

SECURITY AGREEMENT

SECURITY AGREEMENT, dated as of August 25, 2000, made by CAPCO REINSURANCE COMPANY LTD., a corporation organized under the laws of Barbados ("Capco"), in favor of NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH, PA., a Pennsylvania corporation ("NUFIC").

WITNESSETH:

WHEREAS, Capco has entered into an Aggregate Loss Ratio Agreement, dated as of August 25, 2000, with NUFIC (such agreement, as it may hereafter be amended or otherwise modified from time to time, is referred to as the "Reinsurance Agreement" and the terms defined therein and not otherwise defined herein being used herein as therein defined); and

WHEREAS, Capco is the legal and beneficial owner of certain assets held by AIG Global Investment Trust Services Limited (the "Custodian") pursuant to an Custodian Agreement dated as of August 25, 2000 between Capco and the Custodian (the "Custody Agreement"); and

WHEREAS, it is a condition precedent to the execution of the Reinsurance Agreement by NUFIC that Capco shall have made the pledge and granted the security contemplated by this Agreement.

NOW, THEREFORE, in consideration of the premises contained herein and to induce NUFIC to enter into the Reinsurance Agreement, Capco hereby agrees with NUFIC as follows:

SECTION 1. Security Interest. Capco hereby pledges to NUFIC and grants to NUFIC a security interest in, the following (the "Secured Collateral"):

- (i) all securities held by the Custodian from time to time pursuant to the terms of the Custody Agreement (collectively, the "Secured Securities");
- (ii) all additional securities acquired by the Custodian and held under the terms of the Custody Agreement;
- (iii) the certificates (if any) representing the securities referred to in clauses (i) and (ii) above; and
- (iv) all dividends, cash, instruments and other property or proceeds from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the securities referred to in clauses (i) and (ii) above.

SECTION 2. Security for Obligations. This Agreement secures, and the Secured Collateral is security for, the payment in full of all obligations of Capco to NUFIC, including, without limitation, all obligations now or hereafter existing under the Reinsurance Agreement.

SECTION 3. Delivery of Secured Collateral. All certificates or instruments representing or evidencing the Secured Collateral shall be delivered to and held by the Custodian on behalf of NUFIC and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to NUFIC. NUFIC shall have the right, at any time in its discretion and without notice to Capco, to transfer to or to register

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in its name or the name of any of its nominees any or all of the Secured Collateral, subject only to the revocable rights specified in Section 6(a). In addition, NUFIC shall have the right at any time to exchange certificates or instruments representing or evidencing Secured Collateral for certificates or instruments of smaller or larger denominations.

SECTION 4. Representations and Warranties. Capco represents and warrants as follows:

(a) Capco is the legal and beneficial owner of the Secured Collateral free and clear of any lien except for the lien and security interest created by this Agreement.

(b) The grant of the security interest pursuant to this Agreement creates a valid and perfected first priority security interest in the Secured Collateral, securing the payment of Capco's obligations to NUFIC under the Reinsurance Agreement.

(c) Save and except for the registration of the security interest on the Register of Charges of the Barbados Registry of Corporate Affairs and Intellectual Property within 21 days of the execution of this Agreement, no authorization, approval, or other action by, and no notice to or filing with, any governmental authority or regulatory body is required either (i) for the pledge by Capco of the Secured Collateral pursuant to this Agreement or for the execution, delivery or performance of this Agreement by Capco or (ii) for the exercise by NUFIC of the rights provided for in this Agreement or the remedies in respect of the Secured Collateral pursuant to this Agreement.

(d) Capco has full power, authority and legal right to pledge all the Secured Collateral.

SECTION 5. Further Assurances. Capco agrees that at any time and from time to time, at the expense of Capco, Capco will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that NUFIC may request, in order to perfect and protect any security interest granted or purported to be granted hereby or to enable NUFIC to exercise and enforce its rights and remedies hereunder with respect to any Secured Collateral, including, without limitation, the filing of any financing statement or continuation statement under the UCC (as defined below) with respect to the security interests granted hereby. Capco also hereby authorizes NUFIC to file any such financing or continuation statement without the signature of Capco to the extent permitted by applicable law.

