

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

JUNE 1, 2001
Date of Report (Date of earliest event reported)

WHITE MOUNTAINS INSURANCE GROUP, LTD.
(Exact name of registrant as specified in its charter)

BERMUDA (State or other jurisdiction of incorporation or organization)	1-8993 (Commission file number)	94-2708455 (I.R.S. Employer Identification No.)
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80 SOUTH MAIN STREET, HANOVER, NEW HAMPSHIRE 03755
(Address of principal executive offices)

(603) 643-1567
(Registrant's telephone number, including area code)

ITEM 5. OTHER EVENTS.

White Mountains Insurance Group, Ltd. (the "Registrant") announced today that it has completed its acquisition of the U.S. property and casualty operations ("CGU") of London-based CGNU plc. In connection with the transaction, CGU has entered into reinsurance agreements with National Indemnity Company ("NICO") and General Re Corporation ("GRC") which provide CGU with significant reinsurance protection against unanticipated increases in recorded reserves for insurance losses and loss adjustment expenses.

The Stock Purchase Agreement and the press release dated September 25, 2000 were previously filed as Exhibits 99 (a) and 99 (b), respectively, to the Form 8-K dated September 25, 2000. Amendment No.1 to the Stock Purchase Agreement, the Registrant's press release dated October 19, 2000, the Convertible Preferred Stock Term Sheet, the Berkshire Hathaway Preferred Stock and Warrants Term Sheet, the Senior Secured Credit Facilities Commitment and the Amendment to the Senior Secured Credit Facilities Commitment were previously filed as Exhibits 99(c), 99(d), 99(e), 99(f), 99(g) and 99(h), respectively, to the Form 8-K dated October 19, 2000. Amendment No. 2 to the Stock Purchase Agreement, the summary of the terms and conditions of the modified Lehman financing commitment and the Registrant's press release dated February 20, 2001 were previously filed as Exhibits 99(i), 99(j) and 99(k), respectively, to the Form 8-K dated February 20, 2001.

The reinsurance contracts with NICO and GRC (and related agreements) and the Registrant's press release dated May 31, 2001 are attached herewith as Exhibits 99(m), 99(n), 99(o), 99(p), 99(q) and 99(r), respectively, and are incorporated by reference in their entirety.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits. The following exhibits are filed herewith:

EXHIBIT NO.	DESCRIPTION
99 (m)	Adverse Development Agreement of Reinsurance No. 8888 between Potomac Insurance Company ("PIC") and GRC dated April 13, 2001.
99 (n)	Adverse Development Agreement of Reinsurance between CGU Insurance Company (and certain of its affiliates) and PIC dated April 13, 2001.
99 (o)	Aggregate Loss Portfolio Reinsurance Agreement between PIC and NICO dated March 15, 2001.
99 (p)	Aggregate Loss Portfolio Reinsurance Agreement between CGU Insurance Company and PIC dated March 15, 2001.
99 (q)	Administration Services Agreement by and among PIC, CGU Insurance Company and NICO dated as of April 13, 2001.
99 (r)	Text of press release issued by White Mountains Insurance Group, Ltd., dated June 1, 2001.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WHITE MOUNTAINS INSURANCE GROUP, LTD.

Dated: June 1, 2001

By: /s/ _____
Michael S. Paquette
Senior Vice President and
Controller

ADVERSE DEVELOPMENT
AGREEMENT OF REINSURANCE NO. 8888

between

POTOMAC INSURANCE COMPANY
One Beacon Street
Boston, Massachusetts 02108
(herein referred to as the "Reinsurer")

and

GENERAL REINSURANCE CORPORATION
a Delaware corporation
having its principal offices at
Financial Centre
695 East Main Street P.O. Box 10350
Stamford, Connecticut 06904-2350
(herein referred to as the "Retrocessionaire")

In consideration of the promises set forth in this Agreement, the parties agree as follows:

ARTICLE I - CONDITIONS PRECEDENT

The following are conditions precedent to the Retrocessionaire's obligations under this Agreement:

- (1) Acquisition of CGU INSURANCE COMPANY and its affiliated companies by White Mountains Insurance Group, Ltd. by no later than July 1, 2001;
- (2) Execution of the Original Contract; and
- (3) Payment by the Reinsurer to the Retrocessionaire on the Closing Date of 100% of the reinsurance premium due to the Reinsurer on the Closing Date.

ARTICLE II - SCOPE OF AGREEMENT

The Reinsurer shall retrocede to the Retrocessionaire the business described in this Agreement, and the Retrocessionaire shall accept such business as a retrocession from the Reinsurer. The terms of this Agreement shall determine the rights and obligations of the Reinsurer and the Retrocessionaire.

ARTICLE III - PARTIES TO THE AGREEMENT

This Agreement is solely between the Reinsurer and the Retrocessionaire. Performance of the obligations of each party under this Agreement shall be rendered solely to the other party. However, if the Reinsurer becomes insolvent, the liability of the Retrocessionaire shall be modified to the extent set forth in the article entitled INSOLVENCY OF THE REINSURER. In no instance shall any insured or reinsured of the Reinsurer or any claimant against an insured or reinsured of the Reinsurer have any rights under this Agreement.

ARTICLE IV - BUSINESS COVERED

This Agreement shall apply to Ultimate Net Loss assumed by the Reinsurer under the Adverse Development Agreement of Reinsurance (hereinafter referred to as the "Original Contract") between the Reinsurer and the Company, as defined in the Original Contract. Capitalized terms used in this Agreement which are not defined in this Agreement shall have the meanings defined in the Original Contract.

A copy of the Original Contract and Endorsements, if any, thereto are attached to and made a part of this Agreement.

The Reinsurer warrants that it shall enforce all of the terms and conditions of the Original Contract.

Further, the Reinsurer shall obtain the Retrocessionaire's approval:

- (a) Of any change in, or waiver of, the terms and conditions of the Original Contract;
- (b) Before giving its approval with respect to (i) any one settlement in excess of \$10,000,000 and (ii) every settlement in excess of \$3,000,000, once the aggregate of all settlements in excess of \$10,000,000 made after the Closing Date reaches \$40,000,000, as required under Article XI - MANAGEMENT OF CLAIMS AND LOSSES of the Original Contract;
- (c) Before giving its approval to the modification or purchase of any reinsurance as described in Article XIII - OTHER REINSURANCE of the Original Contract, and
- (d) Before giving its approval to the form of release to be delivered in connection with a commutation pursuant to Article XVII - COMMUTATION of the Original Contract.

ARTICLE V - TERM

This Agreement will be effective on the Closing Date, as defined in the Original Contract, and continue in full force until all obligations and liabilities incurred by each party under the Agreement are fully performed and discharged, unless sooner terminated by commutation or by mutual agreement.

ARTICLE VI - LIABILITY OF THE RETROCESSIONAIRE

The Retrocessionaire shall pay to the Reinsurer 100% of the amount of Ultimate Net Loss, as defined in the Original Contract, paid by the Reinsurer under the terms and conditions of the Original Contract.

The liability of the Retrocessionaire shall follow that of the Reinsurer and shall be subject to all of the general and specific terms and conditions, including all definitions and exclusions, of the Original Contract, except insofar as they are inconsistent with the express terms of this Agreement.

ARTICLE VII - MANAGEMENT OF CLAIMS AND LOSSES

When requested by the Retrocessionaire, the Reinsurer shall permit the Retrocessionaire, at the expense of the Retrocessionaire, to be associated with the Reinsurer in the defense or control of any claim, loss, or legal proceeding which involves or is likely to involve the Retrocessionaire. All payments of claims or losses by the Reinsurer within the terms and limits of the Original Contract shall be binding on the Retrocessionaire, subject to the terms of this Agreement.

ARTICLE VIII - RECOVERIES

The Reinsurer shall pay to or credit the Retrocessionaire with the Retrocessionaire's portion of any recovery obtained from salvage, subrogation, or other insurance.

The Retrocessionaire shall be subrogated to the rights of the Reinsurer to the extent of its loss payments to the Reinsurer.

ARTICLE IX - RETROCESSIONAL PREMIUM

On the Closing Date, the Reinsurer shall pay to the Retrocessionaire 100% of the reinsurance premium due to the Reinsurer on the Closing Date.

In addition, within 95 days after the close of each calendar quarter after the Closing Date, the Reinsurer shall pay to the Retrocessionaire 100% of the Optional Retrospective Premium received during the quarter.

Any amounts due the Retrocessionaire may be remitted by wire transfer to:

Bankers Trust
ABA 021001033
For Credit to Acct #50-205-426
Account Name: General Reinsurance

ARTICLE X - REPORTS AND REMITTANCES

(a) CLAIMS AND LOSSES

Within 35 days after the close of each calendar quarter, the Reinsurer shall render to the Retrocessionaire a report of the Ultimate Net Loss payable by the Reinsurer at the end of the quarter under the Original Contract and the Retrocessionaire's portion, if any, thereof. Any amount payable by the Retrocessionaire to the Reinsurer shall be paid within 5 business days after receipt of such report.

(b) GENERAL

The Reinsurer shall provide the Retrocessionaire with copies of all reports received by the Reinsurer from the Company under the Original Contract, if requested by the Reinsurer.

In addition to the reports required by (a) above, the Reinsurer shall furnish such other information as may be required by the Retrocessionaire for the completion of the Retrocessionaire's quarterly and annual statements and internal records.

All reports shall be rendered on forms or in format acceptable to the Reinsurer and the Retrocessionaire.

ARTICLE XI - ASSIGNEE

The Reinsurer designates the Retrocessionaire as its "assignee" with respect to Article XVI - OPTION FOR ADDITIONAL CEDED BUSINESS of the Original Contract. Therefore, if there are Significant Negative Results, the Retrocessionaire has the option, but not the obligation, to cause the Company to enter into a first dollar quota share reinsurance agreement, as described in said Article XVI of the Original Contract, with the Retrocessionaire, subject to the terms and conditions of said Article XVI.

The Reinsurer also designates the Retrocessionaire as its "assignee" with respect to Article XXIII - INSPECTION OF RECORDS of the Original Contract. Therefore, the Retrocessionaire shall have the right to inspect the records of the Company relevant to the business reinsured under the Original Agreement in accordance with the provisions of said Article XXIII.

The Reinsurer also designates the Retrocessionaire as its "assignee" with respect to Article XXIV - ARBITRATION of the Original Contract. Therefore, if there is an unresolved difference of opinion between the Company and the Retrocessionaire relating to the Original Contract, the Reinsurer shall cause the Company to arbitrate with the Retrocessionaire in accordance with the provisions of said Article XXIV.

ARTICLE XII - COMMUTATION

This Agreement shall automatically commute upon commutation of the Original Contract, subject to:

- (1) Payment of the Experience Balance, as defined in the Original Contract, by the Retrocessionaire to the Reinsurer on or before the Commutation Date, as defined in the Original Contract, and
- (2) Delivery by the Reinsurer to the Retrocessionaire of a signed release in a form satisfactory to the Retrocessionaire, on or before the Commutation Date.

ARTICLE XIII - ERRORS AND OMISSIONS

The Retrocessionaire shall not be relieved of liability because of an error or accidental omission of the Reinsurer in reporting any claim or loss or any business reinsured under this Agreement, provided that the error or omission is rectified promptly after discovery.

ARTICLE XIV - RESERVES

The Retrocessionaire shall maintain the required reserves as to the Retrocessionaire's portion of unearned premium, if any, claims, losses, and allocated and unallocated loss adjustment expense.

ARTICLE XV - OFFSET

The Reinsurer or the Retrocessionaire may offset any balance, whether on account of premium, commission, claims or losses, allocated and unallocated loss adjustment expense, salvage, or otherwise, due from one party to the other under this Agreement or under any other agreement heretofore or hereafter entered into between the Reinsurer and the Retrocessionaire.

ARTICLE XVI - INSPECTION OF RECORDS

The Reinsurer shall allow the Retrocessionaire to inspect, at reasonable times, the records of the Reinsurer relevant to the business reinsured under this Agreement, including the Reinsurer's files concerning claims, losses, or legal proceedings which involve or are likely to involve the Retrocessionaire.

ARTICLE XVII - ARBITRATION

All unresolved differences of opinion between the Reinsurer and the Retrocessionaire relating to this Agreement, including its formation and validity, shall be submitted to arbitration consisting of one arbitrator chosen by the Reinsurer, one arbitrator chosen by the Retrocessionaire, and a third arbitrator chosen by the first two arbitrators.

The party demanding arbitration shall communicate its demand for arbitration to the other party by registered or certified mail, identifying the nature of the dispute and the name of its arbitrator, and the other party shall then be bound to name its arbitrator within 30 days after receipt of the demand.

Failure or refusal of the other party to so name its arbitrator shall empower the demanding party to name the second arbitrator. If the first two arbitrators are unable to agree upon a third arbitrator after the second arbitrator is named, each arbitrator shall name three candidates, two of whom shall be declined by the other arbitrator, and the choice shall be made between the two remaining candidates by drawing lots. The arbitrators shall be impartial and shall be active or retired officers of property or casualty insurance or reinsurance companies.

The arbitrators shall adopt their own rules and procedures and are relieved from judicial formalities. In addition to considering the rules of law and the customs and practices of the insurance and reinsurance business, the arbitrators shall make their award with a view to effecting the intent of this Agreement.

The decision of the majority of the arbitrators shall be in writing and shall be final and binding upon the parties.

Each party shall bear the cost of its own arbitrator and shall jointly and equally bear with the other party the expense of the third arbitrator and other costs of the arbitration. In the event both arbitrators are chosen by one party, the fees of all arbitrators shall be equally divided between the parties.

The arbitration shall be held at the times and places agreed upon by the arbitrators.

ARTICLE XVIII - INSOLVENCY OF THE REINSURER

In the event of the insolvency of the Reinsurer, the reinsurance proceeds will be paid to the Reinsurer or the liquidator, with reasonable provision for verification, on the basis of the claim allowed in the insolvency proceeding without diminution by reason of the inability of the Reinsurer to pay all or part of the claim, except as otherwise specified in the statutes of any state having jurisdiction of the insolvency proceedings or except where the Agreement, or other written agreement, specifically provides another payee of such reinsurance in the event of insolvency.

The Retrocessionaire shall be given written notice of the pendency of each claim against the Reinsurer on the Original Contract within a reasonable time after such claim is filed in the insolvency proceedings. The Retrocessionaire shall have the right to investigate each such claim and to interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defenses which it may deem available to the Reinsurer or its liquidator. The expense thus incurred by the Retrocessionaire shall be chargeable, subject to court approval, against the insolvent Reinsurer as part of the expense of liquidation to the extent of a proportionate share of the benefit which may accrue to the Reinsurer solely as a result of the defense undertaken by the Retrocessionaire.

ARTICLE XIX - NOTICES

All notices and communications hereunder shall be in writing and shall become effective when received. Any written notice shall be by either certified or registered mail, return receipt requested, or overnight delivery service (providing for delivery receipt) or delivered by hand. All notices or communications under this Agreement shall be addressed as follows:

If to the Reinsurer:

c/o CGU Corporation
One Beacon Street
Boston, MA 02108
Attention: General Counsel

If to the Retrocessionaire:

c/o General Reinsurance Corporation
Financial Centre
695 East Main Street
P.O. Box 10350
Stamford, CT 06904-2350
Attention: General Counsel

or in each case at such other address as either party shall provide to the other within the provisions of this article.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate,

this _____ day of _____, 200__,

POTOMAC INSURANCE COMPANY

Attest: _____

and this _____ day of _____, 200__.

GENERAL REINSURANCE CORPORATION

Vice President

Attest: _____

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ADVERSE DEVELOPMENT
AGREEMENT OF REINSURANCE NO. 8888
between
POTOMAC INSURANCE COMPANY
and
GENERAL REINSURANCE CORPORATION

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ADVERSE DEVELOPMENT
AGREEMENT OF REINSURANCE

between

CGU INSURANCE COMPANY and the
following affiliated companies:
AMERICAN CENTRAL INSURANCE COMPANY
AMERICAN EMPLOYERS' INSURANCE COMPANY
CGU INSURANCE COMPANY OF ILLINOIS
CGU INSURANCE COMPANY OF NEW JERSEY
CGU INSURANCE COMPANY OF NEW YORK
COMMERCIAL UNION INSURANCE COMPANY
COMMERCIAL UNION MIDWEST INSURANCE COMPANY
COMMERCIAL UNION YORK INSURANCE COMPANY
CU HOMELAND INSURANCE COMPANY
CU LLOYD'S OF TEXAS
THE EMPLOYERS' FIRE INSURANCE COMPANY
FARMERS AND MERCHANTS INSURANCE COMPANY
GA INSURANCE COMPANY OF NEW YORK
GENERAL ACCIDENT INSURANCE COMPANY
GENERAL ACCIDENT REINSURANCE COMPANY OF AMERICA
GENERAL ASSURANCE COMPANY
HAWKEYE-SECURITY INSURANCE COMPANY
MIDWESTERN INSURANCE COMPANY
NATIONAL FARMERS UNION PROPERTY AND CASUALTY COMPANY
NATIONAL FARMERS UNION STANDARD INSURANCE COMPANY
NORTH PACIFIC INSURANCE COMPANY
THE NORTHERN ASSURANCE COMPANY OF AMERICA
OREGON AUTOMOBILE INSURANCE COMPANY
POTOMAC INSURANCE COMPANY OF ILLINOIS
TRI-STATE INSURANCE COMPANY
UNITED SECURITY INSURANCE COMPANY
One Beacon Street
Boston, Massachusetts 02108
(herein collectively referred to as the "Company")

and

POTOMAC INSURANCE COMPANY
One Beacon Street
Boston, Massachusetts 02108
(herein referred to as the "Reinsurer")

In consideration of the promises set forth in this Agreement, the parties agree
as follows:

ARTICLE I - CONDITIONS PRECEDENT

The following are conditions precedent to the Reinsurer's obligations under this Agreement:

- (1) The payment of the Layer One and Layer Two reinsurance premiums by the Closing Date;
- (2) The Stop Loss and Adverse Development Covers on Accident Year 2000 that the Company entered into with CUREPOOL Ltd., Bermuda, are commuted by the Closing Date; and
- (3) The Reference Document is in effect on the Closing Date.

ARTICLE II - SCOPE OF AGREEMENT

The Company shall cede to the Reinsurer the business described in this Agreement, and the Reinsurer shall accept such business as reinsurance from the Company. The terms of this Agreement shall determine the rights and obligations of the Company and the Reinsurer.

ARTICLE III - PARTIES TO THE AGREEMENT

This Agreement is solely between the Company and the Reinsurer. When more than one Company is named as a party to this Agreement, the first Company named shall be the agent of the other companies as to all matters pertaining to this Agreement. Performance of the obligations of each party under this Agreement shall be rendered solely to the other party. However, if the Company becomes insolvent, the liability of the Reinsurer shall be modified to the extent set forth in the article entitled INSOLVENCY OF THE COMPANY. In no instance shall any insured or reinsured of the Company or any claimant against an insured or reinsured of the Company have any rights under this Agreement.

ARTICLE IV - BUSINESS COVERED

This Agreement shall apply to Ultimate Net Loss on all classes of business written by the Company on or before December 31, 2000, with respect to claims with accident dates December 31, 2000 and prior which are paid on or after the Closing Date, other than business excluded by the article entitled EXCLUSIONS.

ARTICLE V - TERM

This Agreement will be effective on the Closing Date, and continue in full force until all obligations and liabilities incurred by each party under the Agreement are fully performed and discharged, unless sooner terminated by commutation or by mutual agreement.

ARTICLE VI - COMPANY RETENTION

The Company Retention will be the amount of Ultimate Net Loss equal to:

- (1) The sum of:
 - (a) The amount of the Company's nominal (undiscounted) loss and Allocated and Unallocated Loss Adjustment Expense reserves on the Business Covered recorded on the books of the Company at the Closing Date, net of any other reinsurance, deductibles, or self-insured retentions (all three preceding items, whether collectible or not); and
 - (b) Any nominal (undiscounted) loss and Allocated and Unallocated Loss Adjustment Expense reserves on the Business Covered recorded by White Mountains Insurance Group, Ltd. in excess of those on the Company's books at the Closing Date.
- Less
- (2) \$170,000,000.

