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Hearings Unit, OIC
Patricia D. Peterson
Chief Hearing Officer

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 COMPNAY, INC., LMHC MASSACHUSETTS HOLDINGS, INC., LIBERTY MUTUAL GROUP, INC., LIBERTY MUTUAL INSURANCE COMPANY, LIBERTY INSURANCE HOLDINGS, INC., and LIH US P&C CORPORATION.	NO. G08-0084 **DECLARATION OF DANA RUDMOSE**

Dana Rudmose, under penalty of perjury under the laws of the State of Ohio, declares as follows:

1. I am a principal in the Rudmose and Noller Advisors, LLC, ("RNA"), a client-focused firm providing advisory services to insurance regulators throughout the United States. RNA was retained in this matter by the Washington State Office of Insurance Commissioner ("OIC") through its Company Supervision Division to assist the agency in analyzing historical and prospective financial and other information related to 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 RNA's final report to the OIC in this matter including RNA's transmittal letter to the OIC and curriculum vitae for me and Mark Noller, who is also an RNA principal. This report describes and explains the investigation and analysis that RNA conducted and our findings and recommendations to the OIC. We are competent to testify to the matters set forth in this report and I 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 Columbus, Ohio.

Dana Rudmose

Dana Rudmose

Evaluation of the Form A Filed by Liberty Mutual Holding Company, Inc., et al in the Acquisition of Control of Safeco Insurance Company of America, First National Insurance Company of America, General Insurance Company of America, and Safeco Surplus Lines Insurance Company

For the Washington State
Office of Insurance Commissioner

Rudmose & Noller Advisors, LLC

August 26, 2008

RUDMOSE & NOLLER ADVISORS, LLC
INSURANCE REGULATORY SERVICES

5203 DARRY LANE • DUBLIN, OHIO 43016
PHONE: 614-792-6778 • FAX: 614-799-8323

August 26, 2008

James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Washington State
Office of the Insurance Commissioner
5000 Capitol Blvd.
Tumwater, WA 98501

Dear Mr. Odiorne:

Rudmose & Noller Advisors, LLC ("RNA") has performed an analyses of certain historical and prospective financial and other information related to the Form A Statement Regarding the Acquisition of Control of or Merger With a Domestic Insurer ("Form A") filed with the Washington State Office of the Insurance Commissioner ("OIC") dated May 16, 2008 by 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") (collectively, "the Applicant"). The Form A was supplemented with information regarding the Applicant's transaction financing on June 9, 2008, and amended on August 1, 2008. The Applicant seeks to acquire control of Safeco Insurance Company of America, First National Insurance Company of America, General Insurance Company of America, and Safeco Surplus Lines Insurance Company (collectively the "Domestic Insurers") which are Washington-domiciled stock property and casualty insurance companies, in addition to other non-domiciliary insurers and non-insurer subsidiaries of Safeco Corporation ("Safeco") as set forth in the Form A. Safeco is a Washington corporation, the common stock of which is publicly traded on the New York Stock Exchange. The proposed acquisition will be accomplished through the merger of Big Apple Merger Corporation ("Big Apple"), a Washington corporation and wholly-owned subsidiary of LMIC formed to effect the acquisition of Safeco.

Our services have been limited to work described in our contract for personal services with the OIC dated June 25, 2008. We performed our services under the direction and supervision of James T. Odiorne, Deputy Insurance Commissioner who was designated by the Commissioner of Insurance to lead a Working Group comprised of OIC personnel to review the Form A (the "Working Group"). We assisted the Working Group in its review of the Form A and related materials. In connection with our analysis of the Form A transaction, RNA obtained information with respect to financial, operational and regulatory aspects of the proposed acquisition of the Domestic Insurers by the Applicant. We reviewed numerous documents, which are listed in the Appendix A to this report. Finally, we had limited discussions with certain officers and management of both the Applicant and Safeco.

Reliances and Limitations

The analysis of certain historical and prospective financial information was based on procedures approved by the OIC and performed by RNA. The OIC is responsible for the sufficiency of the procedures as well as drawing conclusions with respect to RNA's evaluation. In completing this evaluation report, RNA relied on oral and written representations provided by officers and managerial employees of the Applicant and Safeco and observations and analysis made by us during the course of our work.

With respect to prospective financial information relative to the companies referenced throughout this report, we did not examine, compile, or apply agreed-upon procedures to such information, and we express no assurance of any kind on such information. There usually will be differences between estimated and actual effects, because events and circumstances frequently do not occur as expected, and those differences may be material. We take no responsibility for the achievability of the expected results of the Form A transaction anticipated by the Applicant and Safeco.

We make no representation regarding the sufficiency of our work either for purposes for which this report has been requested or for any other purpose. The sufficiency of the work we performed is solely the responsibility of the OIC, as are any decisions with respect to the Form A transaction. Had we been requested to perform additional work, additional matters might have come to our attention that would have been reported to you.

It is understood that this report is solely for the information of the OIC. Our findings may be included, in whole or in part, in the record upon which any regulatory determination may be made by the OIC, which RNA understands may be a public record. If the OIC chooses to name RNA in any report, the OIC should disclose that RNA is not responsible for the sufficiency of procedures for the purpose of the OIC's evaluation of the Form A transaction.

In addition to the foregoing, our report, or portions thereof, is not to be quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement, or other agreement or other document without our prior written approval, which may require that we perform additional work.

We appreciate the opportunity to serve the OIC in conjunction with this engagement. Please let us know if you require clarification of any of the matters contained in our report, or need any further information.

Very truly yours,

Rudmose & Noller Advisors, LLC

Rudmose & Noller Advisors, LLC

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Introduction

The Washington State Office of Insurance Commissioner (the "OIC") is the primary regulatory agency for insurance in Washington. Among its duties, the OIC is responsible for the enforcement and administration of the State of Washington's insurance laws. On May 16, 2008, Liberty Mutual Holding Company Inc. ("LMHC" or "Liberty Mutual"), a Massachusetts mutual holding company and ultimate controlling corporation of the affiliated LMHC group of companies; LMHC Massachusetts Holdings Inc. ("LMHC MA"), a Massachusetts corporation and direct wholly-owned subsidiary of LMHC; Liberty Mutual Group Inc. ("LMGI"), a Massachusetts corporation and direct wholly-owned subsidiary of LMHC MA; Liberty Mutual Insurance Company ("LMIC"), a Massachusetts stock insurance company and a direct wholly-owned subsidiary of LMGI; Liberty Insurance Holdings, Inc. ("LIHI"), a Delaware corporation and a direct wholly-owned subsidiary of LMIC; and LIH US P&C Corporation ("LIH US"), a Delaware corporation and a direct wholly-owned subsidiary of LIHI (collectively, "the Applicant") filed with the OIC a Form A Statement Regarding the Acquisition of Control of or Merger With a Domestic Insurer ("Form A") pursuant to Title 48 Revised Code of Washington ("RCW" or "Washington Insurance Code"). The Form A was supplemented with information regarding the Applicant's transaction financing on June 9, 2008, and amended on August 1, 2008. The Applicant seeks to acquire control of four Washington-domiciled insurers, Safeco Insurance Company of America, First National Insurance Company of America, General Insurance Company of America, and Safeco Surplus Lines Insurance Company (collectively, the "Domestic Insurers") in addition to other non-domiciliary insurers and non-insurer subsidiaries of the Safeco Corporation ("Safeco") as set forth in the Form A. Safeco is a Washington corporation, the common stock of which is publicly traded on the New York Stock Exchange ("NYSE"). The proposed acquisition will be accomplished through the merger of Big Apple Merger Corporation ("Big Apple"), a Washington corporation and wholly-owned subsidiary of LMIC formed to effect the acquisition of Safeco. The Domestic Insurers are each a wholly-owned subsidiary of Safeco. The Commissioner of

Insurance of the State of Washington ("Commissioner") has the authority to approve or disapprove the transaction described in the Form A with regard to the Domestic Insurers, pursuant to Chapter 48.31B RCW and Washington Administrative Code Chapter 284-14.

Safeco is an insurance holding company incorporated in the State of Washington and has been in business serving the insurance needs of customers since 1923. Safeco is licensed to provide property and casualty insurance along with related services to individuals and small to mid-size businesses in all 50 states. Safeco also sells surety bonds to contractors and businesses. Safeco sells its insurance products principally through independent agents and employs approximately 7,000 employees located throughout the United States. According to A.M. Best, it is one of the 20 largest domestic insurance carriers in the United States. In addition, Safeco's surety business is the fourth largest in the United States based on 2007 direct written premiums. Safeco's insurance subsidiaries are rated A ("Excellent") by A.M. Best.

LMIC was formed in 1912 and was converted to a stock insurance company in connection with a mutual holding company reorganization that formed Liberty Mutual in 2001. Liberty Mutual constitutes a diversified global group of insurance companies, the sixth largest property and casualty insurance group in the United States based on 2007 direct written premium and 94th on the Fortune 500 list of largest corporations in the United States based on 2007 revenue. Liberty Mutual offers a wide range of products and services, including personal automobile, homeowners, commercial multiple peril, commercial automobile, general liability, surety, workers compensation, global specialty, group disability, assumed reinsurance and fire. Liberty Mutual employs over 41,000 people in more than 900 offices throughout the world. Following the proposed acquisition, Safeco is anticipated to become part of Liberty Mutual's Agency Markets business unit. Liberty Mutual's Agency Markets business unit employs approximately 7,000 employees and distributes its products and services through over 7,000 independent agents. Liberty Mutual's insurance subsidiaries are rated A ("Excellent") by A.M. Best.

On April 23, 2008, Safeco entered into an Agreement and Plan of Merger (the "Merger Agreement") with LMIC and Big Apple. The Merger Agreement provides for a merger whereby Big Apple will be merged with and into Safeco, with Safeco continuing as the surviving corporation. Although Big Apple is currently a wholly-owned subsidiary of LMIC, the Applicant states in the Form A that it expects LMIC to contribute its shares of Big Apple to LIHI, which in turn will contribute the shares of Big Apple to LIH US. As a result, at the effective time of the merger, the Applicant plans for LIH US to be owner of 100% of Safeco. Completion of the proposed merger is subject to various customary closing conditions including regulatory approval. Safeco's shareholders approved the Merger Agreement on July 29, 2008 with 99.5% of voting shares approving the Merger Agreement.

The OIC engaged Rudmose & Noller Advisors, LLC ("RNA") to assist the OIC's Working Group designated by the Commissioner and led by James T. Odiorne, Deputy Insurance Commissioner in its review of the proposed transaction. The following observations and evaluation are based on the procedures the Working Group asked RNA to perform. Background information on RNA principals is included as Appendix B to this report.

The Transaction

LMIC will purchase Safeco for approximately $6.2 billion according to the proxy materials filed by Safeco with the U.S. Securities Exchange Commission on June 25, 2008 and as noted in the Form A as filed by Liberty Mutual on May 16, 2008. Pursuant to the Merger Agreement, each issued and outstanding share of Safeco common stock issued and outstanding immediately prior to the merger (other than shares owned by Safeco and its subsidiaries and LMIC and its subsidiaries, and shares for which dissenters' rights have been properly exercised under

Washington Law) will be converted into the right to receive $68.25 in cash, without interest less any applicable withholding taxes. The $68.25 per share being offered in the merger represents a premium of approximately 53% over the average closing price of Safeco shares for the 30-day trading period prior to the announcement of the merger. If approved, the merger will terminate all interests in Safeco common stock held by the Safeco shareholders, and Safeco will become a subsidiary of Liberty Mutual. Upon completion of the merger, Safeco common stock will be delisted from the NYSE, will no longer be publicly traded and will be deregistered under the Securities Exchange Act of 1934.

