

MEMORANDUM OF AGREEMENT

THIS AGREEMENT (the "Agreement") is made and entered into this 7th day of November, 2003, by and between THE HOME INSURANCE COMPANY IN LIQUIDATION ("Home"), and ZURICH AMERICAN INSURANCE COMPANY as successor in interest to ZURICH INSURANCE COMPANY, UNITED STATES BRANCH, ZURICH AMERICAN INSURANCE COMPANY OF ILLINOIS and STEADFAST INSURANCE COMPANY (collectively, "Zurich").

WITNESSETH:

WHEREAS, effective February 9, 1995, Home and certain of its subsidiaries which were subsequently merged in and to Home (collectively, the "Home Entities") and Zurich entered into a certain Master Facultative Agreement (the "Master Fac Agreement"), pursuant to which Zurich ceded to the Home Entities, and the Home Entities accepted from Zurich, 100% of the obligations of Zurich (net of inuring facultative reinsurance) with respect to the Policies (as defined in the Master Fac Agreement, which definition is hereby incorporated herein by reference) upon the terms and conditions set forth therein; and

WHEREAS, pursuant to Article V of the Master Fac Agreement, the Home Entities agreed that the premium received by Zurich and payable with respect to the reinsurance by the Home Entities of the Policies would be accounted for and held by Zurich on behalf of the Home Entities, net of applicable ceding commission, paid loss and any other funds advanced to the Home Entities under the Master Fac Agreement, (the "Funds Withheld "); and

WHEREAS, pursuant to Article V of the Master Fac Agreement, it was agreed between the parties that interest would accrue on the average amount of the Funds Withheld at the rate of 7.5% per annum (the "Funds Withheld Interest Rate"), although such interest would not be remitted to the Home Entities but would rather increase the amount of the Funds Withheld; and

WHEREAS, the parties agree that the Funds Withheld presently exceeds the Estimated Claims Liabilities (as defined in the Master Fac Agreement, which definition is hereby incorporated herein by reference) plus actuarially determined incurred but not reported reserves on the Policies (the "Actuarial IBNR") in sufficient amount so as to warrant release, without recourse, of a portion thereof to Home at this time; and

WHEREAS, the parties further agree (a) to the future periodic determination of Estimated Claims Liabilities and Actuarial IBNR in order to ascertain whether the then remaining balance in the Funds Withheld is sufficient in amount to warrant further releases, without recourse, to Home therefrom; (b) to provide for the future handling of claims under the Policies; (c) to provide for the future reporting by Zurich to Home of loss and allocated loss adjustment expenses (as those terms are defined in the Master Fac Agreement, which definitions are hereby incorporated herein by reference); (d) to provide for the treatment of deductibles, retrospectively rated and return premium under the Policies; and (e) to provide for the treatment of facultative reinsurance inuring to the benefit of Zurich under the Policies, all in accordance with the terms and conditions hereinafter set forth; and

WHEREAS, the parties further agree that it is mutually in their best interests to fully and finally settle and commute their respective then present and future rights, obligations and liabilities (whether known or unknown) under the Master Fac Agreement with effect as of January 31, 2009, (the "Commutation Date"), and to enter into mutual releases relating thereto, as set forth herein.

NOW THEREFORE, intending to be legally bound, in consideration of the promises, covenants, representations, warranties, payments, agreements and other good and valuable consideration recited and set forth herein, the sufficiency of which is mutually acknowledged, the parties agree as follows:

1. Within seven (7) days after the Effective Date as defined in Clause 23 below, Zurich agrees to cause release of \$25,000,000.00 (the "Initial Remittance") from the Funds Withheld to Home, which amount shall be remitted free and clear, without recourse whatsoever, with time being of the essence in the performance by Zurich in effecting such payment. The payment of the Initial Remittance shall be effected by wire transfer as follows:

Citizens Bank, Manchester, NH, USA
ABA No. 011-500120
For the Account of The Home Insurance Company in
Liquidation
Account No. 3303030687

2. If Zurich fails to pay any portion of the Initial Remittance within seven (7) days after the Effective Date, Zurich shall pay (a) interest on any unpaid amounts at the rate of 9% (simple rate) per annum from the Effective Date (the "Default Interest"); and (b) any and all

costs, including reasonable attorneys fees, incurred by Home in recovering the Initial Remittance in full (the "Collection Costs"). Neither the Default Interest nor the Collection Costs shall be paid from or chargeable to the Funds Withheld.

