

12-22-1998



100926436

(410) 205-6322

November 10, 1998

12-14-98

Commissioner of Patents & Trademarks
Box Assignments
Washington, DC 20231

Re: Trademark Assignments

Dear Sir/Madam:

USF&G Corporation hereby submits for recording a true copy of the Agreement and Plan of Merger among USF&G Corporation and The St. Paul Companies, Inc. to evidence the assignment of all trademarks owned by USF&G Corporation to The St. Paul Companies, Inc.

Members of
The St. Paul Companies:
St. Paul Fire and Marine
Insurance Company
St. Paul Mercury
Insurance Company
St. Paul Guardian
Insurance Company
The St. Paul
Insurance Company
The St. Paul
Insurance Company
of Illinois
St. Paul Property
and Casualty
Insurance Company
St. Paul Fire and Casualty
Insurance Company
Athena Assurance
Company
St. Paul Indemnity
Insurance Company
St. Paul Medical Liability
Insurance Company
St. Paul Insurance
Company of
North Dakota
Economy Fire & Casualty
Company
Economy Preferred
Insurance Company
Economy Premier
Assurance Company
United States Fidelity and
Guaranty Company
Fidelity and Guaranty
Insurance Company
USF&G Bond
Insurance Company
USF&G Family
Insurance Company

Assignor: USF&G Corporation

Assignee: The St. Paul Companies, Inc.
385 Washington Street
St. Paul, MN 55102

Transaction: Merger

Executed: April 24, 1998

Trademarks: (See attached list)

1190E

12/16/1998 VBROM 00000005 1918989

01 EC:481
02 EC:482

40.00 OP
1150.00 OP

All correspondence regarding the recordation of these assignments should be directed to:

Christina M. Fiorino, Esquire
6225 Centennial Way - LB0301
Baltimore, MD 21209
(Telephone (410) 205-6322)

A filing fee in the amount of \$1190.00 is enclosed herewith to cover the recordation for the 47 applications and registrations identified herein.

To the best of my knowledge and belief, the information contained herein is correct and the Agreement of Merger submitted for recordation is a true copy of the original document.

Sincerely,

A handwritten signature in black ink, appearing to read "Christina M. Fiorino". The signature is fluid and cursive, with the first name being the most prominent.

Christina M. Fiorino
Counsel

CMF:kfs
Encls.

Assignor: USF&G Corporation

Assignee: The St. Paul Companies, Inc.
385 Washington Street, St.
St. Paul, MN 55102

Trademark

Registration Number,Date/
Application Serial Number

Open Door Logo Design 1, 918,989
9/12/95

A+ Program 2,060,391
5/13/97

AccuTrack 2,184,363
8/25/98

Business Priority Program 2,145,315
3/17/98

Community Link Program 75/017,981

English Turn 1,611,529
8/28/90

English Turn & Design 1,606,693
7/17/90

F&G and Design 1,308,315
12/4/84

F&G Annuity 1,531,241
3/21/89

F&G Life Insurance 1,763,272
4/6/93

F&G Securities, Inc. & Design 1,598,901
5/29/90

Falcon SPDA 1,747,425
1/19/93

Fidelity and Guaranty Insurance
Underwriters & Design 1,755,697
3/2/93

Fidelity and Guaranty Insurance
Company & Design 1,761,682
3/30/93

Fidelity and Guaranty Life
Insurance Company 1,299,867
10/9/84

<u>Trademark</u>	<u>Registration Number,Date/ Application Serial Number</u>
First Annuity	1,540,840 5/23/89
Five Star	2,038,224 2/18/97
Intrepid	1,951,233 1/23/96
Life In A Box	1,854,301 9/13/94
MarketLink Program	1,993,043 8/13/96
Maximus	1,855,960 9/27/94
Miscellaneous Design (Octagon)	75/266,412
Nemax	2,152,990 4/21/98
Nemax & Design	2,111,397 11/4/97
Nemesis	75/119,081
Octagon	75/252,123
Performance Design Program	2,153,002 4/21/98
Premier Homeowners Policy	1,631,870 1/15/91
Prosperity	74/651,810
Structured Claim Settlements	1,802,290 11/2/93
Symphony	75/131,512
Systems Continuity Coverage	75/196,387
Ten Pin Program	2,109,947 10/28/97

<u>Trademark</u>	<u>Registration Number,Date/ Application Serial Number</u>
The Difference Is Understanding	1,914,268 8/22/95
The Eagle's Challenge Series	1,573,830 12/26/89
The USF&G Business Foundation	2,034,276 1/28/97
Tier One	2,159,825 5/26/98
United States Fidelity and Guaranty Company & Design	1,305,275 11/13/84
USF&G Blueprint Program for Contractors	1,932,281 10/31/95
USF&G Corporation	1,303,078 10/30/84
USF&G Insurance	1,303,079 10/30/84
USF&G Insurance and Design	1,926,663 10/10/95
USF&G Insurance Newscan	1,311,039 12/25/84
Vision-Pak	74/716,462
Visionary Program for Technology	75/104,669
We Get IT	75/271,579
Wealthmaster	1,945,872 1/2/96

Certificate of Mailing by Express Mail

Express Mail mailing label number: EF58996948505

Assignor: USF&G Corporation

Assignee: The St. Paul Companies, Inc.
385 Washington Street
St. Paul, MN 55102

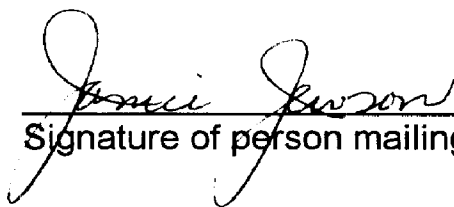
Transaction: Merger - April 24, 1998

Trademarks: See Attached List

I hereby certify that the attached assignments and filing fee are addressed to the Commissioner of Patents & Trademarks, Box Assignments, Washington, DC 20231, and is being deposited with the United States Postal Service "Express Mail Post Office to Addressee" service on December 10, 1998.

JANICE JEWSON

Printed name of person mailing application



Signature of person mailing the application

12-10-98

Date

AGREEMENT AND PLAN OF MERGER

Among

USF&G CORPORATION,

THE ST. PAUL COMPANIES, INC.

and

SP MERGER CORPORATION

Dated as of January 19, 1998

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EXHIBITS

- Exhibit A-1 - Form of Company Affiliate Letter
- Exhibit A-2 - Form of Parent Affiliate Letter

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (hereinafter called this "Agreement"), dated as of January 19, 1998 among USF&G Corporation, a Maryland corporation (the "Company"), The St. Paul Companies, Inc., a Minnesota corporation ("Parent"), and SP Merger Corporation, a Maryland corporation and a wholly-owned subsidiary of Parent ("Merger Subsidiary," the Company and Merger Subsidiary sometimes being hereinafter collectively referred to as the "Constituent Corporations").

RECITALS

WHEREAS, the respective boards of directors of each of Parent, Merger Subsidiary and the Company have determined that the merger of Merger Subsidiary with and into the Company (the "Merger") upon the terms and subject to the conditions set forth in this Agreement is advisable and have approved the Merger;

WHEREAS, contemporaneously with the execution and delivery of this Agreement, as a condition and inducement to Parent's and Merger Subsidiary's willingness to enter into this Agreement, the Company is entering into a stock option agreement with Parent (the "Stock Option Agreement"), pursuant to which the Company has granted to Parent an option to purchase Shares (as defined in Section 4.1(a)) under the terms and conditions set forth in the Stock Option Agreement;

WHEREAS, it is intended that, for federal income tax purposes, the Merger shall qualify as a reorganization under the provisions of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder (the "Code");

WHEREAS, for financial accounting purposes, it is intended that the Merger shall be accounted for as a "pooling-of-interests;" and

WHEREAS, the Company, Parent and Merger Subsidiary desire to make certain representations, warranties, covenants and agreements in connection with this Agreement.

NOW, THEREFORE, in consideration of the premises, and of the representations, warranties, covenants and agreements contained herein, the parties hereto agree as follows:

ARTICLE I

The Merger; Closing; Effective Time

1.1. The Merger. Upon the terms and subject to the conditions set forth in this Agreement, at the Effective Time (as defined in Section 1.3) Merger Subsidiary shall be merged with and into the Company and the separate corporate existence of Merger Subsidiary shall thereupon cease. The Company shall be the surviving corporation in the Merger (sometimes hereinafter referred to as the "Surviving Corporation"), and the separate corporate existence of the Company with all its rights, privileges, immunities, powers and franchises shall continue unaffected by the Merger, except as set forth in Article III. The Merger shall have the effects specified in the Maryland General Corporation Law, as amended (the "MGCL").

