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**VIA ELECTRONIC AND HAND DELIVERY**

Judge Patricia D. Petersen  
Hearings Unit  
Office of the Insurance Commissioner  
PO Box 40255  
5000 Capitol Boulevard  
Olympia, WA 98504-0255

Dear Judge Petersen:

As requested during our Thursday, August 7, 2008 pre-hearing conference call, please find below a summary description of (1) Liberty Mutual Holding Company Inc. ("LMHC") and certain of its wholly-owned affiliates proposing to acquire control of the Washington-domiciled stock property and casualty company subsidiaries of Safeco Corporation, a Washington corporation ("Safeco") and (2) the terms of the transaction pursuant to which such proposed acquisition of control is expected to occur. Also, as a preliminary matter I have provided some additional thoughts and considerations with respect to some of the substantive matters discussed during our pre-hearing conference call yesterday.

**Timing Considerations**

Please rest assured that Liberty Mutual intends to fully respect and cooperate on an expedited basis with the procedures and requirements of this process. Liberty Mutual has demonstrated this behavior since the public announcement of this transaction nearly four months ago on April 23, its timely Form A filing with the Office of the Insurance Commissioner ("OIC") on May 16, and its subsequent participation and facilitation of the comprehensive due diligence process conducted by the OIC and its consultants throughout this Summer. As I noted during the pre-hearing conference call yesterday, unfortunately the period of uncertainty between the public announcement of a transaction

and the actual closing date, is the most vulnerable period of time for all of the key constituencies impacted. This is particularly true for policyholders, employees, agents, the surrounding communities and long-standing shareholders. Although the OIC may have received numerous inquiries concerning this transaction, I would ask that you carefully evaluate these and determine their true origin. I suspect that upon a closer review you will determine that the substantial bulk of these inquiries represent the arbitrageur and hedge fund communities gauging the potential closing date for their own personal short-term economic interests. I submit more importantly that an extended delay fuels uncertainty, creates doubt, inspires rumor, and fuels anxiety within the noted key constituencies that truly matter. These unnecessary distractions can potentially have an adverse impact on the services, focus and the long-term success and health of Safeco's insurance operations. We respectfully ask for due consideration of these concerns as you evaluate and set the timing schedule for this process.

### **Introduction**

In the Form A Statement filed on May 16, 2008, and amended on August 1, 2008, LMHC and certain wholly-owned affiliates seek the prior approval of the Washington Insurance Commissioner (the "Commissioner") for the acquisition of control (the "Proposed Acquisition") of First National Insurance Company of America, General Insurance Company of America, Safeco Insurance Company of America, and Safeco Surplus Lines Insurance Company, each a Washington-domiciled stock property and casualty insurance company (collectively, the "Domestic Insurers"). Safeco is the direct or indirect owner of the Domestic Insurers. The acquiring parties are LMHC, a Massachusetts mutual holding company and the ultimate parent corporation of the affiliated Liberty Mutual Group of companies, LMHC Massachusetts Holdings Inc. ("LMHC MA"), a Massachusetts corporation and a direct wholly-owned subsidiary of LMHC, Liberty Mutual Group Inc. ("LMGI"), a Massachusetts corporation and a direct wholly-owned subsidiary of LMHC MA, Liberty Mutual Insurance Company ("LMIC" and "Contracting Purchaser"), 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 (together, the "Acquiring Parties").

### **Background**

LMIC has agreed to acquire control of the Domestic Insurers, as well as their non-Washington domestic affiliated property and casualty insurance companies (collectively, the "Non-Washington Domestic Companies"), pursuant to an Agreement and Plan of Merger (the "Merger Agreement"), dated as of April 23, 2008, by and among LMIC, Safeco and Big Apple Merger Corporation ("Merger Sub"), a wholly-owned direct subsidiary of LMIC. Under the terms of the Merger Agreement, LMIC will acquire by merger all outstanding shares of common stock of Safeco in exchange for approximately

\$6.2 billion in cash. Safeco is the direct or indirect owner of each of the Domestic Insurers and the Non-Washington Domestic Companies (collectively, the "Acquired Companies").

In connection with the acquisition of control of the Acquired Companies, the Acquiring Parties submitted Form A Statements seeking the approval of state insurance regulators, in addition to the Washington Insurance Commissioner, in California, Illinois, Indiana, Missouri, Oregon and Texas on May 16, 2008. As of August 8, 2008, the Illinois Division of Insurance has approved this transaction, and the insurance regulators in Indiana, Missouri, Oregon and Texas have indicated their preliminary approval, and are awaiting the approval of the Washington Insurance Commissioner, as lead regulator, before entering final orders of approval. The Acquiring Parties have had discussions with the California Department of Insurance ("CADOI") and are unaware of any concerns of the CADOI that are reasonably likely to cause the CADOI to withhold its approval of the Proposed Acquisition.