3. Notwithstanding the provisions of Article VII of the Master Fac Agreement, the parties agree that as of the Effective Date claims with respect to the Policies will be adjusted by Zurich and paid by Zurich from the balance then remaining in the Funds Withheld. In the event that the balance in the Funds Withheld is insufficient to pay claims, Zurich agrees that it shall be solely responsible for the continued payment of claims, although nothing in this provision Clause 3 or this Agreement shall be construed as (a) preventing Zurich from filing a proof of claim in the Home estate with respect to any claims payment made with respect to the Policies in the event that such claims payment was made after complete exhaustion of the remaining balance at any given time in the Funds Withheld; or (b) negating, affecting or otherwise interfering with Home's rights to jointly participate with Zurich in the investigation, adjustment or defense of claims as provided in Article VII of the Master Fac Agreement.

4. On the Effective Date Home agrees to transfer to Zurich all files and/or records maintained by Home relating to facultative reinsurance inuring to Zurich's benefit with respect to the Policies and Zurich agrees to forthwith relieve Home from any further obligation or responsibility relative to the accounting or collection of such facultative reinsurance. Zurich agrees to timely account for and collect facultative reinsurance inuring to its benefit under the Policies and to promptly deposit all amounts so collected into the Funds Withheld, net of external fees and expenses incurred by Zurich in effecting recovery thereof. The parties acknowledge that they presently disagree as to which of them bears the credit risk for uncollected or uncollectible facultative reinsurance with respect to the Policies and agree to hold such dispute in abeyance until the time of commutation as provided for in Clause 7 below. In the event that the parties are then unable to agree as to which of them bears the credit risk as aforesaid, the dispute shall be resolved in accordance with the provisions of Clause 8 below independently of any other dispute resolution occasioned under and in terms of Clause 7 below, except that for purposes of resolution of such dispute the parties agree that the arbitrator shall be a retired disinterested executive officer of a United States property and casualty insurance company having at least fifteen (15) years reinsurance underwriting experience who is not under the control of or was a former officer or director of either party to this Agreement or their present or former parents or affiliates. Zurich agrees that it shall maintain complete and accurate records of all uncollected or uncollectible facultative reinsurance relative to the Policies, which records shall be made available to Home for inspection and copying at all reasonable times, and further

agrees that should it be agreed or determined that Zurich bears the credit risk in relation to such reinsurance, interest shall attach thereto at the Funds Withheld Interest Rate calculated as of thirty (30) days from the date that such reinsurance was or should have been originally billed without regard to whether the facultative reinsurer was or is a party to any proceeding that precludes or precluded or stays or stayed the presentation of a reinsurance indemnity claim against it.

5. After the Effective Date Zurich agrees that it will promptly advise Home of (a) any event or development which might result in a claim under the Policies; (b) material developments in relation to any such claim; and (c) the settlement of a claim together with sufficient detail thereof, including detail of loss and loss adjustment expense associated with such claim both gross and net of facultative reinsurance inuring to Zurich's benefit relative thereto, to enable Home to report to and obtain indemnification from its retrocessionaires thereon.

6. Provided that there is a balance then remaining in the Funds Withheld, on January 31, 2005, and annually thereafter through January 31, 2008, Zurich agrees to perform or cause the performance of a calculation of Estimated Claims Liabilities and Actuarial IBNR with respect to the Policies. Within seven (7) days following the performance of such calculation, Zurich shall advise Home of the detail and results thereof and in the event that such calculation reveals an excess in the amount of the Funds Withheld at that time, Zurich agrees that within seven (7) days thereafter it will remit such excess to Home by wire transfer, free and clear, without recourse whatsoever, with time being of the essence in the effecting by Zurich of such remittance and the provisions of Clause 2 hereof shall apply mutatis mutandis should such remittance not be forthcoming, in whole or in part. Following provision by Zurich of the details and results of its calculation as aforesaid, Home shall, at its sole discretion, pursuant to Article XIII of the Master Fac Agreement, be entitled to inspect Zurich's books, records and papers and in the event that Home disputes Zurich's calculation of Estimated Claims Liabilities and/or Actuarial IBNR, the dispute shall be resolved in accordance with the provisions of Clause 8 below. Any such dispute shall not affect Zurich's obligation to remit any excess revealed by Zurich's calculation as provided above. Should Zurich fail to perform such calculation in a timely manner, Home shall be entitled to inspect Zurich's books records and papers pursuant to Article XIII of the Master Fac Agreement and perform such calculation on Zurich's behalf and at Zurich's expense, in which event Zurich shall be bound by Home's sole determination of Estimated Claims Liabilities and Actuarial IBNR for purposes of calculating whether there is then an excess in the Funds Withheld. Should such calculation reveal an excess in the Funds