ARTICLE VII - LIABILITY OF THE REINSURER

- (A) Subject to the provisions of paragraph (B) and the article entitled LAYER TWO SUNSET PROVISION, the Reinsurer's limit of liability for Ultimate Net Loss on the Business Covered shall in no event exceed:
 - (1) LAYER ONE
\$570,000,000 of Ultimate Net Loss in excess of the Company Retention.
 - (2) LAYER TWO
\$80,000,000 of Ultimate Net Loss in excess of the sum of (1) the Company Retention; (2) \$570,000,000; and (3) the Corridor Layer.
- (B) In addition, subject to the Layer Two sunset provision:
 - (1) If there are no Significant Negative Results then, notwithstanding the Layer One Reinsurer's limit of liability of \$570,000,000 as stipulated above, the Reinsurer's limit of liability for Layer One will in no event exceed that amount of Layer One liability that will result in an Economic Loss to the Reinsurer of \$28,000,000; and
 - (2) If there are Significant Negative Results then:
 - (a) Notwithstanding the Layer One Reinsurer's limit of liability of \$570,000,000, the Reinsurer's limit of liability for Layer One will

in no event exceed that amount of Layer One liability that will result in an Economic Loss to the Reinsurer of \$24,000,000, and

- (b) Notwithstanding the Layer Two Reinsurer's limit of liability of \$80,000,000, the Reinsurer's limit of liability for Layer Two will in no event exceed that amount of Layer Two liability that will result in an Economic Loss to the Reinsurer of \$4,000,000.

ARTICLE VIII - LAYER TWO SUNSET PROVISION

The maximum amount of Reinsurer's Layer Two liability under the Agreement shall not exceed the amount of the Company's ceded payments and/or reserves for Layer Two losses on the Business Covered recorded in its December 31, 2001 financial statements and reported to the Reinsurer by certified or registered mail on or before February 15, 2002. The Company may elect to permanently waive in writing all or a portion of its Layer Two recoveries from the Reinsurer at any time.

ARTICLE IX - DEFINITIONS

(1) COMPANY RETENTION

This term shall mean the amount the Company shall retain for its own account pursuant to the article entitled COMPANY RETENTION.

(2) CLOSING DATE

This term shall mean the date on which the acquisition of the Company by White Mountains Insurance Group, Ltd. closes.

(3) REFERENCE DOCUMENT

This term shall mean the reinsurance agreement between the Reinsurer and National Indemnity Company to cover discontinued operations and other exposures of the Company and the Reinsurer signed and dated on March 15, 2001 and attached hereto as Attachment A.

(4) CORRIDOR LAYER

This term shall mean the additional layer of \$550,000,000 of Ultimate Net Loss in excess of the sum of (1) the Company Retention and (2) \$570,000,000, which the Company shall also retain net for its own account.

(5) ULTIMATE NET LOSS

Subject to the Loss Limitation, this term shall mean all payments by the Company in settlement of claims or losses, payment of benefits, or satisfaction of judgments or awards, including Allocated Loss Adjustment Expense, prejudgment interest which erodes the policy limit, and Unallocated Loss Adjustment Expense, net of other reinsurance, deductibles, or self-insured retentions (all three preceding items, whether collectible or not), salvage, subrogation and all other recoveries. If the Company becomes insolvent, this definition shall be modified to the extent set forth in the article entitled INSOLVENCY OF THE COMPANY.

Notwithstanding the provisions of the article entitled MANAGEMENT OF CLAIMS AND LOSSES, this term shall also include 100% of Losses in Excess of Policy Limits and 100% of Extra Contractual Obligations within the constraints of the Loss Limitation.

(6) ALLOCATED LOSS ADJUSTMENT EXPENSE

This term shall mean expenditures by the Company within the terms of its policies in the direct defense of claims and in connection with Losses in Excess of Policy Limits and Extra Contractual Obligations and as allocated to an individual claim or loss (other than for office expenses and for the salaries and expenses of employees of the Company or of any subsidiary or related or wholly owned company of the Company) made in connection with the disposition of a claim, loss, or legal proceeding including investigation, negotiation, and legal expenses; court costs; prejudgment interest which does not erode the policy limit; and prejudgment interest.

This term shall also be deemed to include any Declaratory Judgment Expenses incurred by the Company. The date on which a Declaratory Judgment Expense is incurred by the Company shall be deemed, in all circumstances, to be the date of the original occurrence.

(7) DECLARATORY JUDGMENT EXPENSE

This term shall mean expense incurred by the Company in bringing or in defending a declaratory judgment action brought to determine the Company's obligations to its insured with respect to a specific claim under a policy (or coverage part thereof) reinsured hereunder.

(8) UNALLOCATED LOSS ADJUSTMENT EXPENSE

This term shall mean any loss adjustment expenses which are not Allocated Loss Adjustment Expenses. Coverage of Unallocated Loss Adjustment Expenses hereunder is limited to 5% of the sum of (1) loss and (2) Allocated Loss Adjustment Expense, net of other reinsurance, deductibles, or self-insured retentions (all three preceding items, whether collectible or not), salvage, subrogation and all other recoveries, paid under this Agreement.

(9) LOSS IN EXCESS OF POLICY LIMITS AND EXTRA CONTRACTUAL OBLIGATIONS

- (a) The term "Loss in Excess of Policy Limits" shall mean a payment made to a third party claimant in excess of the policy limit resulting from an action taken by the insured or assignee arising from a third party claimant being awarded an amount in excess of the Company's policy limit as a result of the Company's failure to settle within the policy limit or of the Company's alleged or actual negligence or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its insured or in the preparation or prosecution of an appeal consequent upon such action.
- (b) The term "Extra Contractual Obligation" shall mean a loss which is not covered under any other provision of this Agreement and which arises from the Company's handling of any claim on the Business Covered.

The date on which a Loss in Excess of Policy Limits or an Extra Contractual Obligation is incurred by the Company shall be deemed, in all circumstances, to be the date of the original occurrence.

There shall be no coverage hereunder where the Loss in Excess of the Policy Limit or the Extra Contractual Obligation has been incurred due to the fraud or criminal conduct of a member of the Board of Directors, a corporate officer of the Company, or any other employee of the Company, acting individually or collectively or in collusion with any individual or corporation or any other organization or party involved in the investigation, defense or settlement of any claim covered hereunder.

Any insurance or reinsurance, whether collectible or not, which indemnifies or protects the Company against claims which are the subject matter of this definition and any contribution, subrogation, or recovery shall inure to the benefit of the Reinsurer and shall be deducted to arrive at the amount of the Company's Ultimate Net Loss.

(10) LOSS LIMITATION

If there are Significant Negative Results, then for purposes of calculating Ultimate Net Loss utilized in determining the Company Retention, the Corridor Layer and the Reinsurer's liability, the maximum amount of loss, Allocated Loss Adjustment Expense and Unallocated Loss Adjustment Expense includable with respect to Non-Reviewed Lines and Losses shall not exceed the sum of (1) nominal (undiscounted) reserves carried net of reinsurance (whether collectible or not) on such Non-Reviewed Lines and Losses at the Closing Date, and (2) \$200,000,000.

However, this Loss Limitation will be waived if the Company has paid Optional Retrospective Premium of \$40,000,000 or greater as stipulated in the article entitled REINSURANCE PREMIUM.

(11) NON-REVIEWED LINES AND LOSSES

This term shall mean the aggregate liability arising from (i) reserve lines (as distinguished from accident years) not reviewed by Tillinghast in its draft report dated January 18, 2001 on Loss and Allocated Loss Adjustment Expenses as of 6/30/00 for the CGU Insurance Group; plus (ii) the following reserve lines or types of losses: umbrella, Extra Contractual Obligations, Loss in Excess of Policy Limits, Declaratory Judgment Expense, pools and associations, asbestos, lead, environmental and pollution losses, Ohio uninsured motorist losses, financial guarantees, data damage losses, and construction defect losses; plus (iii) all losses specifically listed on Schedule 3 of the Reference Document.

(12) SIGNIFICANT NEGATIVE RESULTS

This term shall mean that the Company records ceded payments and/or reserves for Layer Two losses on the Business Covered in its December 31, 2001 financial statements, regardless of whether the Company subsequently elects to waive all or a portion of Layer Two recoveries from the Reinsurer.

(13) ECONOMIC LOSS

(a) As respects Layer One:

If there are no Significant Negative Results, this term shall mean the Net Present Value of Ultimate Net Loss payments made by Reinsurer in Layer One less the sum of (i) the Net Present Value of Layer One reinsurance premium paid and (ii) the Net Present Value of Optional Retrospective Premium actually paid to the Reinsurer as stipulated in the article entitled REINSURANCE PREMIUM.

If there are Significant Negative Results at any time after the Closing Date, this term shall mean the Net Present Value of Ultimate Net Loss payments made by the Reinsurer in Layer One less the sum of (i) the Net Present Value of Layer One reinsurance premium paid and (ii) if positive, the difference between the Net Present Value of Optional Retrospective Premium actually paid to the Reinsurer and \$40,000,000.

(b) As respects Layer Two, this term shall mean the Net Present Value of Ultimate Net Loss payments made by Reinsurer in Layer Two less the Net Present Value of Layer Two reinsurance premium paid.

(14) NET PRESENT VALUE

For purposes of calculating Economic Loss, any payments made by either the Reinsurer or the Company will be discounted back to the Closing Date, using the five-year United States Treasury Bill effective yield at the Closing Date.

ARTICLE X - EXCLUSIONS

This Agreement shall not apply to:

- (1) Business covered in the Reference Document;
- (2) All liability of the Company arising, by contract, operation of law, or otherwise, from its participation or membership, whether voluntary or involuntary, in any insolvency fund. "Insolvency fund" includes any guaranty fund, insolvency fund, plan, pool, association, fund, or other arrangement, howsoever denominated, established, or governed, which provides for any assessment of or payment or assumption by the Company of part or all of any claim, debt, charge, fee, or other obligation of an insurer, or its successors or assigns, which has been declared by any competent authority to be insolvent, or which is otherwise deemed unable to meet any claim, debt, charge, fee, or other obligation in whole or in part;
- (3) Nuclear risks, as defined in the "Nuclear Incident Exclusion Clauses - Liability - Reinsurance - U.S.A. and Canada", "Nuclear Incident Exclusion Clause - Physical Damage - Reinsurance - U.S.A. and Canada", "Nuclear Incident Exclusion Clauses - Physical Damage and Liability (Boiler and Machinery) - Reinsurance - U.S.A., and Canada", and the "Nuclear Energy Risks Exclusions Clause - Reinsurance - Worldwide excluding U.S.A. and Canada", attached hereto; and
- (4) War risks as follows:

As regards interests which at time of loss or damage are on shore, no liability shall attach hereto in respect of any loss or damage which is occasioned by war, invasion, hostilities, acts of foreign enemies, civil war, rebellion, insurrection, military or usurped power, or martial law or confiscation by order of any government or public authority.

This War Exclusion Clause shall not, however, apply to interests which at time of loss or damage are within the territorial limits of the United States of America (comprising the fifty States of the Union and the District of Columbia, its territories and possessions including the Commonwealth of Puerto Rico and including Bridges between the U.S.A. and Mexico provided they are under United States ownership), Canada, St. Pierre and Miquelon, provided such interests are insured under policies endorsements or binders containing a standard war or hostilities or warlike operations exclusion clause.

Nevertheless, this clause shall not be construed to apply to riots, strikes, civil commotion, vandalism, malicious damage including acts committed by the agent of any government, party or faction engaged in war, hostilities, or other warlike operation, providing such agent is acting secretly and not in connection with any operations of military or naval armed forces in the country where the interest insured is situated.

ARTICLE XI - MANAGEMENT OF CLAIMS AND LOSSES

The Company shall investigate and settle or defend all claims and losses. When requested by the Reinsurer, the Company shall permit the Reinsurer, at the expense of the Reinsurer, to be associated with the Company in the defense or control of any claim, loss, or legal proceeding which involves or is likely to involve the Reinsurer. All payments of claims or losses by the Company within the terms and limits of its policies which are within the limits set forth herein shall be binding on the Reinsurer, subject to the terms of this Agreement.

However, the Company shall obtain the Reinsurer's prior approval with respect to (i) any one settlement in excess of \$10,000,000 and (ii) every settlement in excess of \$3,000,000, once the aggregate of all settlements in excess of \$10,000,000 made after the Closing Date reaches \$40,000,000. In determining whether the Reinsurer's prior approval is required hereunder, settlements are calculated net of any other reinsurance, deductibles, or self-insured retentions (all three preceding items, whether collectible or not). If the Company permanently waives all of its Layer Two recoveries from the Reinsurer in writing then no such prior approval of settlements is required.

ARTICLE XII - RECOVERIES

The Company shall pay to or credit the Reinsurer with the Reinsurer's portion of any recovery obtained from salvage, subrogation, or other insurance.

The Reinsurer shall be subrogated to the rights of the Company to the extent of its loss payments to the Company. The Company agrees to enforce its rights of salvage, subrogation, and its rights against insurers.

ARTICLE XIII - OTHER REINSURANCE

Except for any reinsurance on business covered in the Reference Document, the Company will not enter into or modify reinsurance arrangements on or after December 31, 2000, which cover accident years 2000 and prior without the Reinsurer's approval, which shall not be unreasonably withheld. However, the Reinsurer's approval shall not be necessary for any modification to reinsurance arrangements covering accident years 2000 and prior, as long as such modification has absolutely no impact on the Reinsurer's liability and the Reinsurer's Economic Loss in this Agreement. Further, if there are no Significant Negative Results, the Reinsurer's approval on reinsurance arrangements covering accident years 2000 and prior, shall not be required after December 31, 2007.

To be covered under Layer Two, the Company may not enter any reinsurance agreement(s) structured to potentially generate individually or in the aggregate more than \$200,000,000 of before-tax 2001 income (under either GAAP or SAP), without the Reinsurer's approval,

which shall not be unreasonably withheld. Such agreement(s) include but would not be limited to loss portfolio transfers, stop loss agreements, and finite quota share agreements.

If changes are made in the Reference Document, this Agreement shall continue to apply as if such changes had not been made.

ARTICLE XIV - REINSURANCE PREMIUM

The Company shall pay the following reinsurance premiums to the Reinsurer on the Closing Date:

- (1) A Layer One reinsurance premium of \$235,000,000;
- (2) A Layer Two reinsurance premium of \$40,000,000.

In addition, within 90 days after the close of each calendar quarter after the Closing Date until the quarter ending December 31, 2002, the Company shall pay to the Reinsurer additional reinsurance premiums equal to net premiums received during the quarter for retrospectively rated insurance policies written on the Business Covered and which is incurred on or after the Closing Date. However, the Company may elect not to pay any such additional reinsurance premium ("Optional Retrospective Premium") and such election shall affect the calculation of Economic Loss.

ARTICLE XV - REPORTS AND REMITTANCES

(a) CLAIMS AND LOSSES

Within 30 days after the close of each calendar quarter, the Company shall render to the Reinsurer a report of the Ultimate Net Loss paid by the Company during the quarter on the Business Covered and the Reinsurer's portion, if any, thereof. Any amount payable by the Reinsurer to the Company shall be paid within 15 business days after receipt of such report.

(b) GENERAL

In addition to the reports required by (a) above, the Company shall furnish such other information as may be required by the Reinsurer for the completion of the Reinsurer's quarterly and annual statements and internal records.

All reports shall be rendered on forms or in format acceptable to the Company and the Reinsurer.

ARTICLE XVI - OPTION FOR ADDITIONAL CEDED BUSINESS

If there are Significant Negative Results, the Reinsurer or its assignee has the option, but not the obligation, (the "Reinsurer's Option") to require any or all of the insurers comprising the Company to enter into a first dollar quota share reinsurance agreement with the Reinsurer

or its assignee (the "Quota Share Agreement") of up to 25% covering one or more of the following lines of business in territories selected by the Reinsurer or its assignee: Auto Liability, Auto Physical Damage, Homeowners, Other Liability, Commercial Multiple Peril, Property, Inland Marine, and Umbrella. Such Quota Share Agreement shall pass risk transfer tests under GAAP and SAP risk transfer guidelines.

The ceding commission shall equal the ratio of prior year acquisition cost to written premium corresponding to the included lines of business, territories and selected companies, but shall be no more than 16% in the aggregate. The Reinsurer or its assignee has the sole discretion to select the lines of business, territories, companies and the quota share percentages to assume which it may prospectively modify on an annual basis, within the parameters of this provision. The Quota Share Agreement shall terminate on January 1, 2007.

The Reinsurer's Option will expire when and if the Company has paid Optional Retrospective Premium of \$40,000,000 or greater.

ARTICLE XVII - COMMUTATION

The Company may commute this Agreement at December 31, 2007, or any subsequent December 31 (the date selected being the "Commutation Date"), provided that there are no Significant Negative Results, by giving 60 days written notice to the Reinsurer by certified or registered mail. The commutation shall be effective upon:

- (1) Payment of the Experience Balance, as defined below, by the Reinsurer to the Company on or before the Commutation Date, and
- (2) Delivery by the Company to the Reinsurer of a signed release in a form satisfactory to the Reinsurer, on or before the Commutation Date.

For purposes of this Article, the Experience Balance shall equal:

- (a) The reinsurance premium (including Optional Retrospective Premium) paid under the Agreement by the Company through the date of evaluation; less
- (b) The Reinsurer's fee of \$8,000,000, plus 5% of the highest loss and Allocated and Unallocated Loss Adjustment Expense ceded at any point in time in excess of \$490,000,000; less
- (c) The Reinsurer's payments of Ultimate Net Loss to the Company under this Agreement through the date of evaluation; plus
- (d) The investment income on the amount, if any, by which (a) above and previous investment income credits exceeds the sum of (b) and (c) above, based on an effective yield equivalent to one year United States Treasury bills on the Closing Date, and annually thereafter.

ARTICLE XVIII - WARRANTY

The Company warrants that it applies consistent accounting practices for carried reserves with those carried at the Closing Date.

ARTICLE XIX - ERRORS AND OMISSIONS

The Reinsurer shall not be relieved of liability because of an error or accidental omission of the Company in reporting any claim or loss or any business reinsured under this Agreement, provided that the error or omission is rectified promptly after discovery. If the error or omission relates to the proper amount of reserves intended to have been recorded at the Closing Date, as a result of an arithmetic error, the Company Retention shall be recalculated accordingly.

ARTICLE XX - SPECIAL ACCEPTANCES

Business not within the terms of this Agreement may be submitted to the Reinsurer for special acceptance and, if accepted by the Reinsurer, shall be subject to all of the terms of this Agreement except as modified by the special acceptance.

ARTICLE XXI - RESERVES AND TAXES

The Reinsurer shall maintain the required reserves as to the Reinsurer's portion of unearned premium, if any, claims, losses, and Allocated and Unallocated Loss Adjustment Expense.

The Company shall be liable for all premium taxes on premium ceded to the Reinsurer under this Agreement. If the Reinsurer is obligated to pay any premium taxes on this premium, the Company shall reimburse the Reinsurer; however, the Company shall not be required to pay taxes twice on the same premium.

ARTICLE XXII - OFFSET

The Company or the Reinsurer may offset any balance, whether on account of premium, commission, claims or losses, Allocated and Unallocated Loss Adjustment Expense, salvage, or otherwise, due from one party to the other under this Agreement or under any other agreement heretofore or hereafter entered into between the Company and the Reinsurer.

ARTICLE XXIII - INSPECTION OF RECORDS

The Company shall allow the Reinsurer or its assignee to inspect, at reasonable times, the records of the Company relevant to the business reinsured under this Agreement, including the Company's files concerning claims, losses, or legal proceedings which involve or are likely to involve the Reinsurer.

ARTICLE XXIV - ARBITRATION

All unresolved differences of opinion between the Company and the Reinsurer or its assignee relating to this Agreement, including its formation and validity, shall be submitted

to arbitration consisting of one arbitrator chosen by the Company, one arbitrator chosen by the Reinsurer or its assignee, and a third arbitrator chosen by the first two arbitrators.

The party demanding arbitration shall communicate its demand for arbitration to the other party by registered or certified mail, identifying the nature of the dispute and the name of its arbitrator, and the other party shall then be bound to name its arbitrator within 30 days after receipt of the demand.

Failure or refusal of the other party to so name its arbitrator shall empower the demanding party to name the second arbitrator. If the first two arbitrators are unable to agree upon a third arbitrator after the second arbitrator is named, each arbitrator shall name three candidates, two of whom shall be declined by the other arbitrator, and the choice shall be made between the two remaining candidates by drawing lots. The arbitrators shall be impartial and shall be active or retired officers of property or casualty insurance or reinsurance companies.

The arbitrators shall adopt their own rules and procedures and are relieved from judicial formalities. In addition to considering the rules of law and the customs and practices of the insurance and reinsurance business, the arbitrators shall make their award with a view to effecting the intent of this Agreement.

The decision of the majority of the arbitrators shall be in writing and shall be final and binding upon the parties.

Each party shall bear the cost of its own arbitrator and shall jointly and equally bear with the other party the expense of the third arbitrator and other costs of the arbitration. In the event both arbitrators are chosen by one party, the fees of all arbitrators shall be equally divided between the parties.