1.2. Closing. The closing of the Merger (the "Closing") shall take place (i) at the offices of Sullivan & Cromwell, 125 Broad Street, New York, New York at 9:00 A.M. on the first business day after the day on which the last to be fulfilled or waived of the conditions set forth in Article VII (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions) shall be satisfied or waived in accordance with this Agreement or (ii) at such other place and time and/or on such other date as the Company and Parent may agree in writing (the "Closing Date").

1.3. Effective Time. As soon as practicable following the Closing, the Company and Parent will cause Articles of Merger (the "Maryland Articles of Merger") to be executed, acknowledged and filed with and accepted for record by the State Department of Assessments and Taxation of Maryland (the "Department") as provided in Section 3-107 of the MGCL. The Merger shall become effective at the time the Department accepts for record the Maryland Articles of Merger or at such later time agreed by the Company and Parent and established under the Maryland Articles of Merger, not to exceed 30 days after the Maryland Articles of Merger are accepted for record by the Department (the "Effective Time").

ARTICLE II

Charter and Bylaws of the Surviving Corporation

2.1. The Charter. The charter of the Company as in effect immediately prior to the Effective Time shall be the Charter of the Surviving Corporation (the "Charter"), until duly amended as provided therein or by applicable law, except that (i) Article Fifth of the Charter shall be amended to read in its entirety as follows: "The name and address of the resident agent of the Corporation in this state are James J. Hanks, Jr., 300 East Lombard Street, Baltimore, Maryland 21202, (ii) Article Sixth of the Charter shall be amended to read in its entirety as follows: "The aggregate number of shares that the Corporation shall have the authority to issue is 1,000 shares of Common Stock, par value \$1.00 per share", and (iii) Article Seventh shall be deleted in its entirety with all subsequent Articles renumbered accordingly.

2.2. The Bylaws. The bylaws of Merger Subsidiary in effect at the Effective Time shall be the bylaws of the Surviving Corporation (the "Bylaws"), until thereafter amended as provided therein or by applicable law.

ARTICLE III

Officers and Directors of the Surviving Corporation

3.1. Directors. The directors of Merger Subsidiary at the Effective Time shall, from and after the Effective Time, be the directors of the Surviving Corporation until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Charter and the Bylaws.

3.2. Officers. The officers of the Company at the Effective Time shall, from and after the Effective Time, be the officers of the Surviving Corporation until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Charter and the Bylaws.

ARTICLE IV

Effect of the Merger on Stock; Exchange of Certificates

4.1. Effect on Stock. At the Effective Time, as a result of the Merger and without any action on the part of the holder of any stock of the Company:

(a) Merger Consideration. Each share of common stock, par value \$2.50 per share, of the Company (each a "Share" or, collectively, the "Shares") issued and outstanding immediately prior to the Effective Time (other than Shares owned by Parent or any direct or indirect Subsidiary of Parent (collectively, the "Parent Companies") or Shares that are owned by the Company or any direct or indirect Subsidiary of the Company (and in each case not held on behalf of third parties) ("Excluded Shares")) shall be converted into, and become exchangeable for the right to receive (the "Merger Consideration") that number of shares (the "Exchange Ratio") of common stock, no par value ("Parent Common Stock"), of Parent determined by dividing \$22 by the average of the daily average per share high and low sales prices of one share of Parent Common Stock as reported on the New York Stock Exchange, Inc. (the "NYSE") composite transactions reporting system (as reported in the New York City edition of The Wall Street Journal or, if not reported thereby, another authoritative source) for each of the 20 trading days ending on the third trading day prior to the Stockholders Meeting (as defined in Section 6.4 hereof) rounded to the fourth decimal place (the "Average Parent Price"), provided, that, (i) if the Average Parent Price is less than \$74 (the "Lower Collar"), the Exchange Ratio shall be 0.2973; and (ii) if the Average Parent Price is greater than \$78 (the "Upper Collar" and, together with the Lower Collar, the "Collars"), the Exchange Ratio shall be 0.2821. At the Effective Time, all Shares shall no longer be outstanding and shall be canceled and retired and shall cease to exist, and each certificate (a "Certificate") formerly representing any of such Shares (other than Excluded Shares) shall thereafter represent only the right to receive the Merger Consideration, cash in lieu of fractional shares pursuant to Section 4.2(e), if any, and any distribution or dividend pursuant to Section 4.2(c).

(b) Cancellation of Shares. Each Share issued and outstanding immediately prior to the Effective Time and owned by any of the Parent Companies or owned by the Company or any direct or indirect Subsidiary of the Company (in each case other than Shares that are owned on behalf of third parties), shall, by virtue of the Merger and without any action on the part of the holder thereof, cease to be outstanding, shall be canceled and retired without payment of any consideration therefor and shall cease to exist.

(c) Merger Subsidiary. At the Effective Time, each share of Common Stock, par value \$1.00 per share, of Merger Subsidiary issued and outstanding

immediately prior to the Effective Time shall be converted into one share of common stock of the Surviving Corporation.

4.2. Exchange of Certificates for Shares.

(a) Exchange Agent. Promptly after the Effective Time, Parent shall deposit, or shall cause to be deposited, with an exchange agent selected by Parent prior to the Effective Time with the Company's prior approval, which shall not be unreasonably withheld (the "Exchange Agent"), for the benefit of the holders of Shares, certificates representing the shares of Parent Common Stock and, after the Effective Time, if applicable, any cash, dividends or other distributions with respect to the Parent Common Stock to be issued or paid pursuant to the last sentence of Section 4.1(a) (including cash in lieu of fractional Shares) in exchange for Shares outstanding immediately prior to the Effective Time upon due surrender of the Certificates (or affidavits of loss in lieu thereof) pursuant to the provisions of this Article IV (such certificates for shares of Parent Common Stock, together with the amount of any dividends or other distributions payable with respect thereto and any cash in lieu of fractional Shares, being hereinafter referred to as the "Exchange Fund").

(b) Exchange Procedures. Promptly after the Effective Time, Parent and the Surviving Corporation shall cause the Exchange Agent to mail to each holder of record of Shares (other than holders of Excluded Shares) (i) a letter of transmittal specifying that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates (or affidavits of loss in lieu thereof) to the Exchange Agent, such letter of transmittal to be in such form and have such other provisions as Parent and the Company may reasonably agree prior to the Effective Time, and (ii) instructions for use in effecting the surrender of the Certificates in exchange for (A) certificates representing shares of Parent Common Stock and (B) any unpaid dividends and other distributions and cash in lieu of fractional shares. Subject to Section 4.2(h), upon surrender of a Certificate for cancellation to the Exchange Agent together with such letter of transmittal, duly executed, the holder of such Certificate shall be entitled to receive in exchange therefor (x) a certificate representing that number of whole shares of Parent Common Stock that such holder is entitled to receive pursuant to this Article IV, (y) a check in the amount (after giving effect to any required tax withholdings) of (A) any cash in lieu of fractional shares plus (B) any unpaid dividends or other distributions that such holder has the right to receive pursuant to the provisions of this Article IV, and the Certificate so surrendered shall forthwith be canceled. No interest will be paid or accrued on any amount payable upon due surrender of the Certificates. In the event of a transfer of ownership of Shares that is not registered in the transfer records of the Company, a certificate representing the proper number of shares of Parent Common Stock, together with a check for any cash to be paid upon due surrender of the Certificate and any other dividends or distributions in respect thereof, may be issued and/or paid to such a transferee if the Certificate formerly representing such Shares is presented to the

Exchange Agent, accompanied by all documents required to evidence and effect such transfer and to evidence that any applicable stock transfer taxes have been paid. If any certificate for shares of Parent Common Stock is to be issued in a name other than that in which the Certificate surrendered in exchange therefor is registered, it shall be a condition of such exchange that the Person (as defined below) requesting such exchange shall pay any transfer or other taxes required by reason of the issuance of certificates for shares of Parent Common Stock in a name other than that of the registered holder of the Certificate surrendered, or shall establish to the satisfaction of Parent or the Exchange Agent that such tax has been paid or is not applicable.

For the purposes of this Agreement, the term "Person" shall mean any individual, corporation (including not-for-profit), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, Governmental Entity (as defined in Section 5.1(d)) or other entity of any kind or nature.

(c) Distributions with Respect to Unexchanged Shares: Voting.