Withheld at that time, Zurich shall within seven (7) days after written notification from Home to that effect, remit such excess to Home by wire transfer, free and clear, without recourse whatsoever, with time being of the essence in the effecting by Zurich of such remittance and the provisions of Clause 2 hereof shall apply mutatis mutandis should such remittance not be forthcoming, in whole or in part.

7. Provided that there is a balance then remaining in the Funds Withheld, on the Commutation Date Zurich agrees to perform or cause the performance of a final calculation of Estimated Claims Liabilities and Actuarial IBNR with respect to the Policies. Within seven (7) days following the performance of such calculation, Zurich shall advise Home of the detail and results thereof and Home shall thereafter, at its sole discretion, be entitled to inspect Zurich's books, records and papers pursuant to Article XIII of the Master Fac Agreement. In the event that Home is in agreement with Zurich's calculation, either with or without such an inspection, and so notifies Zurich thereof in writing, commutation of the Master Fac Agreement by all parties subscribing thereto shall be occasioned upon appropriate terms and conditions, including a payment to Home and mutual releases of obligations under the Master Fac Agreement, with such calculation serving as the basis for such commutation. In the event that Home disputes Zurich's final calculation of Estimated Claims Liabilities and/or Actuarial IBNR, the dispute shall be resolved in accordance with the provisions of Clause 8 below. Should Zurich fail to perform such calculation in a timely manner, Home shall be entitled to inspect Zurich's books, records and papers pursuant to Article XIII of the Master Fac Agreement and perform such calculation on Zurich's behalf and at Zurich's expense, in which event Zurich shall be bound by Home's sole determination of final Estimated Claims Liabilities and Actuarial IBNR for commutation purposes and commutation of the Master Fac Agreement shall be effected as set forth above.

8. In the event of a dispute between the parties as set forth in Clauses 6 and 7 above, such dispute shall be submitted for determination by a single arbitrator, whose decision shall be final, non-appealable and binding on the parties. The arbitration shall be held in New York, New York and shall be initiated by the delivery by Home of a written notice of demand for arbitration. Within seven (7) days after receipt by Zurich of the arbitration demand, the parties shall attempt to mutually agree on the identity of the arbitrator. If the parties are unable to so mutually agree within said seven (7) day period, then within seven (7) days thereafter each party shall designate one qualified candidate and the selection of the arbitrator shall be made by drawing lots. In the event that one party fails to designate a qualified candidate within the latter seven (7) day period, then the candidate nominated by the other party shall serve as arbitrator. The arbitrator shall be a

retired disinterested executive officer of a United States property and casualty insurance company having at least fifteen (15) years loss reserving actuarial experience who is not under the control of or was a former officer or director of either party to this Agreement or their present or former parents or affiliates. The arbitration shall be conducted within forty five (45) days after the appointment of the arbitrator. The parties shall be entitled to submit a brief to the arbitrator, with a copy to the other party, no later than fourteen (14) days prior to the arbitration hearing and shall be entitled to present oral testimony and argument at the hearing. The costs (including all reasonable fees and expenses) of the arbitration shall be borne by the non-prevailing party.