The amended Form A states the Applicant intends to fund the acquisition with cash on hand and proceeds from $1.25 billion junior subordinated notes ("Series C Notes") issued by LMGI through the capital markets on May 29, 2008. LMGI intends to contribute the proceeds of the Series C Notes issuance to LIH US as an investment in a subsidiary. Following such contribution, LMGI and LIH US will have adequate liquidity to fund the entire proposed acquisition with cash on hand, including dividends that were declared by current affiliates, subject in some cases to regulatory approval or non-disapproval. Finally, the amended Form A states LMGI will not borrow any funds under a previously disclosed $1.25 billion bridge financing facility. The Form A states the Applicant has no plans or proposals to have the Domestic Insurers declare extraordinary dividends, liquidate the Domestic Insurers, merge the Domestic Insurers, or make any other material changes in the Domestic Insurers investment policy, business, corporate structure or management.

Safeco's consolidated 2007 net written premium was $5.64 billion and comprised $3.67 billion, or 65.1%, from personal lines; $1.58 billion, or 28.0%, from commercial lines; and $.39 billion, or 6.9%, from surety lines. By comparison, Liberty Mutual Agency Markets business unit consolidated 2007 net premium written was $5.11 billion and comprised $3.83 billion, or 75.0%, from commercial lines; $.97 billion, or 19.0%, from personal lines; and $.31 billion, or 6.0%, from surety lines. On a pro forma basis, the addition of Safeco increases the proportion of personal lines business written by Liberty Mutual's Agency Markets business unit from 19% to 43%. In addition, on a combined basis the Agency Markets business unit will improve its geographic diversification by substantially increasing the amount of premium generated in the Western United States. The Form A states the Applicant has no present plans to relocate the home office or corporate records of the Domestic Insurers. In addition, the Applicant states it has no intention to change day-to-day management of the business and operations of the Domestic Insurers; however, individuals are named in the Form A that will replace current directors and officers of the Domestic Insurers to be consistent with other insurers in Liberty Mutual. The Form A includes a number of proposed intercompany agreements related to cash management, investment management, Federal tax sharing, and management services, that will also require the OIC's approval if the Form A is approved. The Form A also states that no changes are presently planned with regard to the Domestic Insurers' intercompany reinsurance agreements. Finally, the Form A states the Applicant has yet to evaluate certain marketing programs of Safeco but does not anticipate a material change in the method and manner in which the Domestic Insurers' products are marketed and delivered.

Standards for Approval

The Standards for approval of the Form A are set forth in the Washington Insurance Code pursuant to Title 48 RCW Chapter 31B.015(4)(a). The Commissioner must evaluate the transaction in relation to the following standards:

1) After the change of control, the Domestic Insurers must be able to satisfy the requirements for the issuance of licenses to write the line or lines of insurance for which they are presently licensed;

2) The effect of the merger or other acquisition of control would be substantially to lessen competition in insurance in Washington or tend to create a monopoly therein;

3) The financial condition of the Applicant is such as might jeopardize the financial stability of the Domestic Insurers, or prejudice the interest of their policyholders;

4) The plans or proposals that the Applicant has to liquidate the Domestic Insurers, sell their assets, consolidate or merge them with any person, or to make any other material change in their business or corporate structure or management, are unfair and unreasonable to policyholders of the Domestic Insurers and not in the public interest;

5) The competence, experience, and integrity of those persons who would control the operation of the Domestic Insurers are such that it would not be in the interest of policyholders of the Domestic Insurers and of the public to permit the merger or other acquisition of control; and

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

Our Evaluation

RNA has completed its evaluation of the Standards for approval which the Commissioner must use to evaluate the Form A transaction. The following is our evaluation of each of the Standards for approval as requested by you:

Standard 1

After the change of control, the Domestic Insurers must be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which they are presently licensed.

Standard 1 Evaluation

The Domestic Insurers currently satisfy the requirements for licenses to do insurance business in the State of Washington. With the change in control, there are no plans to change or alter such licenses, and after the change in control, the Domestic Insurers will remain licensed in Washington. Therefore, there is no evidence that the Domestic Insurers would not be able to satisfy the requirements for issuance of licenses to write the lines of insurance for which they are currently licensed in Washington after the change in control.

Standard 2

The effect of the merger or other acquisition of control would be substantially to lessen competition in insurance in Washington or tend to create a monopoly therein.

Washington Competitive Standards

RNA reviewed Title 48 RCW Chapter 31B.015, and as incorporated by reference, a portion of Title 48 RCW Chapter 31B.020 to ascertain whether the effect of an acquisition would substantially lessen competition or tend to create a monopoly in the State.

First, the statute presumes that any acquisition of the Domestic Insurers would not substantially lessen competition or tend to create a monopoly if the combined market share of the Domestic Insurers and the Applicant does not exceed 5% of the total market; or there would not be an increase in the market share or; the combined market share of the Domestic Insurers and the Applicant would not exceed 12% of the total market, and the market share increase would not be more than 2%.

Second, in cases where the statutory guidelines in the above paragraph are exceeded, the statute provides additional bright line tests to determine whether the acquisition would be considered a violation of statutory competitive standards. In that regard, using the market shares of the Domestic Insurers and the Applicant, the statute defines limitations, which provide safe harbors from prima facie violations of statutory competitive standards in both highly concentrated and non-highly concentrated markets. The statute defines a highly concentrated market as one in which the share of the four largest insurers is 75% or more of the market. A market is generally defined as the direct written insurance premium for a line of business as reported in the National Association of Insurance Commissioners ("NAIC") Annual Statement in the State of Washington.

Third, the statute states that in evaluating whether the acquisition would be considered a violation of statutory competitive standards, the Commissioner shall consider whether there is a significant trend toward increased concentration as a result of the acquisition. A significant trend toward increased concentration is defined as the aggregate market share of the two largest to the eight largest insurers increasing by 7% or more over the past five to ten years. Further, an acquisition of the Domestic Insurers by the Applicant when both compete in the same market is prima facie evidence of violation of the competitive standard if one of the insurers involved is included in the grouping of the largest insurers noted above with such an increase in the market share, and the other insurer's market share is 2% or more.

Fourth, even though an acquisition is not prima facie violation of statutory competitive standards, the Commissioner may establish anticompetitive effects based upon other substantial evidence including but not limited to market shares, volatility of rankings of market leaders, number of competitors, concentration, trend of concentration in the industry, and ease of entry and exit into the market.

Lastly, the statute provides that the Commissioner may not disapprove the change in control based on competitive effects if the acquisition will yield substantial economies of scale or economies in resource use that cannot be feasibly achieved in any other way, and the public benefits that would arise from the economies exceed the public benefits that would arise from not lessening competition. Also, the Commissioner may not disapprove the change in control based on competitive effects if the acquisition will substantially increase the availability of insurance, and the public benefits of the increased availability will exceed the public benefits that would arise from not lessening competition.

Application of the Washington Competitive Standards

As part of the Form A, the Applicant has filed an Analysis of the Potential Competitive Impact of a Proposed Merger or Acquisition by a Non-Domiciliary Insurer Doing Business in this State or by a Domestic Insurer ("Form E"). The Form E provides market share data for the Domestic Insurers and the Applicant and combined market share data for 17 lines of business that exceed Washington's statutory competitive standards. As part of our review of the Form E, RNA analyzed the 2007 market share data of the Domestic Insurers and the Applicant. Further, to ensure that the data of the Domestic Insurers and the Applicant was accurately prepared, we compared the total of the Washington direct written premium for each line of business in the 2007 NAIC Annual Statements for each of the Safeco and Liberty Mutual insurance subsidiaries to the data contained in the Form E. Based upon that review, the Form E data for the Safeco and Liberty Mutual insurance subsidiaries appears to be consistent.

Our analysis showed that two of 19 lines of business, product liability and burglary/theft, meet the initial thresholds noted above. Thus, the acquisition effects are not presumed to be anti-competitive in these lines.

The Form E notes that the acquisition will not constitute a prima facie violation of statutory competitive standards, nor is there a significant trend toward increased concentration as a result of the acquisition in the following six non-highly concentrated lines of business:

- Earthquake
- Homeowners Multi-Peril
- Other Liability
- Other Private Passenger Liability
- Private Passenger Auto Physical Damage
- Private Passenger No-Fault

Additionally, RNA's analysis indicates that for the workers' compensation line, the only highly concentrated line, the acquisition does not appear to be a prima facie violation of statutory competitive standards, nor does there appear to be a significant trend toward increased concentration based on statutory competitive standards.

The Form E and our analysis indicate that there is either a prima facie violation of statutory competitive standards, or that there is a significant trend toward increased concentration, or both, as a result of the proposed acquisition of the Domestic Insurers in the remaining following ten non-highly concentrated lines of business:

- Allied Lines
- Commercial Auto No-Fault
- Commercial Auto Physical Damage
- Commercial Multiple Peril (Liability)
- Commercial Multiple Peril (Non-Liability)
- Farmowners Multiple Peril
- Fire

- Inland Marine
- Other Commercial Auto Liability
- Surety

For each of these lines, the Applicant provided additional evidence to support the non-competitive effects in these ten lines including calculation of the Herfindahl-Hirschman Index ("HHI"), which is used by the Federal Trade Commission and the U.S. Department of Justice ("DOJ") in evaluating mergers and acquisitions. Liberty Mutual made the required Hart-Scott-Rodino filing with the DOJ on May 1, 2008. The statutory 30 day waiting period expired without extension, requests for more information, or other regulatory action by the DOJ, which ended its assessment of anti-trust issues under Federal Laws.

The HHI is calculated using a standard formula including the market shares of the Domestic Insurance and the Applicant. According to the HHI, a market is deemed to be non-concentrated, and unlikely to exhibit anti-competitive effects if the post-acquisition HHI is less than 1,000. When the HHI is greater than 1,000 but less than 1,800, the market is considered moderately concentrated. Increases in HHI of less than 100 points in moderately concentrated markets are unlikely to exhibit anti-competitive effects, while an increase of more than 100 points raises significant competitive concerns and requires further analysis. When the HHI is greater than 1,800, the market is considered to be highly concentrated with an increase of more than 50 points likely to exhibit anti-competitive effects.

The Form E notes that the ten non-highly concentrated lines of business have a post-acquisition HHI and an increase in HHI as follows:

Line of Business	Post-Acquisition HHI	Increase in HHI
Allied Lines	802	26
Commercial Auto No-Fault	915	84
Commercial Auto Physical Damage	711	96
Commercial Multiple Peril (Liability)	745	187
Commercial Multiple Peril (Non-Liability)	778	109
Farmowners Multiple Peril	1,147	108
Fire	748	90
Inland Marine	994	136
Other Commercial Auto Liability	725	181
Surety	1,205	104

In each of the above lines, except farmowners multiple peril and surety, the HHI is less than 1,000 and according to the formula, unlikely to exhibit anti-competitive effects. Further, in 2007, between 17 and 26 insurers have at least 1% market share in each of these eight lines.