SECTION 6. Voting Rights; Dividends; Etc.

(a) So long as no breach of or default under the Reinsurance Agreement shall have occurred and be continuing (and, in the case of subsection (a)(i) of this Section 6, as long as no notice thereof shall have been given by NUFIC to Capco):

(i) Capco shall be entitled to exercise any and all voting and other consensual rights pertaining to the Secured Collateral or any part thereof for any purpose not inconsistent with the terms of this Agreement or the Reinsurance Agreement; provided, however, that Capco shall not exercise or refrain from exercising any such right if, in NUFIC's judgment, such action would have a material adverse effect on the value of the Secured Collateral or any part thereof; and, provided, further, that Capco shall give NUFIC at least five days' written notice of the manner in which it intends to exercise, or the reasons for refraining from exercising, any such right.

(ii) Capco shall be entitled to receive and retain any and all dividends paid in respect of the Secured Collateral, other than any and all :

(A) dividends paid or payable other than in cash in respect of, and instruments and other property received, receivable or otherwise distributed in respect of, or in exchange for, any Secured Collateral,

(B) dividends and other distributions paid or payable in cash in respect of any Secured Collateral in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in-surplus, and

(C) cash paid, payable or otherwise distributed in redemption of, or in exchange for, any Secured Collateral,

all of which shall be, and all of which shall be forthwith delivered to the Custodian to hold for the benefit of NUFIC as Secured Collateral and shall, if received by Capco, be received in trust for the benefit of NUFIC, be segregated from the other property or funds of Capco, and be forthwith delivered to the Custodian for the benefit of NUFIC as Secured Collateral in the same form as so received (with any necessary indorsement).

(b) Upon the occurrence and during the continuance of a breach of or default under the Reinsurance Agreement:

(i) NUFIC shall be entitled to direct the Custodian to transfer any or all of the Secured Collateral to NUFIC as NUFIC deems necessary to satisfy the obligations of Capco under the Reinsurance Agreement. Capco's execution of this Agreement shall constitute Capco's consent and direction to the Custodian to take such action without any need to make independent verification of the existence of the breach or the merit of NUFIC's claim. Capco agrees to indemnify and hold harmless the Custodian for any losses incurred by the Custodian as a result of taking such action.

(ii) Upon notice by NUFIC to Capco, all rights of Capco to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant to Section 6(a)(i) above shall cease, and all such rights shall thereupon become vested in NUFIC who shall thereupon have the sole right to exercise such voting and other consensual rights.

(iii) All rights of Capco to receive the dividends which it would otherwise be authorized to receive and retain pursuant to Section 6(a)(ii) above shall cease, and all such rights shall thereupon become vested in NUFIC who shall thereupon have the sole right to receive and hold such dividends as Secured Collateral.

(iv) All dividends which are received by Capco contrary to the provisions of paragraph (i) of this Section 6(b) shall be received in trust for the benefit of NUFIC, shall be segregated from other funds of Capco, and shall be forthwith paid over to NUFIC as Secured Collateral in the same form as so received (with any necessary indorsement).

(v) Capco shall, if necessary to permit NUFIC to exercise the voting and other rights which it may be entitled to exercise pursuant to Section 6(b)(i) above, and to

receive all dividends and distributions which it may be entitled to receive under Section 6(b)(ii) above, upon written notice from NUFIC, from time to time execute and deliver to NUFIC appropriate dividend payment orders and other instruments as NUFIC may reasonably request.

SECTION 7. Transfers and Other Liens. Capco agrees that it will not (i) sell or otherwise dispose of, or grant any option or warrant with respect to, any of the Secured Collateral, or (ii) create or permit to exist any lien, security interest, or other charge or encumbrance upon or with respect to any of the Secured Collateral, except for the security interest under this Agreement.

SECTION 8. NUFIC Appointed Attorney-in-Fact. Capco hereby appoints NUFIC as Capco's attorney-in-fact, with full authority in the place and stead of Capco and in the name of Capco or otherwise, from time to time in NUFIC's discretion to take any action and to execute any instrument which NUFIC may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation, to receive, indorse and collect all instruments made payable to Capco representing any dividend, interest payment or other distribution in respect of the Secured Collateral or any part thereof and to give full discharge for the same.