The arbitration shall be held at the times and places agreed upon by the arbitrators.

ARTICLE XXV - INSOLVENCY OF THE COMPANY

In the event of the insolvency of the Company, the reinsurance proceeds will be paid to the Company or the liquidator, with reasonable provision for verification, on the basis of the claim allowed in the insolvency proceeding without diminution by reason of the inability of the Company to pay all or part of the claim, except as otherwise specified in the statutes of any state having jurisdiction of the insolvency proceedings or except where the Agreement, or other written agreement, specifically provides another payee of such reinsurance in the event of insolvency.

The Reinsurer shall be given written notice of the pendency of each claim against the Company on the policy(ies) reinsured hereunder within a reasonable time after such claim is filed in the insolvency proceedings. The Reinsurer shall have the right to investigate each such claim and to interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defenses which it may deem available to the Company or its liquidator. The expense thus incurred by the Reinsurer shall be chargeable, subject to court approval, against the insolvent Company as part of the expense of liquidation to the extent of a proportionate share of the benefit which may accrue to the Company solely as a result of the defense undertaken by the Reinsurer.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate,

this _____ day of _____, 200__,

CGU INSURANCE COMPANY
and its affiliated companies

Attest: _____

and this _____ day of _____, 200__.

POTOMAC INSURANCE COMPANY

Attest: _____

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to
ADVERSE DEVELOPMENT
AGREEMENT OF REINSURANCE
between
CGU INSURANCE COMPANY
and
POTOMAC INSURANCE COMPANY

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EXECUTION COPY

AGGREGATE LOSS PORTFOLIO REINSURANCE AGREEMENT

between

POTOMAC INSURANCE COMPANY

Boston, Massachusetts

and

NATIONAL INDEMNITY COMPANY

Omaha, Nebraska

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AGGREGATE LOSS PORTFOLIO REINSURANCE AGREEMENT

This Agreement, dated as of March 19, 2001 (this "Agreement") is made and entered into by and between Potomac Insurance Company, a corporation organized under the laws of Pennsylvania (hereinafter referred to as the "Reinsured"), and National Indemnity Company, a corporation organized under the laws of Nebraska (hereinafter referred to as the "Reinsurer") to be effective as of the Effective Date (as defined below).

The Reinsured and the Reinsurer mutually agree to reinsure under the terms and conditions stated herein. This Agreement is an indemnity reinsurance agreement solely among the Reinsured and the Reinsurer, and the performance of the obligations of each party under this Agreement shall be rendered solely to the other party. In no instance, except as set forth in Article VIII of this Agreement, shall anyone other than the Reinsured or the Reinsurer have any rights under this Agreement.

ARTICLE I

DEFINITIONS

1.1. DEFINITIONS. As used in this Agreement, the following terms shall have the following meanings (definitions are applicable to both the singular and the plural forms of each term defined in this Article):

"ADMINISTRATIVE SERVICES AGREEMENT" means the Administrative Services Agreement entered into by and among the Reinsured, CGU Insurance Company and the Reinsurer.

2.1. "AGGREGATE LIMIT" shall have the meaning specified in Section

"AGREEMENT" shall have the meaning specified in the Recitals.

"ALLOCATED LOSS ADJUSTMENT EXPENSES" means all court arbitration, mediation or other dispute resolution costs, attorneys' fees, expenses, fees and interest accrued prior to or after any judgment, award, agreement or compromise (excluding any overhead, internal costs, staff costs and similar internal costs) incurred in connection with any defense, settlement, investigation or audit of or negotiations in relation to any Reinsured Risk.

"BUSINESS COVERED" means

- (a) all losses from all perils on policies or contracts of insurance or reinsurance issued by the Reinsured or any CGU Insurer (or any predecessor thereof to which such CGU Insurer has succeeded by merger or otherwise) which terminated on or before December 31, 1987 and, with respect to policies or contracts of insurance or reinsurance issued by the Reinsured or any CGU Insurer (or any predecessor thereof to which the Reinsured or any CGU Insurer has succeeded by merger or otherwise) on or before January 1, 1987 which terminated after December 31, 1987, all losses from all perils incurred before January 1, 1988;
- (b) all asbestos related losses covered by policies or contracts of insurance or reinsurance issued by the Reinsured or any CGU Insurer (or any predecessor thereof to which the Reinsured or any CGU Insurer has succeeded by merger or otherwise) which terminated on or before December 31, 1992 and, with respect to policies or contracts of insurance or reinsurance issued by the Reinsured or any CGU Insurer (or any predecessor thereof to which the Reinsured or any CGU Insurer has succeeded by merger or otherwise) on or

before January 1, 1992 which terminated after December 31, 1992, all asbestos-related losses covered by such policies or contracts incurred before January 1, 1993;

(c) all lead-related losses on policies or contracts of insurance or reinsurance issued by the Reinsured or any CGU Insurer (or any predecessor thereof to which the Reinsured or any CGU Insurer has succeeded by merger or otherwise) which terminated on or before December 31, 1995 and, with respect to policies or contracts of insurance or reinsurance issued by the Reinsured or any CGU Insurer (or any predecessor thereof to which the Reinsured or any CGU Insurer has succeeded by merger or otherwise) on or before January 1, 1995 which terminated after December 31, 1995, all lead-related losses incurred before January 1, 1996; and

(d) all losses arising from the pools and associations listed in Schedule 1 hereto;

in each case excluding (x) all workers' compensation("WC") losses (except for coverage 1(b) claims that involve asbestos, any WC in pools and associations in Schedule 1 and any WC in other assumed

reinsurance business included in Business Covered) and (y) any liability of the Reinsured or any CGU Insurer ceded to CGNU plc or any majority-owned non-U.S. subsidiary thereof or predecessor of such a subsidiary under any arrangement under which the Reinsured or such CGU Insurer was acting as a fronting insurer for such non-U.S. person. It is understood that clauses (b), (c) and (d) above are in addition to and do not limit clause (a) above.

"BUSINESS DAY" means any day on which a United States national banking association in the State of New York is open for regular business.

"CEDED REINSURANCE AGREEMENTS" means all agreements of reinsurance other than this Agreement whereby the Reinsured or any CGU Insurer has ceded liability with respect to the Business Covered.

"CGU INSURERS" means all property and casualty companies a majority of the stock of which is owned directly or indirectly by CGU Corporation, including CU Lloyd's of Texas but excluding Houston General Insurance Company, Traders & General

Insurance Company, Traders & Pacific Insurance Company and Houston General Lloyds.

"CGU REINSURANCE AGREEMENT" means the reinsurance agreement entered into between CGU Insurance Company and the Reinsured whereby business covered under the definition of Business Covered hereunder which was written by members of the CGU intercompany pool or certain other affiliates of the Reinsured was assumed by the Reinsured.

"DECLARATORY JUDGMENT EXPENSE" means all attorneys' fees, expenses and other litigation costs attributable to coverage analysis or declaratory judgment actions or other coverage dispute resolution procedures brought to determine defense and/or indemnification or payment obligations for any Reinsured Risk, whether or not a loss has been paid.

"EFFECTIVE DATE" means the earlier of (i) the Closing Date under the Stock Purchase Agreement dated as of September 24, 2000, as amended, by and among CGNU plc, White Mountains Insurance Group, Ltd. and others and (ii) July 1, 2001.

"EXCLUDED LIABILITY" means the following:

- (a) any sum paid or booked as paid prior to the Inception Date in settlement or payment of any obligation arising from Business Covered, including any such sums

for loss, Allocated Loss Adjustment Expense, Declaratory Judgment Expense or Noncontractual Damages;

- (b) any liabilities for losses incurred (i) due to fraud by a member of the Board of Directors or a corporate officer of the Reinsured (or any directors or officers of the CGU Insurers) acting individually or collectively or in collusion with any individual or corporation or any other organization or party involved in the presentation, defense or settlement of any Reinsured Risk or (ii) in respect of any tortious or bad faith act of the Reinsured or any of the CGU Insurers in connection with any insurance policies or reinsurance contracts not reinsured hereunder;
- (c) any liability of the Reinsured or any of the CGU Insurers with respect to any tax or assessment, whether paid directly by the Reinsured or billed to the Reinsured by or through a cedent or insured, regardless of whether the tax is denominated as an income tax, excise tax, premium tax, surplus lines tax, or any other tax or assessment (excluding any pool or other assessment for payment of losses or loss adjustment expenses, including without limitation any governmental charge which in the future is enacted in

replacement in whole or in part of any insurance or reinsurance liability, all of which shall constitute Reinsured Risks);

- (d) any liability of the Reinsured or any CGU Insurer under any insurance policy or reinsurance contract not constituting Business Covered;
- (e) subject to the provisions of Section 11.2, all coverage excluded in the underlying insurance policies and reinsurance contracts reinsured by this Agreement;
- (f) any liability of the Reinsured or any CGU Insurer ceded to any majority-owned non-U.S. subsidiary of CGNU plc or predecessor of such a subsidiary under any arrangement under which the Reinsured or such CGU Insurer was acting as a fronting insurer for such non-U.S. person;
- (g) Any policyholder dividends, return premiums and retrospective or loss sensitive premiums (except reinstatement or adjustment premiums (1) paid in connection with reinsurance inuring to the benefit of the Reinsurer with respect to risks reinsured hereunder or where the payment of such amounts benefits the Reinsurer either by way of reduction in the net present value of the liabilities of the Reinsurer with respect to risks reinsured under this

Agreement or by increasing reinsurance recoverables or coverage available to the Reinsurer hereunder in an amount greater than the dividend or premium; or (2) where the Reinsurer has given its prior approval to the payment of such reinstatement premiums).

(h) all losses specifically listed on Schedule 3.

"INCEPTION DATE" shall have the meaning specified in Section

2.1.

"INITIAL REINSURANCE PREMIUM" shall have the meaning specified

in Section 4.1.

"INTEREST RATE" means an annual interest rate of six and one-half percent (6.5%) per annum.

"LETTER OF CREDIT" shall have the meaning specified in Section

9.2.

"NONCONTRACTUAL DAMAGES" shall have the meaning specified in

Section 11.1.

"OPTION PREMIUM" means the sum of \$20 million previously paid by or on behalf of the Reinsured to the Reinsurer under an option agreement relating to the reinsurance cover provided under this Agreement.

"POOLS AND ASSOCIATIONS" means the pools and associations listed in Schedule 1.

"PRIME RATE" shall be determined for each business day in New York City, and for non-business days shall equal the Prime Rate as determined for the most recent preceding business day. The Prime Rate as published in THE WALL STREET JOURNAL (Eastern Edition) shall be the primary source for the Prime Rate. If THE WALL STREET JOURNAL does not publish such a rate for a business day, the Prime Rate shall be the maximum of the rates publicly announced by major banks in New York City as their Prime Rates applicable to such day.

"REINSURANCE PREMIUM" shall have the meaning specified in Section 4.2.

"REINSURED CONTRACTS" means all policies of insurance issued by the Reinsured or any of the CGU Insurers covering or pertaining to Business Covered.

"REINSURED RISKS" shall have the meaning specified in Section 2.1.

"SAP" means statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Pennsylvania.

"TOTAL CEDED RESERVES" means the lesser of (i) the gross reserves of the Reinsured (including reserves for losses incurred but not reported) calculated in accordance with SAP with respect to Ultimate Net Loss, less an amount equal to reinsurance ceded with respect to Ultimate Net Loss pursuant to the Ceded Reinsurance Agreements; and (ii) the remaining Aggregate Limit.

9.3. "TRUST ACCOUNT" shall have the meaning specified in Section

9.3. "TRUST AGREEMENT" shall have the meaning specified in Section

"TRUSTEE" shall have the meaning specified in Section 9.3.

Section 2.3. "ULTIMATE NET LOSS" shall have the meaning specified in

ARTICLE II

COVERAGE

2.1. COVERAGE. Effective as of 12:01 a.m., Eastern Standard Time, on January 1, 2000 (the "Inception Date"), the Reinsured agrees to reinsure with the Reinsurer, and the Reinsurer agrees to indemnify the Reinsured for, all

Ultimate Net Loss incurred by the Reinsured and paid or payable on or after the Inception Date (the "Reinsured Risks"). The Reinsurer's limit of liability under this Agreement with respect to Ultimate Net Loss (the "Aggregate Limit") shall, notwithstanding any other provisions of this Agreement to the contrary, be the sum of \$2.5 billion. UNDER NO CIRCUMSTANCES, HOWSOEVER ARISING, SHALL REINSURER BE LIABLE FOR ANY AMOUNT OF ULTIMATE NET LOSS GREATER THAN \$2.5 BILLION BY REASON OF ENTERING INTO THIS AGREEMENT.

2.2. CONDITIONS. No material changes made on or after the date hereof in the terms and conditions of the Reinsured Contracts shall be covered hereunder without the prior approval of such changes by the Reinsurer, which shall not be unreasonably withheld or delayed. In the event material changes are made in any Reinsured Contract without the prior approval of the Reinsurer, this Agreement will cover Ultimate Net Loss arising from such Reinsured Contract as if the non-approved changes had not been made. No Reinsured Contract that is an agreement of assumed reinsurance shall be commuted by the Reinsured or any CGU Insurer without the prior approval of the Reinsurer, which approval shall not be unreasonably withheld or delayed.

2.3. ULTIMATE NET LOSS. (a) (a) "Ultimate Net Loss" shall mean (i) the actual amount paid by the Reinsured or any CGU Insurer on its net retained liability with respect to the Business Covered (including, with respect to contracts of assumed reinsurance included as Business Covered, all amounts paid by the Reinsured or any CGU Insurer to cedents, whether for losses, loss adjustment expenses or otherwise) after making deductions for all salvage, subrogation and reinsurance recoverables under the Ceded Reinsurance Agreements, to the extent actually collected and due the Reinsurer pursuant to Article XII plus (ii) Allocated Loss Adjustment Expenses paid by the Reinsured or any CGU Insurer. Ultimate Net Loss shall include Declaratory Judgment Expense and Noncontractual Damages, but shall exclude all unallocated loss adjustment expenses incurred pursuant to the Administrative Services Agreement.

(b) All recoveries or payments received by the Reinsured subsequent to a loss settlement under this Agreement shall be applied as if recovered or received prior to the aforesaid settlement and all necessary adjustments shall be made by the parties hereto, including an adjustment to the remaining Aggregate Limit, PROVIDED, that nothing in this Section 2.3(b) shall be construed to mean that losses under this Agreement are not recoverable until the Reinsured's loss has been ascertained.

2.4. TERRITORY. The territorial limits of this Agreement shall be identical with those of the Reinsured Policies.

ARTICLE III

GENERAL PROVISIONS

3.1. INSPECTION. The Reinsurer or its designated representative may inspect, at the offices of the Reinsured (or any cedent under the CGU Reinsurance Agreement) where such records are located, the papers and any and all other books or documents of the Reinsured (or any cedent under the CGU Reinsurance Agreement) reasonably relating to the Reinsured Contracts, during normal business hours for such period as this Agreement is in effect or for as long thereafter as the Reinsured seeks performance by the Reinsurer pursuant to the terms of this Agreement. The information obtained shall be used only for purposes relating to this Agreement.

3.2. MISUNDERSTANDINGS AND OVERSIGHTS. If any delay, omission, error or failure to pay amounts due or to perform any other act required by this Agreement is unintentional and caused by misunderstanding or oversight, the Reinsured and the Reinsurer will adjust the situation to what it would have been had the misunderstanding or oversight not occurred. The party

first discovering such misunderstanding or oversight, or an act resulting from such misunderstanding or oversight, will notify the other party in writing promptly upon discovery thereof, and the parties shall act to correct such misunderstanding or oversight within twenty (20) Business Days of such other party's receipt of such notice. However, this Section shall not be construed as a waiver by either party of its right to enforce strictly the terms of this Agreement.

3.3. SET-OFF. Any debts or credits, matured or unmatured, liquidated or unliquidated, regardless of when they arose or were incurred, in favor of or against either of the Reinsured or the Reinsurer with respect to this Agreement are deemed mutual debts or credits, as the case may be, and shall be set-off, and only the net balance shall be allowed or paid.

3.4. PAYMENTS. Except as otherwise set forth in Section 9.3(f), all payments between the parties, made pursuant to this Agreement shall be made by wire transfer of immediately available non-reversible United States Federal Funds to such bank account or accounts as designated by the recipient.

ARTICLE IV

REINSURANCE PREMIUM

4.1. INITIAL REINSURANCE PREMIUM. The Reinsured shall pay to the Reinsurer on or before the Effective Date the sum of \$1,230 million (being a total premium of \$1,250 million less the Option Premium), as adjusted through December 31, 2000 in the manner set forth on Schedule 2 hereto (the "Initial Reinsurance Premium"). In addition, the Reinsured hereby assigns to the Reinsurer the salvage and subrogation amounts under Section 12.1 and the reinsurance recoverable amounts under Section 12.2.

4.2. PREMIUM ADJUSTMENT. On or before the last day of the first full month following the Effective Date, the Initial Reinsurance Premium shall be adjusted through the Effective Date in the manner set forth on Schedule 2 hereto. The Initial Reinsurance Premium, as so adjusted shall be referred to herein as the "Reinsurance Premium". In the event that the Reinsurance Premium exceeds the Initial Reinsurance Premium, the Reinsured shall pay an amount equal to such excess amount to the Reinsurer within 10 days following the determination of the Reinsurance Premium by the parties, together with interest from the date of payment of the Initial Reinsurance Premium to the date of payment of such excess amount at the prevailing rate of U.S. 30 day Treasury securities. In the event that the Initial

Reinsurance Premium exceeds the Reinsurance Premium, the Reinsurer shall pay an amount equal to such excess amount to the Reinsured within 10 days following the determination of the Reinsurance Premium by the parties, together with interest from the date of payment of the Initial Reinsurance Premium to the date of payment of such excess amount at the prevailing rate of U.S. 30 day Treasury securities.

ARTICLE V

ADMINISTRATION; CHANGES

5.1. ADMINISTRATION. Pursuant to the Administrative Services Agreement, the Reinsured and the CGU Insurers appoint the Reinsurer to perform all administrative services with respect to the Reinsured Contracts until the date of termination of this Agreement (or the date of termination of the Administration Services Agreement, if earlier) and the Reinsurer agrees to perform such services on behalf of the Reinsured and such CGU Insurers at its sole expense, including, but not limited to, the direct payment of all Ultimate Net Loss and the administration of claims. The Reinsurer shall provide such services utilizing its employees or utilizing the employees of affiliates of the Reinsured pursuant to a separate agreement between the Reinsurer and such affiliates of the Reinsured.

5.2. RESERVE ASSUMPTION CHANGES. The Reinsured shall not, on its own initiative, change the methods used by the Reinsured to establish Total Ceded Reserves. The Reinsurer shall share proportionately in any changes in the methods used to establish the Total Ceded Reserves required by law or applicable regulation. Nothing contained herein shall be construed to require the Reinsurer to adopt the Reinsured's reserving methodologies, or vice versa. Each party shall establish its reserves in respect of the liabilities reinsured hereunder.

ARTICLE VI

DURATION AND TERMINATION AND RECAPTURE

6.1. DURATION. Except as otherwise provided herein, this Agreement shall be unlimited in duration.

6.2. REINSURER'S LIABILITY. The Reinsurer's liability with respect to Ultimate Net Loss will terminate on the earlier of: (i) the date the Reinsured's liability with respect to the Reinsured Risks are terminated and all amounts due the Reinsured under this Agreement with respect to such Reinsured Risks are paid or (ii) the date on which the Reinsurer has paid to the Reinsured an amount of Ultimate Net Loss equal to the Aggregate Limit.

ARTICLE VII

ACCOUNTING

7.1. Pursuant to and in accordance with the terms of the Administrative Services Agreement, the Reinsurer will provide to the Reinsured accounting and settlement reports as to the Reinsured Contracts.

ARTICLE VIII

INSOLVENCY

8.1. PAYMENTS. In the event of the insolvency of the Reinsured, all payments due the Reinsured under this Agreement shall be payable by the Reinsurer directly to the Reinsured or to its liquidator, receiver, conservator or statutory successor on the basis of the liability of the Reinsured under the policy or policies reinsured, without diminution, acceleration or enlargement because of the insolvency of the Reinsured. It is agreed and understood, however, (i) that in the event of the insolvency of the Reinsured the Reinsurer shall be given written notice of the pendency of a claim against the Reinsured on a Reinsured Policy within a reasonable time after such claim is filed in the insolvency proceeding and (ii) that during the pendency of such claim the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such

claim is to be adjudicated any defenses which it may deem available to the Reinsured or its liquidator, receiver conservator or statutory successor.