For the farmowners multiple peril line, the HHI exceeds 1,000 and the increase in HHI is 108, which indicates significant competitive concerns, although the increase is barely over the 100 HHI increase guideline. In 2007, there were 13 insurers with at least 1% of the market, with three of the insurers having 10% or more of the market. The combined Liberty Mutual-Safeco market share would be the second largest in the market with 14.8% based on 2007 market shares. The line has been profitable for Liberty Mutual and, most likely, for its competitors. In addition, there has been significant movement by insurers in and out of the market share top ten during the past five years. For example, in 2003, three of the current top ten insurers, including Liberty Mutual, were not in the top ten.

Further, Liberty Mutual was able to increase its market share from less than 1% in 2003 to 6.6% in 2007. Also, in 2007, according to Liberty Mutual, there were several national insurers with significant experience in that line, who are not in the top 100 in the market and who have recently begun to aggressively grow their market shares. Interestingly, Safeco's presence in the market also is evidence of this movement with its market share decreasing substantially from 2003 to 2007. According to Safeco management, the decrease in its market share exemplifies the competitive nature of this market. These examples suggest the relative ease of entry and exit in that market, assuming that prospective entrants are licensed insurers in Washington and meet the statutory seasoning requirement of three years' of experience in that line of business.

For the surety line, the HHI exceeds 1,000, and the increase in HHI is 104, which indicates significant competitive concerns, although the increase is barely over the 100 HHI increase guideline. In 2007, there were 15 insurers with at least 1% of the market, with two insurers having 10% or more of the market. The combined Liberty Mutual-Safeco would be the second largest in the market with 20.8% based on 2007 market shares.

Surety is a specialty line, which has unique distribution characteristics in that approximately two-thirds of Liberty Mutual's Washington business in 2007 was produced outside of Washington, generally as part of national competitively bid contracts. We believe that this is likely indicative of other competitors' distribution patterns as well. Also, due to the uniqueness of the underwriting of such business, underwriters are heavily involved during the sales process. As such, management states that it is not uncommon for a group of underwriters to move from one insurer to another and take with them some or much of the business underwritten through them. The surety line has been profitable in Washington, and there has been significant movement by insurers in and out of the top ten market share during the past five years. For example, in 2003, four insurers, including Liberty Mutual, moved into the top ten during one or more subsequent years. Also, in 2007, according to Liberty Mutual, there are at least two national insurers with significant experience in this line, who are not in the top ten in the market and who could expand their Washington operations. These examples suggest the relative ease of entry and exit in that market. Finally, according to Liberty Mutual, two Washington-licensed competitors have recently begun to grow their national market shares.

Standard 2 Evaluation

After review and evaluation of the Form E filed by Liberty Mutual, market share data in each of the lines of business, and anecdotal evidence of recent changes, entries and exits in the farmowners multiple peril and surety lines of business, it does not appear that the effect of the acquisition of control of the Domestic Insurers would substantially lessen competition in Washington or tend to create a monopoly in the State.

Standard 3

The financial condition of the Applicant is such as might jeopardize the financial stability of the Domestic Insurers, or prejudice the interest of their policyholders.

Overview of Liberty Mutual

LMIC was formed in 1912 and was converted to a stock insurance company in connection with a mutual holding company reorganization that formed Liberty Mutual in 2001. Liberty Mutual constitutes a diversified global group of insurance companies, the sixth largest property and casualty insurance group in the United States based on 2007 direct written premium and 94th on the Fortune 500 list of largest corporations in the United States based on 2007 revenue. The mutual holding company structure provides Liberty Mutual with capital market access and the strategic flexibility to pursue acquisitions and alliances, while aligning its legal structure with its operating structure and preserving mutuality.

Functionally, Liberty Mutual conducts its business through four strategic business units ("SBUs"): Personal Markets, Commercial Markets, Agency Markets and International. Each SBU operates independently of the others and has dedicated sales, underwriting, claims, actuarial, financial, information technology and internal audit resources. Management states this structure allows each SBU to execute its business and acquisition strategy without impacting or disrupting the operations of the other SBUs. The following is a summary of the SBUs:

- Personal Markets writes numerous types of property and casualty insurance covering personal risks as well as traditional and variable life insurance and annuity products. The Personal Markets business unit distributes its products through approximately 1,800 licensed captive sales representatives, approximately 500 licensed direct response sales counselors, approximately 1,050 licensed life insurance agents affiliated with Prudential Financial, Inc., and the Internet.

- Commercial Markets distributes its products through a variety of distribution channels, including a direct sales force, brokers and consultants. The Commercial Markets coverages include workers' compensation, commercial automobile, general liability (including product liability), group disability and life, commercial multiple peril and fire, assumed voluntary reinsurance, and other coverages.

- Agency Markets consists of regional and specialty property and casualty insurance companies distributing personal and small business commercial products and services, primarily through independent agents throughout the United States. Through eight regional insurance companies, Agency Markets combines a locally-branded, service-oriented regional presence with the cost efficiencies of a national organization. In addition, the specialty products group provides nationwide commercial surety and fidelity bonds as well as excess casualty coverage. Liberty Mutual plans to integrate Safeco into the Agency Markets SBU.

- International provides insurance products and services through two distinct approaches: local businesses and Liberty International Underwriters ("LIU"). International's local business operations consist of local insurance company operations selling traditional property, casualty and life insurance products to individuals and small businesses in countries with a large and growing middle class. LIU writes casualty, specialty casualty, marine, energy, engineering, construction and aviation coverages through offices in Asia, Australia, Europe, the Middle East and North America. Another component of LIU is Lloyd's Syndicate 4472, which provides multi-line insurance and reinsurance, including property catastrophe reinsurance, on a worldwide basis.

The consolidated financial statements of Liberty Mutual have been audited by Ernst & Young LLP as of December 31, 2007 and 2006, and for each of the three years in the period ended December 31, 2007. The 2007 audit opinion dated February 15, 2008 is unqualified. The audited financial statements were prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). Liberty Mutual reported $94,679 million in assets, $82,313 million in liabilities, and $12,366 million in policyholders' equity as of December 31, 2007.

Results of Operations of Liberty Mutual for the Six Months Ended June 30, 2008 (based upon unaudited consolidated GAAP financial statements)

For the six months ended June 30, 2008, Liberty Mutual reported earned premiums, net investment income, net realized investment losses, fees and other revenues of $13.8 billion, an increase of 11.2% from the same period in 2007. Liberty Mutual also reported $660 million in net income for the six months ended June 30, 2008, a decrease of $29 million or 4.2% from the same period in 2007.

Cash flow from operations for the six months ended June 30, 2008 was $1,692 million, a decrease of $104 million or 5.8% from the same period in 2007. The combined ratio before catastrophes and net incurred losses attributable to prior years, for the six months ended June 30, 2008 was 98.5%, an increase of 0.7 points over the same period in 2007. When including the impact of catastrophes and net incurred losses attributable to prior years, the combined ratio for the six months ended June 30, 2008 was 101.3%, an increase of 0.7 points over the same period in 2007.

The Agency Markets SBU, which is the SBU that Liberty Mutual plans to integrate Safeco into, reported net premium written of $3,177 million for the six months ended June 30, 2008, an increase of $700 million or 28.3% from the same period in 2007. Management states the increase reflects the impact of the 2007 Ohio Casualty Insurance Company ("OCIS") acquisition, increasing personal lines business retention, and increases in new business. The Agency Markets' combined ratio before catastrophes and net incurred losses attributable to prior years for the six months ended June 30, 2008 was 100.9%, an increase of 2.5 points over the same period in 2007. Management indicates that the increase in the combined ratio reflects a higher claims and claim adjustment expense ratio due primarily to an increase in non-catastrophe property losses and higher auto physical damage losses due to an increase in claims frequency. In addition, the increase in the underwriting expense ratio reflects the impact of one-time integration costs associated with the OCIS acquisition, primarily related to systems integration partially offset by a decrease in premium taxes. Including the impact of catastrophes and net incurred losses attributable to prior years, the total combined ratio for the six months ended June 30, 2008 was 102.3%, an increase of 5.0 points over the same period in 2007. The increase in the combined ratio primarily reflects the previously discussed changes in the claims and claims adjustment expense ratios and the underwriting expense ratio combined with higher catastrophe losses.

Financial Condition of Liberty Mutual as of June 30, 2008 (based upon unaudited consolidated GAAP financial statements as of June 30, 2008)

As of June 30, 2008, Liberty Mutual reported $99,877 million in assets, $87,612 million in liabilities, and $12,265 million in policyholders' equity in its unaudited consolidated GAAP financial statements.

Cash and invested assets

As of June 30, 2008, invested assets and cash and cash equivalents represent $60,199 million or 60.3% of Liberty Mutual's assets.

The following table summarizes Liberty Mutual's invested assets by category as of June 30, 2008 and December 31, 2007:

	June 30, 2008 ($ in millions)		December 31, 2007 ($ in millions)	
Invested Assets by Type	**Carrying Value**	**% of Total**	**Carrying Value**	**% of Total**
Fixed maturities available for sale, fair value	$44,145	73.3	$46,934	82.1
Equity securities available for sale, fair value	2,394	4.0	3,285	5.7
Trading securities, fair value	17	-	16	-
Limited partnerships and limited liability companies	2,475	4.1	2,134	3.7
Commercial mortgage loans	912	1.5	657	1.2
Short-term investments	901	1.5	764	1.3
Other investments	228	0.4	214	0.4
Cash and cash equivalents	9,127	15.2	3,199	5.6
Total invested assets	$60,199	100.0%	$57,203	100.0%

Invested assets as of June 30, 2008 were $60,199 million, an increase of $2,996 million or 5.2% from December 31, 2007. Management notes that the increase in invested assets primarily reflects the investment of cash flows from operations, proceeds from a May 2008 debt issuance, and investment income. Partially offsetting these increases is an increase in unrealized losses primarily due to an increase in credit spreads and a general decline in market values related to both fixed income and equity markets. Separately, the Company's cash balances grew significantly in the second quarter due to the planned liquidation of securities to fund the Safeco acquisition.

The following table summarizes Liberty Mutual's allocation of fixed maturities by credit quality as of June 30, 2008 and December 31, 2007:

	June 30, 2008 ($ in millions)		**December 31, 2007 ($ in millions)**	
Fixed Maturities by Credit Quality	**Market Value**	**% of Total**	**Market Value**	**% of Total**
AAA	$20,423	46.2	$24,576	52.4
AA+, AA, AA-	8,345	18.9	7,586	16.2
A+, A, A-	7,575	17.2	7,196	15.3
BBB+, BBB, BBB-	4,635	10.5	4,405	9.4
BB+, BB, BB-	1,844	4.2	1,797	3.8
B+, B, B-	1,051	2.4	1,165	2.5
CCC or lower	272	0.6	209	0.4
Total fixed maturities	$44,145	100.0%	$ 46,934	100.0%

The allocation to investment grade securities credit quality (BBB- and higher) is primarily based upon Standard & Poor's ("S&P") ratings as reported by Liberty Mutual. The percentage of investment grade securities decreased to 92.8% at June 30, 2008 from 93.3% December 31, 2007 reflecting the liquidation of securities in the second quarter in anticipation of the Safeco acquisition funding.

Liberty Mutual had 7.2% of its fixed maturity securities invested in non-investment grade securities at June 30, 2008. Its holdings of below investment grade securities primarily consist of: (1) an actively managed diversified portfolio of high yield securities and loans within the domestic insurance portfolios; and (2) investments in emerging market sovereign and corporate debt, primarily in support of its international insurance companies. Management states that as of

June 30, 2008, Liberty Mutual's exposure to sub-prime securities was minor ($74 million or 0.12% of invested assets). Its alt-A mortgage collateral ($170 million or 0.28% of invested assets) was primarily AAA rated.

