

REDACTED

WITH PARAGRAPH 10 ADDED

**REINSURANCE COMMUTATION  
AGREEMENT, SETTLEMENT AND RELEASE**

**THIS REINSURANCE COMMUTATION AGREEMENT, SETTLEMENT AND RELEASE** (the "Agreement") is made and entered into by and between Roger A. Sevigny, New Hampshire Insurance Commissioner, solely in his capacity as Liquidator (the "Liquidator") of **THE HOME INSURANCE COMPANY** ("Home") and **U.S. INTERNATIONAL REINSURANCE COMPANY**, (both New Hampshire corporations with their statutory offices at 286 Commercial Street, Manchester, New Hampshire 03101-1138), including all former subsidiaries of Home and U.S. International Reinsurance Company merged in and to Home and U.S. International Reinsurance Company respectively, (to the extent that such former subsidiaries no longer exist as separate entities), (collectively, "the Home Companies"), and the underwriting members of Lloyd's comprising the syndicates who were parties to the Commuted Agreements (as hereinafter defined) and Home U.K. Branch Business (as hereinafter defined) and all their predecessors, successors and assigns (hereinafter jointly referred to as "the Syndicates"). The Home Companies and the Syndicates are hereinafter collectively referred to as "the Parties".

**WITNESSETH:**

**WHEREAS**, the Home Companies and certain of the Syndicates entered into certain reinsurance agreements pursuant to which the affected Syndicates reinsured the Home Companies (defined below as the "Outwards Reinsurance Agreements") and the Home Companies reinsured certain of the Syndicates (defined below as the "Inwards Reinsurance Agreements"), with the Outwards Reinsurance Agreements and the Inwards Reinsurance Agreements collectively referred to below as the "Commuted Agreements" (as hereinafter defined); and

**WHEREAS**, in addition to past and present obligations under the Commuted Agreements, the Parties recognize and understand that a portion of their respective obligations

thereunder may become due in the future; that these future obligations and liabilities cannot be determined in an amount certain at this time; and that a commutation of these uncertain obligations and the parties' past and present obligations will resolve all pending and outstanding issues between the parties and will eliminate the uncertainty of contingent liabilities for presently unresolved and/or unasserted claims with respect to the Commuted Agreements; and

WHEREAS, the Parties agree that it is mutually in their best interests to fully and finally settle, commute and discharge their respective past, present and future rights, obligations and liabilities (whether known or unknown) under the Commuted Agreements with immediate effect and enter into mutual releases relating thereto, all in accordance with the terms and conditions hereinafter contained.

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. The Parties agree that in addition to the terms defined elsewhere in this Agreement, the terms set forth below shall be defined as follows:

(a) "Outwards Reinsurance Agreements" shall mean those reinsurance agreements constituting 1992 and Prior Business pursuant to which the Home Companies ceded to certain of the Syndicates, and the affected Syndicates accepted from the Home Companies, a certain share of liabilities of the Home Companies.

(b) "1992 and Prior Business" shall mean all liabilities under contracts of insurance (whether direct or otherwise) or reinsurance underwritten by any syndicate (other than life business) and originally allocated by the LPSO to the 1992 year of account or any earlier year of account including, without limitation, any such liabilities reinsured to close into 1993 or any later year of account but excluding any liabilities re-signed or re-allocated pursuant to a premium transfer, into the 1993 or any later year.

(c) "Inwards Reinsurance Agreements" shall mean the reinsurance agreements listed on Exhibit A pursuant to which certain of the Syndicates ceded to the Home Companies,

and the Home Companies accepted from those Syndicates, a certain share of liabilities of the affected Syndicates arising from 1992 and Prior Business.

