

Patrons Mutual Insurance Company of Connecticut

Plan of Operations

Introduction

This Plan of Operations is for Patrons Mutual Insurance Company of Connecticut, a property and casualty mutual insurance company domiciled in Connecticut (the “Domestic Insurer”). Capitalized terms used herein and not otherwise defined have the respective meanings ascribed to them in the Form A.

As indicated in Item 5 to the Form A (Future Plans of the Domestic Insurer), the Applicants have no present plans or proposals to cause the Domestic Insurer to declare any extraordinary dividend, to liquidate the Domestic Insurer, to sell the assets of the Domestic Insurer (except for transactions, such as investment portfolio transactions, in the ordinary course of business), to merge the Domestic Insurer with any person or persons or, other than as described below, to make any other material change in the Domestic Insurer’s business operations or corporate structures or management.

The Applicants have no current plans to change the name of the Domestic Insurer or relocate its home office or its corporate records. In addition, although the Applicants have no current plans or proposals to make any changes to the Domestic Insurer’s in-force third party reinsurance coverage or reinsurers, the Applicants may purchase similar protections or include the Domestic Insurer in LMHC’s existing reinsurance programs when the Domestic Insurer’s in-force programs expire. In addition, the Applicants intend to terminate an existing inter-company reinsurance pooling agreement and to add the Domestic Insurer to the Pooling Agreement (as defined below).

The Applicants reserve the right to review the Domestic Insurer’s business, assets, corporate structure, dividend policy, capitalization, operating properties, business policies, articles of incorporation, by-laws, management and personnel and, subject to applicable state insurance regulatory requirements, to exercise their rights as controlling persons of the Domestic Insurer accordingly.

Other than as described herein, the Applicants’ current intention is to continue the business of the Domestic Insurer without any material modifications to the Domestic Insurer’s current operations as part of the State Auto insurance holding company system, further described below.

State Automobile Mutual Insurance Company

State Automobile Mutual Insurance Company (“SAM”) is an Ohio-domiciled mutual property and casualty insurance company organized in 1921. SAM, which is celebrating its 100th anniversary this year, has assets of \$4.6 billion and writes \$2.0 billion in premium in 33 states. SAM is the controlling parent within the State Auto insurance holding company system (collectively, “State Auto”).

State Auto's principal lines of business include personal and commercial automobile, homeowners, commercial multi-peril, workers' compensation, general liability and fire insurance. State Auto exited its specialty business and stopped writing this business on a net basis in 2018; as a result, the specialty insurance segment is no longer a reportable segment and is disclosed as "specialty run-off."

As of July 12, 2021, SAM held approximately 58.8% of the outstanding common shares of State Auto Financial Corporation, a publicly traded Ohio corporation ("STFC"). As of December 31, 2020, STFC had 3.1 billion in total consolidated assets, \$3.1 billion in total consolidated liabilities and \$1.5 billion in total consolidated annual revenue.

The operations of State Auto are headquartered in Columbus, Ohio.

Patrons Mutual Insurance Company of Connecticut (the Domestic Insurer)

The Domestic Insurer is a property and casualty mutual insurance company domiciled in Connecticut. Following the approval of the Department, SAM acquired control of the Domestic Insurer in 2007 through a mutual affiliation transaction.

The Domestic Insurer primarily underwrites personal, commercial and farm-owners insurance products through independent agents in Connecticut and Massachusetts. The personal insurance products include private passenger automobile, homeowners and umbrella coverage. Its commercial insurance products include business owners, artisan contractor, commercial package, dwelling fire and umbrella coverage.

Distribution

The State Auto group, including the Domestic Insurer, markets its insurance products throughout the United States primarily through independent agencies, which include retail agencies and wholesale brokers. The personal insurance and commercial insurance segments are managed separately due to differences in the types of customers they serve, products they provide or services they offer.

In State Auto's personal insurance segment, State Auto writes standard insurance covering personal exposures to individuals. The primary coverages offered are personal auto, homeowners, and other personal (examples of products included in other personal are dwelling fire, personal inland marine and personal umbrella).

In State Auto's commercial insurance segment, State Auto writes standard insurance covering small to medium sized commercial exposures. State Auto offers a broad range of coverages including commercial auto, small commercial package, middle market commercial, farm & ranch, workers' compensation and other commercial (examples of products included in other commercial are commercial inland marine, small commercial package umbrella and middle market commercial umbrella).

Marketing

State Auto markets its personal and commercial insurance products in 33 states through approximately 3,400 independent agencies, including traditional retail agents, network agents and platform agents. State Auto strongly supports the independent agency system and believes its maintenance is essential to State Auto's present and future success. State Auto continually develops programs and procedures to enhance its agency relationships, including the following: interactions (virtual and in person when able) between senior management and agents; travel and virtual meetings by regional office staff to meet with agents in their home states; training opportunities; and incentives related to profit and growth.