8.2. EXPENSES. It is further understood that any expense thus incurred by the Reinsurer pursuant to Section 8.1 shall be chargeable, subject to court approval, against the Reinsured as part of the expense of liquidation to the extent of a proportionate share of the benefit which may accrue to the Reinsured solely as a result of the defense undertaken by the Reinsurer. Where two or more assuming reinsurers are involved in the same claim and a majority in interest elect to interpose defenses to such claim, the expense shall be apportioned in accordance with the terms of this Agreement as though such expense had been incurred by the Reinsured.

ARTICLE IX

FUNDING

9.1. RESERVES. In the event that, and for so long as, (a) A.M. Best Company reduces its rating of the Reinsurer to A or lower, and Standard & Poor's Corporation reduces its rating of the Reinsurer to AA or lower or (b) either A.M. Best Company or Standard & Poor's Corporation lowers its rating as aforesaid

and the other does not issue a rating, or (c) any event occurs that would cause the reinsurance provided hereunder by the Reinsurer to fail to qualify for statutory statement credit from any state of the United States, the District of Columbia or (if it becomes relevant) the United States in which the Reinsured must file a statutory statement of financial condition, the parties agree that, when the Reinsured establishes Total Ceded Reserves with respect to the Business Covered, the Reinsurer shall (A) place assets in trust in an amount sufficient to satisfy the Total Ceded Reserves; or (B) provide a clean, unconditional annually renewable letter of credit from banks, and having terms, reasonably satisfactory to the Reinsured, in an amount sufficient to satisfy the Total Ceded Reserves. This obligation to provide security shall continue only for so long as, and only to the extent, required by the criteria set forth above. The Reinsured agrees that in the event that the condition giving rise to the establishment of a trust account or letter of credit, as the case may be, ceases to exist, the Reinsured will provide its approval for the termination of the trust or letter of credit and for the return of all assets or collateral to the Reinsurer. In addition, to the extent that the obligations of the Reinsurer to provide such security diminish, the Reinsured shall provide its approval for the reduction of such trust account or letter of credit.

9.2. LETTER OF CREDIT. (a) (a) In the event that the Reinsurer elects to provide a letter of credit as set forth in Section 9.1 (the "Letter of Credit"), the Reinsured and the Reinsurer agree that the Letter of Credit provided by the Reinsurer under this provision may be drawn upon at any time, notwithstanding any other provisions in this Agreement, and be utilized by the Reinsured or any successor by operation of law of the Reinsured, including, without limitation, any liquidator, rehabilitator, receiver or conservator of the Reinsured for the following purposes:

(i) to reimburse the Reinsured for the Reinsurer's share of benefits and losses paid by the Reinsured with respect to the Business Covered;

(ii) to fund an account specifically established by the Reinsured to cover loss exposures of the Reinsured in an amount at least equal to the deduction, for reinsurance ceded, from the Reinsured's liabilities ceded under this Agreement. Such amount shall include, but not be limited to, amounts for policy reserves and reserves for claims and losses incurred (including losses incurred but not reported); and

(iii) to pay any other amounts, consistent with the terms of this Agreement, which the Reinsured has calculated to be due to it.

(b) In the event the Reinsured draws upon the Letter of Credit for the purposes set forth in Section 9.2(a)(i) or (ii) in excess of amounts required to meet the Reinsurer's obligations to the Reinsured, or in excess of amounts determined pursuant to a final accounting between the Reinsured and the Reinsurer to be due under Section 9.2(a)(iii), the Reinsured will return such excess to the Reinsurer, plus interest at the average Prime Rate of interest applicable to the period during which the amounts were held pursuant to Section 9.1(a)(ii).

(c) All of the foregoing shall be applied without diminution because of insolvency on the part of the Reinsured or the Reinsurer.

(d) The designated bank shall have no responsibility whatsoever in connection with the propriety of withdrawals made by the Reinsured or the disposition of funds withdrawn, except to see that withdrawals are made upon the order of the properly authorized representatives of the Reinsured.

(e) The Reinsurer shall be liable for all bank charges incurred with respect to issuing and providing the Letter of Credit.

9.3. TRUST ACCOUNT. (a) (a) In the event that the Reinsurer elects to place assets in trust as set forth in Section 9.1, the Reinsurer shall enter into a trust agreement (the "Trust Agreement") and establish a trust account (the "Trust Account") for the benefit of the Reinsured with respect to the Reinsured Risks with a bank (the "Trustee") and in a form reasonably acceptable to the Reinsured.

(b) The Reinsurer agrees to deposit, and maintain in the Trust Account, assets to be held in trust by the Trustee for the benefit of the Reinsured as security for the payment of the Reinsurer's obligations to the Reinsured under this Agreement.

(c) The Reinsurer agrees that the assets so deposited shall be valued according to their current fair market value and shall consist only of cash (United States legal tender), certificates of deposit (issued by a United States bank and payable in United States legal tender), and other admitted assets of a character, maturity, and value to fulfill the intent of this Agreement, provided that such investments are issued by an institution that is not the parent, subsidiary or affiliate

of either the Reinsured or the Reinsurer and provided further that such assets are of the type listed by the Securities Valuation Office of the National Association of Insurance Commissioners and specified under Regulation 114 of the New York Insurance Department. All payments of interest on, and dividends actually received by the Trustee in respect of, assets in the Trust Account shall be deposited by the Trustee in a separate income account established and maintained by the Reinsurer at an office of the Trustee, and the Reinsurer shall have the right to withdraw funds from such income account at any time.

(d) The Reinsurer, prior to depositing assets with the Trustee, shall execute all assignments and endorsements in blank, or transfer legal title to the Trustee of all shares, obligations or any other assets requiring assignments, in order that the Reinsured, or the Trustee upon direction of the Reinsured, may whenever necessary negotiate any such assets without consent or signature from the Reinsurer or any other entity.

(e) All settlements of account under the Trust Agreement between the Reinsured and the Reinsurer shall be made in cash or its equivalent.

(f) The Reinsurer and the Reinsured agree that the assets in the Trust Account may be withdrawn by the Reinsured at any time, notwithstanding any other provisions in this Agreement, provided such assets are applied and utilized by the Reinsured (or any successor of the Reinsured by operation of law, including, without limitation, any liquidator, rehabilitator, receiver or conservator of the Reinsured), on the basis of the liability of the Reinsured under the Reinsured Contracts, without diminution because of the insolvency of the Reinsured or the Reinsurer, only for the following purposes:

(i) to reimburse the Reinsured for the Reinsurer's share of policy benefits or losses paid by the Reinsured or any CGU Insurer with respect to the Business Covered;

(ii) to fund an account specifically established by the Reinsured to cover loss exposures of the Reinsured or any CGU Insurer in an amount at least equal to the deduction, for reinsurance ceded, from the Reinsured's liabilities ceded under this Agreement. Such amount shall include, but not be limited to, amounts for policy reserves and claims and losses incurred (including losses incurred but not reported); and

(iii) to pay any other amounts, consistent with the terms of this Agreement, which the Reinsured or any CGU Insurer has calculated to be due to it.

(g) In the event that the Reinsured or any CGU Insurer withdraws assets from the Trust Account for the purposes set forth in Section 9.3(f)(i) or (ii) above in excess of actual amounts required to meet the Reinsurer's obligations to the Reinsured, or in excess of amounts determined pursuant to a final accounting between the Reinsured and the Reinsurer to be due under Section 9.3(f)(iii) above, the Reinsured will return such excess to the Reinsurer, plus interest at the average Prime Rate of interest applicable to the period during which the amounts were held pursuant to Section 9.3(f)(ii) above.

(h) The Reinsurer shall be liable for all bank charges incurred with respect to the Trust Account.

ARTICLE X

ARBITRATION

10.1. RESOLUTION OF DAMAGES. As a condition precedent to any right arising under this Agreement, any dispute between the Reinsured and the Reinsurer arising out of the provisions of this Agreement, or concerning its interpretation or validity, whether arising before or after termination of this

Agreement, shall be submitted to arbitration in the manner set forth in this Article X. The Reinsured or the Reinsurer may initiate arbitration of any such dispute by giving written notice to the other party by registered or certified mail, return receipt requested, of its intention to arbitrate and of its appointment of an arbitrator in accordance with Section 10.3.

10.2. COMPOSITION OF PANEL. Unless the parties agree upon a single arbitrator within fifteen (15) days after the receipt of notice of intention to arbitrate, all disputes shall be submitted to an arbitration panel composed of two arbitrators and an umpire, chosen in accordance with Sections 10.3 and 10.4.

10.3. APPOINTMENT OF ARBITRATORS. The members of the arbitration panel shall be chosen from persons knowledgeable in the insurance and reinsurance business. The party requesting arbitration (hereinafter referred to as the "claimant") shall appoint an arbitrator and give written notice thereof, by registered or certified mail, return receipt requested, to the other party (hereinafter referred to as the "respondent") together with its notice of intention to arbitrate. Unless a single arbitrator is agreed upon within fifteen (15) days after the receipt of the notice or intention to arbitrate, the

respondent shall, within thirty (30) days after receiving such notice, also appoint an arbitrator and notify the claimant thereof in a like manner. Before instituting a hearing, the two arbitrators so appointed shall choose an umpire. If, within twenty (20) days after they are both appointed, the arbitrators fail to agree upon the appointment of an umpire, the umpire shall be appointed by the President of the American Arbitration Association.

10.4. FAILURE OF A PARTY TO APPOINT ARBITRATOR. If the respondent fails to appoint an arbitrator within thirty (30) days after receiving a notice of intention to arbitrate, such arbitrator shall be appointed by the President of the American Arbitration Association, and shall then, together with the arbitrator appointed by the claimant, choose an umpire as provided in Section 10.3.

10.5. CHOICE OF FORUM. Any arbitration instituted pursuant to this Article X shall be held in New York, New York.

10.6. SUBMISSION OF DISPUTE TO PANEL. Unless otherwise extended by the arbitration panel, or agreed to by the parties, each party shall submit its case to the panel within thirty (30) days after the selection of an umpire.

10.7. PROCEDURE GOVERNING ARBITRATION. All proceedings before the panel shall be informal and the panel shall not be bound by the formal rules of evidence. The panel shall have the power to fix all procedural rules relating to the arbitration proceeding. In reaching any decision, the panel shall give due consideration to the custom and usage of the insurance and reinsurance business and the mutual intention of the parties as reflected in this Agreement.

10.8. ARBITRATION AWARD. The arbitration panel shall render its decision within sixty (60) days after termination of the proceeding, which decision shall be in writing. The decision of the majority of the panel shall be final and binding on the parties to the proceeding.

10.9. COST OF ARBITRATION. Unless otherwise allocated by the panel, each party shall bear the expense of its own arbitrator and its own witnesses and shall jointly and equally bear with the other party the expense of the umpire and the arbitration.

10.10. LIMIT OF JURISDICTION. The arbitration panel shall not have jurisdiction to authorize any punitive damage awards between the parties.

ARTICLE XI

NONCONTRACTUAL COVERAGES

11.1. NONCONTRACTUAL DAMAGES. This Agreement shall cover Noncontractual Damages. "Noncontractual Damages" as used herein shall mean those liabilities for which the Reinsured or any CGU Insurer is legally liable arising from actual or alleged misconduct of the Reinsured, any CGU Insurer or any of their affiliates, or their agents, brokers, or representatives (other than the Reinsurer acting on behalf of the Reinsured pursuant to the Administrative Services Agreement, which liability shall be indemnified pursuant to such Agreement) in their handling of claims or losses, or in any of their dealings with their insureds or any other person. Such liabilities shall include, but are not limited to, punitive, exemplary, compensatory, and consequential damages. Such misconduct shall include, but is not limited to, failure to settle within the policy limit, negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense, or in the trial of any action or in the preparation or prosecution of any appeal consequent upon any action. Noncontractual Damages shall also include, and this Agreement shall cover, any and all amounts otherwise included in the definition of Ultimate Net Loss that the Reinsured actually pays or is obligated to pay to

ceding companies under Business Covered that are agreements of assumed reinsurance, whether under the terms of such reinsurance contracts or as a result of agreements between the Reinsured and cedents as to the settlement of specific claims.

11.2. UNDERLYING EXCLUSION. This Agreement shall cover losses for which the Reinsured or any CGU Insurer is liable because (i) a judicial entity, having legal jurisdiction, invalidates any exclusion under an insurance policy or reinsurance contract, or (ii) the issuer of such insurance policy or reinsurance contract settles or pays, in good faith, a Reinsured Risk to which any such exclusion might provide a defense, PROVIDED, HOWEVER, that the amount of any such loss shall be subject to the other terms, conditions and exclusions of this Agreement.

ARTICLE XII

SALVAGE, SUBROGATION AND CEDED REINSURANCE AGREEMENTS

12.1. SALVAGE AND SUBROGATION. The Reinsurer shall be subrogated as respects any Ultimate Net Loss for which the Reinsurer shall actually pay, or become liable to pay, on or after the Inception Date, but only to the extent of the amount of payment by, or the amount of liability of, the Reinsurer, to all rights of the Reinsured against any person or other entity

who may be legally responsible in damages for such Ultimate Net Loss. In addition, the Reinsured hereby assigns, transfers and conveys to the Reinsurer any and all rights of the Reinsured or any CGU Insurer to salvage and subrogation on the Business Covered which was paid prior to the Inception Date (other than salvage and subrogation with respect to the BROTHER JONATHAN loss, PROVIDED that the Reinsurer shall have no obligation to pay any costs of recovery thereof). The rights of the Reinsurer and the obligations of the Reinsured under this Section 12.1 shall terminate at such time as the Reinsurer shall have paid to the Reinsured under this Agreement an amount of Ultimate Net Loss equal to the Aggregate Limit.

12.2. CEDED REINSURANCE AGREEMENTS. Effective as of the Inception Date, the Reinsured hereby assigns, transfers and conveys to the Reinsurer all reinsurance recoverables payable under the Ceded Reinsurance Agreements, including amounts due from reinsurers for losses or loss adjustment expenses on the Business Covered which were paid prior to the Inception Date; provided, however, that the foregoing assignment shall be null and void immediately upon (i) the filing of any petition or initiation of any proceeding for the supervision, rehabilitation, conservation, or liquidation of the Reinsurer or other proceedings for the protection of the Reinsurer's

creditors, which petition or proceedings shall have resulted in a finding by a court or insurance regulator of competent jurisdiction of the insolvency of the Reinsurer or (ii) at such time as the Reinsurer shall have paid to the Reinsured under this Agreement an amount of Ultimate Net Loss equal to the Aggregate Limit. The parties agree that neither the Reinsurer nor the Reinsured shall have the right during the term of this Agreement to commute any of the Ceded Reinsurance Agreements without the prior written consent of the other party.

12.3. COLLECTION. The Reinsured shall, if reasonably requested by the Reinsurer, aid the Reinsurer, at the Reinsurer's expense, in collection of all amounts due in respect of the Reinsured Risks from reinsurers. The collectibility of such reinsurance shall be the ultimate responsibility of the Reinsurer and shall be at the risk and for the account of the Reinsurer in the event such reinsurance is not collected until such time as Reinsurer shall have paid to the Reinsured under this Agreement an amount of Ultimate Net Loss equal to the Aggregate Limit.

12.4. EXPENSES. In determining the amount of salvage, subrogation or reinsurance recoverables, there shall first be deducted from any amount recovered the expenses incurred in effecting the recovery (including, without

limitation, all court, arbitration, mediation or other dispute resolution costs, attorneys' fees and expenses but excluding overhead, salaries and expenses of officers and employees of the Reinsured and similar internal costs), except to the extent otherwise paid or reimbursed by the Reinsurer hereunder.

12.5. ACTUAL RECEIPT. The Reinsured shall not be obligated to credit the Reinsurer for salvage, subrogation or reinsurance recoverables until such time as the Reinsured receives actual payment of such amounts in cash or other assets.

ARTICLE XIII

WARRANTIES

13.1. Other than the contemplated acquisition of the Reinsured which has been disclosed to Reinsurer, the Reinsured warrants and represents that it shall not voluntarily undertake any change in its corporate structure which would have a materially adverse impact upon the Reinsurer without the prior consent of the Reinsurer, which shall not be unreasonably withheld or delayed. The Reinsured further warrants and represents that it shall not change its domicile, or the domicile of any affiliate reinsured hereunder, outside the United States without the prior consent of the Reinsurer, which shall not be unreasonably withheld or delayed.

13.2. The Reinsured warrants and represents that the direct PIP claims set forth in Schedule 3 to this Agreement contains all direct PIP claims known to Reinsured as of the date of this Agreement.

13.3. The Reinsured warrants and represents that to the best of its knowledge and belief no material information relating to risks reinsured hereunder has been intentionally withheld from the Reinsurer.

13.4. The Reinsured warrants and represents that in the event that the Reinsured purchases any additional reinsurance as respects the Business Covered, the Reinsurer shall have a first right to sell such reinsurance to the Reinsured. The Reinsured shall notify the Reinsurer that it intends to purchase such reinsurance. It shall also notify the Reinsurer of the terms of such additional reinsurance as offered in binding format by an appropriately licensed non-affiliated reinsurer rated AAA by Standard & Poor's Corporation and Moody's. The Reinsurer shall have thirty (30) days to make a binding offer to the Reinsured to provide reinsurance to the Reinsured on the same terms and conditions as those offered by the non-affiliated reinsurer.

ARTICLE XIV

MISCELLANEOUS PROVISIONS

14.1. HEADINGS AND SCHEDULES. Headings used herein are not a part of this Agreement and shall not affect the terms hereof. The attached Schedules are a part of this Agreement.

14.2. NOTICES. All notices and communications hereunder shall be in writing and shall become effective when received. Any written notice shall be by either certified or registered mail, return receipt requested, or overnight delivery service (providing for delivery receipt) or delivered by hand. All notices or communications under this Agreement shall be addressed as follows:

If to the Reinsured:
c/o CGU Corporation
One Beacon Street
Boston, MA 02108
Attention: General Counsel

If to the Reinsurer:
c/o Berkshire Hathaway Group
Reinsurance Division
100 First Stamford Plaza
Stamford, CT 06902
Attention: General Counsel

or in each case at such other address as either party shall provide to the other as provided in this Section 14.2.

14.3. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns and legal representatives. Neither this Agreement, nor any right hereunder, may be assigned by either party without the prior written consent of the other party hereto.

14.4. EXECUTION IN COUNTERPARTS. This Agreement may be executed by the parties hereto in any number of counterparts, and by each of the parties hereto in separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

14.5. CURRENCY. Whenever the word "Dollars" or the "\$" sign appears in this Agreement, they shall be construed to mean United States Dollars, and all transactions under this Agreement shall be in United States Dollars.

14.6. AMENDMENTS. This Agreement may not be changed, altered or modified unless the same shall be in writing executed by the Reinsured and the Reinsurer.

14.7. GOVERNING LAW. This Agreement shall be interpreted and governed by the laws of the State of New York without regard to its rules with respect to conflicts of law.

14.8. INTEGRATION. This Agreement constitutes the entire agreement between the parties hereto relating to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether oral or written, of the parties, and there are no general or specific warranties, representations or other agreements by or among the parties in connection with the entering into of this Agreement or the subject matter hereof, except as specifically set forth or contemplated herein.

14.9. NO WAIVER. No consent or waiver, express or implied, by any party to or of any breach or default by any other party in the performance by such other party of its obligations hereunder shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance of obligations hereunder by such other party hereunder. Failure on the part of any party to complain of any act or failure to act of any other party or to declare any other party in default, irrespective of how long such failure continues, shall not constitute a waiver by such first party of any of its rights hereunder.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives.

POTOMAC INSURANCE COMPANY

By: _____
Title: _____
Date: _____

NATIONAL INDEMNITY COMPANY

By: _____
Title: _____
Date: _____

SCHEDULE 2

REINSURANCE PREMIUM

Initial Reinsurance Premium	\$1,230 million
less: Ultimate Net Loss Paid by the Reinsured on or after the Inception Date and prior to the Effective Date	[]
plus: Recoverables received under the Ceded Reinsurance Agreements on or after the Inception Date and prior to the Effective Date	[]
plus: Salvage and subrogation received on or after the Inception Date and prior to the Effective Date	[]
less: Unallocated Loss Adjustment Expenses incurred or assumed by Reinsured on or after the Inception Date and prior to the Effective Date(1)	[]
plus: Interest at a rate of 6.5% per annum calculated as set forth below(2)	[]
Reinsurance Premium	[] =====

 (1) calculated as follows []

(2) calculated (i) as of the last day of each month ending after the Inception Date and (ii) as of the Effective Date, based on the mean of the Reinsurance Premium calculated on an interim basis in accordance with the above formula as of the first day of the applicable month (or as of the Inception Date with respect to the initial period), and the Reinsurance Premium so calculated through the last day of such month (or as of the Effective Date with respect to the final period).