(d) "Commuted Agreements" shall mean the Outwards Reinsurance Agreements and the Inwards Reinsurance Agreements collectively; provided that (i) the Commuted Agreements shall only include and be deemed to include the Outwards Reinsurance Agreements to the extent the said agreements constitute 1992 and Prior Business and the Inwards Reinsurance Agreements only to the extent that said agreements respond to 1992 and Prior Business (it being understood and agreed by the Parties that in the case of any of the Inwards Reinsurance Agreements being capable of responding to losses/claims in respect of both 1992 and Prior Business and 1993 and Post Business, the release contained herein shall be limited to those losses/claims falling within 1992 and Prior Business with the result that in these instances the Inwards Reinsurance Agreements may only be partially commuted hereunder); (ii) it is agreed that in the event of any uncertainty or controversy as to whether particular contracts of reinsurance fall within the definition of 1992 and Prior Business or respond to 1992 and Prior Business and hence have been commuted or at least partially commuted hereunder, the Syndicates shall ensure the Home Companies are made aware of the uncertainty/controversy and give consideration to the views of the Home Companies in seeking to resolve the uncertainty/controversy. The Parties, however, agree that ultimately Equitas Limited shall conclusively determine, in good faith, and applying the principles set out in the Lloyd's Market Bulletin dated 12 June 1997 and in a Memorandum marked Appendix A and attached hereto as Exhibit B, whether the reinsurance concerned has been commuted or partially commuted or not, and the Parties accept that the determination of Equitas Limited shall be final and binding upon the Parties provided that Equitas Limited has acted reasonably and in good faith. The Syndicates agree to provide the Home Companies with copies of any and all documentation which has reference to such determinations or upon which such determinations are based; and (iii) in no event shall the Commuted Agreements incorporate or be deemed to incorporate Outwards Reinsurance Agreements or any line underwritten on the Inwards Reinsurance Agreements constituting or involving Pool/Agency Business (as hereinafter defined),

City Insurance Business (as hereinafter defined) or, except as otherwise provided in Paragraph 10, Home U.K. Branch Business (as hereinafter defined).

2. This Agreement shall only become effective ("the Effective Date") on the date that it is approved by the New Hampshire Superior Court for Merrimack County ("the Court"), being the court before which liquidation of the Home Companies is presently pending.

3. Subject to Paragraphs 6 and 10, it is agreed between the Parties that within fourteen (14) days after the Effective Date, the Syndicates will pay to the Home Companies the net sum of [REDACTED] ("the Net Settlement Sum") in full and final settlement of any and all past, present and future liabilities due or potentially due from the Parties to each other under the Commuted Agreements, with time being of the essence in the performance by the Syndicates in effecting such payment. The payment of the Net Settlement Sum shall be effected by wire transfer as follows:

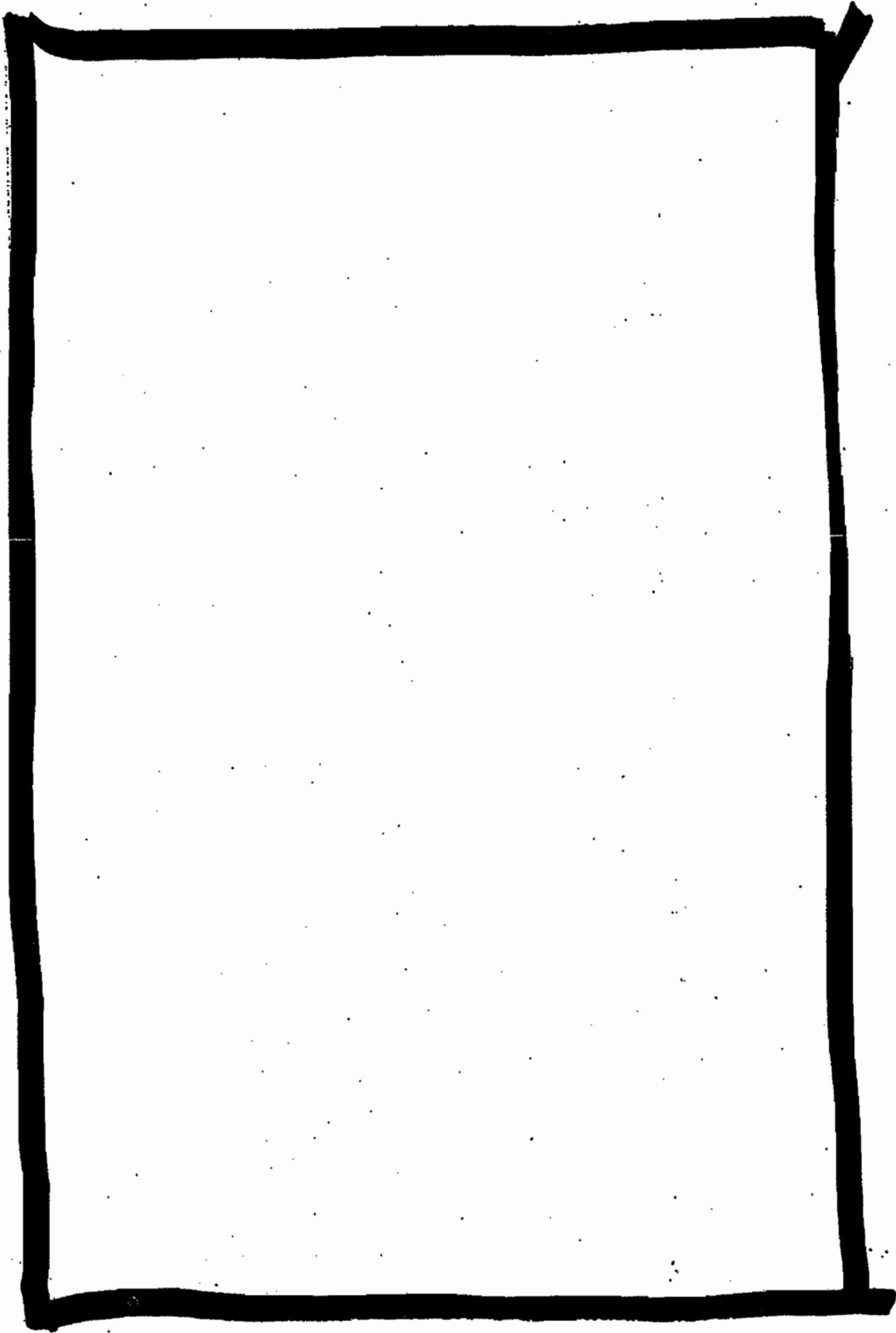
Citizens Bank, Manchester, NH, USA  
ABA No. [REDACTED]  
For the Account of The Home Insurance Company in  
Liquidation  
Account No. [REDACTED]