### **The Merger Agreement**

The Merger Agreement provides for a merger whereby Merger Sub will merge with and into Safeco (the "Merger"). As a result of the Merger, the separate corporate existence of Merger Sub will cease and Safeco will continue as the surviving corporation in the Merger and a subsidiary of LMIC. At the effective time of the Merger, each share of Safeco common stock issued and outstanding (other than any shares to be cancelled pursuant to the Merger Agreement and dissenting shares) will be converted into the right to receive \$68.25 in cash, without interest (the "Merger Consideration"). At the effective time of the Merger, (i) each Safeco stock option, whether vested or unvested, will be cancelled and the holder thereof will be entitled to an amount of cash per share subject the option equal to the positive difference, if any, between the Merger Consideration and the exercise price per share of such stock option and (ii) each Safeco restricted stock right shall vest in full and be converted into the right to receive the Merger Consideration. All cash payments made to holders of Safeco common stock, holders of Safeco stock options and holders of Safeco restricted stock rights pursuant to the Merger Agreement will be made less any applicable withholding taxes.

Pursuant to the terms of the Merger Agreement, consummation of the Merger is conditioned upon, among other things, obtaining the affirmative vote of at least two-thirds of the votes entitled to be cast by the holders of outstanding shares of Safeco common stock. Please note that on July 29, 2008 the shareholders of Safeco voted overwhelmingly to approve the Merger Agreement. Of those shareholders who voted, 99.5% voted to approve the transaction. Thus, this condition has been satisfied. In addition, consummation of the Merger is conditioned upon (i) the expiration or termination of the applicable waiting period (note: this expired as of June 2, 2008 without comment) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (ii) making necessary filings and obtaining necessary approvals under the

insurance laws applicable to the Merger, including the approval of state insurance regulatory authorities in California, Illinois, Indiana, Missouri, Oregon, Texas and Washington and (iii) satisfaction or waiver of other customary closing conditions.

Although Merger Sub is currently a wholly-owned direct subsidiary of LMIC, it is expected that at some time prior to the effective time of the Merger, LMIC will contribute the shares of Merger Sub to LIHI, which in turn will contribute the shares of Merger Sub to LIH US. As a result, at the effective time of the Merger, LIH US will be the owner of 100% of Safeco.

Although LIHI is currently a wholly-owned direct subsidiary of the LMIC, it is expected that at some time prior to the effective time of the Merger, two affiliated insurers, Employers Insurance Company of Wausau ("EICOW") and Liberty Mutual Fire Insurance Company ("LMFIC") will purchase shares of LIHI in the amounts of approximately 4% and 3%, respectively. Because each of EICOW and LMFIC will own or control less than a 10% ownership interest, beneficially, directly or indirectly, in the Domestic Insurers, neither of them would be in control of the Domestic Insurers following the Proposed Acquisition, as control is defined in RCW 48.31B.005(2) and thus they are not treated as Acquiring Parties for purposes of the Form A Statement. EICOW and LMFIC are direct wholly-owned subsidiaries of LMGI.

#### **Nature, Source and Amount of Consideration**

The purchase of the Acquired Companies is valued at approximately \$6.2 billion. Consummation of the Merger is not subject to any financing condition or other financing contingency. The Acquiring Parties' intention is to fund the Proposed Acquisition with cash on hand. On May 29, 2008, LMGI issued \$1.25 billion of junior subordinated securities (hybrid debt). The Acquiring Parties will contribute the proceeds of such issuance down 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, in part, proceeds from dividends that have been declared by certain of its current affiliates. As of August 1, 2008, all such dividends had been either approved, deemed approved or not disapproved, as the case may be, by the relevant state insurance regulators, and all such dividends had been paid. LMGI will not borrow any funds under the previously-disclosed \$1.25 billion bridge financing facility.

#### **Organization and Business Operations of the Acquiring Parties**

The Liberty Mutual Group of Companies (the "Group") is a diversified international group of insurance companies and the sixth largest property and casualty insurer, the eighth largest personal lines writer, and the fourth largest commercial lines writer in the United States, based on 2007 direct written premium. As of December 31, 2007, the Group had approximately \$94.7 billion in consolidated assets, \$82.4 billion in

consolidated liabilities, and \$26.0 billion in annual consolidated revenue. The Group currently ranks 94th on the Fortune 500 list of largest corporations in the United States.

The Group offers a wide range of insurance products and services, including private passenger automobile, workers' compensation, homeowners, commercial multiple peril/fire, international local businesses, commercial automobile, Liberty International Underwriters ("LIU") reinsurance, general liability, LIU inland marine program, LIU third party, group disability and life, surety/fidelity, LIU first party, individual life and assumed voluntary reinsurance.