(i) All shares of Parent Common Stock to be issued pursuant to the Merger shall be deemed issued and outstanding as of the Effective Time and whenever a dividend or other distribution is declared by Parent in respect of the Parent Common Stock, the record date for which is at or after the Effective Time, that declaration shall include dividends or other distributions in respect of all shares issuable pursuant to this Agreement. No dividends or other distributions in respect of the Parent Common Stock shall be paid to any holder of any unsurrendered Certificate until such Certificate is surrendered for exchange in accordance with this Article IV. Subject to the effect of applicable laws, following surrender of any such Certificate, there shall be issued and/or paid to the holder of the certificates representing whole shares of Parent Common Stock issued in exchange therefor, without interest, (A) at the time of such surrender, the dividends or other distributions with a record date after the Effective Time and a payment date on or prior to such time of surrender payable with respect to such whole shares of Parent Common Stock and not paid and (B) at the appropriate payment date, the dividends or other distributions payable with respect to such whole shares of Parent Common Stock with a record date after the Effective Time but with a payment date subsequent to surrender.

(ii) Holders of unsurrendered Certificates who were the registered holders at the Effective Time shall be entitled to vote after the Effective Time at any meeting of Parent stockholders (or consent in connection with any consent in lieu of meeting) the number of whole shares of Parent Common Stock represented by such Certificates, regardless of whether such holders have exchanged their Certificates.

(d) Transfers. After the Effective Time, there shall be no transfers on the stock transfer books of the Company of the Shares that were outstanding immediately prior to the Effective Time.

(e) Fractional Shares. Notwithstanding any other provision of this Agreement, no fractional shares of Parent Common Stock will be issued and any holder of Shares entitled to receive a fractional share of Parent Common Stock but for this Section 4.2(e) shall be entitled to receive a cash payment in lieu thereof, which payment shall represent such holder's proportionate interest in the net proceeds from the sale by the Exchange Agent on behalf of such holder of the aggregate fractional shares of Parent Common Stock that such holder otherwise would be entitled to receive. Any such sale shall be made by the Exchange Agent within five business days after the date upon which the Certificate(s) (or affidavit(s) of loss in lieu thereof) that would otherwise result in the issuance of such fractional shares of Parent Common Stock have been received by the Exchange Agent.

(f) Termination of Exchange Fund. Any portion of the Exchange Fund (including the proceeds of any investments thereof and any Parent Common Stock) that remains unclaimed by the stockholders of the Company for 180 days after the Effective Time shall be paid to Parent. Any stockholders of the Company who have not theretofore complied with this Article IV shall thereafter look only to Parent for payment of their shares of Parent Common Stock and any cash, dividends and other distributions in respect thereof payable and/or issuable pursuant to Section 4.1 and Section 4.2(c) upon due surrender of their Certificates (or affidavits of loss in lieu thereof), in each case, without any interest thereon. Notwithstanding the foregoing, none of Parent, the Surviving Corporation, the Exchange Agent or any other Person shall be liable to any former holder of Shares for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

(g) Lost, Stolen or Destroyed Certificates. In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by Parent, the posting by such Person of a bond in customary amount as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate the shares of Parent Common Stock and any cash payable and any unpaid dividends or other distributions in respect thereof pursuant to Section 4.2(c) upon due surrender of and deliverable in respect of the Shares represented by such Certificate pursuant to this Agreement.

(h) Affiliates. Notwithstanding anything herein to the contrary, Certificates surrendered for exchange by any "affiliate" (defined to mean, with respect to any Person, any Person that, directly or indirectly, controls or is controlled by or is under common control with such Person) (as determined pursuant to Section 6.8) of the Company shall not be exchanged until Parent has received a written agreement from such Person as provided in Section 6.8 hereof.

4.3. Dissenters' Rights. In accordance with Section 3-202 of the MGCL, no appraisal rights shall be available to holders of Shares in connection with the Merger.

4.4. Adjustments to Prevent Dilution. In the event that after the date hereof and prior to the Effective Time the Company changes the number of Shares or securities convertible or exchangeable into or exercisable for Shares, or Parent changes the number of shares of Parent Common Stock or securities convertible or exchangeable into or exercisable for shares of Parent Common Stock, issued and outstanding prior to the Effective Time as a result of a reclassification, stock split (including a reverse split), stock dividend or distribution, recapitalization, merger, subdivision, issuer tender or exchange offer, or other similar transaction, the Merger Consideration and the Collars shall be equitably adjusted.

4.5. Treatment of the Convertible Notes. The Convertible Notes (as defined in Section 5.1(b)) shall be treated as set forth in Section 6.15.

ARTICLE V

Representations and Warranties

5.1. Representations and Warranties of the Company. Except as set forth in the corresponding sections or subsections of the disclosure letter delivered to Parent by the Company on or prior to entering into this Agreement (the "Company Disclosure Letter"), the Company hereby represents and warrants to Parent and Merger Subsidiary that:

(a) Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Maryland and each of its Subsidiaries is a corporation or other entity duly organized, validly existing and in good standing under the laws of its respective jurisdiction of organization and each of the Company and each of its Subsidiaries has all requisite corporate or similar power and authority to own and operate its properties and assets and to carry on its business as presently conducted and is qualified to do business and is in good standing in each jurisdiction where the ownership or operation of its properties or conduct of its business requires such qualification, except where the failure to be so qualified or in such good standing, when taken together with all other such failures, is not reasonably likely to have a Company Material Adverse Effect (as defined below). The Company has made available to Parent a complete and correct copy of the Company's and its Subsidiaries' charter and by-laws or other organizational documents, each as amended to the date hereof. The Company's and its Subsidiaries' charter and by-laws or other organizational documents so made available are in full force and effect.

As used in this Agreement, the term (i) "Subsidiary" means, with respect to the Company, Parent or Merger Subsidiary, as the case may be, any entity, whether incorporated or unincorporated, of which at least a majority of the securities or ownership interests having by their terms ordinary voting power to elect a majority of the board of directors or other persons performing similar functions is directly or indirectly owned or controlled by such party or by one or more of its respective Subsidiaries or by such party and any one or more of its respective Subsidiaries and (ii) "Company Material Adverse Effect" means a material adverse effect on the financial condition, properties, business or results of the operations of the Company and its Subsidiaries taken as a whole, other than effects caused by changes in general economic or securities markets conditions, changes that affect the insurance industry in general, changes resulting from any event that is designated to be a "catastrophe" by the Property Claims Services Division of the American Insurance Services Group, Inc., changes resulting from insurance exposures not known to any of the Responsible Executive Officers of the Company after due inquiry on or prior to the date of this Agreement or, if known, disclosed on or prior to the date of this Agreement to an employee of Parent having substantial responsibility for due diligence in connection with the transactions contemplated by this Agreement, and changes resulting from the announcement or proposed consummation of this Agreement and the transactions contemplated hereby.

For purposes of this Agreement, the term "Responsible Executive Officers of the Company" shall mean the persons designated as such in Section 5.1(a) of the Company Disclosure Letter.

The Company conducts its insurance operations through the Subsidiaries listed in Section 5.1(a) of the Company Disclosure Letter (collectively, the "Company Insurance Subsidiaries"). Each of the Company Insurance Subsidiaries is, where required, (i) duly licensed or authorized as an insurance company or reinsurer in its jurisdiction of incorporation, (ii) duly licensed or authorized as an insurance company and, where applicable, a reinsurer in each other jurisdiction where it is required to be so licensed or authorized, and (iii) duly authorized in its jurisdiction of incorporation and each other applicable jurisdiction to write each line of business reported as being written in the Company SAP Statements (as hereinafter defined), except, in any such case, where the failure to be so licensed or authorized is not reasonably likely to result in a Company Material Adverse Effect. The Company has made all required filings under applicable insurance holding company statutes except where the failure to file is not reasonably likely to have a Company Material Adverse Effect.

Except for the Company Insurance Subsidiaries, the Company does not directly or indirectly own any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, any corporation, partnership, joint venture or other business association or entity that directly or indirectly conducts any activity which is material to the Company or the ownership of which would

require Parent to file a notification form under or observe applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act").