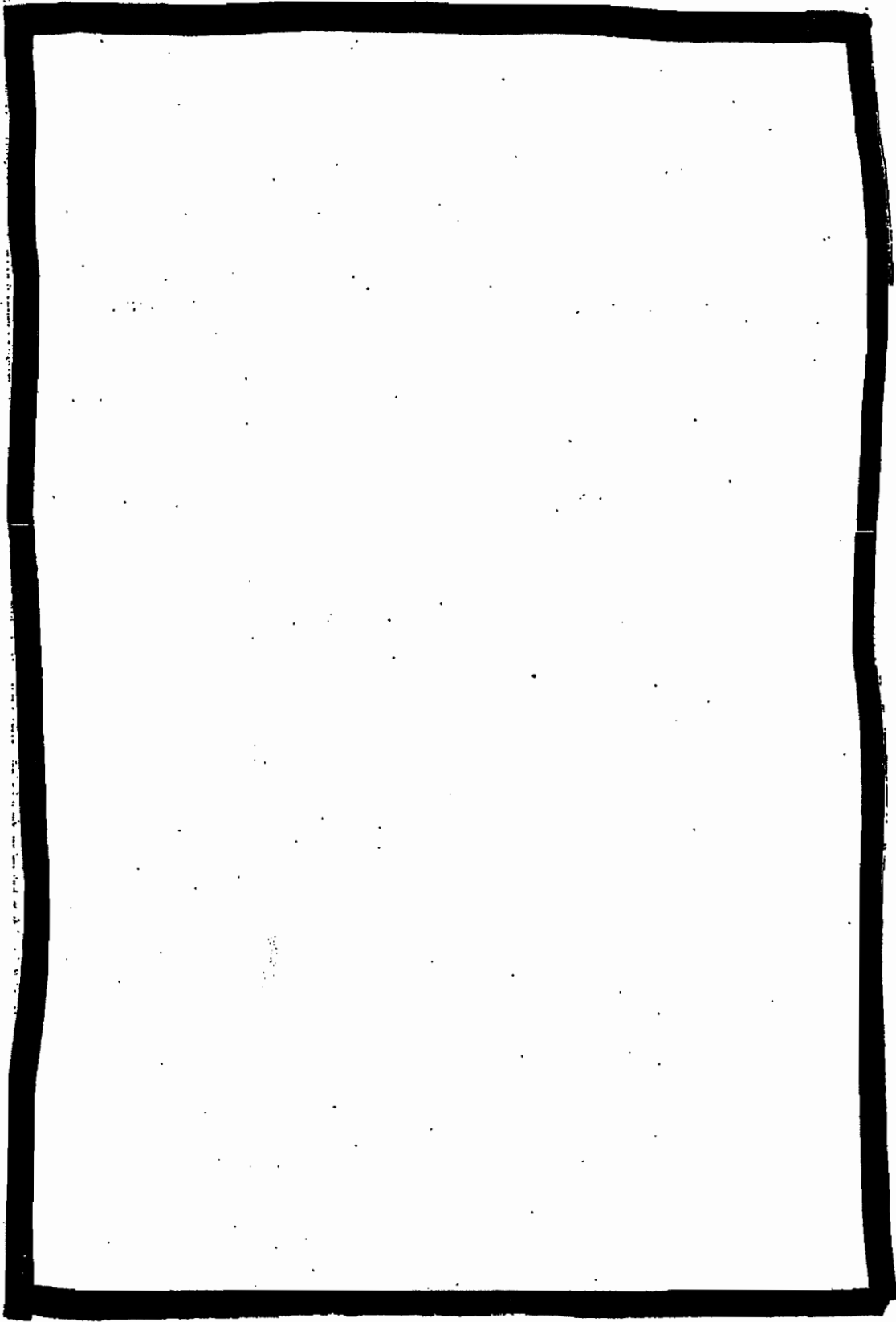
4. Without prejudice to Home's right to terminate this Agreement under Paragraph 5 below, if the Syndicates fail to pay any portion of the Net Settlement Sum within fourteen (14) days after the Effective Date, the Syndicates shall pay (a) interest on any unpaid amounts at the rate of [REDACTED] (simple rate) per annum from the Effective Date; and (b) any and all costs, including reasonable attorneys fees, incurred by the Home Companies in recovering the Net Settlement Sum in full (the "Collection Costs"). The acceptance by the Home Companies of the Net Settlement Sum together with all interest and Collection Costs due in respect of late payment as determined and calculated as aforesaid shall (subject to the terms of this Agreement) constitute full performance by the Syndicates pursuant to Paragraph 3 as if payment of the Net Settlement Sum had been made in full within fourteen (14) days after the Effective Date.

