

**STATE OF OREGON
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
INSURANCE DIVISION**

BEFORE THE DIRECTOR OF THE DEPARTMENT OF CONSUMER AND BUSINESS
SERVICES

In the Matter of the Proposed Plan of Acquisition of)	Findings of Fact, Conclusions of
Control of Safeco Insurance Company of Oregon,)	Law and Order
Portland, Oregon, by Liberty Mutual Insurance)	
Company, Boston, Massachusetts.)	Case No. INS 08-07-001

INTRODUCTION

On May 19, 2008, Liberty Mutual Holding Company, Inc. (“LMHC”), on behalf of its subsidiaries, specifically Liberty Mutual Insurance Company, filed a Statement Regarding the Proposed Acquisition of Control of Safeco Insurance Company of Oregon (“Statement”) pursuant to the terms of an Agreement and Plan of Merger dated April 23 2008 (“Merger Agreement”), as required by ORS 732.517 through 732.546. On June 16, 2008, LMHC filed an amended Statement. The Merger Agreement was adopted and approved by the Board of Directors of Liberty Mutual Insurance Company on April 22, 2008, and by the Board of Directors of Safeco Corporation on April 22, 2008.

Supplemental and amended information was periodically provided until the filing was complete on June 26, 2008.

FACTS PROVIDED

(1) Safeco Insurance Company of Oregon (“Safeco-OR”) is an Oregon domiciled stock insurance company, authorized under ORS chapter 731 to transact property, casualty excluding workers’ compensation insurance in Oregon and is a wholly-owned subsidiary of Safeco Insurance Company of America.

(2) Safeco Insurance Company of America is a Washington domiciled stock insurance company, authorized under ORS chapter 731 to transact property, casualty including workers’ compensation, surety, and marine & transportation insurance in Oregon and is a

wholly-owned subsidiary of Safeco Corporation.

(3) Safeco Corporation (“Safeco”) is a Washington domiciled public corporation. Safeco is traded on the New York Stock Exchange. As of December 31, 2007, Safeco had \$12.6 billion in consolidated assets, \$3.4 billion in consolidated policyholders’ equity, and \$6.2 billion in consolidated revenue.

(4) Big Apple Merger Corporation (“Merger Sub”) is a Washington stock corporation and is a wholly-owned subsidiary of Liberty Mutual Insurance Company.

(5) Liberty Mutual Insurance Company (“LMIC”) is a Massachusetts stock insurance company and an indirect wholly-owned subsidiary of Liberty Mutual Holding Company Inc. LMIC is authorized under ORS chapter 731 to transact property, casualty including workers’ compensation, health, surety, and marine & transportation insurance in Oregon.

(6) Liberty Mutual Holding Company Inc. (“LMHC,” together, the “Acquiring Parties”) is a Massachusetts mutual holding company and is the ultimate parent corporation of the Acquiring Parties. As of December 31, 2007, LMHC had \$94.7 billion in consolidated assets, \$12.4 billion in consolidated policyholders’ equity, and \$26 billion in consolidated revenue.

(7) At the time the Merger Agreement was executed, Merger Sub was a wholly-owned direct subsidiary of LMIC. Subsequent to that time, LMIC contributed the shares of Merger Sub to Liberty Insurance Holdings, Inc., which in turn contributed the shares of Merger Sub to LIH US P&C Corporation. As a result, at the effective time of the merger, LIH US P&C Corporation will directly own 100% of Safeco.

(8) Safeco’s Oregon licensed insurers wrote 5% of Oregon’s property and casualty premium in 2007. LMHC’s Oregon licensed insurers wrote 7% of Oregon’s property and casualty premium in 2007. For the workers’ compensation line of business, Safeco insurers wrote less than 1% of the workers’ compensation business in Oregon in 2007 and LMHC insurers wrote approximately 17%.

(9) Subject to the terms and conditions of the Merger Agreement, Merger Sub will merge

with and into Safeco. As a result of the merger, the separate corporate existence of Merger Sub will cease and Safeco will continue as the surviving corporation and a subsidiary of LMIC.

(10) At the effective time of the merger, each share of Safeco common stock issued and outstanding immediately prior to the effective time shall be converted into the right to receive \$68.25 in cash, without interest (“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 to 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.

(11) Consummation of the proposed acquisition and merger is conditioned upon, among other things, 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. In addition, consummation of the merger is conditioned upon obtaining necessary approvals under the insurance laws applicable to the merger, including the approval of state insurance regulatory authorities in California, Illinois, Indiana, Missouri, Texas and Washington.