EXECUTION COPY

AGGREGATE LOSS PORTFOLIO REINSURANCE AGREEMENT

between

CGU INSURANCE COMPANY

Boston, Massachusetts

and

POTOMAC INSURANCE COMPANY

Boston, Massachusetts

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AGGREGATE LOSS PORTFOLIO REINSURANCE AGREEMENT

This Agreement, dated as of March 19, 2001 (this "Agreement") is made and entered into by and between CGU Insurance Company, a corporation organized under the laws of Pennsylvania (hereinafter referred to as the "Reinsured"), and Potomac Insurance Company, a corporation organized under the laws of Pennsylvania (hereinafter referred to as the "Reinsurer") to be effective as of the Effective Date (as defined below).

The Reinsured and the Reinsurer mutually agree to reinsure under the terms and conditions stated herein. This Agreement is an indemnity reinsurance agreement solely among the Reinsured and the Reinsurer, and the performance of the obligations of each party under this Agreement shall be rendered solely to the other party. In no instance, except as set forth in Article VIII of this Agreement, shall anyone other than the Reinsured or the Reinsurer have any rights under this Agreement.

ARTICLE I

DEFINITIONS

1.1. DEFINITIONS. As used in this Agreement, the following terms shall have the following meanings (definitions are applicable to both the singular and the plural forms of each term defined in this Article):

"ADMINISTRATIVE SERVICES AGREEMENT" means the Administrative Services Agreement entered into by and among the Reinsurer, Potomac and NICO.

2.1. "AGGREGATE LIMIT" shall have the meaning specified in Section

"AGREEMENT" shall have the meaning specified in the Recitals.

"ALLOCATED LOSS ADJUSTMENT EXPENSES" means all court arbitration, mediation or other dispute resolution costs, attorneys' fees, expenses, fees and interest accrued prior to or after any judgment, award, agreement or compromise (excluding any overhead, internal costs, staff costs and similar internal costs) incurred in connection with any defense, settlement, investigation or audit of or negotiations in relation to any Reinsured Risk.

"BUSINESS COVERED" means

- (a) all losses from all perils on policies or contracts of insurance or reinsurance issued by the Reinsured or any CGU Insurer (or any predecessor thereof to which the Reinsured or such CGU Insurer has succeeded by merger or otherwise) which terminated on or before December 31, 1987 and, with respect to policies or contracts of insurance or reinsurance issued by the Reinsured or any CGU Insurer (or any predecessor thereof to which the Reinsured or any CGU Insurer has succeeded by merger or otherwise) on or before January 1, 1987 which terminated after December 31, 1987, all losses from all perils incurred before January 1, 1988;
- (b) all asbestos related losses covered by policies or contracts of insurance or reinsurance issued by the Reinsured or any CGU Insurer (or any predecessor thereof to which the Reinsured or any CGU Insurer has succeeded by merger or otherwise) which terminated on or before December 31, 1992 and, with respect to policies or contracts of insurance or reinsurance issued by the Reinsured or any CGU Insurer (or any predecessor thereof to which the Reinsured or any CGU

Insurer has succeeded by merger or otherwise) on or before January 1, 1992 which terminated after December 31, 1992, all asbestos-related losses covered by such policies or contracts incurred before January 1, 1993;

- (c) all lead-related losses on policies or contracts of insurance or reinsurance issued by the Reinsured or any CGU Insurer (or any predecessor thereof to which the Reinsured or any CGU Insurer has succeeded by merger or otherwise) which terminated on or before December 31, 1995 and, with respect to policies or contracts of insurance or reinsurance issued by the Reinsured or any CGU Insurer (or any predecessor thereof to which the Reinsured or any CGU Insurer has succeeded by merger or otherwise) on or before January 1, 1995 which terminated after December 31, 1995, all lead-related losses incurred before January 1, 1996; and

- (d) all losses arising from the pools and associations listed in Schedule 1 hereto;

in each case excluding (x) all workers' compensation("WC") losses (except for coverage 1(b) claims that involve asbestos, any WC in pools and

associations in Schedule 1 and any WC in other assumed reinsurance business included in Business Covered) and (y) any liability of the Reinsured or any CGU Insurer ceded to CGNU plc or any majority-owned non-U.S. subsidiary thereof or predecessor of such a subsidiary under any arrangement under which the Reinsured or such CGU Insurer was acting as a fronting insurer for such non-U.S. person. It is understood that clauses (b), (c) and (d) above are in addition to and do not limit clause (a) above.

"BUSINESS DAY" means any day on which a United States national banking association in the State of New York is open for regular business.

"CEDED REINSURANCE AGREEMENTS" means all agreements of reinsurance other than this Agreement whereby the Reinsured or any CGU Insurer has ceded liability with respect to the Business Covered.

"CGU INSURERS" means all property and casualty companies a majority of the stock of which is owned directly or indirectly by CGU Corporation, including CU Lloyd's of Texas but excluding Houston General Insurance Company, Traders & General

Insurance Company, Traders & Pacific Insurance Company and Houston General Lloyds.

"CGU REINSURANCE AGREEMENTS" means all pooling and other reinsurance agreements entered into between other CGU Insurers and the Reinsured whereby business covered under the definition of Business Covered hereunder which was written by members of the CGU intercompany pool or certain other affiliates of the Reinsured was assumed by the Reinsured.

"DECLARATORY JUDGMENT EXPENSE" means all attorneys' fees, expenses and other litigation costs attributable to coverage analysis or declaratory judgment actions or other coverage dispute resolution procedures brought to determine defense and/or indemnification or payment obligations for any Reinsured Risk, whether or not a loss has been paid.

"EFFECTIVE DATE" means the earlier of (i) the Closing Date under the Stock Purchase Agreement dated as of September 24, 2000, as amended, by and among CGNU plc, White Mountains Insurance Group, Ltd. and others and (ii) July 1, 2001.

"EXCLUDED LIABILITY" means the following:

- (a) any sum paid or booked as paid prior to the Inception Date in settlement or payment of any obligation arising from Business Covered, including any such sums

for loss, Allocated Loss Adjustment Expense, Declaratory Judgment Expense or Noncontractual Damages;

- (b) any liabilities for losses incurred (i) due to fraud by a member of the Board of Directors or a corporate officer of the Reinsured (or any directors or officers of the CGU Insurers) acting individually or collectively or in collusion with any individual or corporation or any other organization or party involved in the presentation, defense or settlement of any Reinsured Risk or (ii) in respect of any tortious or bad faith act of the Reinsured or any of the CGU Insurers in connection with any insurance policies or reinsurance contracts not reinsured hereunder;
- (c) any liability of the Reinsured or any of the CGU Insurers with respect to any tax or assessment, whether paid directly by the Reinsured or billed to the Reinsured by or through a cedent or insured, regardless of whether the tax is denominated as an income tax, excise tax, premium tax, surplus lines tax, or any other tax or assessment (excluding any pool or other assessment for payment of losses or loss adjustment expenses, including without limitation any governmental charge which in the future is enacted in

replacement in whole or in part of any insurance or reinsurance liability, all of which shall constitute Reinsured Risks);

- (d) any liability of the Reinsured or any CGU Insurer under any insurance policy or reinsurance contract not constituting Business Covered;
- (e) subject to the provisions of Section 11.2, all coverage excluded in the underlying insurance policies and reinsurance contracts reinsured by this Agreement;
- (f) any liability of the Reinsured or any CGU Insurer ceded to any majority-owned non-U.S. subsidiary of CGNU plc or predecessor of such a subsidiary under any arrangement under which the Reinsured or such CGU Insurer was acting as a fronting insurer for such non-U.S. person;
- (g) Any policyholder dividends, return premiums and retrospective or loss sensitive premiums (except reinstatement or adjustment premiums (1) paid in connection with reinsurance inuring to the benefit of the Reinsurer with respect to risks reinsured hereunder or where the payment of such amounts benefits the Reinsurer either by way of reduction in the net present value of the liabilities of the Reinsurer with respect to risks reinsured under this

Agreement or by increasing reinsurance recoverables or coverage available to the Reinsurer hereunder in an amount greater than the dividend or premium; or (2) where the Reinsurer has given its prior approval to the payment of such reinstatement premiums).

(h) all losses specifically listed on Schedule 3.

"INCEPTION DATE" shall have the meaning specified in Section

2.1.

"INITIAL REINSURANCE PREMIUM" shall have the meaning specified in Section 4.1.

"INTEREST RATE" means an annual interest rate of six and one-half percent (6.5%) per annum.

"NICO" means National Indemnity Company, a Nebraska insurance company.

"NICO REINSURANCE AGREEMENT" means the reinsurance agreement entered into between the Reinsurer and NICO whereby business covered under the definition of Business Covered is assumed by NICO from the Reinsured.

"NONCONTRACTUAL DAMAGES" shall have the meaning specified in Section 11.1.

"POOLS AND ASSOCIATIONS" means the pools and associations listed in Schedule 1.

"PRIME RATE" shall be determined for each business day in New York City, and for non-business days shall equal the Prime Rate as determined for the most recent preceding business day. The Prime Rate as published in THE WALL STREET JOURNAL (Eastern Edition) shall be the primary source for the Prime Rate. If THE WALL STREET JOURNAL does not publish such a rate for a business day, the Prime Rate shall be the maximum of the rates publicly announced by major banks in New York City as their Prime Rates applicable to such day.

"REINSURANCE PREMIUM" shall have the meaning specified in Section 4.2.

"REINSURED CONTRACTS" means all policies of insurance issued by the Reinsured or any of the CGU Insurers covering or pertaining to Business Covered.

"REINSURED RISKS" shall have the meaning specified in Section 2.1.

"SAP" means statutory accounting practices prescribed or permitted by the Commissioner of Insurance of the State of Pennsylvania.

"TOTAL CEDED RESERVES" means the lesser of (i) the gross reserves of the Reinsured (including reserves for losses incurred but not reported) calculated in accordance with SAP with respect to Ultimate Net Loss, less an amount equal to reinsurance ceded with respect to Ultimate Net Loss pursuant to the Ceded Reinsurance Agreements; and (ii) the remaining Aggregate Limit.

"ULTIMATE NET LOSS" shall have the meaning specified in Section 2.3.

ARTICLE II

COVERAGE

2.1. COVERAGE. Effective as of 12:01 a.m., Eastern Standard Time, on January 1, 2000 (the "Inception Date"), the Reinsured agrees to reinsure with the Reinsurer, and the Reinsurer agrees to indemnify the Reinsured for, all Ultimate Net Loss incurred by the Reinsured and paid or payable on or after the Inception Date (the "Reinsured Risks"). The Reinsurer's limit of liability under this Agreement with respect to Ultimate Net Loss (the "Aggregate Limit") shall, notwithstanding any other provisions of this Agreement to the contrary, be the sum of \$2.5 billion. UNDER NO CIRCUMSTANCES, HOWSOEVER ARISING, SHALL REINSURER BE LIABLE FOR ANY AMOUNT OF

ULTIMATE NET LOSS GREATER THAN \$2.5 BILLION BY REASON OF ENTERING INTO THIS AGREEMENT.

2.2. CONDITIONS. No material changes made on or after the date hereof in the terms and conditions of the Reinsured Contracts shall be covered hereunder without the prior approval of such changes by the Reinsurer, which shall not be unreasonably withheld or delayed. In the event material changes are made in any Reinsured Contract without the prior approval of the Reinsurer, this Agreement will cover Ultimate Net Loss arising from such Reinsured Contract as if the non-approved changes had not been made. No Reinsured Contract that is an agreement of assumed reinsurance shall be commuted by the Reinsured or any CGU Insurer without the prior approval of the Reinsurer, which approval shall not be unreasonably withheld or delayed.

2.3. ULTIMATE NET LOSS. (a) (a) "Ultimate Net Loss" shall mean (i) the actual amount paid by the Reinsured or any CGU Insurer on its net retained liability with respect to the Business Covered (including, with respect to contracts of assumed reinsurance included as Business Covered, all amounts paid by the Reinsured or any CGU Insurer to cedents, whether for losses, loss adjustment expenses or otherwise) after making deductions for all salvage, subrogation and reinsurance

recoverables under the Ceded Reinsurance Agreements, to the extent actually collected and due the Reinsurer pursuant to Article XII plus (ii) Allocated Loss Adjustment Expenses paid by the Reinsured or any CGU Insurer. Ultimate Net Loss shall include Declaratory Judgment Expense and Noncontractual Damages, but shall exclude all unallocated loss adjustment expenses incurred pursuant to the Administrative Services Agreement.

(b) All recoveries or payments received by the Reinsured subsequent to a loss settlement under this Agreement shall be applied as if recovered or received prior to the aforesaid settlement and all necessary adjustments shall be made by the parties hereto, including an adjustment to the remaining Aggregate Limit, PROVIDED, that nothing in this Section 2.3(b) shall be construed to mean that losses under this Agreement are not recoverable until the Reinsured's loss has been ascertained.

2.4. TERRITORY. The territorial limits of this Agreement shall be identical with those of the Reinsured Policies.

ARTICLE III

GENERAL PROVISIONS

3.1. INSPECTION. The Reinsurer or its designated representative may inspect, at the offices of the Reinsured (or

any cedent under the CGU Reinsurance Agreements) where such records are located, the papers and any and all other books or documents of the Reinsured (or any cedent under the CGU Reinsurance Agreements) reasonably relating to the Reinsured Contracts, during normal business hours for such period as this Agreement is in effect or for as long thereafter as the Reinsured seeks performance by the Reinsurer pursuant to the terms of this Agreement. The information obtained shall be used only for purposes relating to this Agreement.

3.2. MISUNDERSTANDINGS AND OVERSIGHTS. If any delay, omission, error or failure to pay amounts due or to perform any other act required by this Agreement is unintentional and caused by misunderstanding or oversight, the Reinsured and the Reinsurer will adjust the situation to what it would have been had the misunderstanding or oversight not occurred. The party first discovering such misunderstanding or oversight, or an act resulting from such misunderstanding or oversight, will notify the other party in writing promptly upon discovery thereof, and the parties shall act to correct such misunderstanding or oversight within twenty (20) Business Days of such other party's receipt of such notice. However, this Section shall not be construed as a waiver by either party of its right to enforce strictly the terms of this Agreement.

3.3. SET-OFF. Any debts or credits, matured or unmatured, liquidated or unliquidated, regardless of when they arose or were incurred, in favor of or against either of the Reinsured or the Reinsurer with respect to this Agreement are deemed mutual debts or credits, as the case may be, and shall be set-off, and only the net balance shall be allowed or paid.

3.4. PAYMENTS. All payments between the parties, made pursuant to this Agreement shall be made by wire transfer of immediately available non-reversible United States Federal Funds to such bank account or accounts as designated by the recipient.

ARTICLE IV

REINSURANCE PREMIUM

4.1. INITIAL REINSURANCE PREMIUM. The Reinsured shall pay to the Reinsurer on or before the Effective Date the sum of \$1,250 million, as adjusted through December 31, 2000 in the manner set forth on Schedule 2 hereto (the "Initial Reinsurance Premium"). In addition, the Reinsured hereby assigns to the Reinsurer the salvage and subrogation amounts under Section 12.1 and the reinsurance recoverable amounts under Section 12.2.

4.2. PREMIUM ADJUSTMENT. On or before the last day of the first full month following the Effective Date, the Initial Reinsurance Premium shall be adjusted through the Effective Date

in the manner set forth on Schedule 2 hereto. The Initial Reinsurance Premium, as so adjusted shall be referred to herein as the "Reinsurance Premium". In the event that the Reinsurance Premium exceeds the Initial Reinsurance Premium, the Reinsured shall pay an amount equal to such excess amount to the Reinsurer within 10 days following the determination of the Reinsurance Premium by the parties, together with interest from the date of payment of the Initial Reinsurance Premium to the date of payment of such excess amount at the prevailing rate of U.S. 30 day Treasury securities. In the event that the Initial Reinsurance Premium exceeds the Reinsurance Premium, the Reinsurer shall pay an amount equal to such excess amount to the Reinsured within 10 days following the determination of the Reinsurance Premium by the parties, together with interest from the date of payment of the Initial Reinsurance Premium to the date of payment of such excess amount at the prevailing rate of U.S. 30 day Treasury securities.

ARTICLE V

ADMINISTRATION; CHANGES

5.1. ADMINISTRATION. Pursuant to the NICO Reinsurance Agreement and the Administrative Services Agreement, the Reinsurer, the Reinsured and the CGU Insurers appoint NICO to perform all administrative services with respect to the

Reinsured Contracts until the date of termination of the NICO Reinsurance Agreement (or the date of termination of the Administration Services Agreement, if earlier) and NICO agrees to perform such services on behalf of the Reinsurer, the Reinsured and such CGU Insurers at its sole expense, including, but not limited to, the direct payment of all Ultimate Net Loss and the administration of claims. NICO has agreed to provide such services utilizing its employees or utilizing the employees of affiliates of the Reinsurer pursuant to a separate agreement between NICO and such affiliates of the Reinsurer.

5.2. RESERVE ASSUMPTION CHANGES. The Reinsured shall not, on its own initiative, change the methods used by the Reinsured to establish Total Ceded Reserves. The Reinsurer shall share proportionately in any changes in the methods used to establish the Total Ceded Reserves required by law or applicable regulation. Nothing contained herein shall be construed to require the Reinsurer to adopt the Reinsured's reserving methodologies, or vice versa. Each party shall establish its reserves in respect of the liabilities reinsured hereunder.

ARTICLE VI
DURATION AND TERMINATION AND RECAPTURE

6.1. DURATION. Except as otherwise provided herein, this Agreement shall be unlimited in duration.

6.2. REINSURER'S LIABILITY. The Reinsurer's liability with respect to Ultimate Net Loss will terminate on the earlier of: (i) the date the Reinsured's liability with respect to the Reinsured Risks are terminated and all amounts due the Reinsured under this Agreement with respect to such Reinsured Risks are paid or (ii) the date on which the Reinsurer has paid to the Reinsured an amount of Ultimate Net Loss equal to the Aggregate Limit.

ARTICLE VII

ACCOUNTING

7.1. Pursuant to and in accordance with the terms of the Administrative Services Agreement, NICO will provide to the Reinsurer and the Reinsured accounting and settlement reports as to the Reinsured Contracts.

ARTICLE VIII

INSOLVENCY

8.1. PAYMENTS. In the event of the insolvency of the Reinsured, all payments due the Reinsured under this Agreement shall be payable by the Reinsurer directly to the Reinsured or to its liquidator, receiver, conservator or statutory successor on the basis of the liability of the Reinsured under the policy or policies reinsured, without diminution, acceleration or enlargement because of the insolvency of the Reinsured. It is agreed and understood, however, (i) that in the event of the insolvency of the Reinsured the Reinsurer shall be given written notice of the pendency of a claim against the Reinsured on a Reinsured Policy within a reasonable time after such claim is filed in the insolvency proceeding and (ii) that during the pendency of such claim the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated any defenses which it may deem available to the Reinsured or its liquidator, receiver conservator or statutory successor.

8.2. EXPENSES. It is further understood that any expense thus incurred by the Reinsurer pursuant to Section 8.1 shall be chargeable, subject to court approval, against the Reinsured as part of the expense of liquidation to the extent of

a proportionate share of the benefit which may accrue to the Reinsured solely as a result of the defense undertaken by the Reinsurer. Where two or more assuming reinsurers are involved in the same claim and a majority in interest elect to interpose defenses to such claim, the expense shall be apportioned in accordance with the terms of this Agreement as though such expense had been incurred by the Reinsured.

ARTICLE IX

[THIS ARTICLE IS INTENTIONALLY LEFT BLANK]

ARTICLE X

ARBITRATION

10.1. RESOLUTION OF DAMAGES. As a condition precedent to any right arising under this Agreement, any dispute between the Reinsured and the Reinsurer arising out of the provisions of this Agreement, or concerning its interpretation or validity, whether arising before or after termination of this Agreement, shall be submitted to arbitration in the manner set forth in this Article X. The Reinsured or the Reinsurer may initiate arbitration of any such dispute by giving written notice to the other party by registered or certified mail, return receipt requested, of its intention to arbitrate and of

its appointment of an arbitrator in accordance with Section 10.3.

10.2. COMPOSITION OF PANEL. Unless the parties agree upon a single arbitrator within fifteen (15) days after the receipt of notice of intention to arbitrate, all disputes shall be submitted to an arbitration panel composed of two arbitrators and an umpire, chosen in accordance with Sections 10.3 and 10.4.