(b) Capital Structure. The authorized stock of the Company consists of 240,000,000 Shares, of which 116,470,432 Shares were outstanding as of the close of business on January 15, 1998, and 12,000,000 shares of Preferred Stock, par value \$50.00 per share (the "Preferred Shares"), of which no shares were outstanding as of the close of business on January 15, 1998. All of the outstanding Shares have been duly authorized and are validly issued, fully paid and nonassessable. Other than Shares reserved for issuance under the Stock Option Agreement, the Company has no commitments to issue or deliver Shares or Preferred Shares, except that, as of January 15, 1998, there were 10,116,531 Shares subject to issuance pursuant to the Company's Stock Incentive Plan of 1997, Amended and Restated 1993 Stock Plan for Non-Employee Directors, the 1992 Employee Stock Option Plan, Stock Incentive Plan of 1991, Stock Option Plan of 1990, Stock Option Plan of 1987, 1994 Stock Plan for Employees of the Company and Titan Stock Option Plans (the "Company Stock Plans"), 2,400,000 Preferred Shares subject to issuance pursuant to the Amended and Restated Rights Agreement, dated as of March 11, 1997, between the Company and The Bank of New York, as Rights Agent (the "Rights Agreement"), and 5,181,588 Shares subject to issuance pursuant to the Company's Zero Coupon Convertible Notes due 2009 (the "Convertible Notes"). The Company Disclosure Letter contains a list, which is complete and accurate in all material respects as of the date specified therein, of each outstanding option to purchase or acquire Shares under each of the Company Stock Plans (each a "Company Option"), including the plan, the holder, date of grant, exercise price and number of Shares subject thereto. Each of the outstanding shares of capital stock or other securities of each of the Company's Subsidiaries is duly authorized, validly issued, fully paid and nonassessable and owned by the Company or a direct or indirect wholly-owned subsidiary of the Company, free and clear of any lien, pledge, security interest, claim or other encumbrance. Except as described above, there are no preemptive or other outstanding rights, options, warrants, conversion rights, stock appreciation rights, redemption rights, repurchase rights, agreements, arrangements or commitments to issue or sell any shares of capital stock or other securities of the Company or any of its Subsidiaries or any securities or obligations convertible or exchangeable into or exercisable for, or giving any Person a right to subscribe for or acquire, any securities of the Company or any of its Subsidiaries, and no securities or obligations evidencing such rights are authorized, issued or outstanding. The Company does not have outstanding any bonds, debentures, notes or other obligations the holders of which have the right to vote (or, except as referred to in this subsection (b), convertible into or exercisable for securities having the right to vote) with the stockholders of the Company on any matter.

(c) Corporate Authority: Approval and Fairness. (i) The Company has all requisite corporate power and authority and has taken all corporate action

necessary in order to execute, deliver and perform its obligations under this Agreement and the Stock Option Agreement and to consummate, subject only to approval of the Merger by the holders of at least two-thirds of the outstanding Shares (the "Company Requisite Vote"), the Merger. This Agreement and the Stock Option Agreement are valid and binding agreements of the Company enforceable against the Company in accordance with their respective terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles (the "Bankruptcy and Equity Exception").

(ii) The board of directors of the Company (A) has approved this Agreement, the Stock Option Agreement and the Merger and the other transactions contemplated hereby and thereby, (B) has declared that the Merger and the other transactions contemplated by this Agreement are advisable and (C) has received the opinions of each of its financial advisors, Goldman, Sachs & Co. and BT Alex. Brown Incorporated, to the effect that, as of the dates of such opinions, the Exchange Ratio is fair from a financial point of view to the holders of Shares.

(d) Governmental Filings: No Violations. (i) Other than the filings and/or notices (A) pursuant to Section 1.3 hereof, (B) under the HSR Act, the Securities Exchange Act of 1934 (the "Securities Exchange Act") and the Securities Act of 1933, as amended (the "Securities Act"), (C) to comply with state securities or "blue-sky" laws, (D) required to be made with the NYSE, the Pacific Stock Exchange, the London Stock Exchange or the Swiss Stock Exchange and (E) of appropriate documents with, and approval of, the respective Commissioners of Insurance of the states of Maryland, Illinois, Indiana, Iowa, Michigan, Mississippi, New York, Ohio, Texas, Vermont and Wisconsin and such notices and consents as may be required under the insurance laws of any jurisdiction in which the Company, Parent or any of their respective subsidiaries is domiciled or does business or is licensed or authorized as an insurance company, no notices, reports or other filings are required to be made by the Company with, nor are any consents, registrations, approvals, permits or authorizations required to be obtained by the Company from, any governmental or regulatory authority, agency, commission, body or other governmental entity ("Governmental Entity"), in connection with the execution and delivery of this Agreement and the Stock Option Agreement by the Company and the consummation by the Company of the Merger and the other transactions contemplated hereby and thereby, except those that the failure to make or obtain are not, individually or in the aggregate, reasonably likely to have a Company Material Adverse Effect or prevent, materially delay or materially impair the ability of the Company to consummate transactions contemplated by this Agreement and the Stock Option Agreement.

(ii) The execution, delivery and performance of this Agreement and the Stock Option Agreement by the Company do not, and the consummation by the Company of the Merger and the other transactions contemplated hereby and thereby will not, constitute or result in (A) a breach or violation of, or a default

under, the charter or by-laws of the Company or the comparable governing instruments of any of its Subsidiaries, (B) a breach or violation of, or a default under, the acceleration of any obligations or the creation of a lien, pledge, security interest or other encumbrance on the assets of the Company or any of its Subsidiaries (with or without notice, lapse of time or both) pursuant to, any agreement, lease, contract, note, mortgage, indenture, arrangement or other obligation ("Contracts") binding upon the Company or any of its Subsidiaries or (provided, as to consummation, the filings and notices are made, and approvals are obtained, as referred to in Section 5.1(d)(i)) any Law (as defined in Section 5.1(i)) or governmental or non-governmental permit or license to which the Company or any of its Subsidiaries is subject or (C) any change in the rights or obligations of any party under any of the Contracts, except, in the case of clause (B) or (C) above, for any breach, violation, default, acceleration, creation or change that, individually or in the aggregate, is not reasonably likely to have a Company Material Adverse Effect or prevent, materially delay or materially impair the ability of the Company to consummate the transactions contemplated by this Agreement and the Stock Option Agreement. Section 5.1(d)(ii) of the Company Disclosure Letter sets forth, to the knowledge of the executive officers of the Company, a good faith list of contracts (by category and type, where applicable) material to the Company and its Subsidiaries, taken as a whole, pursuant to which consents or waivers are or may be required prior to consummation of the transactions contemplated by this Agreement and the Stock Option Agreement (whether or not subject to the exception set forth with respect to clauses (B) and (C) above).

(e) Company Reports: Financial Statements. The Company has delivered or made available to Parent each registration statement, report, proxy statement or information statement prepared by it since December 31, 1996 (the "Audit Date"), including (i) the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and (ii) the Company's Quarterly Reports on Form 10-Q for the periods ended March 31, 1997, June 30, 1997 and September 30, 1997, each in the form (including exhibits, annexes and any amendments thereto) filed with the Securities and Exchange Commission (the "SEC") (collectively, including any such reports filed subsequent to the date hereof, the "Company Reports"). As of their respective dates, the Company Reports did not, and any Company Reports filed with the SEC subsequent to the date hereof will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading. Each of the consolidated balance sheets included in or incorporated by reference into the Company Reports (including the related notes and schedules) fairly presents, or will fairly present, the consolidated financial position of the Company and its Subsidiaries as of its date and each of the consolidated statements of income and of changes in financial position included in or incorporated by reference into the Company Reports (including any related notes and schedules) fairly presents, or will fairly present, the consolidated results of operations, retained earnings and changes in financial position, as the case may be, of the Company

and its Subsidiaries for the periods set forth therein (subject, in the case of unaudited statements, to notes and normal year-end audit adjustments that will not be material in amount or effect), in each case in accordance with generally accepted accounting principles ("GAAP") consistently applied during the periods involved, except as may be noted therein.

The Company has delivered or made available to Parent true and complete copies of the annual and quarterly statements of each of the Company Insurance Subsidiaries as filed with the applicable insurance regulatory authorities for the years ended December 31, 1994, 1995 and 1996 and the quarterly periods ended March 31, 1997, June 30, 1997 and September 30, 1997, including all exhibits, interrogatories, notes, schedules and any actuarial opinions, affirmations or certifications or other supporting documents filed in connection therewith (collectively, the "Company SAP Statements"). The Company SAP Statements were prepared in conformity with statutory accounting practices prescribed or permitted by the applicable insurance regulatory authority consistently applied for the periods covered thereby and present fairly the statutory financial position of such Company Insurance Subsidiaries as at the respective dates thereof and the results of operations of such Subsidiaries for the respective periods then ended. The Company SAP Statements complied in all material respects with all applicable laws, rules and regulations when filed, and no material deficiency has been asserted with respect to any Company SAP Statements by the applicable insurance regulatory body or any other governmental agency or body. The annual statutory balance sheets and income statements included in the Company SAP Statements have been audited by Ernst & Young LLP, and the Company has delivered or made available to Parent true and complete copies of all audit opinions related thereto. The Company has delivered or made available to Parent true and complete copies of all examination reports of insurance departments and any insurance regulatory agencies since January 1, 1994 relating to the Company Insurance Subsidiaries.