Reinsurance recoverables

Liberty Mutual reported reinsurance recoverables of $15,272 million, or 15.3% of total assets, and $15,518 million, or 16.4% of total assets, as of June 30, 2008 and December 31, 2007, respectively, net of allowance for doubtful accounts. Reinsurance recoverables decreased $246 million or 1.6% from December 31, 2007. Management indicates that the decrease is primarily due to the ongoing settlement of 2005 hurricane claims. As part of its reinsurance security oversight, Liberty Mutual states it has established a Reinsurance Credit Committee ("Reinsurance Committee") of management that meets quarterly to monitor and review the credit quality of the existing reinsurance portfolio, discuss emerging trends in the reinsurance marketplace, and ensure that the current portfolio of reinsurance is in compliance with the Reinsurance Committee's security standards. Management states that approximately 96% of Liberty Mutual's reinsurance recoverable balance, net of collateral held and including voluntary and involuntary pools and associations, was placed with reinsurers rated A- or better by A.M. Best at June 30, 2008. Collateral held against outstanding gross reinsurance recoverable balances was $4,663 million and $4,584 million at June 30, 2008 and December 31, 2007, respectively. The remaining 4% of Liberty Mutual's net reinsurance recoverable balance is well-diversified. No single reinsurer rated B++ or below by A.M. Best accounts for more than 1% of statutory surplus as regards policyholders. In addition, the average net reinsurance recoverable balance from individual reinsurers rated below A- or not rated by A.M. Best was approximately $1 million as of June 30, 2008.

Premium and other receivables

Liberty Mutual reported premium and other receivables of $7,162 million, or 7.2% of total assets, and $6,491 million, or 6.9% of total assets, as of June 30, 2008 and December 31, 2007, respectively, net of allowance for doubtful accounts. The receivable balance increased $671 million or 10.3% from December 31, 2007. The increase is consistent with Liberty Mutual's growth in premium written in the first six months of 2008.

All other assets

Liberty Mutual's remaining asset categories consists of deferred taxes, deferred acquisition costs, goodwill, prepaid reinsurance premiums, separate account assets related to its life insurance business, and various non-premium related receivables, property and equipment and other assets. Each of the June 30, 2008 balances in these categories is materially comparable to its December 31, 2007 balance.

Unpaid claims and claim adjustment expenses

Liberty Mutual reported reserves for property and casualty unpaid claim and claims adjustment expense reserves of $44,005 million, or 50.2% of total liabilities, and $42,992 million, or 52.2% of total liabilities, as of June 30, 2008 and December 31, 2007, respectively. Property and casualty insurance unpaid claims and claim adjustment expenses represent Liberty Mutual's best estimate of amounts necessary to settle all outstanding claims, including claims that are incurred but not reported. Such reserves increased $1,013 million or 2.4% from December 31, 2007. Management states the increase was primarily due to business growth less the on-going settlement of claims. Included in such reserves are asbestos and environmental reserves for unpaid claims and claim adjustment expenses of $1,255 million and $1,334 million as of June 30, 2008 and December 31, 2007, respectively, net of reinsurance and the allowance for uncollectible reinsurance. The year-to-date decrease was due primarily to ongoing settlement activity of asbestos and environmental claims.

Long-term debt

Long-term debt outstanding as of June 30, 2008 and December 31, 2007 was as follows:

Long-term Debt	June 30, 2008 ($ in millions)	December 31, 2007 ($ in millions)
8.00% Senior notes, due 2013	$260	$260
7.86% Medium-term notes, due 2013	25	25
5.75% Senior notes, due 2014	500	500
7.30% Senior notes, due 2014	200	200
6.70% Senior notes, due 2016	250	250
7.00% Subordinated notes, due 2067[1]	300	300
8.50% Surplus notes, due 2025	150	150
7.875% Surplus notes, due 2026	250	250
7.63% Senior notes, due 2028	3	3
7.00% Senior notes, due 2034	250	250
6.50% Senior notes, due 2035	500	500
7.50% Senior notes, due 2036	500	500
7.80% Subordinated notes, due 2087[2]	700	700
10.75% Subordinated notes due 2088[3]	1,250	-
7.697% Surplus notes, due 2097	500	500
Subtotal	5,638	4,388
Unamortized discount[4]	(55)	(28)
Total long-term debt	$5,583	$4,360

[1] Series B par value notes, call date and final fixed rate interest payment date are March 15, 2017, subject to certain requirements.
[2] Series A par value notes, call date and final fixed rate interest payment date are March 15, 2037, subject to certain requirements.
[3] Series C par value notes, call date and final fixed rate interest payment date are June 15, 2038, subject to certain requirements.
[4] Reflects purchase accounting adjustment related to OCIS $200 million senior notes, due 2014.

LMGI issued $1.25 billion Series C Notes in the capital markets under an indenture agreement dated May 29, 2008 among LMGI, as issuer, LMHC and

LHMC MA, as guarantors, and the Bank of New York Trust Company, N.A., as trustee. The Series C Notes were offered to qualified institutional investors pursuant to Rule 144A of the Securities Act of 1933, and were issued in minimum denominations of $2,000 and multiples of $1,000 in excess thereof. As stated in the Form A, proceeds from the Series C Notes combined with other sources of cash will fund the Safeco acquisition.

The Series C Notes are scheduled for redemption on June 15, 2058 with a final maturity of June 15, 2088. LMGI may redeem the Series C Notes, in whole or in part, on June 15, 2038 and on each interest payment date thereafter at their principal amount plus accrued and unpaid interest to the date of redemption, or prior to June 15, 2038, (i) in whole or in part at any time at their principal amount or, if greater, a make-whole price, or (ii) in certain circumstances, in whole at their principal amount plus accrued and unpaid interest to the date of redemption or, if greater, a special event make-whole price. Interest is payable semi-annually at a fixed rate of 10.75% up to, but excluding, the final fixed rate interest payment date. In the event the Series C Notes are not redeemed on or before the final fixed rate interest payment date, interest will accrue at an annual rate of three-month LIBOR plus 7.12%, payable quarterly in arrears. LMGI has the right to defer interest payments on the Series C Notes for a period up to ten years. Interest compounds during periods of deferral. In connection with the issuance of the Series C Notes, LMGI entered into a replacement capital covenant ("RCC"). As part of the RCC, LMGI agreed that it will not repay, redeem, defease or purchase the Series C Notes on or before the relevant RCC termination date unless, subject to certain limitations, it has received proceeds from the sale of specified capital securities. The RCC will terminate upon the occurrence of certain events, including acceleration under the terms of the Series C Notes, and may not be enforced by the holders of the Series C Notes. The holders of the 7.50% senior notes due 2036 are the initial beneficiaries of the RCC.

The Series C Notes are subordinated to all LMGI existing and future senior and subordinated debt, except for any trade accounts payable and accrued liabilities arising in the ordinary course of business. The Series C Notes are also subordinate to any existing and future debt that, by its terms, is not superior in the right of payment. The Series C Notes are pari passu with the $700 million and $300 million in aggregate principal amount of LMGI Series A and B Notes, respectively, issued in March 2007. The structure of the Series C Notes also makes them subordinated to all liabilities of LMGI's subsidiaries. The Series C Notes are further guaranteed on a junior subordinated basis by LMHC and LHMC MA.

All other liabilities

Liberty Mutual's remaining liability categories consists of reserves for future policy benefits on its life insurance business, unearned premiums, funds held under reinsurance treaties, separate account liabilities related to its life insurance business, and various accruals, payables and other liabilities. Each of the June 30, 2008 balances in these categories is materially comparable to its December 31, 2007 balance.

Liberty Mutual's Liquidity and Risk-based Capital

Liquidity

Liberty Mutual conducts substantially all of its operations through its wholly-owned insurance and service company subsidiaries, and therefore is primarily dependent on dividends, distributions, loans or other payments of funds from these entities to meet its current and future obligations. However, the subsidiaries are separate and distinct legal entities and have no obligation to make funds available to Liberty Mutual, whether in the form of loans, dividends or other distributions. As of June 30, 2008, Liberty Mutual, through its downstream subsidiary LMGI, had $4,538 million of debt outstanding, excluding discount. Liberty Mutual's remaining debt of $1,100 million is held downstream by subsidiaries that are owned by LMGI.

The liquidity requirements of the insurance subsidiaries are met primarily by funds generated from operations, asset maturities and income received on investments. Cash provided from these sources is used primarily for claims, claim adjustment expenses and operating expenses, such as underwriting and corporate benefit costs. There are certain cash outflows such as catastrophes and continued settlements of asbestos reserves that are unpredictable in nature and could create increased liquidity needs. Liberty Mutual states that it believes its insurance subsidiaries' future liquidity needs will be met from all the above sources. The insurance subsidiaries' ability to pay dividends is restricted under applicable states' insurance laws. Under the insurance laws of the domiciliary states of the insurance subsidiaries, an insurer may make an ordinary dividend payment if its surplus as regards to policyholders, following such dividend, is reasonable in relation to its outstanding liabilities and adequate for its financial needs. However, no insurer may pay an extraordinary dividend, as defined in applicable states' insurance laws, without the approval or non-disapproval of the domiciliary insurance regulatory authority. As stated in the Form A, during the second quarter of 2008, Liberty Mutual caused dividends from various operating subsidiaries to be declared and paid of approximately $672 million. Such dividends combined with other sources of cash will be used to fund the Safeco acquisition. In addition, as required, regulatory notice was given and/or approval or non-disapproval was obtained for such dividends. RNA requested Liberty Mutual to prepare pro-forma analyses as of June 30, 2008 of such subsidiaries' liquidity ratio, as defined by the NAIC and known as IRIS Ratio Number 9 - Adjusted Liabilities to Liquid Assets. In all cases the pro-forma ratio result was well below the NAIC benchmark ratio maximum of 105%.

Risk-based Capital

The NAIC adopted risk-based capital requirements for insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks associated with asset quality, asset and liability matching, and other business factors. The NAIC risk-based capital system has two main components: 1) the risk-based capital formula, that establishes a hypothetical minimum capital level, known as "authorized control level," that is compared to a company's total adjusted capital and 2) a risk-based capital model law that grants automatic authority to the state insurance regulator to take specific regulatory actions based on the level of impairment as defined in the NAIC model law. Liberty Mutual's legal entity structure is such that substantially all of its downstream insurance operating companies are owned by LMGI's three principal insurance subsidiaries - LMIC, Liberty Mutual Fire Insurance Company ("LMFIC") and Employers Insurance Company of Wausau ("EICOW"). As of December 31, 2007, the three principal operating subsidiaries exceeded the levels of authorized control level risk-based capital, as defined by the NAIC that would require company or regulatory action. The risk-based capital ratios of LMGI's three principal operating subsidiaries' reported in their 2007 NAIC Annual Statements were as follows: LMIC's risk-based capital ratio was 519%, LMFIC's risk-based capital ratio was 507%, and EICOW's risk-based capital ratio was 516%.