10.3. APPOINTMENT OF ARBITRATORS. The members of the arbitration panel shall be chosen from persons knowledgeable in the insurance and reinsurance business. The party requesting arbitration (hereinafter referred to as the "claimant") shall appoint an arbitrator and give written notice thereof, by registered or certified mail, return receipt requested, to the other party (hereinafter referred to as the "respondent") together with its notice of intention to arbitrate. Unless a single arbitrator is agreed upon within fifteen (15) days after the receipt of the notice or intention to arbitrate, the respondent shall, within thirty (30) days after receiving such notice, also appoint an arbitrator and notify the claimant thereof in a like manner. Before instituting a hearing, the two arbitrators so appointed shall choose an umpire. If, within twenty (20) days after they are both appointed, the arbitrators

fail to agree upon the appointment of an umpire, the umpire shall be appointed by the President of the American Arbitration Association.

10.4. FAILURE OF A PARTY TO APPOINT ARBITRATOR. If the respondent fails to appoint an arbitrator within thirty (30) days after receiving a notice of intention to arbitrate, such arbitrator shall be appointed by the President of the American Arbitration Association, and shall then, together with the arbitrator appointed by the claimant, choose an umpire as provided in Section 10.3.

10.5. CHOICE OF FORUM. Any arbitration instituted pursuant to this Article X shall be held in New York, New York.

10.6. SUBMISSION OF DISPUTE TO PANEL. Unless otherwise extended by the arbitration panel, or agreed to by the parties, each party shall submit its case to the panel within thirty (30) days after the selection of an umpire.

10.7. PROCEDURE GOVERNING ARBITRATION. All proceedings before the panel shall be informal and the panel shall not be bound by the formal rules of evidence. The panel shall have the power to fix all procedural rules relating to the arbitration proceeding. In reaching any decision, the panel shall give due consideration to the custom and usage of the

insurance and reinsurance business and the mutual intention of the parties as reflected in this Agreement.

10.8. ARBITRATION AWARD. The arbitration panel shall render its decision within sixty (60) days after termination of the proceeding, which decision shall be in writing. The decision of the majority of the panel shall be final and binding on the parties to the proceeding.

10.9. COST OF ARBITRATION. Unless otherwise allocated by the panel, each party shall bear the expense of its own arbitrator and its own witnesses and shall jointly and equally bear with the other party the expense of the umpire and the arbitration.

10.10. LIMIT OF JURISDICTION. The arbitration panel shall not have jurisdiction to authorize any punitive damage awards between the parties.

ARTICLE XI

NONCONTRACTUAL COVERAGES

11.1. NONCONTRACTUAL DAMAGES. This Agreement shall cover Noncontractual Damages. "Noncontractual Damages" as used herein shall mean those liabilities for which the Reinsured or any CGU Insurer is legally liable arising from actual or

alleged misconduct of the Reinsured, any CGU Insurer or any of their affiliates, or their agents, brokers, or representatives (other than NICO acting on behalf of the Reinsurer pursuant to the Administrative Services Agreement, which liability shall be indemnified pursuant to such Agreement) in their handling of claims or losses, or in any of their dealings with their insureds or any other person. Such liabilities shall include, but are not limited to, punitive, exemplary, compensatory, and consequential damages. Such misconduct shall include, but is not limited to, failure to settle within the policy limit, negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense, or in the trial of any action or in the preparation or prosecution of any appeal consequent upon any action. Noncontractual Damages shall also include, and this Agreement shall cover, any and all amounts otherwise included in the definition of Ultimate Net Loss that the Reinsured actually pays or is obligated to pay to ceding companies under Business Covered that are agreements of assumed reinsurance, whether under the terms of such reinsurance contracts or as a result of agreements between the Reinsured and cedents as to the settlement of specific claims.

11.2. UNDERLYING EXCLUSION. This Agreement shall cover losses for which the Reinsured or any CGU Insurer is

liable because (i) a judicial entity, having legal jurisdiction, invalidates any exclusion under an insurance policy or reinsurance contract, or (ii) the issuer of such insurance policy or reinsurance contract settles or pays, in good faith, a Reinsured Risk to which any such exclusion might provide a defense, PROVIDED, HOWEVER, that the amount of any such loss shall be subject to the other terms, conditions and exclusions of this Agreement.

ARTICLE XII

SALVAGE, SUBROGATION AND CEDED REINSURANCE AGREEMENTS

12.1. SALVAGE AND SUBROGATION. The Reinsurer shall be subrogated as respects any Ultimate Net Loss for which the Reinsurer shall actually pay, or become liable to pay, on or after the Inception Date, but only to the extent of the amount of payment by, or the amount of liability of, the Reinsurer, to all rights of the Reinsured against any person or other entity who may be legally responsible in damages for such Ultimate Net Loss. In addition, the Reinsured hereby assigns, transfers and conveys to the Reinsurer any and all rights of the Reinsured or any CGU Insurer to salvage and subrogation on the Business Covered which was paid prior to the Inception Date (other than salvage and subrogation with respect to the BROTHER JONATHAN loss, PROVIDED that the Reinsurer shall have no obligation to

pay any costs of recovery thereof). The rights of the Reinsurer and the obligations of the Reinsured under this Section 12.1 shall terminate at such time as the Reinsurer shall have paid to the Reinsured under this Agreement an amount of Ultimate Net Loss equal to the Aggregate Limit.

12.2. CEDED REINSURANCE AGREEMENTS. Effective as of the Inception Date, the Reinsured hereby assigns, transfers and conveys to the Reinsurer all reinsurance recoverables payable under the Ceded Reinsurance Agreements, including amounts due from reinsurers for losses or loss adjustment expenses on the Business Covered which were paid prior to the Inception Date; provided, however, that the foregoing assignment shall be null and void immediately upon (i) the filing of any petition or initiation of any proceeding for the supervision, rehabilitation, conservation, or liquidation of the Reinsurer or other proceedings for the protection of the Reinsurer's creditors, which petition or proceedings shall have resulted in a finding by a court or insurance regulator of competent jurisdiction of the insolvency of the Reinsurer or (ii) at such time as the Reinsurer shall have paid to the Reinsured under this Agreement an amount of Ultimate Net Loss equal to the Aggregate Limit. The parties agree that neither the Reinsurer nor the Reinsured shall have the right during the term of this

Agreement to commute any of the Ceded Reinsurance Agreements without the prior written consent of the other party.

12.3. COLLECTION. The Reinsured shall, if reasonably requested by the Reinsurer, aid the Reinsurer, at the Reinsurer's expense, in collection of all amounts due in respect of the Reinsured Risks from reinsurers. The collectibility of such reinsurance shall be the ultimate responsibility of the Reinsurer and shall be at the risk and for the account of the Reinsurer in the event such reinsurance is not collected until such time as Reinsurer shall have paid to the Reinsured under this Agreement an amount of Ultimate Net Loss equal to the Aggregate Limit.

12.4. EXPENSES. In determining the amount of salvage, subrogation or reinsurance recoverables, there shall first be deducted from any amount recovered the expenses incurred in effecting the recovery (including, without limitation, all court, arbitration, mediation or other dispute resolution costs, attorneys' fees and expenses but excluding overhead, salaries and expenses of officers and employees of the Reinsured and similar internal costs), except to the extent otherwise paid or reimbursed by the Reinsurer hereunder.

12.5. ACTUAL RECEIPT. The Reinsured shall not be obligated to credit the Reinsurer for salvage, subrogation or

reinsurance recoverables until such time as the Reinsured receives actual payment of such amounts in cash or other assets.

ARTICLE XIII

WARRANTIES

13.1. Other than the contemplated acquisition of the Reinsured which has been disclosed to Reinsurer, the Reinsured warrants and represents that it shall not voluntarily undertake any change in its corporate structure which would have a materially adverse impact upon the Reinsurer without the prior consent of the Reinsurer, which shall not be unreasonably withheld or delayed. The Reinsured further warrants and represents that it shall not change its domicile, or the domicile of any affiliate reinsured hereunder, outside the United States without the prior consent of the Reinsurer, which shall not be unreasonably withheld or delayed.

13.2. The Reinsured warrants and represents that the direct PIP claims set forth in Schedule 3 to this Agreement contains all direct PIP claims known to Reinsured as of the date of this Agreement.

13.3. The Reinsured warrants and represents that to the best of its knowledge and belief no material information

relating to risks reinsured hereunder has been intentionally withheld from the Reinsurer.

13.4. The Reinsured warrants and represents that in the event that the Reinsured purchases any additional reinsurance as respects the Business Covered, the Reinsurer shall have a first right to sell such reinsurance to the Reinsured. The Reinsured shall notify the Reinsurer that it intends to purchase such reinsurance. It shall also notify the Reinsurer of the terms of such additional reinsurance as offered in binding format by an appropriately licensed non-affiliated reinsurer rated AAA by Standard & Poor's Corporation and Moody's. The Reinsurer shall have thirty (30) days to make a binding offer to the Reinsured to provide reinsurance to the Reinsured on the same terms and conditions as those offered by the non-affiliated reinsurer.

ARTICLE XIV

MISCELLANEOUS PROVISIONS

14.1. HEADINGS AND SCHEDULES. Headings used herein are not a part of this Agreement and shall not affect the terms hereof. The attached Schedules are a part of this Agreement.

14.2. NOTICES. All notices and communications hereunder shall be in writing and shall become effective when received. Any written notice shall be by either certified or registered mail, return receipt requested, or overnight delivery service (providing for delivery receipt) or delivered by hand. All notices or communications under this Agreement shall be addressed as follows:

If to the Reinsured:
CGU Insurance Company
One Beacon Street
Boston, MA 02108
Attention: General Counsel

If to the Reinsurer:
Potomac Insurance Company
One Beacon Street
Boston, MA 02108
Attention: General Counsel

or in each case at such other address as either party shall provide to the other as provided in this Section 14.2.

14.3. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns and legal representatives. Neither this Agreement, nor any right hereunder, may be assigned by either party without the prior written consent of the other party hereto.

14.4. EXECUTION IN COUNTERPARTS. This Agreement may be executed by the parties hereto in any number of counterparts, and by each of the parties hereto in separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

14.5. CURRENCY. Whenever the word "Dollars" or the "\$" sign appears in this Agreement, they shall be construed to mean United States Dollars, and all transactions under this Agreement shall be in United States Dollars.

14.6. AMENDMENTS. This Agreement may not be changed, altered or modified unless the same shall be in writing executed by the Reinsured and the Reinsurer.

14.7. GOVERNING LAW. This Agreement shall be interpreted and governed by the laws of the State of New York without regard to its rules with respect to conflicts of law.

14.8. INTEGRATION. This Agreement constitutes the entire agreement between the parties hereto relating to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether oral or written, of the parties, and there are no general or specific warranties, representations or other agreements by or among the parties in connection with the entering into of this Agreement or the subject matter hereof, except as specifically set forth or contemplated herein.

14.9. NO WAIVER. No consent or waiver, express or implied, by any party to or of any breach or default by any other party in the performance by such other party of its obligations hereunder shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance of obligations hereunder by such other party hereunder. Failure on the part of any party to complain of any act or failure to act of any other party or to declare any other party in default, irrespective of how long such failure continues, shall not constitute a waiver by such first party of any of its rights hereunder.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives.

CGU INSURANCE COMPANY

By: _____
Title: _____
Date: _____

POTOMAC INSURANCE COMPANY

By: _____
Title: _____
Date: _____

SCHEDULE 2

REINSURANCE PREMIUM

Initial Reinsurance Premium	\$1,250 million
less: Ultimate Net Loss Paid by the Reinsured on or after the Inception Date and prior to the Effective Date	[]
plus: Recoverables received under the Ceded Reinsurance Agreements on or after the Inception Date and prior to the Effective Date	[]
plus: Salvage and subrogation received on or after the Inception Date and prior to the Effective Date	[]
less: Unallocated Loss Adjustment Expenses incurred or assumed by Reinsured on or after the Inception Date and prior to the Effective Date(1)	[]
plus: Interest at a rate of 6.5% per annum calculated as set forth below(2)	[]
Reinsurance Premium	[] =====

(1) calculated as follows []

(2) calculated (i) as of the last day of each month ending after the Inception Date and (ii) as of the Effective Date, based on the mean of the Reinsurance Premium calculated on an interim basis in accordance with the above formula as of the first day of the applicable month (or as of the Inception Date with respect to the initial period), and the Reinsurance Premium so calculated through the last day of such month (or as of the Effective Date with respect to the final period).

ADMINISTRATIVE SERVICES AGREEMENT

by and among

POTOMAC INSURANCE COMPANY

CGU INSURANCE COMPANY
and

NATIONAL INDEMNITY COMPANY

Dated as of April 13, 2001

ADMINISTRATIVE SERVICES AGREEMENT

This ADMINISTRATIVE SERVICES AGREEMENT (this "Agreement"), dated as of April 13, 2001, is entered into by and among National Indemnity Company, a Nebraska stock insurance company ("Administrator") Potomac Insurance Company, a Pennsylvania stock insurance company ("Potomac") and CGU Insurance Company, a Pennsylvania stock insurance company ("CGU" and, together with Potomac, "Insurers").

RECITALS

WHEREAS, Potomac and CGU have entered into an Aggregate Loss Portfolio Reinsurance Agreement dated as of the date hereof (the "CGU Reinsurance Agreement") whereby CGU has agreed to cede, on its behalf and on behalf of certain of its affiliates, and Potomac has agreed to reinsure, on the indemnity basis, the Reinsured Risks (as defined in the CGU Reinsurance Agreement) of CGU and such affiliates; and

WHEREAS, Potomac and Administrator have entered into an Aggregate Loss Portfolio Reinsurance Agreement dated March 14, 2001 whereby Potomac has agreed to cede and Administrator has agreed to reinsure, the Reinsured Risks (as defined in the Aggregate Reinsurance Agreement), subject to the terms and conditions of the Aggregate Reinsurance Agreement; and

WHEREAS, Insurers desire that Administrator perform administrative functions on behalf of Insurers from and after the date hereof with respect to the Business Covered under the Aggregate Reinsurance Agreement, and Administrator has agreed to provide such services; and

WHEREAS, It is the intention of the parties that after the Effective Date, the assistance of CGU, the Reinsureds and CGU Insurers will be required to allow Administrator to provide Run-Off Functions and that assistance will be provided by CGU through the provision of Run-Off Services and the use of certain premises currently leased by CGU or one of its subsidiaries.

NOW, THEREFORE, in consideration of the foregoing promises, the mutual agreements and covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Insurers and Administrator hereby agree as follows:

DEFINITIONS AND INTERPRETATION

In this Agreement, unless the context requires otherwise:

"AGGREGATE REINSURANCE AGREEMENT" means the reinsurance agreement entered into between CGU, Potomac and the Administrator entitled "Aggregate Loss Portfolio Reinsurance Agreement" having an Inception Date of January 1, 2000;

"RELEVANT BUSINESS RECORDS" means, in relation to each CGU Insurer, all such information concerning the Business Covered written by such CGU Insurer and assets held in respect thereof including (without prejudice to the generality of the foregoing) policy slips, policy wording, underwriting cards, certificates of insurance, policy renewal or cancellation documents, claims information, reserving documentation, reinsurance information (including wordings) and all correspondence relating thereto and all books of accounts, financial information, investment records, accounting records, unallocated loss adjustment expenses and other records (whether stored electronically or in hard format) and which have been prepared or maintained by or on behalf of such CGU Insurer together with all such information as is created or amended from time to time after the date of this Agreement;

"RUN-OFF FUNCTIONS" means those functions relating to the administration and run-off of the Business Covered, including those services set out in Article III or as varied from time to time in accordance with this Agreement;

"RUN-OFF SERVICES" means those services set out in Article IV or as varied from time to time in accordance with this Agreement.

In this Agreement, unless the context requires otherwise:

words and expressions used in the Aggregate Reinsurance Agreement shall bear the same meaning when used in this Agreement. All capitalized terms not otherwise defined in this Agreement shall have the meaning given them under the Aggregate Reinsurance Agreement;

references to a clause are to a clause of, this Agreement;

words importing the singular include the plural and vice versa, words importing a gender include every gender and references to persons include corporations, partnerships and other unincorporated associations or bodies of persons;

the headings to clauses, parts and paragraphs are inserted for convenience only and shall be ignored in interpreting this Agreement;

the words and phrases "other", "including" and "in particular" shall not limit the generality of any preceding words or be construed as being limited to the same class as the preceding words where a wider construction is possible.

Nothing in this Agreement shall be construed to expand, modify or reduce the obligations of the parties under the Aggregate Reinsurance Agreement. In the event of any conflict between this Agreement and the Aggregate Reinsurance Agreement the terms and conditions of the Aggregate Reinsurance Agreement shall govern.

ARTICLE I

AUTHORITY

1.1 Insurers hereby appoint Administrator, and Administrator hereby accepts appointment, to provide as an independent contractor of Insurers such administrative and other services with respect to the Business Covered as set forth in this Agreement (the "Administrative Services"), all on the terms, and subject to the limitations and conditions, as set forth in this Agreement. Notwithstanding any other provision of this Agreement to the contrary, Insurers shall have the right to direct Administrator to perform any action necessary to comply with applicable legal or regulatory requirements as set forth in an "Agreed Opinion", final regulatory or court order, or to cease performing any action that constitutes a violation of applicable law or regulatory requirements as set forth in an "Agreed Opinion", a final regulatory or court order. The Administrator may, on behalf of any CGU Insurer, negotiate with any applicable Regulator or other party concerning such compliance. An "Agreed Opinion" shall mean an opinion of a mutually agreed impartial attorney. Within the scope of the authority granted by this Agreement, Administrator shall carry out its functions as appropriate in its independent judgment.

ARTICLE II

STANDARD FOR SERVICES

2.1 All of the Administrative Services described in this Agreement shall be performed by the Administrator in accordance with (i) applicable law, (ii) the Reinsured Contracts and (iii) Administrator's own standards in providing services with respect to similar insurance contracts issued by Administrator in its own name. If such compliance is impossible for reasons beyond its control, Administrator will notify CGU of that fact and the reasons for noncompliance.

ARTICLE III

RUN-OFF FUNCTIONS FROM THE DATE OF THIS
AGREEMENT UNTIL EFFECTIVE DATE

- 3.1 From the date of this agreement until the Effective Date, CGU shall provide the Run-Off Functions.
- 3.2 CGU undertakes to the Administrator that in providing the Run-off Functions from the date of this Agreement until the Effective Date it shall:
- 3.2.1 comply with any directions and/or guidelines in relation to the provision of the Run-off Functions which may be issued by the Administrator to CGU from time to time;
- 3.2.2 not commute any reinsurance contract providing reinsurance coverage for Business Covered without the prior consent of the Administrator;
- 3.2.3 not commute any reinsurance contract included within Business Covered under which a CGU Insurer assumed the liabilities of another insurer for a sum in excess of \$2 million; Excluded are the CUREPOOL reinsurance agreement (10/1/98 to 12/31/01) which is being commuted and settled at closing, and the \$2.0 million uncollectable reinsurance agreement with CGNU London;
- 3.2.4 not settle any claim on Business Covered for an amount in excess of \$2 million without the prior consent of the Administrator.
- 3.2.5 not compromise any claim for an amount in excess of \$2 million on any reinsurance or other recoverable insuring to the benefit of Administrator without the prior consent of the Administrator.
- 3.3 If a claim is made against the Administrator as a result of, or in connection with, liability to, or a dispute with, any third party, CGU shall provide the Administrator all reasonable facilities and co-operation to investigate the same and shall provide the Administrator with such information and assistance as the Administrator may reasonably require in connection with the claim, liability or dispute.
- 3.4 CGU shall notify the Administrator as soon as practicable upon it becoming aware of:
- 3.4.1 any proceedings (of whatsoever nature relating to the Business Covered) in relation to which the Administrator or any Insurer (and whether or not specifically named as a defendant or respondent in such proceedings), will be or will be likely to be or become involved as a defendant, respondent or as a contributory or by virtue of any indemnity given; or

- 3.4.2 the existence of any circumstances that would, or would be likely to, entitle a CGU Insurer to take proceedings against or make any recovery from any third party.
- 3.5 If CGU notifies the Administrator pursuant to Section 3.4, CGU shall provide all reasonable facilities, co-operation, information and assistance in the investigation, instigation or defense (as the case may be) of such proceedings and CGU:
 - 3.5.1 shall not make any admission of liability, agreement or compromise with any person, body or authority in relation to any such proceedings without prior consultation and the prior written agreement of the Administrator;
 - 3.5.2 shall take such action as the Administrator may reasonably request to make, avoid, dispute, resist, appeal, compromise or defend such proceedings or any adjudication in respect thereof; and
 - 3.5.3 if so required by the Administrator in writing, shall ensure that the Administrator is placed in a position to take on or take over the conduct of all proceedings and/or negotiations of whatsoever nature and provide such information and assistance as the Administrator may reasonably require in connection with the preparation for and conduct of such proceedings and/or negotiations.
- 3.6 Administrator shall pay to Potomac for the Run-Off Functions provided by Insurer, the Unallocated Loss Adjustment Expense sum agreed to by the Administrator and Potomac pursuant to Schedule 2 of the Aggregate Reinsurance Agreement. No additional amount shall be due CGU or Potomac under this Agreement for the provision of the Run-Off Functions performed until the Effective Date which amounts are separately addressed in the Aggregate Reinsurance Agreement.