(12) Safeco-OR anticipates no change to its policies and will continue to write property and casualty covering personal, commercial and specialty business. Safeco-OR plans to continue to offer its insurance products through the independent agency system.

(13) The Acquiring parties do not intend to modify Safeco-OR’s existing inter-company reinsurance agreements. If the Acquiring Parties later determine that changes are appropriate, the applicable regulatory filings will be made with the director.

(14) Upon closing the directors and executive officers of Safeco-OR will be replaced with the individuals that comprise the directors and executive officers of the Acquiring Parties’ other Oregon-domiciled insurers. These changes include, but are not limited to, the following: Mr. Gary Gregg will serve as chairman of the board of directors and president and chief executive officer; Mr. James Dore will serve as a director and treasurer and chief financial officer; Mr.

Edmund Kenealy will serve as secretary. The board of directors will be made up of six individuals, two of which are Oregon residents. At the present, there is no intention to change the day-to-day management of the business operations. The composition of the proposed board of directors complies with statutory requirements for domestic insurer boards of directors.

(15) The Acquiring Parties propose to enter into investment management, cash management, management services, and tax sharing agreements with Safeco-OR. Draft agreements were provided and are similar to agreements in place with other Liberty-affiliated Oregon domestic insurers. However, each agreement will be filed with the director for review subsequent to the Effective Time.

(16) Other than changes to Safeco-OR's management, the Acquiring Parties have no present plans or proposals to have Safeco-OR declare any extraordinary dividend, to liquidate it, to sell its assets, to merge it with any other person or to make any other material change in any of its investment policies, business, or corporate structure. The Acquiring Parties have no present intention to relocate the home office or corporate records of Safeco-OR.

(17) On the basis of the proposed acquisition and in specific reliance on the representations made to the director by the Acquiring Parties, the director makes the following:

CONCLUSIONS OF LAW

1. The plan to acquire control of Safeco Insurance Company of Oregon was submitted to the director, Department of Consumer and Business Services and is properly supported by the required documents. The proposed transaction meets the requirements of the Oregon Insurance Code for approval with respect to Acquisitions and Mergers pursuant to ORS 732.517 to 732.546.
2. There is evidence that:
 - (a) The activity is not contrary to law and will not result in a prohibited combination of risks or classes of insurance. *See* ORS 732.528(1)(a).

The acquisition of control of Safeco-OR, a domestic stock insurer, by Liberty is permitted by ORS 732.521(1). After the acquisition, Safeco-OR will continue to be authorized as an insurer to transact property and casualty (excluding workers' compensation) insurance in Oregon.

(b) The activity is not inequitable or unfair to the policyholders, members, or shareholders of any insurer involved or to any other person affected by the proposed activity. *See* ORS 732.528(1)(b).

Safeco-OR will continue to provide property and casualty covering personal, commercial and specialty business. Safeco-OR will continue to offer its products using independent agencies. Safeco-OR's sole shareholder is Safeco Insurance Company of America, which in turn is wholly owned by Safeco Corporation. The terms and conditions, including the nature and amount of consideration to be paid in connection with the proposed transaction, were determined by arm's-length negotiation among the parties to the Merger Agreement. The execution of the Merger Agreement was duly authorized by Safeco's Board of Directors. Consummation of the transaction is subject to approval by the requisite shareholder vote. Dissenter's rights for Safeco shareholders are provided for, and governed by, the Washington Business Corporation Act.

(c) The activity will not substantially reduce the security of and service to be rendered to policyholders of any domestic insurer involved or otherwise prejudice the interests of such policyholders in this state or elsewhere. *See* ORS 732.528(1)(c).

Safeco-OR's financial condition will not change as a result of the proposed transaction. As of December 31, 2007, Safeco-OR reported assets of \$20.2 million and capital and surplus of \$7.6 million, amounts that indicate financial stability and soundness. Additionally, Safeco-OR has been profitable for the preceding five years. It is anticipated that Safeco-OR will continue to operate in the same manner and experience similarly favorable results from its operations. Additionally, Liberty Mutual Holding Company and Liberty Mutual Insurance Company possess substantial capitalization.

(d) The activity provides for a foreign or alien insurer to be an acquiring party, and the insurer can satisfy the requirements of this state for transacting an insurance business involving the classes of insurance affected by the activity.

Liberty Mutual Insurance Company is a Massachusetts stock insurance company. It has been licensed in Oregon since August 20, 1934 and is currently authorized to write property, casualty including workers' compensation, health, surety, and marine & transportation insurance in Oregon. LMIC's authority in Oregon is consistent with Safeco-OR's.

(e) The activity or its consummation will not substantially lessen competition of insurance in this state or tend to create a monopoly. *See* ORS 732.528(1)(e).