RNA requested that Liberty Mutual prepare pro-forma analyses of LMIC's risk-based capital ratio as of December 31, 2008 assuming that the Safeco acquisition had taken place during 2008 with no material changes in either company. We did not request a similar pro-forma analysis for LMFIC or EICOW, since those entities are not anticipated to have an investment in Safeco that would materially affect their risk-based capital. Based on the results of the pro-forma analysis, LMIC's risk-based capital ratio would decrease 97 points when including Safeco as an LMIC subsidiary, but remains well above the statutory minimum levels requiring company or regulatory action. The decrease in LMIC's risk-based capital is primarily the result of statutory accounting for goodwill that must be non-admitted and can not be included in LMIC's capital for risk-based capital purposes. In addition, RNA requested LMIC to perform several scenario tests of its pro-forma risk-based capital ratio for the years 2008 - 2010 assuming adverse events such as various increases in loss ratios, expense ratios, occurrence of a catastrophe loss, declines in the stock market valuation of investments, and declines in fixed income investment yields. The scenario tests were also performed assuming the scenarios occurred individually or in various combinations together. In all cases, the results indicate LMIC would maintain its risk-based capital ratio well above statutory minimums.

Rating Agencies' Ratings of Liberty Mutual and Its Principal Subsidiary

Liberty Mutual's insurer financial strength and debt ratings from Moody's, S&P, and A.M. Best are as follows:

	Moody's	S&P	A.M. Best
Financial Strength Ratings			
LMIC	A2	A	A
Debt Ratings			
LMGI:			
Senior unsecured notes	Baa2	BBB	bbb
Junior subordinated notes	Baa3	BB+	bb+
Medium-term notes	Baa1	A	a-
Commercial paper	Prime-2	A-1	AMB-1
LMIC Surplus notes	Baa2	BBB+	bbb+
OCIS Senior unsecured notes	Baa2	BBB	bbb

Following the announcement of the proposed Safeco acquisition, Moody's affirmed its ratings of Liberty Mutual. According to Moody's, the ratings were affirmed "because the acquisition represents a sound strategic move for Liberty Mutual that will further strengthen the group's Agency Markets franchise and its presence in California and the Pacific Northwest regions, as well as surety, and that will bring further balance between the group's commercial and personal lines operations." Moody's outlook for all of LMGI's long-term ratings was changed to negative from stable. Moody's noted that the change "is primarily driven by the decrease in Liberty Mutual's financial flexibility and capital adequacy measures that will result from the significant use of internal resources to finance the acquisition."

S&P placed LMGI's counterparty credit and financial strength ratings on CreditWatch negative. S&P noted it expects to either affirm or lower its ratings on Liberty Mutual "once we have completed our analysis of Liberty's operating company capitalization as of year end 2007 and pro forma for the acquisition of Safeco. In addition, we expect to meet with management to discuss in more detail their plans for integrating Safeco into Agency Markets, the new management structure, and the anticipated impact on Liberty's financial results." Management states that they recently met with S&P and that S&P has not made any rating announcements since the meeting took place.

A.M. Best affirmed its ratings of Liberty Mutual. In addition, A.M. Best states the outlook is stable noting "with the acquisition of Safeco, LMGI is purchasing a consistently profitable book of business as a regional provider of property and casualty insurance products predominantly in western states. The transaction assists Liberty Insurance Holdings pool in achieving personal lines scale through enhanced product and geographic diversification while improving the independent agency distribution network...Post transaction, Liberty Mutual will have limited financial flexibility for future events relative to its ratings based on current financial leverage measures."

Liberty Mutual's Insurance Subsidiaries' Financial Examination Results

RNA has reviewed the financial examination reports of Liberty Mutual insurance subsidiaries for any evidence of adverse financial policies, practices and procedures which may be detrimental to the Domestic Insurers. In that regard, RNA reviewed ten recent financial condition examination reports of Liberty Mutual insurance subsidiaries issued since 2004 by eight state insurance regulators to note whether they identified violations of state laws and regulations or other accounting deficiencies. Several of the examination reports made comments or recommendations regarding the accounting for and/or settlement practices related to intercompany management or services agreements. Management indicated that Liberty Mutual has recently completed a project to update all of its intercompany management and services agreements to ensure they comply with recent statutory accounting guidance effective December 31, 2007. Such guidance requires that intercompany balances be settled within 90 days from the due date in written agreements. Moreover, Liberty Mutual states it has adopted procedures to monitor the timely settlement of intercompany balances among its affiliates. A California Department of Insurance ("CDI") examination report noted that the previous examination report was not presented to the Board of Directors ("Board") as required. Liberty Mutual states that it has established procedures to ensure all examination reports are presented to the Board and acknowledged as required by states' laws. RNA believes that it is reasonable to accept these management responses, and further, we found no evidence in the examination reports or Liberty Mutual's responses that indicate the Applicant would implement accounting policies and procedures that would be detrimental to the Domestic Insurers.

Standard 3 Evaluation

Based upon our analyses of publicly available information, review of documentation provided to us and our discussions with the management of Liberty Mutual and Safeco, Liberty Mutual is a well-capitalized and profitable mutual insurance holding company. We have found no evidence that the financial condition of the Applicant might jeopardize the financial stability of the Domestic Insurers, or prejudice the interest of their policyholders.

Standard 4

The plans or proposals that the Applicant has to liquidate the Domestic Insurers, sell their assets, consolidate or merge them with any person, or to make any other material change in their business or corporate structure or management, are unfair and unreasonable to policyholders of the Domestic Insurers and not in the public interest.

Liberty Mutual's Financing of the Acquisition

LMIC will purchase Safeco for approximately $6.2 billion according to the proxy materials filed by Safeco with the U.S. Securities Exchange Commission on June 25, 2008, and as noted in the Form A as filed by Liberty Mutual on May 16, 2008 and subsequently amended August 1, 2008.

Liberty Mutual anticipates the cash needed to complete the transaction will be approximately $6.35 billion. Liberty Mutual intends to finance the transaction using a combination of cash on hand of approximately $1.42 billion, forecasted additional cash flow of $.25 billion, $3.46 billion proceeds from the liquidation of existing invested assets, and $1.22 billion net proceeds from the Series C Notes issued by LMGI through the capital markets on May 29, 2008. LMGI intends to contribute these proceeds down the chain of control to LIH US as an investment in a subsidiary.

Liquidation of Existing Investments and Dividends from Subsidiaries

Subsequent to completing the Merger Agreement in April of 2008 through June 30, 2008, Liberty Mutual implemented the orderly liquidation of approximately $3.11 billion of fixed income and equity securities held by various subsidiaries. Liberty Mutual intends to similarly liquidate approximately $.35 billion of additional invested assets prior to closing the transaction. As noted in LMHC's

June 30, 2008 consolidated financial statements, the liquidation of such investments during the second quarter did not result in material realized gains or losses to LMHC, as the investment proceeds from the sales approximated LMHC's book value. In addition, during the second quarter of 2008, LMHC caused dividends from various operating subsidiaries to be declared and paid of approximately $672 million. As required, regulatory notice was given and/or approval or non-disapproval was obtained for such dividends. Following the completion of the aforementioned transactions, LMGI and LIH US is expected to have adequate liquidity to fund the entire proposed acquisition. LMHC reported cash and cash equivalents of $9.1 billion in its June 30, 2008 consolidated balance sheet.

LMHC's Pro-forma Capital Structure

The following table shows LMHC's current debt obligations and policyholders' equity as of June 30, 2008, based upon its unaudited GAAP financial statements and the financing of the transaction described above. The pro-forma amounts assume the proposed acquisition was completed as of June 30, 2008:

Source of Capital	**Pro- Forma Capitalization June 30, 2008 ($ in millions)**		
	Safeco	**LMHC**	**Pro-Forma**
Total debt	$504	$5,601	$6,105
Existing hybrid debt at 12/31/07	-	1,000	1,000
Series C Notes issued May 2008	-	1,250	1,250
Adjusted debt	504	3,351	3,855
GAAP equity	3,385	12,265	12,265
Hybrid equity	-	2,250	2,250
Total equity	3,385	14,515	14,515
Total capital	$3,889	$17,866	$18,370
Debt to capital ratio	12.9%	18.8%	21.0%

The pro-forma financial leverage ratio is generally considered within an acceptable range by rating agencies, however, we note the ratio is at the higher end of comparable ratios for Liberty Mutual's peer group as shown in the following table:

Debt to Capital Ratio Peer Group Comparables	As of June 30, 2008
Safeco Corporation	13.0%
The Travelers Companies	16.5%
Progressive Corporation	17.0%
CNA Financial Corporation	17.7%
Allstate Corporation	18.4%
The Chubb Corporation	18.5%
Liberty Mutual (pro-forma)	21.0%
Hartford Financial Services	24.0%

LMGI's Operating Subsidiaries' Dividend Capacity

Substantially all of LMGI's debt is long-term with fixed interest rates and no material principal maturities due until 2013 and 2014 when debt matures of approximately $260 million and $700 million, respectively. The Safeco debt to be assumed also has fixed interest rates with $300 million maturing in 2010 and $204 million maturing in 2012. Thus, for the next five years, LMGI's debt service obligations, including the newly issued Series C Notes, are primarily the fixed interest charges that are forecasted to approximate $452 million in 2008 and $508 million in the following years. Management states that its earnings and cash flows are expected to be sufficient to meet its debt service requirements. Using 2007 consolidated GAAP earnings before interest and taxes ("EBIT") of $2,518 million, Liberty Mutual's interest coverage ratio of EBIT to interest expense approximates five times (5x) the forecasted interest expense assuming no future growth in EBIT. We note such interest coverage ratio is within an acceptable range used by rating agencies and generally comparable to Liberty Mutual's industry peers. In addition, management states that no extraordinary dividends will be needed from its operating subsidiaries to meet its debt service needs. Liberty Mutual disclosed in its 2007 audited financial statements that the maximum dividend payout in 2008 that may be made from its insurance subsidiaries without prior regulatory approval is $1,400 million, which approximates three times (3x) forecasted 2008 interest expense. Management states that it expects to maintain dividend payout patterns consistent with historical levels for both the Liberty Mutual and Safeco operating subsidiaries. In addition, LMGI also has access to funds at Liberty Corporate Services LLC ("Corporate Services"). Through its subsidiaries, Corporate Services collects fees and other revenues, primarily for claims administration and agency services rendered for affiliated and non-affiliated entities. Management states that for the six months ended June 30, 2008, Corporate Services recorded $132 million in pre-tax income.

Review of Proposed Intercompany Agreements

The Form A includes several proposed intercompany agreements between Liberty Mutual affiliates and the Domestic Insurers. The Applicant seeks approval of the intercompany agreements in connection with the Form A. If the Form A is approved, the agreements need the OIC's approval, or non-disapproval, pursuant to Washington's holding company statutes. The intercompany agreements cover various services by and among Liberty Mutual affiliates related to investment management, cash management, Federal tax sharing, and management services. RNA reviewed the agreements noting the terms and conditions appear to be customary and reasonable for members of insurance holding company groups. We specifically noted that the costs for cash and investment management services are to be charged based upon a percentage of assets managed. The Federal tax sharing agreement requires tax allocations among affiliates be accounted for in accordance with statutory accounting principles. The management services agreement requires shared services be allocated among affiliates in accordance with statutory accounting agreements. In addition, all of the agreements have provisions requiring the timely billing and settlement of balances due or payable under terms of the agreements in accordance with statutory accounting principles.