Functionally, the Group 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 and information technology resources. Management believes this structure allows each SBU to execute its business and acquisition strategy without impacting or disrupting the operations of the Group's other business units. Following the Proposed Acquisition, the Group expects to continue to pursue its current strategic objectives and expects that the business of the Acquired Companies, as part of the Agency Markets SBU, will complement these objectives.

Agency Markets consists of property and casualty, and specialty insurance companies distributing products and services primarily through independent agents throughout the United States. It is one of the ten largest independent agency writers in the United States based on 2007 direct written premium. Through eight regional insurance companies, Agency Markets combines and leverages the strengths of a locally-branded, service-oriented regional presence with the cost efficiencies of a national organization, providing coverages to small businesses and individuals. Agency Markets also includes the specialty operations of Summit, which provides workers' compensation in the Southeast (primarily Florida), and the Specialty Products Group, which provides nationwide contract and commercial surety and fidelity bonds as well as excess casualty coverage.

We have attached a chart marked as Exhibit A that shows the organizational structure of the Acquiring Parties and information on each Acquiring Party is presented below. Unless expressly limited to some other specified date or time period, the following description relates to the organization and business operations of each of the Acquiring Parties during the past five years.

LMHC. LMHC, a Massachusetts mutual holding company, was formed in 2001 as part of the mutual holding company reorganization of LMIC. LMHC is the ultimate parent company of the Group. LMHC will not be a direct purchaser of Safeco. Its status as an Acquiring Party arises solely out of its status as an entity being in control of the Contracting Purchaser. The only material asset of LMHC is its shares of LMHC MA.

LMHC MA. LMHC MA, a Massachusetts stock holding company, was also formed in 2001 as part of LMIC's mutual holding company reorganization. LMHC MA is a direct wholly-owned subsidiary of LMHC. LMHC MA will not be a direct purchaser of Safeco. Its status as an Acquiring Party arises solely out of its status as an entity being in control of the Contracting Purchaser. The only material asset of LMHC MA is its shares of LMGI.

LMGI. LMGI, a Massachusetts stock holding company, was also formed in 2001 as part of LMIC's mutual holding company reorganization. LMGI is a direct wholly-owned subsidiary of LMHC MA. LMGI will not be a direct purchaser of Safeco. Its status as an Acquiring Party arises solely out of its status as an entity being in control of the Contracting Purchaser. LMGI is the primary company used to raise capital through debt and commercial paper offerings for the Group. As the holding company for the primary insurance subsidiaries, its obligations also include various employee benefit plans. LMGI principally does business through its wholly-owned subsidiaries.

LMIC. LMIC, a Massachusetts stock insurance company, was formed in 1912. LMIC is a direct wholly-owned subsidiary of LMGI. LMIC will not be a direct purchaser of Safeco. Its status as an Acquiring Party arises solely out of its status as an entity being in control of LIH US. LMIC is the largest insurance company of the Group based on 2007 direct written premium.

LIHI. LIHI, a Delaware corporation, was acquired by Liberty Mutual Group in 1999. LIHI is a direct, wholly-owned subsidiary of LMIC. As indicated above, it is expected that at some point prior to the effective time of the Merger, LIHI will be owned approximately 93% by LMIC, 4% EICOW and 3% by LMFIC. LIHI will not be a direct purchaser of Safeco. Its status as an Acquiring Party arises solely out of its status as an entity being in control of LIH US. The only material asset of LIHI is its shares of LIH US.

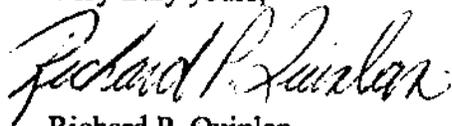
LIH US. LIH US, a Delaware corporation, was acquired by the Liberty Mutual Group in 1999. LIH US is a direct, wholly-owned subsidiary of LIHI. LIH US will be the direct purchaser of Safeco. The only material asset of LIH US is its investment in its subsidiaries.

### **Conclusion**

As mentioned above, the foregoing descriptions are being provided in response to your August 7, 2008 request for a description of the terms of the transaction and the identities, and business operations, of the Acquiring Parties. Such description is qualified in its entirety by the Form A Statement as filed on May 16, 2008, and as amended on August 1, 2008.

If you have any questions or comments about these, or any other, matters, please do not hesitate to contact me at the number above.

Very truly yours,



Richard P. Quinlan

CC: Wendy Galloway, Hearings Unit  
Ronald Pastuch, CPA, Holding Company Manager (OIC)  
Charles Brown, Senior Staff Attorney Legal Affairs (OIC)  
DeAnn Work, Sr. Associate General Counsel (Safeco)

**EXHIBIT A**