ARTICLE IV

RUN-OFF FUNCTIONS COMMENCING ON EFFECTIVE DATE

- 4.1 In order to give full effect to its rights and to fulfil its obligations under the Reinsurance Agreement, the Administrator shall provide and perform the Run-off Functions as follows:
 - 4.1.1 to adjust, handle, agree, settle, pay, compromise or repudiate any claims, return premiums, reinsurance premiums or any other liability, outgoing or expense;

- 4.1.2 to agree to any variation or extension of any contract of insurance or reinsurance and to agree to any additional premiums in relation thereto;
- 4.1.3 to commence, conduct, pursue, settle, appeal or compromise any legal arbitration or other proceedings wheresoever;
- 4.1.4 to agree to and collect premiums, claim refunds, salvages and reinsurance recoveries;
- 4.1.5 to agree to, or exercise any right to, set-off any claims against reinsurance recoveries or vice versa or to settle any balance of account owing to or from the Reinsured or any CGU Insurer in relation to any amounts whatsoever;
- 4.1.6 to agree, on behalf of the Reinsured or any CGU Insurer, to fund the obligations of any third party in connection with any claim or any other matter;
- 4.1.7 to agree to any ex gratia or without prejudice payment or any other extra-contractual obligation of or on behalf of Reinsured or any CGU Insurer;
- 4.1.8 to enter into any arrangements which the Administrator considers will or may avoid or reduce any liability;
- 4.1.9 to use the name of the Reinsured or any CGU Insurer in connection with the exercise of any or all of the powers conferred by this Agreement;
- 4.1.10 to exercise any rights of subrogation or other rights of recovery;
- 4.1.11 to enter into discussions or negotiations with any insured or reinsured person or their representatives in connection with Business Covered;
- 4.1.12 to enter into, amend or cancel any arrangements or agreements with third parties, including in relation to the handling or collection of claims, premiums, debts or reinsurance recoveries. Provided CGU is not held liable for any damages arising from such amendments or cancellations;
- 4.1.13 to instruct lawyers, claims adjusters or other consultants or experts;
- 4.1.14 to enter into any arrangement or agreement involving other underwriters or insurers in connection with either a particular claim or category of claim where the Administrator may agree on behalf of CGU to be bound by a policy determined for the purposes of settling such claims, and, in connection therewith, to agree to indemnify (either jointly or severally) any third party who acts as agent in relation to such arrangement, agreement or policy;
- 4.1.15 to share information received from CGU, including any information in its files

and records, with other insurers, reinsurers, claimants and other persons as may be necessary in the judgement of the Administrator to carry out the Run-Off Functions;

- 4.1.16 to draw down upon any letter of credit, trust, funds withheld, offset or take action in CGU's name in relation to any other security maintained in the name, or on behalf, of CGU, the Reinsured or any CGU Insurer in connection with Business Covered.
- 4.2 CGU (for itself and as agent for each of the CGU Insurers) hereby grants to the Administrator all such powers as are necessary, desirable or expedient in order for the Administrator to provide the Run-off Functions including the powers set out in Section 4.1. The Run-off Functions which will be undertaken by the Administrator will include all matters relating to the administration, settlement and payment of claims arising under the Business Covered, together with all other matters required to give full effect to the terms of the Aggregate Reinsurance Agreement and the run-off of the Business Covered, including the matters set out in Article IV and extending to claims arising under inwards insurance and reinsurance business, to claims recoveries under outwards reinsurance policies protecting the Business Covered and to the pursuit and recovery of salvage and/or subrogated claims.
- 4.3 CGU shall (and shall procure that the CGU Insurers shall) enter into such powers of attorney or other forms of authority as the Administrator may from time to time reasonably require to enable the Administrator to exercise on behalf of each CGU Insurer such powers as are necessary, desirable or expedient for the provision of and performance by the Administrator of the Run-off Functions.
- 4.4 The Administrator shall be entitled, for its own account and in its own responsibility to employ and pay sub-agents or contractors in any part of the world to perform or co-operate in performing any of the Run-off Functions (or performing any of the Administrator's other obligations under this Agreement) as the Administrator may in its discretion determine, provided such delegation shall not be made to subagents or others with potential conflicts of interest, without first disclosing such potential conflicts and seeking the written permission of Reinsured, which will not be unreasonably withheld. Nothing in the foregoing provision shall apply to the Administrator's right to employ corporations directly or indirectly owned by Berkshire Hathaway Inc. as sub-agents or contractors. The Administrator may delegate any of its duties to be performed or powers to be exercised, including this power of delegation, under this Agreement, provided that the Administrator shall be and remain responsible at all times for the acts and omissions of any such sub-agent or contractor or any person to whom they may delegate any such duties or powers. Any damages resulting from such acts or omissions (other than damages of whatsoever nature included in the definition of Ultimate Net Loss) shall not impair the Aggregate.

- 4.5 Where the Administrator provides run-off services for a claim or related claims which are partially or in whole not Business Covered either due to lack of information or indivisibility of the claim or related claims, CGU shall reimburse Administrator for the direct and shared costs of providing such services with allocation of the direct costs between Administrator and CGU to be on the basis of exposure each had on the claim in accordance with Section 5.1. If Administrator has reason to believe that a claim it is handling is partially not business covered and the Administrator has reason to believe that CGU's exposure on the claim or related claims is in excess of \$100,000, Administrator shall promptly notify the Senior Vice President of CGU's claims department or his designee and the parties shall reach a good faith agreement on the handling of the claim or related claims. Direct and shared costs as referenced herein refers to the salary, benefits and allocated shared costs of the claims handler.
- 4.6 All extra contractual damages that result from claims handling performed after the Effective Date shall be the responsibility of the Administrator and shall not impair the Aggregate to the extent such damages are not Ultimate Net Loss under the Aggregate Reinsurance Agreement.
- 4.7 Whenever there are claims that involve the Reinsured and also involve insurers, reinsurers or companies that are owned, administered or one hundred percent reinsured by a direct or indirect subsidiary of Berkshire Hathaway Inc., the Administrator agrees that it will handle claims under this Agreement in good faith and with due regard for the singular interests of the Reinsured and CGU.
- 4.8 Document retention policies of Reinsured and Administrator, concerning all documents relating to Business Covered, will not be changed without the prior consent of both parties.

ARTICLE V

RUN-OFF SERVICES FROM THE EFFECTIVE DATE

From the Effective Date and through the remainder of the term of this Agreement and subject to its terms and conditions, CGU shall provide to Administrator Run-Off Services.

BASIS FOR DEVELOPING COST OF SERVICES

- 5.1 Direct costs will be aggregated discretely where possible. Shared costs will be split based on allocation methodology agreed between the parties. Where feasible, expense allocation will be done by actual allocated costs by specific study and/or

direct allocations. If the expense required to derive allocated costs by specific study and/or direct allocation is more than the value derived by using these methods, then appropriate agreed indirect methods will be used. CGU shall not charge for any service that is not included within Administrator's obligations under this Agreement.

CGU shall at the request of the Administrator provide services to the Administrator up to the date indicated below:

INFORMATION TECHNOLOGY SERVICES

- 5.2 CGU agrees to maintain current support levels for the Information Technology Systems, services and applications currently used in connection with the Run-Off Function for the period from the Effective Date to December 31, 2002 at Administrator's request.

The charge for Information Technology Services will be in three components. The first component is the network service charge, referred to by CGU Information Technology Department as data-mega chargeback which is the monthly connectivity fee. The charge will be at the same rate as for CGU users. The second component is a pro rata share of claims systems support costs based on transaction volume. The third component will be for additional services or development work which, if requested by the Administrator, will be costed separately in accordance with Section 5.1.

ACCOUNTING SERVICES

- 5.3 CGU agrees to maintain at Administrator's request current support levels for the accounting services for the period from the Effective Date to December 31, 2001, based on a cost analysis by each supporting area in accordance with Section 5.1, including, but not limited to, Reinsurance Accounting, Payroll, Cash Accounting, Fixed Assets, Travel and Accounts Payable.

These costs do not include any additional services or development work which, if requested by the Administrator, will be costed separately provided such costs are not otherwise included within this Agreement or the Aggregate Reinsurance Agreement.

CORPORATE SERVICES

- 5.4 CGU agrees to provide the following services at cost in accordance with Section 5.1 on a continuing basis as requested by the Administrator:

Human Resources

Employee Benefit Programs Administration

Recruiting

Facilities Planning

During the period of time Administrator occupies the premises pursuant to Article XVIII, CGU agrees to provide the following services at cost in accordance with Section 5.1

Mail

Cafeteria

Purchasing

Storage

- 5.5 Filing Room Services. During the period of time Administrator occupies the Premises pursuant to Article XVII, CGU agrees to provide the services of maintaining the filing room and related services currently provided in connection with the file room with costs of the file room and delivery service to be allocated in accordance with Section 5.1.
- 5.6 At the request of Administrator and upon consent of CGU, CGU may provide additional services to Administrator, provided the parties mutually agree upon the scope of such additional services to be provided and the compensation to be paid. Therefore Administrator will compensate CGU for the direct costs, and support costs of providing any service under this Agreement, including a pro rata portion of the direct salaries and benefits of persons whose services are used in providing those services.
- 5.7 Administrator shall have no liability for any termination obligations of CGU or its direct or indirect subsidiaries or affiliates to employees of CGU who are terminated by CGU prior to the effective date, nor shall Administrator have any liability for pension or other obligations of CGU to such employees of CGU who may be terminated by CGU as a result of this Agreement or the Aggregate Reinsurance Agreement.
- 5.8 For purposes of pension expense calculation the Reinsured will, annually, engage the services of Watson Wyatt or other qualified pension actuaries to determine the appropriate pension and post retirement expense amounts. Administrator will reimbursement Reinsured for such pension expenses as part of ULAE.
- 5.9 CGU shall provide billing statements to Administrator monthly of compensation due during the period reflected. The monthly billings shall be payable within thirty (30) days of Administrator's receipt of each such billing.

- 5.10 The Services provided by CGU shall (i) comply with applicable laws and governmental regulations and (ii) be of the same standards of diligence and business conduct as CGU follows in its own business operations. If such compliance is impossible for reasons beyond its control, CGU will notify Administrator of that fact and the reasons for noncompliance.

ARTICLE VI

CLAIMS HANDLING

The Administrative Services with respect to claims shall include the following:

CLAIM ADMINISTRATION SERVICES.

- 6.1 Administrator shall acknowledge, consider, review, investigate, deny, settle, pay or otherwise dispose of each claim that constitutes Business Covered (each a "Claim" and collectively the "Claims"). Administrator shall pay Claims and associated expenses as Ultimate Net Loss under the Aggregate Reinsurance Agreement and subject to the terms of the Aggregate Reinsurance Agreement.
- 6.2 Description of Claim Administration Services. Without limiting the foregoing, Administrator shall:
- 6.2.1 establish, maintain and organize Claim files and maintain and organize other Claims-related records;
- 6.2.2 review all Claims and determine whether the Claimant is eligible for payment and if so, the nature and extent of such payment;
- 6.2.3 maintain trained claims personnel;
- 6.2.4 prepare and distribute to the appropriate recipients any reports required by applicable law;
- 6.2.5 respond to any complaints made by any insurance regulatory authority, court or government agency, whether federal, state or other (a "Regulator") relating to actions or omissions within the scope of the Administrator's authority, within the earlier of (i) the Regulator's requested time frame for response, or (ii) the time frame as allowed by applicable law; a copy of such response shall be promptly provided to the Senior Vice President Claims of CGU or his designee;

- 6.2.6 promptly notify the Senior Vice President Claims of CGU or his designee of any complaints initiated by a Regulator and not within the scope of the foregoing paragraph 6.2.5. The Insurer shall respond to such complaints, with a copy to Administrator. Insurer shall provide any response to Administrator for its prior approval (which shall not be unreasonably withheld) as soon as reasonably practicable, (provided that any approval of Administrator shall be deemed given if no objection is received within five days following delivery to the Administrator of the definitive response and any additional information requested by Administrator);
- 6.2.7 respond promptly to all written or oral Claims-related communications that Administrator reasonably believes to require a response;
- 6.2.8 maintain a complaint log with respect to the Reinsured Contracts in accordance with applicable requirements of Regulators and provide a copy of such log upon Insurer's request;

ARTICLE VII

REGULATORY COMPLIANCE AND REPORTING

- 7.1 Commencing on the Inception Date, Administrator shall take all necessary action within its control so that the Insurers, solely with respect to the Business Covered, satisfy all current and future informational reporting and any other requirements imposed by any Regulator. Without limiting the foregoing, Administrator shall timely prepare such reports and summaries, including statistical summaries, as are necessary to satisfy any requirements imposed by a Regulator upon Insurers with respect to the Business Covered. In addition, Administrator, upon the reasonable request of Insurers, shall promptly provide to Insurers copies of all existing records relating to the Reinsured Contracts (including, with respect to records maintained in machine readable form, hard copies) that are necessary to satisfy such requirements.
- 7.2 Administrator shall reasonably assist Insurers and cooperate with Insurers in doing all things necessary, proper or advisable, in the most expeditious manner practicable in connection with any and all market conduct or other Regulator examinations relating to the Business Covered.

ARTICLE VIII

OTHER REPORTING AND ACCOUNTING

Commencing on January 1, 2002, Administrator shall assume the reporting and accounting obligations set forth in this Article VIII. Administrator will reimburse CGU for the costs of providing such reporting and accounting obligation services from the Inception Date to January 1, 2002. From January 1, 2002, Administrator shall provide the following:

- 8.1 Administrator shall timely provide to Insurers and Insurers' designated independent auditors such reports and summaries (and, upon request of Insurers, detailed supporting records) related to the Business Covered as may be reasonably required for use in connection with the preparation of Insurer's statutory financial statements to be filed with the appropriate Regulators, including, without limitation, (i) line of business data for inclusion in Insurers' annual statements, and (ii) statistics relating to complaints, in the form of a log suitable for inclusion in Insurers' annual statements.
- 8.2 Administrator shall timely provide to Insurers or Insurers' designated independent auditors such reports or summaries (and, upon the request of Insurers, detailed supporting records therefor) related to the Business Covered as may be reasonably required in connection with the preparation in accordance with generally accepted accounting principles of Insurer's balance sheets and related statements of income, stockholders' equity and cash flows or changes in financial position, including, without limitation, the related notes and auditors' report thereon and any associated management letter.
- 8.3 Nothing in this Article 8 shall obligate Administrator to provide greater quality or scope of data than is currently being prepared by each Insurer, except for such changes as may be mandated by future changes in law or regulation.

ARTICLE IX

MAINTENANCE OF NON-CLAIM RECORDS

Commencing on the Effective Date, Administrator shall assume responsibility for maintaining records with respect to the Business Covered accounting, and reporting and any other category of non-Claim Administrative Services.

- 9.1 The Administrator shall be entitled to have transferred to it (or as to such person as it may direct) on or after the Effective Date the Relevant Business Records. If such Records are in the possession of another party CGU shall instruct that party to release such Records as soon as possible so that the Administrator may be in a

position to provide the Run-off Functions under this Agreement. All Records made available to the Administrator either by CGU or any third party shall remain the property of CGU (or such third party) at all times. The Administrator (or such person as it may direct) shall hold the Relevant Business Records as agent on behalf of the relevant Insurer. Such records shall be maintained at a location within the United States selected by Administrator for this purpose and made known to Insurers. Upon expiration of this Agreement, Administrator shall transfer the Relevant Business Records to CGU or such person within the United States as CGU may direct. Administrator shall be allowed to access CGU records in storage to locate relevant insurance and reinsurance records and shall reimburse CGU for expenses paid to third parties for such access.

ARTICLE X

ACCESS TO RECORDS

- 10.1 The Administrator shall make such Relevant Business Records as are in its possession or under its control available to CGU at any time during normal office hours for such auditing or any other purposes related to the Reinsurance Agreement or this Agreement as CGU may require. CGU shall, at its own expense, be entitled to make copies of the Relevant Business Records for these purposes. Administrator will provide the needed information, including access to claim files and personnel, for the purpose of periodically updating actuarial studies of gross liabilities.
- 10.2 The Relevant Business Records shall at all times be open for inspection by the Administrator (where such Records are being kept by CGU) and by CGU (where such Records are being kept by the Administrator) and (in each case) their respective representatives during normal business hours and on reasonable notice, for such auditing or other purposes as the Administrator or CGU may require. The Administrator shall permit CGU and its representatives and CGU shall permit the Administrator and its representatives to make copies of such Records. This obligation shall survive the expiration of this Agreement and continue for so long as the Administrator may have any liability arising under this Agreement or the Aggregate Reinsurance Agreement. Administrator shall take reasonable steps to maintain the confidentiality of such records.

ARTICLE XI

COOPERATION BY INSURERS

- 11.1 Insurers shall cooperate to the extent reasonably possible with Administrator and execute and provide such additional documentation as may become necessary or appropriate to enable Administrator to fully carry out its responsibilities under this Agreement and to effectuate the intention of the parties under the Aggregate Reinsurance Agreement, the Potomac Reinsurance Agreement and this Agreement.

ARTICLE XII

POWERS

- 12.1 Each of the parties warrants to the other that:
- 12.1.1 it has power (whether for itself or (in the case of CGU) as agent for any CGU Insurer) to enter into and has duly authorized the execution and delivery of this Agreement; and
- 12.1.2 it has, if and to the extent required or appropriate, obtained all requisite regulatory and supervisory consents, and shall maintain all requisite regulatory and supervisory consents for the term of this Agreement.

ARTICLE XIII

INDEMNIFICATION

- 13.1 Administrator agrees to indemnify and hold harmless Insurers and each of their directors, officers, employees, agents or affiliates (and the directors, officers, employees and agents of such affiliates) from any and all losses, liabilities, costs, claims, demands, compensatory, extra contractual and/or punitive damages, fines, penalties and expenses (including reasonable attorneys' fees and expenses) (collectively, "Insurer's Losses") resulting in damages not included within the definition of Ultimate Net Loss arising out of or caused by: (i) any actual or alleged fraud, theft or embezzlement by officers, employees or agents of Administrator during the term of this Agreement; (ii) the failure, either intentional or unintentional, of Administrator to properly perform the services or take the actions required by this Agreement, including, without limitation, the failure to properly process, evaluate and pay disbursement requests in accordance with the

terms of this Agreement; (iii) any other act of negligence or willful misconduct committed by officers, agents or employees of Administrator during the term of this Agreement; (iv) any liability of CGU to any employee of a subsidiary of CGU operating under the control of the Administrator and arising due to any act or omission by the management or other employee after the effective date; or (v) any failure of Administrator to comply with applicable laws, rules and regulations during the term of this Agreement. Nothing herein shall be construed to require Administrator to indemnify any Insurer under this Article for compensatory, extra contractual and/or punitive damages, fines, penalties or expenses arising out of a settlement or judgment of a claim of bad faith or failure to exercise good faith in the handling of a claim if the claim at issue was handled properly as measured from the perspective of a risk neutral professional claims examiner. In the event of a dispute between the parties as to the application of the foregoing sentence no verdict or court decision concerning the actions of the Administrator shall be considered or given any weight whatsoever nor, in the event of a claim of bad faith failure to accept a settlement offer, shall the ultimate result of the claim be considered, it being the intention of the parties that the arbitration panel consider this issue de novo from the perspective of a professional claims examiner making a decision with the facts and law available at the time the decision was made. In the event that the arbitration panel shall find that the act or omission of the Administrator was in bad faith from the perspective of the professional claims examiner then the indemnification under this Article shall not be included in Ultimate Net Loss. Nothing herein shall be construed to require Administrator to indemnify any Insurer with respect to any act or omission where the decision to take or omit such action was with the agreement of CGU.

