 Career Development Seminar, Uncharted Waters: Fathoming the Depths of Fraud, San Diego, California, July 23-26, 2000;

“Delegation Agreements–The Legal Issues”, Downstream Contracting and Delegation Summit; National Assoc. of Managed Care Regulators, Philadelphia, Pennsylvania, November 13-15, 2000;

“Solvency vs. Quality – Striking a Balance”, National Association of Managed Care Regulators, Long Beach, California, May 22, 2001;

“Lessons and Implications of Various Blue Cross Blue Shield Conversions”, New York, New York, June 21, 2003;

“The Day after Tomorrow”, 2005 International Association of Insurance Receivers Insolvency Workshop, Lake Buena Vista, Florida, February 3-4, 2005;

“Receiver’s Perspective”, NCIGF 2005 Legal Seminar, National Conference of Insurance Guaranty Funds, New York, New York, July 21, 2005;

“Top Ten Ways to Be a Good Lawyer”, Mandalay Bay, Las Vegas, Nevada, June 4, 2005;

“Top Ten Ways to Ensure Your Receivership is Perfect”, Co-Chair, 2006 International Association of Insurance Receivers Insolvency Workshop, Cosmic Tour of Receivership Issues, San Diego, California, February 1-3, 2006.

Public Service

Public Service

Counsel for Texas Judicial Insurance Receiver, 1980-1983.

National Association of Insurance Commissioners, Liquidators Task Force 1982-1983.

National Association of Health Maintenance Organization Regulators (now National Association of Managed Care Regulators) Associate Member since 1986.

National Association of Insurance Commissioners/National Association of Health Maintenance Organization Regulators Joint Committee, Advisory Committee 1986.

Chairman, Financial Subcommittee, H.M.O. Advisory Committee established by the State Board of Insurance, 1986.

National Association of Insurance Commissioners, Liquidators Task Force Advisory Committee, 1986.

NAIC/N.A.H.M.O.R. Continuation of Benefits Working Group, Contracts and Services Committee, 1989.

N.A.H.M.O.R. Advisory Committee, 1991.

NAIC Receiver's Handbook Committee, 1991.

Member

Travis County Bar Association (Litigation Section); American Bar (Litigation and Tort & Insurance Sections); State Bar of Texas (Litigation Section); International Association of Insurance Receivers (Principal Charter Member, 1991 - Present); International Association of Insurance Receivers Health Care Task Force; International Association of Insurance Receivers Guaranty Funds and Receivers Liaison Committee; Austin Theater Alliance Century Club; KUT Leadership Circle; KUT's Advisory Board; Austin Lyric Opera Director's Circle; and The University of Texas Chancellor's Council.

Designations

Certified Insurance Receiver – Multiple Lines, International Association of Insurance Receivers, 2000.

Current Areas of Practice

Demutualization, conversion, merger, acquisition and other reorganization of insurers and managed care companies; regulation, rehabilitation, and insolvency of insurers, including health maintenance organizations; reinsurance contracting, disputes, and litigation; insurance litigation; regulation of third-party administrators; formation and development of emerging enterprises, merger, reorganization, and acquisition of small and medium sized businesses, and representation of established companies; professional liability litigation; general civil litigation (state and federal courts); federal bankruptcy as related to insurance insolvency; professional malpractice defense; mediation; and general business law.

RÉSUMÉ OF MARK F. BENNETT

Mark F. Bennett, P.C., was born in Yonkers, New York, on March 22, 1959. He completed his education receiving a Political Science degree with honors from Iona College in New Rochelle, New York, and his J.D. from Pace University School of Law in White Plains, New York.

Mr. Bennett was admitted to the Texas Bar in 1984, and is also admitted to practice before the U.S. District Court for the Northern District of Texas. He belongs to the American Bar Association, the State Bar of Texas, and the Travis County Bar Association.

Mr. Bennett has served as Insurance Counsel to state insurance regulators on a large number of insurance company restructurings and rehabilitations. He was a key contributor to the Fidelity Bankers Life Insurance Company Rehabilitation Plan and negotiated the terms of the Company's sale to Hartford Life Insurance Company. He has been charged with the responsibility of operating the day-to-day affairs of Fidelity Bankers.

While in private practice, he is credited with having structured a guaranty association rescue and rehabilitation plan for an insolvent property and casualty insurance company in Texas, as well as devising rehabilitation or reorganization plans for other troubled insurers. As former counsel to the Liquidation Division of the Texas State Board of Insurance, he was involved in the takeover, administration, and management of many insurers, including International Fidelity Life Insurance Company, National County Mutual Fire Insurance Company, Best Lloyds Insurance Company, and Southeast Indemnity Company, to name a few.

He has extensive experience in mergers, acquisitions, reinsurance transactions, and general corporate areas. Mr. Bennett has also acted as Insurance Counsel to the Deputy Liquidator of two health maintenance organization insolvencies, Foundation Health Plan of New Jersey and MedCenters of North Dakota, as well as legal counsel for other managed health care insurance companies. Furthermore, he has acted as insurance administrative, regulatory, corporate, and reinsurance counsel to the Deputy Receiver of Home Warranty Corporation and its affiliates for the administration of those companies. He has also acted as legal counsel to firms that provide policy administration, claims, EDP, and accounting services on an "outsource basis" to both the property and casualty and life insurance industries.