SECTION 9. NUFIC May Perform. If Capco fails to perform any agreement contained herein, NUFIC may itself perform, or cause performance of, such agreement, and the expenses of NUFIC incurred in connection therewith shall be payable by Capco under Section 11 hereof.

SECTION 10. Remedies upon Default. If any breach of or default under the Reinsurance Agreement shall have occurred and be continuing:

(a) NUFIC may exercise in respect of the Secured Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party in default under the Uniform Commercial Code (the "UCC") in effect in the State of New York at that time, and NUFIC may also, without notice except as specified below, sell the Secured Collateral or any part thereof in one or more parcels at public or private sale, at any exchange, broker's board or at any of NUFIC's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as NUFIC may deem commercially reasonable. Capco agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to Capco of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. NUFIC shall not be obligated to make any sale of Secured Collateral regardless of notice of sale having been given. NUFIC may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. Capco hereby waives any claims against NUFIC arising by reason of the fact that the price at which any Secured Collateral may have been sold at such a private sale was less than the price which might have been obtained at a public sale, even if NUFIC accepts the first offer received and does not offer such Secured Collateral to more than one offeree.

(b) If NUFIC shall determine to exercise its right to sell all or any of the Secured Collateral pursuant to this Section 10, Capco agrees that, upon request of NUFIC, Capco will, at its own expense:

(i) execute and deliver, and use its best efforts to cause its directors and officers to execute and deliver, all such instruments and documents, and do or cause to be done all such other acts and things, as may be necessary or, in the opinion of NUFIC, advisable to register such Secured Collateral under the provisions of applicable securities

laws; and

(ii) do or cause to be done all such other acts and things as may be necessary to make such sale of the Secured Collateral or any part thereof valid and binding and in compliance with applicable law.

Capco further acknowledges the impossibility of ascertaining the amount of damages which would be suffered by NUFIC by reason of the failure by Capco to perform any of the covenants contained in this section and, consequently, agrees that, if Capco shall fail to perform any of such covenants, it shall pay, as liquidated damages and not as a penalty, an amount equal to the value of the Secured Collateral on the date NUFIC shall demand compliance with the provisions of this section.

(c) Any cash held by NUFIC as Secured Collateral and all cash proceeds received by NUFIC in respect of any sale of, collection from, or other realization upon all or any part of the Secured Collateral shall be applied by NUFIC:

First, to the payment of the costs and expenses of such sale, including reasonable, compensation to NUFIC and its counsel, and all expenses, liabilities and advances made or incurred by NUFIC in connection therewith;

Next, to NUFIC based on the then outstanding obligations under the Reinsurance Agreement; and

Finally, after payment in full of all obligations under the Reinsurance Agreement, to the payment to Capco, or its successors or assigns, or to whomsoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct, of any surplus then remaining from such proceeds.

SECTION 11. Expenses. Capco will upon demand pay to NUFIC the amount of any and all expenses, including the fees and expenses of its counsel and of any experts, which NUFIC may incur in connection with (i) the administration of this Agreement, (ii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Secured Collateral, (iii) the exercise or enforcement of any of the rights hereunder of NUFIC or (iv) the failure by Capco to perform or observe any of the provisions hereof.

SECTION 12. Security Interest Absolute. All rights of NUFIC and security interests hereunder, and all obligations of Capco hereunder, shall be absolute and unconditional irrespective of:

(i) any lack of validity or enforceability of the Reinsurance Agreement or any other agreement or instrument relating thereto;

(ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the obligations under the Reinsurance Agreement, or any other amendment or waiver of or any consent to any departure from the Reinsurance Agreement;

(iii) any exchange, release or non-perfection of any other collateral, or any release or amendment or waiver of or consent to departure from any guaranty, for all or any of the obligations under the Reinsurance Agreement; or

(iv) any other circumstance which might otherwise constitute a defense available to, or a discharge of, Capco or a third party pledgor.

