

IN THE CHANCERY COURT OF HINDS COUNTY, MISSISSIPPI
FIRST JUDICIAL DISTRICT

JIM HOOD, ATTORNEY GENERAL
FOR THE STATE OF MISSISSIPPI, *ex*
rel. THE STATE OF MISSISSIPPI

PLAINTIFF

VS.

CIVIL ACTION NO. G-2005-1642 O/3

MISSISSIPPI FARM BUREAU
INSURANCE, STATE FARM FIRE AND
CASUALTY COMPANY, ALLSTATE
PROPERTY AND CASUALTY
INSURANCE COMPANY, UNITED
SERVICES AUTOMOBILE
ASSOCIATION, NATIONWIDE MUTUAL
INSURANCE COMPANY, and "A"
THROUGH "Z" ENTITIES (M.R.C.P.
9(h) DEFENDANTS)

FILED
JAN 23 2007
EDDIE JEAN CARR, CHANCERY CLERK
D.C.

DEFENDANTS

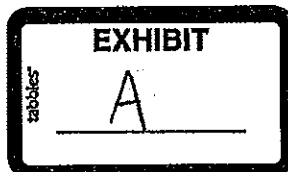
SETTLEMENT AGREEMENT

This Settlement Agreement applies to all properties insured by State Farm and located in Hancock, Harrison, and Jackson Counties which were damaged during hurricane Katrina on August 29, 2005, and the conditions contained herein shall apply to any claims in these three Coastal Counties arising from Hurricane Katrina for a period of three years.

I. Disclosure of All Information Regarding Claims in These Three Coastal Counties Arising from Hurricane Katrina

A. Upon request, a claimant shall have the right to promptly obtain a full and complete copy of all non-privileged information contained in his/her or its claim files. The claim files shall include any and all information received from any source during the adjustment of the claim. What materials will be provided will be determined by the Mississippi Rules of Civil Procedure and by applicable Mississippi Rules of Evidence and Mississippi common law governing privilege. A request for such claim files shall include all claim files associated with the insured property.

B. The Attorney General and Commissioner of Insurance shall be entitled to obtain a copy of any and all master agreements between State Farm and engineering firms and independent adjusting firms used to review Hurricane Katrina claims in



Mississippi, including but not limited to indemnification, fee agreements; and confidentiality agreements. All new training materials from State Farm to its employees or said engineering firms and independent adjusting firms used to review Hurricane Katrina claims in Mississippi will be provided to the Attorney General and the Commissioner of Insurance. The Attorney General and Commissioner of Insurance agree to keep such information confidential and agree that agreements provided hereto shall be confidential and exempt from disclosure pursuant to Miss. Code Ann. § 25-61-9.

C. Any denial or partial denial of a claim shall be made in writing specifically stating the reason for the denial.

II. Independent Contractors Hired by State Farm

State Farm agrees to the following in its use of structural and forensic engineers, engineering firms, and other causation experts and/or specialists to determine the cause of damage to an insured property resulting from a catastrophe in the State of Mississippi:

A. State Farm will use licensed engineers who are in good standing with the state licensing agency that issued their license. State Farm will make reasonable efforts to contact the policyholder before an inspection is scheduled with an engineer.

B. State Farm will incorporate into its training material appropriate language regarding the use of engineers to review hurricane-damaged and other catastrophe-damaged properties and will incorporate such language into a memorandum or email to be distributed to all of State Farm's employees who are involved, either in a direct or supervisory fashion, with the retention of engineers in connection with the review of hurricane or other catastrophe claims in the State of Mississippi. Said materials will be made available to the Attorney General and the Commissioner of Insurance.

C. For those policyholders for whom State Farm has multiple engineering reports in its claim files regarding Katrina property damage, State Farm will provide the insured with copies of such engineering reports.

D. All activity and communication related to the use of an engineering firm should be documented in the claim files. This includes documenting in the claim files any specifics of any oral or written communication between the adjuster or engineer and State Farm. Furthermore, all written reports produced by the adjuster or engineering firm should be maintained in the claim files.

E. If a report generates additional questions that State Farm believes must be answered before a decision can be made with regards to the claim, State Farm should promptly follow up in writing with the engineer to obtain clarification. All such

additional communication and correspondence shall be documented and retained in the claim files and timely supplemented.

F. State Farm will pay the engineering firms' fees for performance of services, regardless of the conclusions expressed in the report.