Mr. Bennett is currently a named and founding partner of the law firm CANTILO & BENNETT, L.L.P. ("C&B"). Prior to his involvement with C&B, he was a partner in the law firm of Rubinstein & Perry, LLP and Cantilo, Bennett & Wisener, L.L.P. Mr. Bennett's practice concentrates on insurance mergers and acquisitions, corporate reorganizations, corporate law, insurance administration and regulation, insurance insolvency and receivership, reinsurance, and insurance outsourcing matters.

Mr. Bennett has also participated in various National Association of Insurance Commissioners committees regarding the Receiver's Handbook; he contributed to the drafting and editing of several handbook chapters. He consults frequently with state insurance regulators regarding insurance rehabilitations and liquidations. He also consults with members of the insurance

industry concerning insurance consolidations, restructurings, sales, start-up insurance organizations, health care, and insurance company outsourcing activities.

RÉSUMÉ OF PETER N. MARTIN

Peter Nathaniel Martin graduated *cum laude* with a B.A. in the Plan II Honors Program at the University of Texas at Austin, concentrating in the Classics, Comparative Literature, and Modern Languages. He also studied classical archaeology at the American School of Archaeology in Athens, Greece. In May 2002, Mr. Martin earned his Juris Doctor at the University of Virginia School of Law. Mr. Martin is licensed to practice in Texas, New York, and Virginia. Additionally, Mr. Martin has been admitted to practice in the U.S. Court of Appeals for the Fourth Circuit and Eastern and Western Districts of Virginia. He is a member of the American Bar Association, the Virginia Bar Association, the New York State Bar Association, the Texas Young Lawyers Association, and the Travis County Bar Association. Since joining CANTILO & BENNETT, L.L.P., Mr. Martin's areas of interest include business litigation and general civil litigation.

RÉSUMÉ OF ARATI BHATTACHARYA

Arati Bhattacharya was born in Monte Carlo, Monaco, and lived in Hong Kong before settling in Houston, Texas in 1990. She received a Bachelor of Business Administration with magna cum laude honors from Texas A&M University in 2003, and a Juris Doctor from Southern Methodist University in 2006. She also took comparative law classes at Oxford University in 2004.

While pursuing her law degree at SMU, Ms. Bhattacharya served on the Executive Board of the SMU Student Bar Association, the Executive Committee of the SMU Board of Advocates, and the Moot Court Planning Board. She was inducted into The Order of Barristers for her excellence in advocacy and was a recipient of the John Kennedy Memorial Scholarship for her service and dedication to the law school.

Following law school, Ms. Bhattacharya practiced at a mid-size law firm in Houston and specialized in business litigation, general civil litigation, and insurance defense. She relocated to Austin and joined Cantilo & Bennett, L.L.P. in 2007. Ms. Bhattacharya currently focuses her practice on business litigation, as well as insurance and regulatory matters.

Ms. Bhattacharya is a member of the State Bar of Texas, the American Bar Association, and the Texas Young Lawyers Association. Ms. Bhattacharya is also admitted to practice in the U.S. District Court for the Southern District Court of Texas.

RÉSUMÉ OF SHERI HIROMS

Sheri Hiroms was born in Middlebury, Vermont. Sheri has been the Practice Manager of CANTILO & BENNETT, L.L.P. and predecessor firms since 1997 and executive assistant and legal secretary since 1989.

At CANTILO & BENNETT, L.L.P., Ms. Hiroms acts as the firm liaison with its clients, oversees case management and coordinates work for insurance regulatory clients. Ms. Hiroms also provides logistical assistance in client and professional development activities.

In conjunction with other personnel, Ms. Hiroms is responsible for the day-to-day operations of the firm, including information services, records management, library management, office automation, document construction systems, information storage and retrieval, telecommunications, litigation support, legal practice systems and other systems management functions. In addition to these responsibilities, Ms. Hiroms also oversees the general management of the firm including strategic and tactical planning, business development, risk management, quality control, organizational development, firm planning processes and other general management functions.

Ms. Hiroms works closely with the firm's partners on lawyer recruiting, lawyer training and development, legal assistant supervision, work product quality control, professional standards, substantive practice systems and other practice management functions. She also has a thorough understanding of accounting and financial principles, maintaining general accounting procedures, financial management and analysis, and tax regulations, as well as the ability to implement solid internal controls.

Ms. Hiroms acts as the firm's HR director and keeps aware of changing employment laws and the many details relating to recruiting, hiring, compensation, benefits, performance appraisals, discipline and discharge and labor relations in general and effectively manages these important resources.

Prior to joining CANTILO & BENNETT, L.L.P., Ms. Hiroms worked for the Law Firm of William M. King, the past Securities and Exchange Commissioner in Austin, Texas. Ms. Hiroms also worked for the attorney of a non-profit association in the Austin area as the Director of Information Services for seven years.

Ms. Hiroms relocated to San Francisco during 1979 through 1981 where she worked as the Administrative Assistant to the President of Hills Bros. Coffee. After one year in this position, Ms. Hiroms applied for, and was promoted to, the position of Union Liaison providing personnel support for the San Francisco plant operations and assisting in the interpretation of company policies and the union agreement as it related to the day-to-day plant operations. She also administered all approved fund-raising campaigns and other community activities as they related to the San Francisco plant and its employees.

RÉSUMÉ OF ISAAH SAMANIEGO

Isaiah Samaniego was born In Austin, Texas and attended McNeil High School in Round Rock, Texas. Mr. Samaniego received his Legal Assistant Certificate from The Washington Learning Institute in July of 2007.

Mr. Samaniego has been employed with the law firm of CANTILO & BENNETT, L.L.P. since November 2002. His primary duties include document management and litigation support.