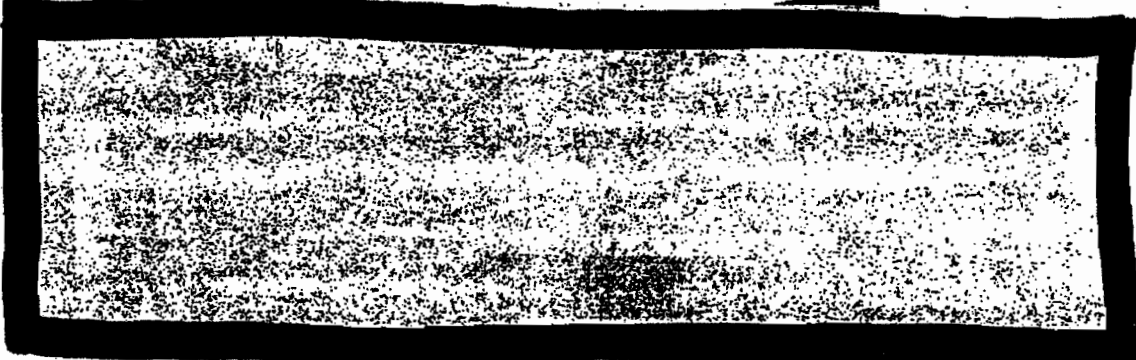
5. Notwithstanding the provisions of Paragraph 4, in the event that the Syndicates fail to pay any portion of the Net Settlement Sum within fourteen (14) days after the Effective Date (and notwithstanding any claim that may be asserted by the Home Companies for interest and Collection Costs), the Home Companies shall be entitled, at their sole discretion, to either seek enforcement of this Agreement or, by notice in writing to the Syndicates, to terminate this Agreement and return all amounts already paid, in which event (a) this Agreement shall be null and void; (b) the *status quo ante* of the Parties shall be fully restored; and (c) all of the rights and obligations of the Parties with respect to the Commuted Agreements shall be fully reinstated as if this Agreement had never been made.

6.









7. The Parties agree and acknowledge that they do not have a list of all contracts constituting the Outwards Reinsurance Agreements. Nevertheless, it is the intention of the Parties that all the Outwards Reinsurance Agreements entered into between the Home Companies and the Syndicates, whether currently known or unknown, and all the Inwards Reinsurance Agreements be fully and finally settled and commuted under the terms of this Agreement; provided that it is expressly agreed and acknowledged by the Parties that, except as otherwise provided in Paragraph 10, under no circumstances shall the terms Commuted Agreements, Outwards Reinsurance Agreements or Inwards Reinsurance Agreements include Pool/Agency Business, City Insurance Business or Home U.K. Branch Business, all of which are, subject to Paragraph 10, excluded from the scope of this Agreement. For purposes of this Agreement:

(a) "Pool/Agency Business" shall mean (i) any business underwritten on behalf of any of the Syndicates or the Home Companies by an Independent Underwriting Agent (as hereinafter defined) either acting for any of the Syndicates or the Home Companies alone or jointly with other underwriters as members of an underwriting pool; and (ii) any reinsurance specifically procured by an Independent Underwriting Agent from any of the Syndicates or the Home Companies to cover business underwritten on behalf of any of the Syndicates or the Home Companies by that Independent Underwriting Agent either acting for the Syndicates or the Home Companies alone or jointly with other underwriters as members of an Underwriting Pool (as hereinafter defined).

The term "Independent Underwriting Agent" shall mean any third party not a party to this Agreement acting as agent and in that capacity appointed by any



of the Syndicates or the Home Companies and given authority to underwrite insurance and/or reinsurance business on behalf of any of the Syndicates or the Home Companies

The term "Underwriting Pool" shall mean an arrangement whereby an independent underwriting agent is appointed to act collectively on behalf of any of the Syndicates or the Home Companies and at least one other insurance/reinsurance company or syndicate (jointly referred to as "the Pool Companies") underwriting insurance/ reinsurance business on behalf of the Pool Companies.

For the avoidance of doubt reinsurances underwritten pursuant to a Lineslip (as hereinafter defined), Consortium Underwriting Arrangement (as hereinafter defined) or similar facility do not constitute Pool/Agency Business.