(f) Absence of Certain Changes. Except as disclosed in the Company Reports filed prior to the date hereof, since the Audit Date, the Company and its Subsidiaries have conducted their respective businesses only in, and have not engaged in any material transaction other than according to, the ordinary and usual course of such businesses and there has not been (i) any change in the financial condition, properties, business or results of operations of the Company and its Subsidiaries or any development or combination of developments of which any executive officer of the Company has knowledge that, individually or in the aggregate, has had or is reasonably likely to result in a Company Material Adverse Effect; (ii) any material damage, destruction or other casualty loss with respect to any material asset or property owned, leased or otherwise used by the Company or any of its Subsidiaries, whether or not covered by insurance; (iii) any authorization, declaration, setting aside or payment of any dividend or other distribution in respect of the stock of the Company, except as permitted by Section 6.1(a) hereof; (iv) any change by the Company in accounting principles, practices or methods

other than as required by changes in applicable GAAP or statutory accounting principles; (v) any material addition to the Company's consolidated reserves for future policy benefits or other policy claims and benefits prior to the date of this Agreement; or (vi) any material change in the accounting, actuarial, investment, reserving, underwriting or claims administration policies, practices, procedures, methods, assumptions or principles of any Company Insurance Subsidiary. Since June 30, 1997, except as provided for herein or as disclosed in the Company Reports filed prior to the date hereof, there has not been any increase in the compensation payable or that could become payable by the Company or any of its Subsidiaries to officers at the senior vice president level or above or any amendment of any of the Compensation and Benefit Plans other than increases or amendments in the ordinary course.

(g) Litigation and Liabilities. Except as disclosed in the Company Reports filed prior to the date hereof, there are no (i) civil, criminal or administrative actions, suits, claims, hearings, investigations or proceedings pending or, to the knowledge of any executive officer of the Company, threatened against the Company or any of its affiliates or (ii) obligations or liabilities of any nature, whether or not accrued, contingent or otherwise and whether or not required to be disclosed, including those relating to environmental and occupational safety and health matters, or any other facts or circumstances of which any executive officer of the Company has knowledge that could reasonably be expected to result in any claims against, or obligations or liabilities of, the Company or any of its affiliates, except for insurance claims litigation arising in the ordinary course for which claims reserves have been established and except for such actions, suits, claims, hearings, investigations, proceedings, obligations and liabilities as are not, individually or in the aggregate, reasonably likely to have a Company Material Adverse Effect or prevent or materially impair the ability of the Company to consummate the transactions contemplated by this Agreement and the Stock Option Agreement.

(h) Employee Benefits.

(i) A copy of each bonus, deferred compensation, pension, retirement, profit-sharing, thrift, savings, employee stock ownership, stock bonus, stock purchase, restricted stock, stock option, employment, termination, severance, change of control, compensation, medical, health or other plan, agreement, policy or arrangement that covers employees, directors, former employees or former directors of the Company and its Subsidiaries (the "Compensation and Benefit Plans") and any trust agreement or insurance contract forming a part of such Compensation and Benefit Plans has been made available to Parent prior to the date hereof. The Compensation and Benefit Plans are listed in Section 5.1(h) of the Company Disclosure Letter and any "change of control" or similar provisions therein are specifically identified in Section 5.1(h) of the Company Disclosure Letter.

(ii) All Compensation and Benefit Plans are in substantial compliance with all applicable law, including, to the extent applicable, the Code and the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Each Compensation and Benefit Plan that is an "employee pension benefit plan" within the meaning of Section 3(2) of ERISA (a "Pension Plan") and that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service (the "IRS"), and the Company is not aware of any circumstances likely to result in revocation of any such favorable determination letter. There is no pending or, to the knowledge of the executive officers of the Company, threatened material litigation relating to the Compensation and Benefit Plans. Neither the Company nor any of its Subsidiaries has engaged in a transaction with respect to any Compensation and Benefit Plan that, assuming the taxable period of such transaction expired as of the date hereof, would subject the Company or any of its Subsidiaries to a material tax or penalty imposed by either Section 4975 of the Code or Section 502 of ERISA.

(iii) As of the date hereof, no liability under Subtitle C or D of Title IV of ERISA has been or is expected to be incurred by the Company or any of its Subsidiaries with respect to any ongoing, frozen or terminated "single-employer plan", within the meaning of Section 4001(a)(15) of ERISA, currently or formerly maintained by any of them, or the single-employer plan of any entity which is considered one employer with the Company under Section 4001 of ERISA or Section 414 of the Code (an "ERISA Affiliate"). The Company and its Subsidiaries have not incurred and do not expect to incur any withdrawal liability with respect to a multiemployer plan under Subtitle E to Title IV of ERISA. The Company and its Subsidiaries have not contributed, or been obligated to contribute, to a multiemployer plan under Subtitle E of Title IV of ERISA at any time since September 26, 1980. No notice of a "reportable event", within the meaning of Section 4043 of ERISA for which the 30-day reporting requirement has not been waived, has been required to be filed for any Pension Plan or by any ERISA Affiliate within the 12-month period ending on the date hereof or will be required to be filed in connection with the transactions contemplated by this Agreement and the Stock Option Agreement.

(iv) All contributions required to be made under the terms of any Compensation and Benefit Plan as of the date hereof have been timely made or have been reflected on the most recent consolidated balance sheet filed or incorporated by reference in the Company Reports prior to the date hereof. Neither any Pension Plan nor any single-employer plan of an ERISA Affiliate has an "accumulated funding deficiency" (whether or not waived) within the meaning of Section 412 of the Code or Section 302 of ERISA. Neither the Company nor its Subsidiaries has provided, or is required to provide, security to any Pension Plan or to any single-employer plan of an ERISA Affiliate pursuant to Section 401(a)(29) of the Code.

(v) Under each Pension Plan which is a single-employer plan, as of the last day of the most recent plan year ended prior to the date hereof, the actuarially determined present value of all "benefit liabilities", within the meaning of Section 4001(a)(16) of ERISA (as determined on the basis of the actuarial assumptions contained in the Pension Plan's most recent actuarial valuation), did not exceed the then current value of the assets of such Pension Plan, and there has been no material change in the financial condition of such Pension Plan since the last day of the most recent plan year.

(vi) Neither the Company nor its Subsidiaries have any obligations for retiree health and life benefits under any Compensation and Benefit Plan, except as set forth in the Company Disclosure Letter. The Company or its Subsidiaries may amend or terminate any such plan under the terms of such plan at any time without incurring any material liability thereunder.

(vii) The change in control contemplated by the Merger will not (x) entitle any employees of the Company or its Subsidiaries to severance pay, (y) accelerate the time of payment or vesting or trigger any payment of compensation or benefits under, increase the amount payable or trigger any other material obligation pursuant to, any of the Compensation and Benefit Plans or (z) result in any breach or violation of, or a default under, any of the Compensation and Benefit Plans.

(viii) All Compensation and Benefit Plans covering current or former non-U.S. employees of the Company and its Subsidiaries comply in all material respects with applicable local law. The Company and its Subsidiaries have no material unfunded liabilities with respect to any Pension Plan that covers such non-U.S. employees.

(ix) The number of individuals who perform services for the Company or any of its Subsidiaries on a full-time basis but who are not employees of the Company or any of its Subsidiaries does not exceed 10% of the workforce of the Company and its Subsidiaries.

(x) Any amount that could be received (whether in cash or property or the vesting of property) as a result of any of the transactions contemplated by this Agreement by any employee, officer, director or independent contractor of the Company who is a "disqualified individual" (as such term is defined in proposed Treasury Regulation Section 1.280G-1) under any employment arrangement would not be characterized as an "excess parachute payment" (as such term is defined in Section 280G(b)(1) of the Code).