9. Other than with respect to those matters in litigation or arbitration in which Home and Zurich are parties wherein retrospective premium and/or deductibles are being sought from insureds of both Home and Zurich (the "Litigation Matters"), on the Effective Date Home agrees to transfer to Zurich all files and/or records maintained by Home relating to deductibles and retrospective premiums due from insureds under the Policies, including any and all letters of credit and/or escrow accounts maintained in Zurich's name to secure such obligations. The parties agree that as of the Effective Date, other than with respect to the Litigation Matters, Zurich shall be responsible for the accounting and collection of deductibles and retrospective premiums due from insureds under the Policies and in that regard (a) Zurich agrees to (i) effect calculation and pursue recovery of all deductibles and retrospectively rated premium due from insureds under the Policies within thirty (30) days of the due date; and (ii) deposit into the Funds Withheld all deductibles recovered from insureds under the Policies, net of external fees and expenses incurred by Zurich in effecting recovery thereof; and (b) the parties agree that unless and until it has been determined, either by agreement or arbitration, that the Funds Withheld are insufficient to cover Estimated Claims Liabilities and Actuarial IBNR with respect to the Policies, Home shall be entitled to receive free and clear, and without recourse by Zurich whatsoever, all retrospectively rated premium due from insureds under the Policies, net of external fees and expenses incurred by Zurich in effecting recovery thereof, and Zurich agrees to promptly account (with supporting detail) and effect remittance of such amounts to Home within thirty (30) days of receipt. Should it be determined, either by agreement or arbitration, that the Funds Withheld are insufficient to cover Estimated Claims Liabilities and Actuarial IBNR with respect to the Policies, retrospectively rated premium received shall not be remitted to Home, but shall forthwith be deposited by Zurich as part of the Funds Withheld. For purposes of this Clause 9, Zurich agrees that after the Effective Date it will (a) obtain, or effect appropriate increases or decreases in the amount of, letters of credit and/or escrow accounts maintained or required to be maintained by insureds under the Policies; and (b) promptly draw down on any and all pertinent letters of credit and/or escrow accounts maintained to secure deductible and retrospective

premium obligations by insureds under the Policies in the event of a default by insureds in effecting payment of such obligations. Zurich further agrees that the provisions of Article XIII of the Master Fac Agreement relative to the inspection and copying by Home of Zurich's books, records and papers shall apply mutatis mutandis to the subject matter of this Clause 9. The parties agree that Home shall remain responsible for the continued handling of the Litigation Matters and that Zurich shall be responsible for fifty percent (50%) of all fees and expenses incurred in connection therewith. With respect to the Litigation Matters, (a) Zurich agrees to remit to Home its share of fees and expenses within thirty (30) days after receipt of Home's billing (which billing shall include supporting detail); (b) Home agrees to remit to Zurich, for deposit into the Funds Withheld, deductibles recovered under affected Policies within thirty (30) days of receipt; and (c) Zurich agrees that Home shall be entitled to retain, free and clear, without recourse by Zurich whatsoever, all retrospective premium collected from insureds under affected Policies unless it is determined, either by agreement or arbitration, that the Funds Withheld are insufficient to cover Estimated Claims Liabilities and Actuarial IBNR with respect to the Policies, in which event Home agrees to transfer such retrospective premium collected to Zurich for deposit into the Funds Withheld.

10. It is agreed and understood by and between the parties that any return premium calculated to be due to insureds under the Policies shall be paid by Zurich from the balance then maintained in the Funds Withheld; provided that Zurich shall be solely responsible for the payment of such return premium in the event that the Funds Withheld are insufficient to satisfy such return premium obligations.

11. It is agreed and understood by and between the parties that any and all amounts in the Funds Withheld shall continue to accrue and bear interest at the Funds Withheld Interest Rate as provided for in Article V of the Master Fac Agreement.

12. This instrument embodies the final, complete and entire agreement between the parties and is the product of their own independent legal advice and analysis. No other representations, understandings or agreements have been made or relied upon in the making of this Agreement other than those specifically set forth or referred to herein.

13. If any provision of this Agreement is invalid, unenforceable or illegal under the law of any jurisdiction, such provision shall be deemed severable from the balance of this Agreement, and the validity and enforceability of the remaining provisions of this Agreement, and the validity and enforceability of such provision in any other jurisdiction shall not be

affected thereby. In the event of such invalidity, enforceability or illegality, the parties shall negotiate in good faith to amend this Agreement through the insertion of additional provisions which are valid, enforceable and legal and which reflect, to the extent possible, the economic and other purposes contained in the invalid, unenforceable or illegal provision.

14. The parties hereby agree that this Agreement shall take precedence over and supersede the Master Fac Agreement to the extent it is modified herein. In all other respects, the Master Fac Agreement shall be and remain in full force and effect in accordance with its terms. In the event of conflict between the terms of this Agreement and the Master Fac Agreement, this Agreement shall govern the rights and obligations of the parties.

15. The failure of any party to enforce at any time any of the provisions of this Agreement shall in no way be construed to be a waiver of such provisions, nor in any way to affect the validity of this Agreement, or any part hereof, or the rights of such party to thereafter enforce each and every such provision.