The term "Lineslip" shall mean an agreement between a group of syndicates and, as the case may be, insurance companies and a Lloyd's broker whereby in respect of a specific class of insurance business certain named or otherwise designated syndicates or insurance companies within the group may accept risks introduced by that Lloyd's broker on behalf of all of the members of the group in accordance with the terms of the agreement.

The term "Consortium Underwriting Arrangement" shall mean a group of syndicates and, as the case may be, insurance companies who have agreed that in respect of a specific class of insurance business certain named or otherwise designated syndicates or insurance companies within that group may accept risks on behalf of all members of the group in accordance with the terms of the agreement between them.

(b) "City Insurance Business" shall mean all contracts of reinsurance assumed and ceded by City Insurance Company, a New Jersey domiciled

insurance company merged into the Home Insurance Company, which merger was approved by Order of the Commissioner of Insurance for the State of New Jersey dated June 9, 1995.

(c) "Home U.K. Branch Business" shall mean all contracts of reinsurance assumed and ceded by the United Kingdom Branch of the Home Insurance Company including, *inter alia*, all business assumed and ceded through the participation of the United Kingdom branch of the Home Insurance Company as a member of the American Foreign Insurance Association.

8. Subject to the terms and conditions of this Agreement, and in consideration of and as a condition precedent to the timely payment of the Net Settlement Sum by the Syndicates, the the Liquidator and the Home Companies on behalf of themselves, their officers, directors, employees, agents, attorneys, affiliates, shareholders, parents, predecessors, successors and assigns, hereby release and discharge the Syndicates, their officers, directors, employees, agents, attorneys, affiliates, shareholders, parents, predecessors, successors and assigns to the extent permitted by law from any and all adjustments, obligations, offsets, actions, causes of action, suits, debts, dues, sums of money, accounts, reckonings, premiums, return premiums, unearned premiums, losses, salvage, commissions, variances, expenses, acts, omissions, executions, bonds, bills, covenants, contracts, controversies, agreements, promises, damages, judgments, claims and demands whatsoever, all whether known or unknown in law or in equity, which the Home Companies ever had, now have, or hereafter may have against the Syndicates by reason of any matter whatsoever arising out of or in connection with or in relation to the Commuted Agreements. Additionally, in relation to the release hereby granted, the Home Companies fully understand and expressly waive their rights and benefits under any provision of law which substantially provides that:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

The foregoing releases also extend to Equitas Reinsurance Limited and Equitas Limited. Both of these entities are third-party beneficiaries of the terms of the releases.

9. Subject to the terms and conditions of this Agreement, and in consideration of the release of the Syndicates by the Home Companies pursuant to Paragraph 8, the Syndicates, their officers, directors, employees, agents, attorneys, affiliates, shareholders, parents, predecessors, successors and assigns, hereby

(i) release and discharge the Liquidator and the Home Companies, and their respective officers, directors, employees, agents, attorneys, affiliates, shareholders, parents, predecessors, successors and assigns to the extent permitted by law from any and all adjustments, obligations, offsets, actions, causes of action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, premiums, return premiums, unearned premiums, losses, salvage, commissions, variances, expenses, acts, omissions, executions, covenants, contracts, controversies, agreements, promises, damages, judgments, claims and demands whatsoever, all whether known or unknown in law or in equity, which the Syndicates ever had, now have, or hereafter may have against the Home Companies by reason of any matter whatsoever arising out of or in connection with or in relation to the Commuted Agreements. Additionally, in relation to the release hereby granted, the Syndicates fully understand and expressly waive their rights and benefits under any provision of law which substantially provides that:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor; and

(ii) indemnify and hold harmless the Liquidator and the Home Companies and their respective officers, directors, employees, agents, attorneys, affiliates, shareholders, parents, predecessors, successors and assigns against any and all claims and demands by reason of any matter whatsoever made under, arising out of, in connection with or in relation to the Commuted Agreements by Equitas Reinsurance Limited and/or Equitas Limited.