(i) Compliance with Laws; Permits. (i) The business and operations of the Company and the Company Insurance Subsidiaries have been conducted in compliance with all applicable statutes and regulations regulating the business of insurance

and all applicable orders and directives of insurance regulatory authorities (including federal authorities with respect to variable insurance and annuity products) and market conduct recommendations resulting from market conduct examinations of insurance regulatory authorities (including federal authorities with respect to variable insurance and annuity products) (collectively, "Insurance Laws"), except where the failure to so conduct such business and operations would not, individually or in the aggregate, be reasonably likely to have a Company Material Adverse Effect. Notwithstanding the generality of the foregoing, except where the failure to do so would not, individually or in the aggregate, be reasonably likely to have a Company Material Adverse Effect, each Company Insurance Subsidiary and, to the knowledge of the executive officers of the Company its agents have marketed, sold and issued insurance products in compliance, in all material respects, with Insurance Laws applicable to the business of such Company Insurance Subsidiary and in the respective jurisdictions in which such products have been sold, including, without limitation, in compliance with (a) all applicable prohibitions against "redlining" or withdrawal of business lines, (b) all applicable requirements relating to the disclosure of the nature of insurance products as policies of insurance and (c) all applicable requirements relating to insurance product projections and illustrations. In addition, (i) there is no pending or, to the knowledge of the executive officers of the Company, threatened charge by any insurance regulatory authority that any of the Company Insurance Subsidiaries has violated, nor any pending or, to the knowledge of the executive officers of the Company, threatened investigation by any insurance regulatory authority with respect to possible violations of, any applicable Insurance Laws where such violations would, individually or in the aggregate, be reasonably likely to have a Company Material Adverse Effect; (ii) none of the Company Insurance Subsidiaries is subject to any order or decree of any insurance regulatory authority relating specifically to such Company Insurance Subsidiary (as opposed to insurance companies generally) which would, individually or in the aggregate, be reasonably likely to have a Company Material Adverse Effect; and (iii) the Company Insurance Subsidiaries have filed all reports required to be filed with any insurance regulatory authority on or before the date hereof as to which the failure to file such reports would individually or in the aggregate, be reasonably likely to have a Company Material Adverse Effect.

(ii) In addition to Insurance Laws, except as set forth in the Company Reports filed prior to the date hereof, the businesses of each of the Company and its Subsidiaries have not been, and are not being, conducted in violation of any federal, state, local or foreign law, statute, ordinance, rule, regulation, judgment, order, injunction, decree, arbitration award, agency requirement, license or permit of any Governmental Entity (collectively with Insurance Laws, "Laws"), except for violations or possible violations that, individually or in the aggregate, are not reasonably likely to have a Company Material Adverse Effect or prevent or materially impair the ability of the Company to consummate the transactions contemplated by this Agreement and the Stock Option Agreement. Except as set forth in the Company Reports filed prior to the date hereof, no investigation or review by any Governmental Entity with respect to the

Company or any of its Subsidiaries is pending or, to the knowledge of the executive officers of the Company, threatened, nor has any Governmental Entity indicated an intention to conduct the same, except for those the outcome of which are not, individually or in the aggregate, reasonably likely to have a Company Material Adverse Effect or prevent or materially burden or materially impair the ability of the Company to consummate the transactions contemplated by this Agreement and the Stock Option Agreement. To the knowledge of the executive officers of the Company, no material change is required in the Company's or any of its Subsidiaries' processes, properties or procedures in connection with any such Laws, and the Company has not received any notice or communication of any material noncompliance with any such Laws that has not been cured as of the date hereof. The Company and its Subsidiaries each has all permits, licenses, trademarks, patents, trade names, copyrights, service marks, franchises, variances, exemptions, orders and other governmental authorizations, consents and approvals necessary to conduct its business as presently conducted except those the absence of which are not, individually or in the aggregate, reasonably likely to have a Company Material Adverse Effect or prevent or materially burden or materially impair the ability of the Company to consummate the Merger and the other transactions contemplated by this Agreement and the Stock Option Agreement.

(j) Takeover Statutes. No restrictive provision of any "fair price," "moratorium," "control share acquisition" or other similar anti-takeover statute or regulation (including Section 3-602 of the MGCL) (each a "Takeover Statute") or restrictive provision of any applicable anti-takeover provision in the charter or by-laws of the Company is, or at the Effective Time will be, applicable to the Company, the Shares, the Merger or any other transaction contemplated by this Agreement or the Stock Option Agreement.

(k) Environmental Matters. Except as disclosed in the Company Reports filed prior to the date hereof and except for such matters that, alone or in the aggregate, are not reasonably likely to have a Company Material Adverse Effect: (i) the Company and its Subsidiaries have complied with all applicable Environmental Laws; (ii) the properties currently owned or operated by the Company (including soils, groundwater, surface water, buildings or other structures) are not contaminated with any Hazardous Substances; (iii) the properties formerly owned or operated by the Company or any of its Subsidiaries were not contaminated with Hazardous Substances during the period of ownership or operation by the Company or any of its Subsidiaries; (iv) neither the Company nor any of its Subsidiaries is subject to liability for any Hazardous Substance disposal or contamination on any third party property (excluding policies written in connection with the insurance business); (v) no Hazardous Substance has been transported from any of the properties owned or operated by the Company or any of its Subsidiaries other than as permitted under applicable Environmental Law; (vi) neither the Company nor any of its Subsidiaries has received any written notice, demand, letter, claim or request for information from any Governmental Entity or third party indicating that the Company

or any of its Subsidiaries may be in violation of or liable under any Environmental Law; (vii) the Company and its Subsidiaries are not subject to any court order, administrative order or decree arising under any Environmental Law and are not subject to any indemnity or other agreement with any third party relating to liability under any Environmental Law or relating to Hazardous Substances (excluding policies written in connection with the insurance business); and (viii) there are no circumstances or conditions involving the Company or any of its Subsidiaries that could reasonably be expected to result in any claims, liability, investigations, costs or restrictions on the ownership, use, or transfer of any property of the Company pursuant to any Environmental Law.

As used herein, the term "Environmental Law" means any federal, state, local or foreign law, statute, ordinance, regulation, judgment, order, decree, arbitration award, agency requirement, license, permit, authorization or opinion, relating to: (A) the protection, investigation or restoration of the environment, health and safety, or natural resources, (B) the handling, use, presence, disposal, release or threatened release of any Hazardous Substance or (C) noise, odor, wetlands, pollution, contamination or any injury or threat of injury to persons or property.

As used herein, the term "Hazardous Substance" means any substance that is: (A) listed, classified or regulated pursuant to any Environmental Law; (B) any petroleum product or by-product, asbestos-containing material, lead-containing paint or plumbing, polychlorinated biphenyls, radioactive materials or radon; or (C) any other substance which may be the subject of regulatory action by any Government Authority pursuant to any Environmental Law.

(l) Accounting and Tax Matters. As of the date hereof, neither the Company nor any of its affiliates has taken or agreed to take any action, nor do the executive officers of the Company have any knowledge of any fact or circumstance, that would prevent Parent from accounting for the business combination to be effected by the Merger as a "pooling-of-interests" or prevent the Merger and the other transactions contemplated by this Agreement from qualifying as a "reorganization" within the meaning of Section 368(a) of the Code.

(m) Taxes. Except as provided in Section 5.1(m) of the Company Disclosure Letter:

(i) the Company and each of its Subsidiaries have filed completely and correctly in all material respects all Tax Returns (as defined below) which are required by all applicable laws to be filed by them, and have paid, or made adequate provision for the payment of, all material Taxes (as defined below) which have or may become due and payable pursuant to said Tax Returns and all other Taxes, governmental charges and assessments received to date other than those Taxes being contested in good faith for which adequate provision has been made on the most recent balance sheet

included in the Company Reports. The Tax Returns of the Company and its Subsidiaries have been prepared, in all material respects, in accordance with all applicable laws consistently applied;

(ii) all material Taxes which the Company and its Subsidiaries are required by law to withhold and collect have been duly withheld and collected, and have been paid over, in a timely manner, to the proper Taxing Authorities (as defined below) to the extent due and payable;

(iii) no liens for a material amount of Taxes exist with respect to any of the assets or properties of the Company or its Subsidiaries, except for statutory liens for Taxes not yet due or payable or that are being contested in good faith;

(iv) all of the U.S. Federal income Tax Returns filed by or on behalf of each of the Company and its Subsidiaries have been examined by and settled with the Internal Revenue Service, or the statute of limitations with respect to the relevant Tax liability expired, for all taxable periods through and including the period ending on the date on which the Effective Time occurs; and

(v) there is no audit, examination, deficiency, or refund litigation pending with respect to any material amount of Taxes and during the past three years no Taxing Authority has given written notice of the commencement of any audit, examination, deficiency or refund litigation, with respect to any material amount of Taxes;

As used in this Agreement, (i) the term "Tax" (including, with correlative meaning, the terms "Taxes" and "Taxable") shall mean, with respect to any Person, (a) all taxes, domestic or foreign, including without limitation any income (net, gross or other, including recapture of any tax items such as investment tax credits), alternative or add-on minimum tax, gross income, gross receipts, gains, sales, use, leasing, lease, user, *ad valorem*, transfer, recording, franchise, profits, property (real or personal, tangible or intangible), fuel, license, withholding on amounts paid to or by such Person, payroll, employment, unemployment, social security, excise, severance, stamp, occupation, premium, environmental or windfall profit tax, custom, duty or other tax, or other like assessment or charge of any kind whatsoever, together with any interest, levies, assessments, charges, penalties, additions to tax or additional amounts imposed by any Taxing Authority, (b) any joint or several liability of such Person with any other Person for the payment of any amounts of the type described in (a) of this definition and (c) any liability of such Person for the payment of any amounts of the type described in (a) as a result of any express or implied obligation to indemnify any other Person; (ii) the term "Tax Return(s)" shall mean all returns, consolidated or otherwise (including without limitation informational returns), required to be filed with any Taxing Authority; and (iii) the term "Taxing Authority" shall mean any authority responsible for the imposition of any Tax.