Future Plans of Non-Financial Operations

The Form A states that the Safeco brand will be retained, and that over time, it will become the primary platform for Agency Markets SBU personal lines products. Liberty Mutual did not comment on its plans for branding of commercial products and whether it plans to use the Safeco brand and platform for commercial lines including its surety line. RNA interviewed and inquired of Liberty Mutual and Safeco management regarding specific non-financial plans for the Domestic Insurers' operations. Both Liberty Mutual and Safeco management stressed that they intend to continue to conduct the business of insurance using fair and reasonable business practices and to continue to operate Safeco in a manner which ensures that its policyholders and claimants are timely and properly serviced. The integration of the two insurers is expected to have significant impact on policyholders, claimants, agents, the Safeco workforce and the general public.

Liberty Mutual and Safeco have begun planning the integration of the two insurers' operations and have stated that few specific operational decisions have been made since both must comply with U.S. anti-trust laws and regulations, which prohibit collusion among competitors. However, the Form A does suggests that some claims handling changes will be made. The Form A notes that for any claim that is assigned to a new claims handler, the forwarding office will send notice of the transfer and provide the name of the new contact person to all involved parties. In addition, for bodily injury claims, the Form A states that the claims handler will document all time sensitive tasks in a report to be provided to the new claims handler.

To provide context and understanding of Safeco's operations, we have evaluated Safeco's current market conduct practices and complaint handling efforts. Additionally, since the proposed acquisition is likely to have a significant effect in these areas, we have evaluated Liberty Mutual insurance subsidiaries' market conduct practices, handling of Washington complaints and customer claim survey efforts for any evidence of practices that may be unfair to consumers and customers or short of industry best practices. Finally, we have inquired about the effect of the integration on Safeco's agents, workforce and the Safeco Insurance Foundation ("Foundation") and have evaluated the limited information received.

Safeco Insurance Subsidiaries' Market Conduct Examination Results

To provide an understanding of Safeco's current market conduct practices, RNA reviewed 25 recent market conduct examination reports of Safeco insurance subsidiaries issued since 2003 by 17 state insurance regulators to note whether they have identified violations of state laws and regulations or other deficiencies. Several examination reports noted processing errors or statutory violations in claims, underwriting and producer-related areas. Safeco management responded that with regard to claims, proper procedures have been reinforced with claims examiners, training has been conducted, and follow up audits and peer reviews have been performed. Further, they stressed that corrective changes have been made with regard to cancellation and non-renewal processes and procedures implemented to ensure that underwriting guidelines are properly followed. Finally, management stated that workflow procedures for proper producer licensing prior to appointment have been implemented and that compliance audits have been conducted to ensure adherence to required practices. Management stated that it believes that it has satisfactorily addressed any market conduct deficiencies.

LHMC Insurance Subsidiaries' Market Conduct Examination Results

RNA has reviewed the market conduct practices of the Liberty Mutual insurance subsidiaries for any evidence of adverse policies, practices and procedures with regard to policyholders and third-party claimants, which may be detrimental to the Domestic Insurers. In that regard, RNA reviewed eight recent market conduct examination reports of the Liberty Mutual insurance subsidiaries issued since 2004 by five state insurance regulators to note whether they have identified violations of state laws and regulations or other deficiencies. Six examination reports noted minimal or no violations of laws, regulations or other deficiencies. However, two examination reports indicated violations of insurance laws related to claims and underwriting.

First, the CDI issued an examination report as of August 31, 2006 on three Liberty Mutual subsidiaries, Golden Eagle Insurance Corporation, The Netherlands Insurance Company, and Peerless Insurance Company. The report notes 116 commercial automobile and 33 commercial multiple peril claims citations including claims handling violations, failure to provide claims handling disclosures, claim settlement delays/violations and claims documentation deficiencies. Liberty Mutual agreed with the conclusions in the report and states that it has taken actions to fix the deficiencies including providing restitution on the claims violations noted, conducting training to claims adjustors and processors and sharing the results of the examination throughout Liberty Mutual's claims processing units. Management stated that it believes that the CDI is satisfied with the remediation actions taken and has stated that the CDI has not indicated it has plans to reexamine these companies in the near future. Further, no fines or penalties were levied by the CDI. Finally, Liberty Mutual stated that its internal audit function is monitoring claims handling procedures for statutory violations and other deficiencies.

Second, the Rhode Island Insurance Division ("RIID") issued a market conduct examination report of LMFIC dated June 30, 2006. The report revealed several claims and cancellation violations. Regarding homeowners claims, the report noted the failure to acknowledge the receipt of claims in writing within ten days and the failure to provide written notice of a claim denial within 15 days of receiving proof of loss. In addition, the report observed statutory violations of cancellation procedures including the requirement to provide policyholders 30 days notice for homeowners cancellations and certain disclosures for private passenger automobile cancellations. The examination report recommended that LMFIC monitor claims processing to comply with Rhode Island Laws and regulations and advise claims processing personnel of these violations and requirements. Liberty Mutual management stated that claims processing deficiencies have been corrected and the recommended actions have been implemented. No fines or penalties were levied by the RIID. Finally, Liberty Mutual indicated that its internal audit function is monitoring claims handling and cancellation procedures for statutory violations and other deficiencies.

Since management has stated that process improvements have been made, and based upon the lack of follow up examinations by the CDI and the RIID, RNA believes that it is reasonable to accept these management responses. Moreover, the continued OIC monitoring of complaint activity should enable it to evaluate the Applicant's claims handling and cancellation/non-renewal procedures for any indications of violations or concerns.

Safeco Complaint Handling

To gain an understanding of Safeco's current complaint handling practices, RNA reviewed Safeco's Washington complaint handling procedures and complaint activity for indications of changes in complaint activity and any unusual results. Safeco's complaints are handled by seven employees in Seattle, who report to Safeco's Senior Associate General Counsel. Our review indicates that the number of 2008 complaints, including those taken by the OIC and those taken directly by Safeco, has increased by approximately 68% compared to 2007 complaints. Our discussions with Safeco management revealed that the increase is primarily due to Safeco broadening its definition of a complaint effective January 1, 2008 and, thus complaint statistics, to include complaints taken by phone or email. Previously, such complaints were handled by customer service but were excluded from complaint statistics. The change in definition resulted in including 58 additional complaints in 2008 statistics that would not have been included in 2007. Additionally, there has been a slight increase in complaints regarding use of credit in underwriting due to the use of a new consumer disclosure notice, which caused some confusion with policyholders. Safeco has subsequently amended its procedures and the consumer disclosure notice to make the disclosure more clear. Safeco has also noted additional complaints regarding rate increases as a result of a private passenger automobile rate increase in early 2008. Finally, Safeco noted an increase in claims complaints regarding unsatisfactory settlement. Safeco stated it is investigating the root causes of the claims complaints, but is not aware of any claims handling procedure changes, which could be causing the complaints. Management also stated that the increase may be the result of claims and complaint seasonality, with the volume of both slightly higher in the first quarter due to weather and deferrals from the filing of claims from the holiday season. Safeco management indicated that they are working with Liberty Mutual management to coordinate complaint handling to ensure a smooth transition during integration.

LMHC Complaint Handling and Claim Service Surveys

Liberty Mutual has a centralized complaint handling structure that includes a Presidential Services Team of eight employees in Boston who coordinate complaint responses, monitor complaint trends and evaluate root causes of such complaints. Management stated that their nationwide complaint statistics show a decrease of 8% in the number of complaints between 2006 and 2007 and an annualized decrease of 2% in the number of complaints between 2007 and 2008. Management noted that its time standard for answering complaints is ten days, or less in cases where the regulatory timeframe requires a quicker response. Management indicated that for 2008, the average number of days to answer complaints is approximately seven days.

The Form A notes that Liberty Mutual has assigned its Manager Consumer Affairs as the key point person for Safeco-related complaints during the integration of complaint operations. Liberty Mutual also stated that it has met with Safeco to discuss Liberty Mutual's complaint handling record retention requirements and the location of complaint files. Liberty Mutual has requested complaint summaries from Safeco to analyze complaint volume and trends to effectively and timely handle complaints. If the Form A is approved, immediately after closing, Liberty Mutual will notify state regulators of the contact person within the Presidential Service Team who will be handling Safeco complaints. Within the Form A, Liberty Mutual commits to adding necessary staff to properly address complaints and agrees to monitor complaint activity on a bi-weekly basis and share results with key managers to ensure a smooth transition. Consolidation of complaint reporting in Liberty Mutual's database is expected to occur January 1, 2009 to allow for staff training on system and complaint procedures.

RNA reviewed Washington complaint activity from January 1, 2006 to July 2, 2008 for the Liberty Mutual insurance subsidiaries for indications of problems or concerns. The OIC recently identified an increase in their private passenger automobile and homeowners complaints.

Recent complaint activity including complaints filed with Liberty Mutual insurance subsidiaries directly and those filed with the OIC is as follows:

Complaints by Type	**2006**	**2007**	**YTD 2008**
Claims	54	62	42
Sales/Service	12	14	5
Underwriting/ Other	10	17	9
Total	76	93	56

Two-thirds of these complaints were related to personal and commercial automobile policies with approximately 18% related to homeowners policies. Claims complaints were due to delays, denials, unsatisfactory settlements and general claims handling procedures. In evaluating the increase in complaints, management indicated that the overall increase in complaints is generally due to increased complaints in Liberty Mutual's Agency Markets SBU claim operations at Liberty Northwest Insurance Corporation ("LNIC") and increased complaints in Liberty Mutual's Personal Markets SBU claim operations.

First, the increase in complaints in Liberty Mutual's Agency Markets SBU claim operations at LNIC are related to complaints filed directly with the OIC. Management reports the number of Agency Markets SBU regulatory claim complaints is as follows:

	2004	**2005**	**2006**	**2007**	**YTD 2008**
Agency Markets OIC Claim Complaints	12	19	6	15	12

Analysis of complaint activity shows that the annualized average of OIC claim complaints over the past five years is approximately 15 per year or equal to the number of complaints in 2007. Claim complaint volume in 2006 appears to have been usually low. For 2008, through July 2, 2008, the number of complaints is running at an annualized rate of 24. Management noted that the increase was due to a reorganization of certain claims handling duties in February 2008 where auto physical damage, property damage and personal injury protection claims handling were moved from regional branch offices to a central claims service center in Denver. The goal of the relocation to the 60-person Denver processing center was to handle easily adjudicated claims more timely and consistently. During that relocation, some claim settlement was delayed, and some processing errors occurred. However, according to management, only three of the 2008 claim complaints were justified. Management indicated that the Denver center is now meeting its metrics for accuracy and timely claims settlement.

Second, management has noted a slight increase in the number of claims complaints in Liberty Mutual's Personal Markets SBU claim operations as follows:

Personal Markets SBU Claim Complaints	**2006**	**2007**	**YTD 2008**
Automobile	27	24	18
Homeowners	6	9	5
Fire	0	1	2
Total	33	34	25

For 2008, through July 2, 2008, the number of regulatory complaints and those filed directly with the Liberty Mutual insurance subsidiaries is running at an annualized rate of 50, compared with an annual average of 34 over the past two years. According to management, analysis of 2008 complaint activity indicated that four automobile complaints have been received from the same chiropractor alleging improper claims settlement, and that these complaints were not justified.

With regard to homeowners complaints, a significant storm resulted in numerous claims and four complaints, three of which were due to settlement delays due to the large volume of claims related to the storm. Excluding these complaints, the total number of complaints in 2008 is comparable to 2006 and 2007. Management stated that its Personal Markets SBU claim handling operation is currently meeting its metrics for accuracy and timely claims settlement.