10. The Parties agree and acknowledge that in determining the Net Settlement Sum, an amount of \$20,000,000.00 was credited to the Syndicates pursuant to New Hampshire Revised Statute, RSA 402-C:34 in recognition of their offset rights arising from Home U.K. Branch Business (the "Offset Amount"). In that regard, the Syndicates agree (a) to make timely

filings of proofs of claim in and to the Home estate for an amount at least equal to the Offset Amount and to prove-up and/or prosecute such claims until a final determination is forthcoming as to the value of such claims for purposes of admission or denial of such claims in and to the Home estate; (b) that the first \$20,000,000.00 of claims of the Syndicates with respect to Home U.K. Branch Business that are admitted into the Home estate shall not give rise to any distribution and shall be deemed to have satisfied the Offset Amount and to have extinguished any further offset entitlement on the part of the Syndicates with respect to the Home estate other than the Syndicates offset rights in relation to City Insurance Business; provided, however, in the event that the Syndicates are unsuccessful in having the full extent of the Offset Amount admitted into the Home estate by June 30, 2006 (the "Initial Offset Determination Date"), then, subject to Paragraph 10 (c), that portion of the Offset Amount that is admitted into the Home estate thereafter shall bear interest at a rate of 5.5% per annum accruing from the Initial Offset Determination Date to the date of submission of the claim to the Home estate, which interest amount shall promptly be remitted by the Syndicates to Home; and (c) that in the event that the Syndicates are unsuccessful in having the full extent of the Offset Amount admitted into the Home estate by June 30, 2008 (the "Final Offset Determination Date"), they shall promptly remit to Home the difference between the Offset Amount and the amount actually admitted in and to the Home estate plus interest thereon at the rate of 5.5% per annum accruing from the Effective Date; provided that there shall be no remittance obligation on the part of the Syndicates with respect to those pending claims made by the Syndicates which have at the Final Offset Determination Date been submitted to the Home and which are subsequently admitted into the Home estate.

11. This Agreement shall, subject to its approval by the Court, be binding upon and shall inure to the benefit of the Parties. The Parties each represent and warrant that they have not prior hereto assigned or otherwise transferred to any other entity any of the rights, entitlements or interests in or to the reinsurance agreements commuted and released hereunder.

12. This Agreement is the result of a compromise freely entered into by the Parties, embodies the final, complete and entire agreement between the Parties and may not be amended, varied, modified, waived and terminated unless such amendment, variation, modification, waiver or termination is in writing and signed by the Parties. This Agreement is the product of the Parties 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. Subject to the provisions of this Agreement, including but not limited to Paragraphs 6 and 10 hereof, (a) this Agreement is intended to accomplish a full and complete release and discharge of all past, present and future actual or alleged rights, obligations and liabilities arising or allegedly arising under the Commuted Agreements; (b) no Party shall take any action that would prevent the effectuation of such full and complete release; and (c) (i) in the event that any part of this Agreement should for any reason become or be found to be null, void, illegal or otherwise unenforceable, such that the full and complete release and discharge of a Party is not accomplished, that Party shall have the right at its discretion to void the Agreement in its entirety, and shall in the event it chooses to void this Agreement be entitled to the return of all monies paid to any other Party under this Agreement; and (ii) in the event that any part of this Agreement should for any reason become or be found to be null, void, illegal or otherwise unenforceable, such that the full and complete release of the Parties is not accomplished, that part shall be struck out to the extent that it is so null, void, illegal or unenforceable and the remaining provisions of this Agreement shall remain in full force and effect. In either eventuality, and prior to any Party's exercise of a right arising under this provision to void the Agreement, the Parties shall negotiate in good faith to amend this Agreement through the insertion of provisions which are valid, enforceable and legal and reflect to the extent possible the economic and business purposes contained in the invalid, unenforceable or illegal provisions.