Safeco Corporation's Oregon licensed insurers wrote 5% of Oregon's property and casualty premium on 2007, including property, casualty, workers'

compensation, marine and transportation lines. Liberty Mutual Group's Oregon licensed insurers wrote 7% of Oregon's property and casualty premium in 2007. For the workers' compensation line of business, Safeco Corporation insurers wrote less than 1% of the workers' compensation business in Oregon in 2007 and Liberty Mutual Group wrote approximately 17%. The proposed transaction would not substantially lessen competition of insurance in this state or tend to create a monopoly.

(f) After the change of control and ownership, the domestic insurer to which the activity applies will satisfy the requirements for the issuance of a certificate of authority to transact the line or lines of insurance for which the insurer is currently authorized. *See* ORS 732.528(1)(f).

Safeco-OR possesses an Oregon certificate of authority to transact property and casualty excluding workers' compensation insurance in Oregon. The transaction will not affect Safeco-OR's capitalization. Safeco-OR will remain adequately capitalized to transact the type and volume of business it currently writes. *See* ORS 731.354; 731.358; 731.554.

(g) The financial condition of the acquiring party will not jeopardize the financial stability of the domestic insurer. *See* ORS 732.528(1)(g).

There is no evidence that the acquisition of Safeco by Liberty will jeopardize the financial stability of Safeco-OR. Liberty Mutual Holding Company as of December 31, 2007 had assets of \$94.7 billion and policyholders' equity of \$12.4 billion. Safeco Corporation as of December 31, 2007, had assets of \$12.6 billion and policyholders' equity of \$3.4 billion. Both corporation's have been profitable during each of the past 5 years.

(h) The acquiring party has no plans to liquidate, to sell its assets or to consolidate or merge it with any other person, or to make any other material change in the insurer's business or corporate structure or management, which changes would be unfair and unreasonable to policyholders of the insurer and not in the public interest. *See* ORS 732.528(1)(h).

The acquiring party has no plans or proposals to have Safeco-OR declare an extraordinary dividend, to liquidate Safeco-OR, or to sell its assets or merge it with any other person or to make any other material change in any of its investment policies, business, or corporate structure.

(i) The competence, experience and integrity of those persons who will control the operation of the insurer will not negatively impact the interest of policyholders or of the public. *See* ORS 732.528(1)(i).

At the Effective Time, the directors and executive officers of Safeco-OR will be replaced. The board of directors will be made up of six individuals, two of which

are Oregon residents. The composition of the proposed board of directors meets the requirements of ORS 732.305. There is nothing to suggest that the individuals that will replace the current directors and executive officers of Safeco-OR lack the necessary competence, experience, or integrity to manage Safeco-OR.

(j) The activity or its consummation is not likely to be hazardous or prejudicial to the insurance-buying public. See ORS 732.528(1)(j).

The proposed transaction will have no direct effect on policyholders. There is no evidence that the consummation of the acquisition will be hazardous or prejudicial to the insurance-buying public.

(k) The activity is not subject to other material and reasonable objections. See ORS 732.528(1)(k).

The reorganization is not subject to other material and reasonable objections.

ORDER

Based on the foregoing Findings of Fact and Conclusions of Law, it is hereby ordered that:

(1) The amended proposed plan of acquisition of control of Safeco Insurance Company of Oregon (as supplemented) is hereby approved.

(2) The Acquiring Parties shall promptly notify the director of any material change in circumstances of any of the Acquiring Parties, Safeco or Safeco-OR including material changes in the future plans for Safeco-OR, prior to the Effective Time.

(3) The Effective Time shall be at least 60 days from the date of this order or upon approval of the Proposed Acquisition of Control of Safeco Insurance Company of America (and other affiliated Washington-domiciled insurers) by Liberty Mutual Insurance Company, by the Washington State Office of the Insurance Commissioner, whichever is later.

DATED this 3 day of July, 2008.



CORY STREISINGER, Director
Department of Consumer and Business Services

NOTICE

Pursuant to ORS 732.528 (6), any insurer or other party to the proposed activity, including the insurer proposed to be acquired, within 60 days after receipt of a notice of approval or disapproval, may appeal the final order of the director as provided in ORS Chapter 183. For purposes of the judicial review the specifications required to be set forth in the written notice from the director shall be deemed the findings of fact and conclusions of law of the department.

Jurisdiction for judicial review of orders in other than a contested case is conferred upon the Circuit Court for Marion County and upon the circuit court of the county in which the petitioner resides or has a principal business office. ORS 183.484(1). Petitions for review shall be filed within 60 days following the date the order is served. ORS 183.484(2).