13.2 Insurers agree to indemnify and hold harmless Administrator and any of its directors, officers, employees, agents or affiliates (and the directors, officers, employees and agents of such affiliates) from any and all losses, liabilities, costs, claims, demands, compensatory, extra contractual and/or punitive damages, fines, penalties and expenses (including reasonable attorneys' fees and expenses) (collectively, "Administrator Losses") arising out of or caused by: (i) fraud, theft or embezzlement by officers, employees or agents of Insurers during the term of this Agreement; (ii) any other act of negligence or willful misconduct committed by officers, agents or employees of Insurers during the term of this Agreement; or (iii) any failure of Insurers to comply with applicable laws, rules and regulations during the term of this Agreement other than any failure on the part of Insurers or Administrator caused by the action or inaction of Administrator, including when acting in the name or on behalf of Insurers, whether or not in compliance with the terms of this Agreement. Nothing herein shall be construed to require an Insurer to indemnify the Administrator with respect to any act or omission where the decision to take or omit such action was with the agreement of Administrator.

13.3 In the event that either party hereto asserts a claim for indemnification hereunder, such party seeking indemnification (the "Indemnified Party") shall give written

notice to the other party (the "Indemnifying Party") specifying the facts constituting the basis for, and the amount (if known) of, the claim asserted within one year of the date the claim is asserted against or should be known by "Indemnified Party".

- 13.4 If an Indemnified Party asserts, or may in the future seek to assert, a claim for indemnification hereunder because of a claim or demand made, or an action, proceeding or investigation instituted, by any person not a party to this Agreement (a "Third Party Claimant") that may result in an Administrator Loss with respect to which Administrator is entitled to indemnification pursuant to Section 13.2 hereof or an Insurers Loss with respect to which Insurers is entitled to indemnification pursuant to Section 13.1 hereof (an "Asserted Liability"), the Indemnified Party shall so notify the Indemnifying Party as promptly as practicable, but in no event later than 10 Business Days after such Asserted Liability is actually known to the Indemnified Party. Failure to deliver notice with respect to an Asserted Liability in a timely manner shall not be deemed a waiver of the Indemnified Party's right to indemnification for Losses in connection with such Asserted Liability but the amount of reimbursement to which the Indemnified Party is entitled shall be reduced by the amount, if any, by which the Indemnified Party's Losses would have been less had such notice been timely delivered.
- 13.5 The Indemnifying Party shall have the right, upon written notice to the Indemnified Party, to investigate, contest, defend or settle the Asserted Liability; provided that the Indemnified Party may, at its option and at its own expense, participate in the investigation, contesting, defense or settlement of any such Asserted Liability through representatives and counsel of its own choosing. The failure of the Indemnifying Party to respond in writing to proper notice of an Asserted Liability within 10 days after receipt thereof shall be deemed an election not to defend the same. Unless and until the Indemnifying Party elects to defend the Asserted Liability, the Indemnified Party shall have the right, at its option and at the Indemnifying Party's expense, to do so in such manner as it deems appropriate, including, but not limited to, settling such Asserted Liability (after giving notice of the settlement to the Indemnifying Party) on such terms as the Indemnified Party deems appropriate.
- 13.6 Except as provided in the immediately preceding sentence, the Indemnified Party shall not settle or compromise any Asserted Liability for which it seeks indemnification hereunder without the prior written consent of the Indemnifying Party (which shall not be unreasonably withheld) during the 10 day period specified above.
- 13.7 The Indemnifying Party shall be entitled to participate in (but not to control) the

defense of any Asserted Liability which it has elected, or is deemed to have elected, not to defend, with its own counsel and at its own expense.

- 13.8 Except as provided in the first sentence of paragraph 13.5 of this Section, the Indemnifying Party shall bear all reasonable costs of defending any Asserted Liability and shall indemnify and hold the Indemnified Party harmless against and from all costs, fees and expenses incurred in connection with defending such Asserted Liability.
- 13.9 Administrator and Insurers shall make mutually available to each other all relevant information in their possession relating to any Asserted Liability (except to the extent that such action would result in a loss of attorney-client privilege) and shall cooperate with each other in the defense thereof.
- 13.10 The provisions of this Article XIII shall survive the termination of the Agreement for a period of one year.

ARTICLE XIV

DURATION; EARLY TERMINATION

This Article shall have no application to expirations under Article XXI.

- 14.1 This Agreement shall commence on the date of its execution and continue with respect to each Reinsured Contract until no further Run-Off Services in respect of such Reinsured Contract is required, unless it is earlier terminated as provided herein.
- 14.2 This Agreement is subject to immediate termination at the option of Insurers, upon written notice to Administrator, on the occurrence of any of the following events:
- 14.2.1 A voluntary or involuntary proceeding is commenced in any state by or against the Administrator for the purpose of conserving, rehabilitating or liquidating Administrator, or Administrator shall lose its authority to perform services hereunder;
- 14.2.2 There is a material breach by Administrator of any term or condition of this Agreement, that is not cured by Administrator within 90 days of receipt of written notice from Insurers of such breach or act provided that in the event of a dispute between the parties as to whether there is a material breach, said 90 days shall be tolled from the time of a demand for arbitration until issuance of a final judgment of an arbitration panel; or

- 14.2.3 Administrator is unable to perform the services (other than the breach of this Agreement or the Aggregate Reinsurance Agreement by any CGU Insurer) required under this Agreement for a period of 90 consecutive days for any reason provided that in the event of a dispute between the parties as to whether Administrator is unable to perform the services, said 90 days shall be tolled from the time of a demand for arbitration until issuance of a final judgment of an arbitration panel.
- 14.3 This Agreement may be terminated at any time upon the mutual written consent of the parties hereto, which writing shall state the effective date of termination.
- 14.4 In the event that this Agreement is terminated under Section 14.2, Administrator shall select a third-party administrator to perform the services required by this Agreement. Insurers shall have the right to approve any such administrator selected by Administrator, but such approval will not unreasonably be withheld. If Administrator fails to select an administrator pursuant to this Section, Insurers shall select such an administrator. In either case, Administrator shall pay all fees and charges imposed by the selected administrator and the reasonable costs of Insurers in the transition of the performance of the services required under this Agreement to such administrator.
- 14.5 In the event that this Agreement is terminated under Sections 14.2, Administrator shall cooperate fully in the transfer of services and the books and records maintained by Administrator pursuant to this Agreement.

ARTICLE XV

RESTRICTIONS ON CGU

- 15.1 With effect from the Inception Date and in relation to the Business Covered, during the term of this Agreement CGU and Reinsured undertake to the Administrator that they shall not:
- 15.1.1 grant to any person any security interest in or over reinsurance receivables, salvage or subrogation;
- 15.1.2 delegate or sub-contract any functions or services relating to the Business Covered, except with the prior consent of the Administrator, or enter into any agreement with any person which would create contractual obligations of CGU, Reinsured or any CGU Insurer for which Administrator would be liable under this Agreement.

ARTICLE XVI

ARRANGEMENTS FOR TRANSFERS OF ASSETS

- 16.1 The Administrator may, upon giving not less than 90 day's notice to CGU, such notice to have effect not earlier than the Effective Date, acquire all, or any part of, the moveable assets used by the Environmental Claims and One Washington Mall File Facility of CGU's Claims Department at the market price of such assets as at the Effective Date.
- 16.2 CGU shall, or shall procure that each CGU Insurer shall, so far as it is legally able to do so, license without charge (but not otherwise support) to the Administrator the right to use all software owned by any CGU Insurer and currently used in relation to the Business Covered for so long as the Administrator is obliged to carry out the Run-off Functions.
- 16.3 CGU shall use all reasonable endeavors, upon being requested to do so by the Administrator and at the cost of the Administrator, to obtain an assignment / or licence of such software used in relation to the Business Covered from any third party, where the consent of such third party is required or desirable.

ARTICLE XVII

PREMISES AND ASSOCIATED FACILITIES

- 17.1 The Parties will endeavour to reach mutual agreement on lease obligation for the 17th floor of 100 Summer Street and on the lower level at One Washington Mall, Boston MA.
- 17.2 The Administrator shall be charged rent based on its pro rata share of occupied space, and pro rata share of common space to include conference rooms. Services to be provided Administrator shall include basic building services provided to CGU under the leases for the respective Premises (e.g. janitorial, building maintenance, utilities, etc).

ARTICLE XVIII

BANK ACCOUNTS

- 18.1 As soon as reasonably practical after the Effective Date Administrator shall:
- 18.1.2 open and maintain accounts into and out of which all payments due from Administrator under the Aggregate Reinsurance Agreement shall be paid and all recoverables due Administrator under the Aggregate Reinsurance Agreement shall be received (the "RUN-OFF ACCOUNTS").
- 18.2 The Administrator may open and maintain such bank accounts in its own name as it may require in relation to the provision of the Run-off Functions, and Reinsured hereby authorizes all payments to be made from and all recoveries paid to such accounts in connection with the provision of the Run-off Functions.
- 18.3 CGU and the Administrator shall co-operate in procuring that, as soon as reasonably practicable, following the Effective Date, changes to the instruction and finance systems are made so as to enable payments and recoveries to be paid into and from the Run-off Accounts. All costs of changes will be paid by Administrator. To the extent that payments and recoveries are made after the Effective Date from accounts held by CGU, CGU and the Administrator shall co-operate in setting up reimbursement procedures for payment of amounts due between the Administrator and the Reinsured.

ARTICLE XIX

RATIFICATION

- 19.1 CGU shall, if called upon to do so, ratify and confirm any act or thing lawfully done or caused to be done by the Administrator in the proper performance of the Run-off Functions.
- 19.2 The Administrator shall, if called upon to do so, ratify and confirm any act or thing lawfully done or caused to be done by CGU in the proper performance of the Run-off Services.

ARTICLE XX

CONSULTATION

- 20.1 Administrator shall consult with the Reinsured on any claim, commutation or other financial transaction where the Administrator has a reasonable belief that the value of the claim, commutation or other financial transaction will exceed a net value of \$5 million or a gross value of \$10 million. The Administrator shall be entitled to make decisions in relation to any such claim or other financial transaction but shall take into account the reasonable views of the Reinsured provided that the same are provided within a reasonable time.

ARTICLE XXI

NORMAL EXPIRATION

- 21.1 This Agreement shall terminate upon termination of the Administrator's liability under the Reinsurance Agreement. Under all circumstances Administrator's liability under this Agreement shall cease at the close of the Business Day on which Administrator has paid an Ultimate Net Loss equal to the Aggregate Limit (the "Limit Date"). The Administrator shall have no further liability hereunder and the run-off of the Business Covered and associated matters shall be returned to the Reinsured at the close of the Limit Date.
- 21.2 The parties shall co-operate fully in effecting an orderly and timely return of the run-off to the Reinsured. With effect from the Limit Date, the rights and obligations under this Agreement from that date to perform the run-off of the Business Covered shall become the obligations and rights of the Reinsured insofar as they remain relevant to the operation of the Aggregate Reinsurance Agreement.

ARTICLE XXII

OTHER PROVISIONS

- 22.1 The headings used herein are not a part of this Agreement and shall not affect the terms hereof.
- 22.2 All notices and communications hereunder shall be in writing and shall become effective when received. Any written notice shall be by either certified or registered mail, return receipt requested, or overnight delivery service (providing for delivery receipt) or delivered by hand.

22.3 All notices or communications under this Agreement shall be addressed as follows:

If to the Reinsured:
c/o CGU Insurance Company
One Beacon Street
Boston, MA 02108
Attention: General Counsel

If to the Administrator:
c/o Berkshire Hathaway Group
Reinsurance Division
100 First Stamford Plaza
Stamford, CT 06902
Attention: General Counsel

or in each case at such other address as either party shall provide to the other as provided in this Section 22.3.

22.4 This Agreement may be executed by the parties hereto in any number of counterparts, and by each of the parties hereto in separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

22.5 This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns and legal representatives. Neither this Agreement, nor any right hereunder, may be assigned by either party without the prior written consent of the other party hereto.

22.6 Whenever the word "Dollars" or the "\$" sign appears in this Agreement, they shall be construed to mean United States Dollars, and all transactions under this Agreement shall be in United States Dollars.

22.7 This Agreement may not be changed, altered or modified unless the same shall be in writing executed by the Reinsured and the Administrator.

22.8 This Agreement shall be interpreted and governed by the laws of the State of New York without regard to its rules with respect to conflicts of law.

- 22.9 This Agreement constitutes the entire agreement between the parties hereto relating to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether oral or written, of the parties, and there are no general or specific warranties, representations or other agreements by or among the parties in connection with the entering into of this Agreement or the subject matter hereof, except as specifically set forth or contemplated herein.
- 22.10 No consent or waiver, express or implied, by any party or any breach or default by any other party in the performance by such other party of its obligations hereunder shall be deemed or construed to be a consent or waiver of any other breach or default in the performance of obligations hereunder by such other party hereunder. Failure on the part of any party to complain of any act or failure to act of any other party or to declare any other party in default, irrespective of how long such failure continues, shall not constitute a waiver by such first party of any of its rights hereunder.
- 22.11 No purported alteration of this Agreement shall be effective unless it is in writing, refers to this Agreement and is duly executed by each party to this Agreement.
- 22.12 The parties intend that every such provision in this Agreement shall be and remain valid and enforceable to the fullest extent permitted by law. If any such provision is or at any time becomes to any extent invalid, illegal or unenforceable under any enactment or rule of law, the parties shall make such amendments as they may agree to give lawful effect to the intentions of the parties immediately prior to the date of this Agreement.
- 22.13 Each of the parties shall be responsible for its respective legal and other costs incurred in relation to the negotiation, preparation and completion of this Agreement and all ancillary documents.
- 22.14 No term of this Agreement is enforceable by a person who is not a party to this Agreement nor shall any person not a party to this Agreement have any rights hereunder or be a beneficiary of this Agreement, except in each case for the CGU Insurers.
- 22.15 Whenever under the terms of this Agreement the consent, approval or specification of a party is required, each party agrees that such consent, approval or specification will not unreasonably be withheld or delayed.
- 22.16 In the event of the insolvency of an CGU Insurer, nothing in this Agreement shall increase or otherwise alter Administrator's obligations under the Agreement.

ARTICLE XXIII

ARBITRATION AGREEMENT

- 23.1 RESOLUTION OF DAMAGES. As a condition precedent to any right arising under this Agreement, any dispute between the Reinsured and the Administrator arising out of the provisions of this Agreement, or concerning its interpretation or validity, whether arising before or after termination of this Agreement, shall be submitted to arbitration in the manner set forth in Article 23. The Reinsured or the Administrator may initiate arbitration of any such dispute by giving written notice to the other party by registered or certified mail, return receipt requested, of its intention to arbitrate and of its appointment of an arbitrator in accordance with Section 23.3.
- 23.2 COMPOSITION OF PANEL. Unless the parties agree upon a single arbitrator within fifteen (15) days after the receipt of notice of intention to arbitrate, all disputes shall be submitted to an arbitration panel composed of two arbitrators and an umpire, chosen in accordance with Sections 23.3 and 23.4.
- 23.3 APPOINTMENT OF ARBITRATORS. The members of the arbitration panel shall be chosen from persons who are current or retired executive officers of insurance or reinsurance companies. The party requesting arbitration (hereinafter referred to as the "claimant") shall appoint an arbitrator and give written notice thereof, by registered or certified mail, return receipt requested, to the other party (hereinafter referred to as the "respondent") together with its notice of intention to arbitrate. Unless a single arbitrator is agreed upon within fifteen (15) days after the receipt of the notice or intention to arbitrate, the respondent shall, within thirty (30) days after receiving such notice, also appoint an arbitrator and notify the claimant thereof in a like manner. Before instituting a hearing, the two arbitrators so appointed shall choose an umpire. If, within twenty (20) days after they are both appointed, the arbitrators fail to agree upon the appointment of an umpire, the umpire shall be appointed by the President of the American Arbitration Association.
- 23.4 FAILURE OF A PARTY TO APPOINTMENT ARBITRATOR. If the respondent fails to appoint an arbitrator within thirty (30) days after receiving notice of intention to arbitrate, such arbitrator shall be appointed by the President of the American Arbitration Association, and shall then, together with the arbitrator appointed by the claimant, choose an umpire as provided in Section 23.3.
- 23.5 CHOICE OF FORUM. Any arbitration instituted pursuant to this Article 23 shall be held in New York, New York.
- 23.6 SUBMISSION OF DISPUTE TO PANEL. Unless otherwise extended by the arbitration panel, or agreed to by the parties, each party shall submit its case to the panel within thirty (30) days after the selection of an umpire.

- 23.7 PROCEDURE GOVERNING ARBITRATION. All proceedings before the panel shall be informal and the panel shall not be bound by the formal rules of evidence. The panel shall have the power to fix all procedural rules relating to the arbitration proceeding. In reaching any decision, the panel shall give due consideration to the custom and usage of the insurance and reinsurance business and the mutual intention of the parties as reflected in this Agreement.
- 23.8 ARBITRATION AWARD. The arbitration panel shall render its decision within sixty (60) days after termination of the proceeding, which decision shall be in writing. The decision of the majority of the panel shall be final and binding on the parties to the proceeding.
- 23.9 COST OF ARBITRATION. Unless otherwise allocated by the panel, each party shall bear the expense of its own arbitrator and its own witnesses and shall jointly and equally bear with the other party the expense of the umpire and the arbitration.
- 23.10 LIMIT OF JURISDICTION. The arbitration panel shall not have jurisdiction to authorize any punitive damage awards between the parties.

IN WITNESS of which this Agreement has been entered into on the day first above written.

SIGNED by

on behalf of CGU
INSURANCE COMPANY

Title

SIGNED by

on behalf of POTOMAC
INSURANCE COMPANY

Title

SIGNED by

on behalf of NATIONAL
INDEMNITY COMPANY

Title

PRESS
RELEASE

CONTACT: Dennis Beaulieu
(603) 640-2206

WHITE MOUNTAINS CLOSES
CGU ACQUISITION

HAMILTON, Bermuda, June 1, 2001 - White Mountains Insurance Group, Ltd. today completed its previously announced acquisition of CGNU plc's U.S. property and casualty operations, CGU.

Boston-based CGU, which will be renamed shortly, has become a wholly-owned subsidiary of White Mountains. White Mountains Chairman, Jack Byrne said, "We are delighted to bring this exciting acquisition to a successful finish." The definitive stock purchase agreement, as amended, as well as related debt and equity financing terms and conditions were previously filed with the Securities and Exchange Commission.

White Mountains fully diluted shares outstanding will increase to 10 million shares. Jack Byrne said, "Since September we have increased the equity and reduced the debt components of the transaction. CGU's loss reserves were significantly strengthened at year-end and we purchased significant adverse development reinsurance covers at closing. All these actions resulted in a reduced tangible book value but a much stronger balance sheet. As a result of the transaction, we estimate that our post-closing tangible book value has increased to approximately \$290 per share, prior to the impact of purchase accounting adjustments."

Participating in the deal are principal equity partners Berkshire Hathaway, Franklin Mutual Advisors, Leucadia National Corporation, Banc One Capital Corp., Fairfax Financial Holdings Limited, Gotham Partners, Markel Corporation, Prospector Partners, CSFB Private Equity, through DLJ Merchant Banking Partners III, CAI Managers & Co., L.P., Fairholme Capital Management, Northaven Management, Inc., and Wyper Capital. The debt facility was arranged by Lehman Brothers Inc. Jack Byrne said, "We are fortunate to have assembled a world class group of equity and debt partners. We appreciate their commitment and support."

White Mountains is a Bermuda-domiciled financial services holding company traded on the New York Stock Exchange under the symbol WTM. Additional financial information and other items of interest are available at the company's web site located at www.whitemountains.com.

CORPORATE HEADQUARTERS:

WHITE MOUNTAINS INSURANCE GROUP, LTD.
12 CHURCH STREET, SUITE 322
HAMILTON, HM 11 BERMUDA
PH: 441-296-6011 / FAX: 441-296-9904

EXECUTIVE OFFICES:

WHITE MOUNTAINS INSURANCE GROUP, LTD.
80 SOUTH MAIN STREET, HANOVER, NH 03755
PH: 603-643-1567 * FAX: 603-643-4562

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This press release contains forward looking statements within the meaning of the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. White Mountains cautions that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in forward-looking statements made by White Mountains. These factors include: (i) competitive forces, including the conduct of other property and casualty insurers and reinsurers, (ii) changes in domestic or foreign laws or regulations applicable to White Mountains, its competitors or its clients, (iii) an economic downturn or other economic conditions (such as a rising interest rate environment) adversely affecting White Mountains' financial position and (iv) loss reserves and other balance sheet items established by White Mountains subsequently proving to have been inadequate. White Mountains cautions that the foregoing list of important factors is not exhaustive. In any event, such forward-looking statements made by White Mountains speak only as of the date on which they are made, and White Mountains does not undertake any obligation to update or revise such statements as a result of new information, future events or otherwise.

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