14. In the event of a dispute between the Parties regarding any aspect of this Agreement, other than a dispute governed by Paragraph 6 (c), the Parties agree to mediate their differences as a precondition to initiating litigation with respect to such dispute. A Party may not commence mediation without first completing the meeting process as defined below.

(a) Meetings: The existence of a dispute is established when one Party notifies the other, in writing, of the existence and nature of a dispute along with a reference to this provision of the Agreement. Within 14 business days after receipt of the said notice, the Parties or their representatives shall confer by telephone in an effort to determine the nature of the dispute and whether it can be amicably resolved.

(b) Non-binding Mediation: If the Parties cannot resolve the dispute at the meeting referenced above, or subsequent meetings held upon agreement of the Parties, the Parties agree to attempt in good faith to resolve the dispute through confidential, non-binding, third-party mediation.

15. The Parties hereby agree that, subject to Paragraphs 5, 6, 10 and 13 (c), this Agreement shall take precedence over and supersede the Commuted Agreements and that notwithstanding anything to the contrary contained therein, this Agreement shall, subject to the terms and conditions hereof, operate as a full and final settlement, commutation and release of the respective rights, obligations and liabilities of the parties under the Commuted Agreements. In addition, the Parties and their respective successors and assigns absolutely and unconditionally covenant and agree that upon consummation of the transactions contemplated by this Agreement, neither will demand, claim or file suit or initiate arbitration proceedings against the other with respect to any matters relating to or arising out of the Commuted Agreements.

16. 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.

17. 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.

18. (a) the under-signed signatory for the Syndicates warrants that he is duly authorized to enter into this Agreement and the transactions contemplated herein on behalf of the Syndicates; that he is fully authorized to execute this Agreement on behalf of the Syndicates; 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; (b) the Parties represent and warrant to each other that no other agreement, undertaking, contract or matter is known to exist that might render this Agreement void, voidable or unenforceable; and that they have read this Agreement, they understand its contents and that they are executing it freely and voluntarily with an intent to be bound by its terms; and (c) the Liquidator represents and warrants that, subject to the Court's approval, he is duly authorized to enter into this Agreement and the transactions contemplated herein; that he will make reasonable efforts to obtain the Court's approval of this Agreement; and that the Special Deputy Liquidator signing this Agreement is fully authorized to execute this Agreement on his behalf.

19. 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.

20. 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.

21. It is hereby agreed that the Parties, including but not limited to their attorneys, agents, representatives and affiliates, will not make any press statement or other form of public disclosure of the existence or terms of this Agreement and 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, reinsurers, retrocessionaires 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, or in support of a motion for approval by the Court.

22. The parties agree and acknowledge that the consideration for this Agreement, provided in exchange for the parties' mutual promises made herein, is fair and reasonable and that they have each received and/or paid fair market value for the reinsurance protection being commuted. 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. It is agreed by the Parties that any funds paid by either party to their brokers prior to this Agreement for the account of the other party are the property of the other party. It is hereby agreed that the Parties shall provide all reasonable assistance to each other in collecting those balances from the brokers where the broker has not paid the funds to the other party. The Parties agree to provide said reasonable assistance to each other for a period of 18 months from the date of this Agreement.

24. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute one instrument. This Agreement may be executed and transmitted by telecopier provided that an original executed copy shall be exchanged promptly to be substituted for copies executed and transmitted by telecopier.

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

Roger A. Sevigny, New Hampshire Commissioner of Insurance,  
solely in his capacity as Liquidator of  
The Home Insurance Company and U.S. International Reinsurance Company

By: Peter Bengelsdorf

Dated: January 16, 2004

Name: Peter Bengelsdorf

Title: Special Deputy Liquidator

Jeremy Hays, as duly authorized representative  
for and on behalf of the Syndicates

By: Jeremy Hays

Dated: January 20, 2004

Name: Jeremy Hays

Title: Reinsurance Recoveries Director



**EXHIBIT A**