Our review inquired about Liberty Mutual's use of customer claim surveys. Liberty Mutual's Agency Markets SBU claims operations send written surveys to 50% of first party claimants. The survey asks six questions including whether the claim was settled timely and whether service was satisfactory. Management indicated that 2007 and 2008 results show that at least 93% of the responses for each of the questions were favorable. Liberty Mutual's Personal Markets SBU claim operations also perform claims customer claim surveys using a phone interview consisting of 30 questions with scores ranked one to ten, with ten being the highest. Management noted that the overall average satisfaction score has exceeded nine in 2007 and 2008.

Based on our review of Liberty Mutual's complaint practices and explanations for the increases in complaint activity, it appears that Liberty Mutual has adopted reasonable procedures to address complaints, particularly those related to claims, that it has adequately explained recent complaint volume increases and addressed the root causes of complaints where possible.

Integration Plans Including Impact on Agents, Safeco Workforce and the Safeco Insurance Foundation

We have inquired about the current status of integration planning including the impact on agents, Safeco workforce and the Foundation. Liberty Mutual has indicated that the Safeco brand will be retained, and that over time, it will become the primary platform for Agency Markets SBU personal lines products. Liberty

Mutual did not comment on its plans for branding of commercial products and whether it plans to use the Safeco brand and platform for commercial lines including its surety line. According to the Form A, the Applicant anticipates no material change in the method and manner in which the Domestic Insurers' products are marketed and distributed. Further, Liberty Mutual represents that Agency Markets SBU personal operations will maintain a significant presence in Washington. However, Liberty Mutual has only begun its integration planning and provided few specifics about how the integration will be accomplished and its anticipated effects on Safeco's operations, agents and workforce. Approximately 30% of its Washington agents are also agents of Safeco.

With regard to the Safeco workforce, as of April 1, 2008, Safeco had approximately 7,000 employees located throughout the United States. Approximately 3,000 of these employees are located in Washington State in nine locations. Liberty Mutual employs over 41,000 people in more than 900 offices throughout the world. Specifically, Liberty Mutual's Agency Markets SBU operations, into which Safeco's operations will be merged, has approximately 7,000 employees. Discussions with Liberty Mutual management indicate that as a result of the Form A transaction, some jobs will be eliminated during the next two to three years due to normal attrition, consolidation and/or reorganization of job functions within the Agency Markets SBU. Liberty Mutual has preliminarily estimated the combined Liberty Mutual and Safeco job reductions to be eliminated over the next three years will approximate 10%. Although management did acknowledge that, after the proposed acquisition, certain corporate functions and expenses mandated by Safeco's status as a publicly traded company, in particular those focusing on shareholder needs, will no longer be necessary. Moreover, it could not specify what other functions will experience job reductions or where such reductions are likely to occur until it has had an opportunity to fully evaluate the operation post-closing. Liberty Mutual stated that job reductions will likely affect both Liberty Mutual's and Safeco's existing workforce and that some reductions will be accomplished through attrition. Such preliminary estimated job reductions appear to be typical for a transaction of this magnitude. Liberty Mutual has agreed that for two years following the merger, it will provide Safeco employees, who continue their employment with Liberty Mutual, compensation and benefits that, in the aggregate will not be any less favorable than those provided by Safeco immediately prior to the date of the Merger Agreement. Liberty Mutual and Safeco have also established significant discretionary budgets to be used for employee severance and stay-put bonuses.

The Foundation was formed by Safeco in 2006 as a private charitable trust. According to the 2007 Form 990-PF filed with the Internal Revenue Service, the Foundation reported approximately $91 million in net assets as of December 31, 2007 and made grants of approximately $3.0 million in the year ended December 31, 2007. The Foundation's current trustees are Safeco employees. Liberty Mutual indicates that it plans to continue to contribute to the Foundation as provided in the Merger Agreement and has no plans to alter the organizational structure or mission of the Foundation.

Safeco Management Employment Agreements

Safeco's current five most highly compensated executive officers entered into change of control severance agreements with Safeco that were approved by its Board's Compensation Committee in May 1999. During the seven years following a change in control, if the executive officer is discharged without cause, demoted or resigns for good reason, the agreement requires a lump-sum cash payment of three times annual base salary; a lump-sum cash payment of any incentive compensation previously allocated or awarded the executive; a pro-rata portion of the aggregate value of all contingent compensation awards assuming the highest achievement of individual and company goals; continuation of life, disability, accident and health benefits for a period of 36 months; and a tax gross-up to the extent a current excise tax is imposed in connection with the change of control or termination. The payments are also payable if the executive resigns, for any reason, during the thirteenth full calendar month following a change of control. The completion of the Form A transaction constitutes a change of control under each severance agreement. The aggregate potential severance payments for the five Safeco executives are substantial, totaling approximately $38.0 million.

Liberty Mutual Corporate Governance

Liberty Mutual's Board includes 15 members, all but two of whom are independent directors. Those directors are LMHC's Chairman, President and Chief Executive Officer, Mr. Edmund Kelly and Chairman Emeritus, Mr. Gary Countryman. The Board meets at least seven times per year and directs the work of its various committees including the Audit Committee, Executive Committee, Compensation Committee and Nominating Committee. Liberty Mutual has also adopted a Code of Business Ethics and a Conflict of Interest Policy. Directors, officers and all employees who are supervisors and above must annually attest to compliance or disclose instances of non-compliance.

The duties of the five-member Audit Committee include verification of Liberty Mutual's financial condition and results of operations; appointment of, and ongoing interaction with, its external auditor; and oversight and direction of the internal audit function. The Audit Committee meets at least four times per year. Each of the committee members is independent, and its Chairman is considered a financial expert.

RNA discussed Liberty Mutual's internal audit function with management. With respect to documentation, maintenance, and supervision of an adequate internal control system, Liberty Mutual has adopted an organizational framework in accordance with standards of the Committee of Sponsoring Organizations of the Treadway Commission. The approximately 130-member internal audit function is organized along its SBUs. Management stated that the internal audit function is fully staffed and thus capable of completing its annual audit workload, which includes approximately 240 audits annually. Management indicated that all significant internal audit findings are communicated timely to the Audit Committee.

Standard 4 Evaluation

RNA has reviewed the proposed financing of the transaction, the pro-forma capitalization, expected dividends for debt repayment, Liberty Mutual's non-financial operations, Liberty Mutual's corporate governance and Liberty Mutual's management's statements that there are no other plans or proposals to change operations at the Domestic Insurers other than those described herein. RNA is not aware of any plans or proposals which the Applicant has to liquidate the Domestic Insurers, sell their assets or consolidate or merge them with any person, or to make any other material change in their business or corporate structure or management that would be unfair and unreasonable to policyholders of the Domestic Insurers and not in the public interest.

Standard 5

The competence, experience and integrity of those persons who would control the operation of the Domestic Insurers are such that it would not be in the interest of policyholders of the Domestic Insurers and of the public to permit the merger or other acquisition of control.

Review of Liberty Mutual Management

Liberty Mutual submitted 34 biographical affidavits for officers and directors of the Applicant as required by the Form A. In addition, the OIC has required that the Applicant conduct and provide evidence of recent background checks using a third party to ensure that no officer or director has committed illegal acts in the management of Liberty Mutual, which would be of concern to the OIC. Based on the biographical affidavits submitted, RNA is not aware of information in the biographical affidavits that raise substantial questions or concerns about the experience of Liberty Mutual management. In addition, based on the results of the third party background checks, there is no indication that any officer or director has committed illegal acts in the management of Liberty Mutual, which would be of concern to the OIC.

Standard 5 Evaluation

Based upon RNA's review, we are not aware of concerns about the competence, experience and integrity of those persons who would control the operation of the Domestic Insurers, such that it would not be in the interest of policyholders of the Domestic Insurers and of the public to permit the merger or other acquisition of control.

Standard 6

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

As discussed in Standard 1, the Domestic Insurers currently satisfy the requirements for licenses to do insurance business in Washington. With the change in control, there are no plans to change or alter such licenses, and after the change in control, the Domestic Insurers will remain licensed in Washington. Therefore, there is no evidence that the Domestic Insurers would not be able to satisfy the requirements for issuance of licenses to write the lines of insurance for which they are currently licensed in Washington after the change in control.
As discussed in Standard 2, after review and evaluation of the Form E filed by Liberty Mutual including review of market share data in each of the lines of business, and analysis of anecdotal evidence of recent changes, entries and

exits in the farmowners multiple peril and surety lines of business, it does not appear that the effect of the acquisition of control of the Domestic Insurers would substantially lessen competition in Washington or tend to create a monopoly in the State.

As discussed in Standard 3, Liberty Mutual is a well-capitalized and profitable mutual insurance holding company. We have found no evidence that the financial condition of the Applicant might jeopardize the financial stability of the Domestic Insurers, or prejudice the interest of their policyholders.

As discussed in Standard 4, RNA has reviewed the proposed financing of the transaction, the pro-forma capitalization, expected dividends for debt repayment, Liberty Mutual's non-financial operations, Liberty Mutual's corporate governance and Liberty Mutual's management's statements that there are no other plans or proposals to change operations at the Domestic Insurers other than those described herein. RNA is not aware of any plans or proposals which the Applicant has to liquidate the Domestic Insurers, sell their assets or consolidate or merge them with any person, or to make any other material change in their business or corporate structure or management that would be unfair and unreasonable to policyholders of the Domestic Insurers and not in the public interest.

As discussed in Standard 5, we are not aware of concerns about the competence, experience and integrity of those persons who would control the operation of the Domestic Insurers, such that it would not be in the interest of policyholders of the Domestic Insurers and of the public to permit the merger or other acquisition of control.

Standard 6 Evaluation

Based upon our analyses of documentation provided to us and our discussions with the management of the Applicant, with regard to financial, operational and market conduct matters, we have found no evidence to suggest that the change in control is likely to be hazardous or prejudicial to the insurance-buying public.

Recommendations

The proposed change in control by Liberty Mutual poses substantial integration challenges for management. We recommend that the OIC closely monitor the operations and financial results of the Domestic Insurers and Liberty Mutual and consider requiring the Domestic Insurers and Liberty Mutual to provide the OIC, after giving appropriate consideration to issues concerning the disclosure of proprietary or trade secret information, the following:

- Within 120 days after closing, a strategic plan for the Domestic Insurers and Liberty Mutual's Agency Markets SBU sales and marketing plans by line of business/product and specific future plans including estimated timeframes and methodologies for measuring and monitoring actual results against the strategic plan. In addition the strategic plan should include forecasted statutory statements of income, balance sheets, changes in surplus and cash flows for the Domestic Insurers for the next two years with detailed assumptions compared to 2008 actual results. These forecasted financial statements will allow the OIC to more fully understand and monitor the Domestic Insurers' operations. Assumptions should address the following:
  - Revenue projections;
  - Line of business/product mix;
  - Distribution channels/commission expense;
  - Claims and claims adjustment costs;

- Administrative costs, including any cost reductions; and
- Investment returns.