III. Re-Evaluation of Claims

State Farm agrees to establish an administrative procedure to reevaluate claims of State Farm policyholders in Hancock, Harrison, and Jackson Counties who had residential or commercial policies in effect on August 29, 2005. This process will establish an orderly, fair, and prompt resolution of claims, and will be submitted for approval to the United States District Court for the Southern District of Mississippi. This administrative procedure applies only to settlement class members as defined in the agreement to be submitted to the United States District Court for the Southern District of Mississippi. In connection with this procedure, State Farm agrees as follows:

A. State Farm will review and reconsider every claim upon the policyholder's request; and during said process, State Farm will not use any adjuster who was involved in the previous adjustment of said claim;

B. After each claim has been reviewed and reconsidered, State Farm will submit an offer of settlement to the policyholder based upon criteria and guidelines approved by the United States District Court for the Southern District of Mississippi and the provisions of this Settlement Agreement;

C. For any policyholder who disagrees and rejects State Farm's settlement offer, a fair and expeditious arbitration process will be available for such policyholders; and such arbitration process will be binding upon the parties. Prior to the arbitration, State Farm will provide to the arbitrator and policyholder a copy of non-privileged information in the policyholder's claim files, including any and all engineering reports in State Farm's file concerning the inspection of the insured property;

D. State Farm will pay all costs associated with the arbitration process, except that policyholders are required to pay their own expenses, such as expert and attorney fees;

E. Any State Farm policyholder who does not wish to submit his or her claim in this resolution process may opt out and retain the right to pursue legal action against State Farm;

F. During the reevaluation and arbitration process, State Farm will not assert as a ground for the total denial of a settlement claim that water contributed to the policyholder's loss if wind damage occurred. State Farm agrees that on claims for

foundation and pier only sites ("slab" claims), State Farm's offer will be in an amount which, in total, would have a value equivalent to no less than fifty percent (50%) of the Coverage A limits, subject to policy limits and subject to deduction for prior payments, and to be administered pursuant to the terms of a class action settlement. State Farm will not deny any policyholder's structural damage claim unless State Farm can show by a preponderance of the evidence that the damage denied was caused by an excluded peril.

IV. Claims Practices

A. State Farm will not knowingly misrepresent to claimants and insureds relevant facts, investigation results, or policy provisions relating to coverages at issue.

B. State Farm will acknowledge with reasonable promptness pertinent communications with respect to claims arising under its policies.

C. State Farm will, to the extent it has not previously adopted and implemented, adopt and implement reasonable standards for the prompt investigation and settlement of claims arising under its policies.

D. State Farm will attempt in good faith to effectuate prompt, fair, and equitable settlement of claims.

E. State Farm will diligently investigate the facts to determine if a claim is valid, reasonably evaluate the claim, and act promptly in resolving the claim. If it is necessary to reject a claim for coverage or damages, it should be done promptly, courteously, and with an explanation for the decision.

F. State Farm will make an objective evaluation of the facts and circumstances supporting its insureds' claims.

G. State Farm will give insureds a reasonable opportunity to comply with their responsibilities under the policy. If a claim is rejected, State Farm will be willing to listen to subsequent input from the insured.

H. State Farm agrees to comply with the notice provisions of Regulation 2006-2, effective January 1, 2007, addressing flood and earthquake exclusions in homeowners and/or windstorm residential policies.

V. Payment of Costs to State

A. State Farm shall pay to the Attorney General's Office Five Million Dollars to cover all investigative and legal expenses incurred by said office in the course of this litigation.

VI. Enforcement Provisions

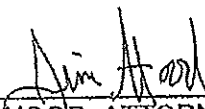
A. This Settlement Agreement is intended to resolve all claims against State Farm in this matter and is not intended to resolve any private civil litigation involving State Farm arising out of Hurricane Katrina.

B. The Attorney General agrees to dismiss all claims against State Farm and to dismiss State Farm as a Defendant in this matter.

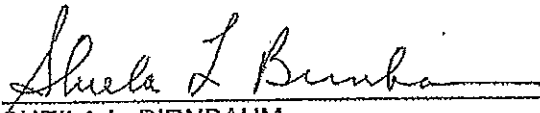
C. State Farm agrees to comply with the conditions of this Settlement Agreement. Any motion, petition, application, action, or proceeding to construe or enforce the resolution procedure described in Section III of this Settlement Agreement will be brought in the United States District Court for the Southern District of Mississippi. Enforcement of all other conditions set forth herein, except for Section IV, shall be enforceable before this Court. The parties agree to meet and confer if there is any issue regarding compliance with the conditions of this Settlement Agreement before seeking court intervention.

D. No provision of this Settlement Agreement shall be modified without the written consent of the Attorney General and State Farm.

AGREED, this the 23rd day of January, 2007.



JIM HOOD, ATTORNEY GENERAL FOR THE STATE OF
MISSISSIPPI, EX REL. THE STATE OF MISSISSIPPI



SHEILA L. BIRNBAUM
ATTORNEY FOR STATE FARM FIRE AND CASUALTY
COMPANY