SECTION 13. Amendments, Etc. No amendment or waiver of any provision of this Agreement nor consent to any departure by Capco herefrom, shall in any event be effective unless the same shall be in writing and signed by NUFIC, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 14. Notices. All notices and other communications under this Agreement shall be in writing and deemed to have been duly given if sent by registered airmail, internationally recognized overnight delivery service, or facsimile transmission as follows (or to such other address as a party may have specified by notice given to the other party pursuant to this provision):

If to Capco to:

Capco Reinsurance Company Ltd.
Chelston park, Building No.2
Collymore Rock, St Michael
Barbados
Attention: Mr. Martin Hole
Facsimile: 1 246 429 8517

If to NUFIC, to:

National Union Fire Insurance Company of Pittsburgh, Pa.
70 Pine Street
New York, NY 10270 USA
Attention: Jeff Schattin
Facsimile: 212 385 4923

with a copy to:

National Union Fire Insurance Company of Pittsburgh, Pa.
160 Water Street, 24th Floor
New York, NY 10038 USA
Attention: General Counsel, Domestic Brokerage Group
Facsimile: (212) 820-4504

Any notice sent by registered airmail shall be deemed to have been delivered seven days after dispatch, any notice sent by internationally recognized overnight delivery service shall be deemed to have been delivered upon receipt, and any notice sent by facsimile transmission shall be deemed to have been delivered upon confirmed transmission.

SECTION 15. Continuing Security Interest. This Agreement shall create a continuing security interest in the Secured Collateral and shall (i) remain in full force and effect until payment in full of all obligations under the Reinsurance Agreement, (ii) be binding upon Capco, its successors and assigns, and (iii) inure, together with the rights and remedies of NUFIC hereunder, to the benefit of NUFIC and its successors, transferees and assigns. Upon the payment in full of all obligations under the Reinsurance Agreement, Capco shall be entitled to the return, upon its request and at its expense, of such of the Secured Collateral as shall not have been sold or otherwise applied pursuant to the terms hereof.

SECTION 16. Governing Law; Terms. This Agreement shall be governed by, and be construed and interpreted in accordance with, the laws of the State of New York, without reference to any principle of conflicts of laws that would cause the application of the laws of any jurisdiction other than the State of New York.

SECTION 17. Submission to Jurisdiction; Consent to Service of Process.

(a) The parties hereto hereby irrevocably submit to the non-exclusive jurisdiction of the Supreme Court of the State of New York (without prejudice to the right of any party to remove to the United States District Court for the Southern District of New York) and to the non-exclusive jurisdiction of the United States District Court for the Southern District of New York, over any dispute arising out of or relating to this Agreement or any of the transactions contemplated hereby and each party hereby irrevocably agrees that all claims in respect of such dispute or any suit, action proceeding related thereto may be heard and determined in such courts. The parties hereby irrevocably waive, to the fullest extent permitted by applicable law, any objection that they may now or hereafter have to the laying of venue of any such dispute brought in such court or any defense of inconvenient forum for the maintenance of such dispute. Each of the parties hereto agrees that a judgment in any such dispute may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(b) Each of the parties hereto hereby consents to process being served by any party to this Agreement in any suit, action or proceeding by the mailing of a copy thereof in accordance with the provisions of Section 14 hereof.

[SIGNATURE PAGE FOLLOWS.]

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

CAPCO REINSURANCE COMPANY LTD.,

By _____

Name: *Llew Austin Campbell*
Title: *Director*

NATIONAL UNION FIRE INSURANCE
COMPANY OF PITTSBURGH, PA.,

By _____

Name:
Title:

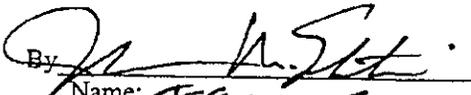
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IN WITNESS WHEREOF, the undersigned have caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

CAPCO REINSURANCE COMPANY LTD.,

By _____
Name:
Title:

NATIONAL UNION FIRE INSURANCE
COMPANY OF PITTSBURGH, PA.,

By 
Name: *JEFFREY M. SCHMITT*
Title: *ASSISTANT COMPTROLLER*

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