- Within 120 days after closing the Form A transaction, and quarterly thereafter for a period of 24 months, a detailed status report and timeline regarding management's efforts to integrate the operations of the Domestic Insurers and other Safeco subsidiaries into those of Liberty Mutual's Agency Markets SBU including a summary of efforts completed and planned regarding the following:
  - Integration efforts that will impact current policyholders and claimants including those that have or are likely to have an impact on claims handling, complaint handling or policyholder service. The summary should include benchmarks to be used to measure performance and actual results against those benchmarks;
  - Integration efforts regarding the Domestic Insurers' and Liberty Mutual's information technology platforms and safeguards which management has or will implement to ensure that timely, accurate and complete information will be available to serve policyholders, claimants, consumers, agents and management;
  - Integration efforts that will impact the agency force including any reductions of the agency force or consolidation of the Domestic Insurer's and Liberty Mutual's back office operations which serve the agency force;
  - Integration efforts that will impact the Domestic Insurers' Washington State operations including any changes in office locations and workforce with specific estimates of the number of workforce reductions, and efforts to transitions those affected as they seek new employment.

APPENDIX A

In connection with the analysis by the Washington Office of Insurance Commissioner ("OIC") of the Form A transaction, RNA obtained information with respect to financial, operational and regulatory aspects of the proposed acquisition of the Domestic Insurers by the Applicant including the following:

1. Form A Statement Regarding the Proposed Acquisition of Control of Safeco Corporation ("Safeco") and Subsidiaries by Liberty Mutual Holding Company, Inc. ("Liberty Mutual") and Subsidiaries Dated May 16, 2008 and Exhibits ("Form A")
2. Letter of June 9, 2008 from Liberty Mutual to the OIC Clarifying Form A Financing Arrangements
3. Letter of June 19, 2008 from Carney Badley Spellman to the OIC Correcting Form A Attachments
4. Amendment #1 to the Form A and Exhibits Dated August 1, 2008
5. Agreement and Plan of Merger between Liberty Mutual Insurance Company ("LMIC"), Big Apple Merger Corporation and Safeco Dated April 23, 2008
6. Liberty Mutual Series C Junior Subordinated Notes Indenture Dated May 29, 2008 and Related Offering Memorandum
7. Proposed Intercompany Investment, Services, Management Agreements for Safeco Subsidiaries Post-Acquisition
8. Biographical Affidavits of Liberty Mutual and Subsidiaries Directors and Officers
9. Owens OnLine Letter to the OIC Dated May 21, 2006
10. Liberty Mutual 2007 Annual Report
11. Liberty Mutual Audited Consolidated Financial Statements for 2003-2007
12. Liberty Mutual Consolidated Financial Statements March 31 and June 30, 2008
13. Liberty Mutual Management's Discussion and Analysis for September 30 and December 31, 2007 and March 31 and June 30, 2008

14. LMIC Pool Audited Statutory Combined Financial Statements for 2003-2007
15. Ohio Casualty Insurance Company ("OCIS") Pool Audited Statutory Combined Financial Statements for 2006 and 2007
16. Peerless Insurance Company ("PIC") Pool Audited Statutory Combined Financial Statements for 2006 and 2007
17. LIH US P&C Statutory Balance Sheets and Income Statements for 2003-2007 and March 31, 2008
18. Liberty Insurance Holdings, Inc. Statutory Balance Sheets and Income Statements for 2003-2007 and March 31, 2008
19. Liberty Mutual Group Inc. GAAP Balance Sheets and Income Statements for 2003-2007 and March 31, 2008
20. LMHC Massachusetts Holding Inc. GAAP Balance Sheets and Income Statements for 2003-2007 and March 31, 2008
21. LMIC Annual Statements for 2003-2007
22. LMIC Quarterly Statements for March 31 and June 30, 2008
23. Liberty Mutual Fire Insurance Company ("LMFIC") 2007 Annual Statement
24. LMFIC Quarterly Statements for March 31 and June 30, 2008
25. Employers Insurance Company of Wausau ("EICW") 2007 Annual Statement
26. EICW Quarterly Statements for March 31 and June 30, 2008
27. Form E-Analysis of the Competitive Impact of the Proposed Acquisition and Exhibits for Washington and Other States
28. Liberty Mutual Consolidated GAAP Equity to Combined Pool Statutory Surplus Reconciliation
29. Liberty Mutual Source of Funds for the Safeco Acquisition
30. Liberty Mutual Selected Subsidiaries NAIC IRIS Ratio #9 Liquidity Ratio After Payment of 2008 Dividends
31. Liberty Mutual forecasted GAAP Balance Sheets and Income Statements for 2008-2010 and Assumptions
32. Liberty Mutual Proforma Capitalization as of January 1, 2008

33. Liberty Mutual Proforma Financial Leverage Ratios as of June 30 and December 31, 2008
34. Liberty Mutual Proforma Projected Interest Coverage for 2008-2010 and Peer Group Comparisons
35. LMIC Projected Statutory Balance Sheets, Income Statements and Risk-Based Capital for 2008-2010
36. LMFIC Projected Ordinary Dividend Capacity for 2008-2010
37. EICW Projected Ordinary Dividend Capacity for 2008-2010
38. LMIC Multiple Scenario Risk-Based Capital Stress Testing for 2008-2010
39. Liberty Mutual Board Minutes for 2007 and 2008
40. Liberty Mutual 2008 Presentations to Standard & Poor's, Moody's Investors Service and A.M. Best
41. Fairness Opinion for Liberty Mutual Prepared by Lehman Brothers Dated April 23, 2008
42. Reports to the Liberty Mutual Board of Directors for 2007 and 2008 by Lehman Brothers
43. Liberty Mutual Hart-Scott-Rodino Filing Dated May 1, 2008
44. Liberty Mutual Selected Board of Director Committee Summaries
45. Safeco 2007 10-K
46. Safeco March 31, 2008 10-Q
47. Safeco Consolidated Financial Statements for June 30, 2008
48. Statutory Combined Safeco Property & Casualty Companies ("Safeco Combined") 2007 Annual Statement
49. Statutory Safeco Combined Projected Balance Sheets, Income Statements, Cash Flows and Risk-Based Capital for 2008-2010
50. Safeco Board Minutes for 2007 and 2008
51. Reports to Safeco Board of Directors for 2007 and 2008 by Morgan Stanley
52. Safeco 2008 Proxy Statement Dated June 25, 2008 Including Fairness Opinion Prepared by Morgan Stanley Dated April 22, 2008
53. Safeco Organizational Chart and Full-Time Equivalent Employee Listing

54. Presentation by Liberty Mutual to OIC Consultants Dated July 2, 2008
55. Big Apple Merger Corporation Articles of Incorporation and By-Laws
56. Inquiry to Liberty Mutual by the OIC Dated June 17, 2008 and Liberty Mutual Response Dated June 20, 2008
57. Letter from the Illinois Department of Insurance to Liberty Mutual Dated June 4, 2008 and Liberty Mutual Response Dated June 18, 2008
58. Letter to the Texas Department of Insurance Dated June 6, 2008
59. Letter to the Massachusetts Division of Insurance from Liberty Mutual Dated June 10, 2008
60. Letter to Liberty Mutual from Baker & Daniels on Behalf of the Indiana Department of Insurance Dated July 7, 2008 and Liberty Mutual Response and Exhibits Dated July 17, 2008
61. LMIC Form D Filing Dated June 5, 2008
62. LMFIC and EICW Form D Filing Dated June 5, 2008
63. PIC Form D Filing Dated May 23, 2008 and Subsequent New Hampshire Department of Insurance Approval Letter
64. OCIS Form D Filing Dated May 23, 2008 and Subsequent Ohio Department of Insurance Approval Letter
65. Safeco National Insurance Company Form D Filing Dated June 30, 2008 and Exhibits
66. Safeco Subsidiary Texas-Domiciled Insurers Form D Filing Dated June 5, 2008 and Exhibits and Subsequent Texas Department of Insurance Approval Letter
67. Safeco-Related Dividends Regulatory Approvals/Notices Status Chart Provided by Liberty Mutual
68. Letter from the Greenlining Institute to the OIC Dated May 1, 2008
69. Financial Examination Reports of Liberty Mutual Subsidiaries by Various State Insurance Departments for 2004-2006 and Selected Liberty Mutual Responses

70. Market Conduct Examination Reports of Liberty Mutual Subsidiaries by Various State Insurance Departments for 2004-2008 and Selected Liberty Mutual Responses
71. Financial Examination Reports of Safeco Subsidiaries by Various State Insurance Departments for 2005
72. Market Conduct Examination Reports of Safeco Subsidiaries by Various State Insurance Departments for 2002-2007
73. NAIC 2007 Annual Statement Washington State Page for Liberty Mutual Subsidiaries
74. NAIC 2007 Annual Statement Washington State Page for Safeco Subsidiaries
75. Summary of Merger-Related Litigation Provided by Liberty Mutual
76. Listing of Safeco Internal Audit Reports Issued 2006-2008
77. Liberty Mutual Subsidiaries Washington Complaint Listing for 2006-2008
78. Safeco Subsidiaries Washington Complaint Listing for 2006-2008
79. Summary of Liberty Northwest Insurance Company Customer Service Survey Results for 2007 and 2008
80. Letters from Liberty Mutual to The Honorable Judge Patricia Petersen Dated August 8, 2008
81. Listing of Proposed Directors of Safeco Subsidiaries Post-Acquisition
82. Liberty Mutual Schedules of Estimated Integration Costs and Savings
83. Liberty Mutual Letter to Massachusetts Division of Insurance Inquiry on Corporate Governance Policies and Procedures
84. Mystic Re II Ltd. Offering Document and Final Terms No. 1 Dated May 23, 2007
85. Various Research Updates and Rating Actions in 2008 by Standard & Poor's, Moody's Investors Service, A.M. Best and Fitch Ratings
86. Form 990-PF Return of Private Foundation of Safeco Insurance Foundation for 2006

Rudmose & Noller Advisors, LLC

Dana Rudmose, located in Columbus, Ohio, is co-founder of Rudmose & Noller Advisors, LLC ("RNA"). RNA is a client-focused firm providing advisory services to insurance regulators throughout the United States. Dana is a Certified Public Accountant ("CPA"), Certified Insurance Examiner ("CIE"), and Accredited Insurance Receiver ("AIR") with over 26 years of experience in financial and market conduct insurance regulation, accounting and auditing. Serving for seven years as Assistant Director of the Ohio Department of Insurance and also serving as Acting Director, Dana was the chief solvency regulator with oversight responsibilities for financial, licensing and solvency issues affecting all insurers doing business in Ohio. Additionally, Dana has eight years of public accounting experience with KPMG performing statutory and GAAP audits of life, property and casualty and health insurance companies. Prior to forming RNA, Dana was managing director of KPMG's national regulatory insurance practice for six years, providing regulatory consulting services to regulators and insurance companies. Dana has reviewed numerous Form A transactions, affiliations and financial restructuring transactions as a regulator and as a consultant to several insurance departments.

Mark Noller, located in New York City, is co-founder of RNA. He is a CPA, CIE and an Associate, Insurance Regulatory Compliance ("AIRC") with over 22 years of experience in insurance regulatory, accounting, and auditing. Prior to forming RNA in 2002, Mark was a Director for four years in KPMG's regulatory insurance. Prior to joining KPMG, Mark served as Senior Accreditation Manager of the National Association of Insurance Commissioners ("NAIC") for five years where he managed the NAIC's Financial Regulation Standards and Accreditation Program. Prior to his work at the NAIC, Mark had eight years at Deloitte & Touche auditing insurance, banking and SEC companies. Mark has served several insurance departments in the review of Form A transactions, affiliations and financial restructuring transactions.