(n) Labor Matters. Neither the Company nor any of its Subsidiaries is a party to or otherwise bound by any collective bargaining agreement, contract or other agreement or understanding with a labor union or labor organization.

(o) Intellectual Property. (i) The Company and/or each of its Subsidiaries owns, or is licensed or otherwise possesses legally enforceable rights to use all patents, trademarks, trade names, service marks, copyrights, and any applications therefor, technology, know-how, computer software programs or applications, and tangible or intangible proprietary information or materials that are used in the business of the Company and its Subsidiaries as currently conducted, except for any such failures to own, be licensed or possess that, individually or in the aggregate, are not reasonably likely to have a Company Material Adverse Effect, and to the knowledge of the executive officers of the Company all patents, trademarks, trade names, service marks and copyrights held by the Company and/or its Subsidiaries are valid and subsisting.

(ii) Except as disclosed in Company Reports filed prior to the date hereof or as is not reasonably likely to have a Company Material Adverse Effect:

(A) the Company is not, nor will it be as a result of the execution and delivery of this Agreement or the performance of its obligations hereunder, in violation of any licenses, sublicenses and other agreements as to which the Company is a party and pursuant to which the Company is authorized to use any third-party patents, trademarks, service marks, and copyrights ("Third-Party Intellectual Property Rights");

(B) no claims with respect to (I) the patents, registered and material unregistered trademarks and service marks, registered copyrights, trade names, and any applications therefor owned by the Company or any its Subsidiaries (the "Company Intellectual Property Rights"); (II) any trade secret material to the Company; or (III) Third-Party Intellectual Property Rights are currently pending or, to the knowledge of the executive officers of the Company, are threatened by any Person;

(C) the executive officers of the Company do not know of any valid grounds for any bona fide claims (I) to the effect that the sale, licensing or use of any product as now used, sold or licensed or proposed for use, sale or license by the Company or any of its Subsidiaries, infringes on any copyright, patent, trademark, service mark or trade secret; (II) against the use by the Company or any of its Subsidiaries, of any trademarks, trade names, trade secrets, copyrights, patents, technology, know-how or computer software programs and applications used in the business of the Company or any of its Subsidiaries as currently conducted or as proposed to be conducted; (III) challenging the ownership, validity or effectiveness

of any of the Company Intellectual Property Rights or other trade secret material to the Company; or (IV) challenging the license or legally enforceable right to use of the Third-Party Intellectual Rights by the Company or any of its Subsidiaries; and

(D) to the knowledge of the executive officers of the Company, there is no unauthorized use, infringement or misappropriation of any of the Company Intellectual Property Rights by any third party, including any employee or former employee of the Company or any of its Subsidiaries.

(p) Material Contracts. All of the material contracts of the Company and its Subsidiaries that are required to be described in the Company Reports or to be filed as exhibits thereto are described in the Company Reports or filed as exhibits thereto and are in full force and effect. True and complete copies of all such material contracts have been delivered or have been made available by the Company to Parent. Neither the Company nor any of its Subsidiaries nor any other party is in breach of or in default under any such contract except for such breaches and defaults as individually or in the aggregate have not had and are not reasonably likely to have a Company Material Adverse Effect. Neither the Company nor any of its Subsidiaries is party to any agreement containing any provision or covenant limiting in any material respect the ability of the Company or any of its Subsidiaries to (A) sell any products or services of or to any other person, (B) engage in any line of business or (C) compete with or to obtain products or services from any person or limiting the ability of any person to provide products or services to the Company or any of its Subsidiaries.

(q) Rights Plan. (i) The Company has amended the Rights Agreement to provide that Parent shall not be deemed an Acquiring Person, the Distribution Date (each as defined in the Rights Agreement) shall not be deemed to occur and the rights issuable pursuant to the Rights Agreement (the "Rights") will not separate from the Shares, as a result of entering into this Agreement and/or the Stock Option Agreement or consummating the Merger and/or the other transactions contemplated hereby and/or thereby.

(ii) The Company has taken all necessary action with respect to all of the outstanding Rights so that, as of immediately prior to the Effective Time, (A) neither the Company nor Parent will have any obligations under the Rights or the Rights Agreement and (B) the holders of the Rights will have no rights under the Rights or the Rights Agreement.

(r) Brokers and Finders. Neither the Company nor any of its executive officers, directors or employees has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders fees in connection with the Merger or the other transactions contemplated in this Agreement or the Stock Option

Agreement, except that the Company has employed Goldman, Sachs & Co. and BT Alex. Brown Incorporated as its financial advisors, the arrangements with which have been disclosed to Parent prior to the date hereof.

(s) Insurance Matters. (i) Except as otherwise would not, individually or in the aggregate, be reasonably likely to have a Company Material Adverse Effect, all policies, binders, slips, certificates, annuity contracts and participation agreements and other agreements of insurance, whether individual or group, in effect as of the date hereof (including all applications, supplements, endorsements, riders and ancillary agreements in connection therewith) that are issued by the Company Insurance Subsidiaries (the "Company Insurance Contracts") and any and all marketing materials, are, to the extent required under applicable law, on forms approved by applicable insurance regulatory authorities or which have been filed and not objected to by such authorities within the period provided for objection, and such forms comply in all material respects with the insurance statutes, regulations and rules applicable thereto and, as to premium rates established by the Company or any Company Insurance Subsidiary which are required to be filed with or approved by insurance regulatory authorities, the rates have been so filed or approved, the premiums charged conform thereto in all material respects, and such premiums comply in all material respects with the insurance statutes, regulations and rules applicable thereto.

(ii) All reinsurance and coinsurance treaties or agreements, including retrocessional agreements, to which the Company or any Company Insurance Subsidiary is a party or under which the Company or any Company Insurance Subsidiary has any existing rights, obligations or liabilities are in full force and effect except for such treaties or agreements the failure to be in full force and effect as individually or in the aggregate are not reasonably likely to have a Company Material Adverse Effect. Neither the Company nor any Company Insurance Subsidiary, nor, to the knowledge of the Company, any other party to a reinsurance or coinsurance treaty or agreement to which the Company or any Company Insurance Subsidiary is a party, is in default in any material respect as to any provision thereof, and no such agreement contains any provision providing that the other party thereto may terminate such agreement by reason of the transactions contemplated by this Agreement. The Company has not received any notice to the effect that the financial condition of any other party to any such agreement is impaired with the result that a default thereunder may reasonably be anticipated, whether or not such default may be cured by the operation of any offset clause in such agreement. No insurer or reinsurer or group of affiliated insurers or reinsurers accounted for the direction to the Company and the Company Insurance Subsidiaries or the ceding by the Company and the Company Insurance Subsidiaries of insurance or reinsurance business in an aggregate amount equal to two percent or more of the consolidated gross premium income of the Company and the Company Insurance Subsidiaries for the year ended December 31, 1996.

(iii) Prior to the date hereof, the Company has delivered or made available to Parent a true and complete copy of any actuarial reports prepared by actuaries, independent or otherwise, with respect to the Company or any Company Insurance Subsidiary since December 31, 1994, and all attachments, addenda, supplements and modifications thereto (the "Company Actuarial Analyses"). To the knowledge of the executive officers of the Company, the information and data furnished by the Company or any Company Insurance Subsidiary to its independent actuaries in connection with the preparation of the Company Actuarial Analyses were accurate in all material respects. Furthermore, to the knowledge of the executive officers of the Company, each Company Actuarial Analysis was based upon an accurate inventory of policies in force for the Company and the Company Insurance Subsidiaries, as the case may be, at the relevant time of preparation, was prepared using appropriate modeling procedures accurately applied and in conformity with generally accepted actuarial standards consistently applied, and the projections contained therein were properly prepared in accordance with the assumptions stated therein.

(iv) As of the date hereof, the Company has no reason to believe that any rating presently held by the Company Insurance Subsidiaries is likely to be modified, qualified, lowered or placed under surveillance for a possible downgrade for any reason other than as a result of the transactions contemplated hereby.