Management & Directors

While the Applicants have no present intention to change the day-to-day management of the business and operations of the Domestic Insurer, the Applicants intend to nominate a new slate of directors and appoint new executive officers of the Domestic Insurer effective as of or shortly after the Closing in order to align with the slate of directors and executive officers of the other insurance companies within the Liberty Mutual group of companies. The appointment of new directors of the Domestic Insurer will remain subject to the affirmative vote of the policyholders of the Domestic Insurer. A list setting forth the names and business addresses of the proposed directors and executive officers of the Domestic Insurer effective as of or shortly after the Closing is attached as Exhibit D-1 to the Form A.

While the Applicants have no present intention to change the day-to-day management of the business and operations of SAM, the current directors and executive officers of SAM will resign immediately prior to the Closing. Effective as of the Closing, new directors and executive officers of SAM will be appointed by the Applicants. Although the current executive officers of SAM will no longer serve as executive officers as of the Closing, it is currently anticipated that a number of SAM's current executive officers will hold leadership positions in the combined organization after the Closing. A list setting forth the names and business addresses of the proposed directors and executive officers of SAM effective as of the Closing is attached as Exhibit D-2 to the Form A.

Inter-Company Agreements

Pooling Agreement

The insurance companies in the State Auto group participate in a quota share reinsurance pooling arrangement under which SAM assumes premiums, losses and expenses from each of the remaining pool members and in turn cedes to certain members of the pool a specified portion of premiums, losses and expenses based on their respective pooling percentages. SAM then retains the balance of the pooled business.

LMIC and its US-domestic affiliated underwriting companies share the results of their respective underwriting activity pursuant to the Liberty Mutual Second Amended &

Restated Inter-Company Reinsurance Agreement (the “Pooling Agreement”), an inter-company reinsurance pooling arrangement. LMIC is the pool leader. All of the pool members (other than LMIC) cede 100% of their underwriting activity to LMIC, net of third party reinsurance. LMIC in turn retrocedes 50% of the entirety of the pool’s underwriting activity to the following five other pool members and retains the remaining 50%: Peerless Insurance Company, Liberty Mutual Fire Insurance Company, Employers Insurance Company of Wausau, The Ohio Casualty Insurance Company and Safeco Insurance Company of America.

Effective as of the date of the Closing, the Applicants intend to cause the Domestic Insurer to join the Pool by joining the Pooling Agreement via an amendment (the “Pooling Agreement Amendment”). The Applicants acknowledge that the Pooling Agreement Amendment will be subject to review by the Department pursuant to a Form D (Prior Notice of a Transaction) filing.

Other Inter-Company Agreements

As part of the ongoing integration of the operations of Liberty Mutual’s and State Auto’s respective businesses, the Applicants anticipate terminating existing inter-company agreements within the State Auto group and intend to cause the Domestic Insurer to enter into new inter-company agreements, including the following agreements with a Liberty Mutual entity as the counterparty: (1) a Management Services Agreement to provide certain services to the Domestic Insurer; (2) an Investment Management Agreement to manage and invest certain assets on behalf of the Domestic Insurer; and (3) a Cash Management Agreement to administer certain short-term investments maturing within 365 days or less of purchase (collectively, the “Management Agreements”). The Management Agreements would be materially identical in form, subject to changes in investment guidelines, to management agreements entered into by a number of the Domestic Insurer’s prospective affiliates within Liberty Mutual’s holding company system and approved or non-disapproved by applicable insurance regulatory authorities including the Department. The Applicants acknowledge that the Management Agreements will be subject to review by the Department pursuant to one or more Form D (Prior Notice of a Transaction) filings.

In addition, LMHC’s federal income tax return is consolidated with other affiliates in the federal income tax return of LMHC. The income allocation is subject to a written tax sharing agreement (the “Federal Tax Sharing Agreement”) and allocation is based upon separate return calculations with credit applied for losses, as appropriate. Effective as of the date of the Closing, the Applicants plan to add the Domestic Insurer as a party to the Federal Tax Sharing Agreement. The Applicants acknowledge that the addition of the Domestic Insurer as a party to the Federal Tax Sharing Agreement Amendment will be subject to review by the Department pursuant to a Form D (Prior Notice of a Transaction) filing.

Third-Party Reinsurance; Investments

Members of the State Auto group, including the Domestic Insurer, follow the customary industry practice of reinsuring a portion of their exposures and paying to the reinsurers a portion of the premiums received. Insurance is ceded principally to reduce net liability on individual risks or for individual loss occurrences, including catastrophic losses. Although the Applicants have no current plans or proposals to make any changes to the Domestic Insurer's in-force third party reinsurance coverage or reinsurers, the Applicants may purchase similar protections or include the Domestic Insurer in LMHC's existing reinsurance programs when the Domestic Insurer's in-force programs expire.

The Domestic Insurer's investment policy is to attempt to balance its portfolio duration to achieve investment returns consistent with the preservation of capital and maintenance of liquidity adequate to meet payment obligations of policy benefits and claims. The Domestic Insurer invests in assets permitted under the insurance laws of Connecticut.

Projections

Three-year financial projections for the Domestic Insurer are attached to the Form A. The financial projections assume the continuation of existing inter-company pooling arrangements as final terms for the Pooling Agreement have not yet been finalized.