16. The parties hereby agree to promptly execute any and all supplemental agreements, releases, affidavits, waivers, and all other documents of any nature or kind, which may reasonably be required to implement the provisions or objectives of this Agreement.

17. (a) Zurich represents and warrants that it is a legally constituted entity in good standing; that it is not insolvent; that it is duly authorized to enter into this Agreement and the transactions contemplated herein; that the representative signing this Agreement is fully authorized to execute this Agreement on its behalf; that all requisite and necessary approvals have been obtained to consummate the transactions contemplated by this Agreement and that no additional authorization is needed from any regulatory authority in this regard; that no other agreement, undertaking, contract or matter is known to exist that might render this Agreement void, voidable or unenforceable; and that it has read this Agreement, that it understands its contents and that it is executing it freely and voluntarily with an intent to be bound by its terms; and (b) Home represents and warrants that, subject to the court approval required by Clause 23, it is duly authorized to enter into this Agreement and the transactions contemplated herein; that the representative signing this Agreement is fully authorized to execute this Agreement on its behalf; that all requisite and necessary approvals have been obtained to consummate the transactions contemplated by this Agreement and that no additional authorization is needed from any regulatory authority in this regard; that no other agreement, undertaking, contract or matter is known to exist that might render this Agreement void, voidable or unenforceable; and that it has

read this Agreement and that it is executing it freely and voluntarily with an intent to be bound by its terms.

18. The parties acknowledge that they have entered into this Agreement in reliance on their own independent investigation and analysis of the matters forming the subject of this Agreement and their rights and obligations with respect thereto, and not on the basis of any representation by any other party hereto except those representations contained in this Agreement.

19. This Agreement shall inure to the benefit of and bind the parties and their respective predecessors, parents, affiliates, subsidiaries, successors and assigns (including their rehabilitators, liquidators or other statutory successors) to the maximum extent permitted by law.

20. No supplement, amendment, variation, modification, waiver or termination of this Agreement shall be effective unless in writing and signed by the parties.

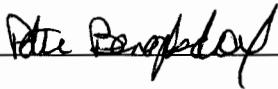
21. It is hereby agreed that the parties, including but not limited to their attorneys, agents, representatives and affiliates, will not disclose the terms of this Agreement to anyone other than is necessary to effectuate the terms of this Agreement; except that the parties may disclose the terms of this Agreement to and through their attorneys, accountants, reinsurers, retrocessionaires and auditors for a legitimate business purpose where a specific need for such disclosure arises in the judgment of such attorneys, accountants, reinsurer and auditors, or in response to lawful process. Notwithstanding the foregoing, nothing in this provision shall restrict the ability of the parties to disclose the terms of this Agreement to regulatory entities or in connection with reports and statements that they may be required from time to time to file or submit to government agencies.

22. The parties believe that the consideration for this Agreement, provided in exchange for the parties' mutual promises made herein, is fair and reasonable. The parties further agree to provide each other with an appropriate affidavit to this effect if such an affidavit becomes necessary to uphold or enforce the legitimacy of this Agreement.

23. This Agreement shall not become effective until approved by the Superior Court for Merrimack County, New Hampshire (the "Effective Date"). Home shall file a motion seeking such approval promptly after this Agreement has been executed by all parties.

IN WITNESS WHEREOF, the parties have executed this Agreement by their respective authorized officers.

The Home Insurance Company In Liquidation

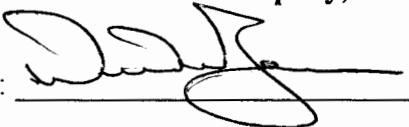
By: 

Dated: 11/7/03

Name: Peter Bengelsdorf

Title: Special Deputy Commissioner

**Zurich American Insurance Company as successor in interest to
Zurich Insurance Company, United States Branch**

By: 

Dated: 11/07/03

Name: David A. Bowers

Title: EVP

Zurich American Insurance Company of Illinois

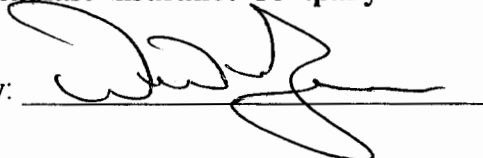
By: 

Dated: 11/07/03

Name: David A. Bowers

Title: EVP

Steadfast Insurance Company

By: 

Dated: 11/07/03

Name: David A. Bowers

Title: EVP