(v) Except as would not reasonably be expected to have a Company Material Adverse Effect, all annuity contracts and life insurance policies issued by each Company Insurance Subsidiary meet all definitional or other requirements for qualification under the Code section applicable (or intended to be applicable) to such annuity contracts or life insurance policies, including, without limitation, the following: (A) each life insurance policy meets the requirements of sections 101(f), 817(h) or 7702 of the Code, as applicable; (B) no life insurance contract issued by any Company Insurance Company is a "modified endowment contract" within the meaning of section 7702A of the Code unless and to the extent that the holders of the policies have been notified of their classification; (C) each annuity contract issued, entered into or sold by any Company Insurance Subsidiary qualifies as an annuity under federal tax law; (D) each annuity contract meets the requirements of, and has been administered consistent with section 817(h) and 72 of the Code including but not limited to section 72(s) of the Code (except for those contracts specifically excluded from such requirement pursuant to section 72(s)(5) of the Code); (E) each annuity contract intended to qualify under sections 130, 403(a), 403(b) or 408(b) of the Code contains all provisions required for qualification under such sections of the Code; (F) each annuity contract marketed as, or in connection with, plans that are intended to qualify under section 401, 403, 408 or 457 of the Code complies with the requirements of such section; and (G) none of the Company Insurance Subsidiaries have entered into any agreement or are involved in any discussions or negotiations and there are no audits, examinations, investigations or other proceedings with the IRS with respect to the failure of any life insurance policy under section 7702 or

817(h) of the Code or the failure of any annuity contract to meet the requirements of section 72(s) of the Code. There are no "hold harmless" indemnification agreements respecting the tax qualification or treatment of any product or plan sold, issued, entered into or administered by the Company Insurance Subsidiaries, and there have been no claims asserted by any Person under such "hold harmless" indemnification agreements so set forth.

(t) Liabilities and Reserves. (i) The reserves carried on the Company SAP Statements of each Company Insurance Subsidiary for the year ended December 31, 1996 for future insurance policy benefits, losses, claims and similar purposes (including claims litigation) are in compliance in all material respects with the requirements for reserves established by the insurance departments of the state of domicile of such Company Insurance Subsidiary, were determined in all material respects in accordance with generally accepted actuarial standards and principles consistently applied, and are fairly stated in all material respects in accordance with sound actuarial and statutory accounting principles. Such reserves were adequate in the aggregate to cover the total amount of all reasonably anticipated liabilities of the Company and each Company Insurance Subsidiary under all outstanding insurance, reinsurance and other applicable agreements as of the respective dates of such Company SAP Statements. The admitted assets of the Company and each Company Insurance Subsidiary as determined under applicable Laws are in an amount at least equal to the minimum amounts required by applicable Laws.

(ii) Except for regular periodic assessments in the ordinary course of business or assessments based on developments which are publicly known within the insurance industry, to the knowledge of the executive officers of the Company, no claim or assessment is pending or threatened against any Company Insurance Subsidiary which is peculiar or unique to such Company Insurance Subsidiary by any state insurance guaranty associations in connection with such association's fund relating to insolvent insurers which if determined adversely would, individually or in the aggregate, be reasonably likely to have a Company Material Adverse Effect.

(u) Investment Advisory Matters. (i) No Company Insurance Subsidiary maintains any separate account or accounts.

(ii) Each of the Company Insurance Subsidiaries is treated for federal tax purposes as the owner of the assets underlying the respective life insurance policies and annuity contracts issued, entered into or sold by it.

(iii) Neither the Company nor any of its Subsidiaries conducts activities of or is otherwise deemed under applicable law to control an "investment adviser," as such term is defined in Section 2(a)(20) of the Investment Company Act of 1940 (the "1940 Act"), whether or not registered under the Investment

Advisers Act of 1940, as amended, of any Person required to be registered under the 1940 Act, except that the Company has an indirect 50% general partnership interest in Pacholder & Company ("Pacholder"), which advises one registered investment company. Neither the Company nor any of its Subsidiaries is an "investment company" as defined in the 1940 Act, and neither the Company nor any of its Subsidiaries is a promoter (as such term is defined in Section 2(a)(30) of the 1940 Act) of any Person that is such an investment company.

(iv) Neither the Company nor any of its Subsidiaries conducts activities of, controls, owns more than a 20% interest in, or is deemed under applicable law to control any Person that is, an investment adviser as defined in the Investment Advisers Act of 1940, as amended (whether or not registered under such Act), other than Pacholder (which has no clients other than Pacholder Fund, Inc.), Pacholder Associates, Inc., Falcon Asset Management Inc. and USF&G Realty Advisers, Inc. (together, the "Asset Management Subsidiaries").

5.2. Representations and Warranties of Parent and Merger Subsidiary. Except as set forth in the corresponding sections or subsections of the disclosure letter delivered to the Company by Parent on or prior to entering into this Agreement (the "Parent Disclosure Letter"), Parent and Merger Subsidiary each hereby represent and warrant to the Company that:

(a) Capitalization of Merger Subsidiary. The authorized stock of Merger Subsidiary consists of 1,000 shares of Common Stock, par value \$1.00 per share, all of which are validly issued and outstanding. All of the issued and outstanding stock of Merger Subsidiary is, and at the Effective Time will be, owned by Parent, and there are (i) no other shares of stock or voting securities of Merger Subsidiary, (ii) no securities of Merger Subsidiary convertible into or exchangeable for shares of stock or voting securities of Merger Subsidiary and (iii) no options or other rights to acquire from Merger Subsidiary, and no obligations of Merger Subsidiary to issue or deliver, any stock, voting securities or securities convertible into or exchangeable for stock or voting securities of Merger Subsidiary. Merger Subsidiary has not conducted any business prior to the date hereof and has no, and prior to the Effective Time will have no, assets, liabilities or obligations of any nature other than those incident to its formation and pursuant to this Agreement and the Merger and the other transactions contemplated by this Agreement.

(b) Organization, Good Standing and Qualification. Parent is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota and each of its Subsidiaries is a corporation or other entity duly organized, validly existing and in good standing under the laws of its respective jurisdiction of organization and each of Parent and each of its Subsidiaries has all requisite corporate or similar power and authority to own and operate its properties and assets and to carry on its business as presently conducted and is qualified to do business and is in

good standing in each jurisdiction where the ownership or operation of its properties or conduct of its business requires such qualification, except where the failure to be so qualified or in such good standing, when taken together with all other such failures, is not reasonably likely to have a Parent Material Adverse Effect (as defined below). Parent has made available to the Company a complete and correct copy of Parent's and its Subsidiaries' charter and by-laws or other organizational documents, each as amended to the date hereof. Parent's and its Subsidiaries' charter and by-laws or other organizational documents so made available are in full force and effect.

As used in this Agreement, the term "Parent Material Adverse Effect" means a material adverse effect on the financial condition, properties, business or results of the operations of Parent and its Subsidiaries taken as a whole, other than effects caused by changes in general economic or securities markets conditions, changes that affect the insurance industry in general, changes resulting from any event that is designated to be a "catastrophe" by the Property Claims Services Division of the American Insurance Services Group, Inc., changes resulting from insurance exposures not known to any of the Responsible Executive Officers of Parent after due inquiry on or prior to the date of this Agreement or, if known, disclosed on or prior to the date of this Agreement to an employee of the Company having substantial responsibility for due diligence in connection with the transactions contemplated by this Agreement, and changes resulting from the announcement or proposed consummation of this Agreement and the transactions contemplated hereby.

For purposes of this Agreement, the term "Responsible Executive Officers of Parent" shall mean the persons designated as such in Section 5.2(b) of the Parent Disclosure Letter.

Parent conducts its insurance operations through the Subsidiaries listed in Section 5.2(b) of the Parent Disclosure Letter (collectively, the "Parent Insurance Subsidiaries"). Each of the Parent Insurance Subsidiaries is, where required, (i) duly licensed or authorized as an insurance company or a reinsurer in its jurisdiction of incorporation, (ii) duly licensed or authorized as an insurance company and, where applicable, a reinsurer in each other jurisdiction where it is required to be so licensed or authorized, and (iii) duly authorized in its jurisdiction of incorporation and each other applicable jurisdiction to write each line of business reported as being written in the Parent SAP Statements (as hereinafter defined), except, in any such case, where the failure to be so licensed or authorized is not reasonably likely to result in a Parent Material Adverse Effect. Parent has made all required filings under applicable insurance holding company statutes except where the failure to file is not reasonably likely to have a Parent Material Adverse Effect.

Except for the Parent Insurance Subsidiaries, Parent does not directly or indirectly own any equity or similar interest in, or any interest convertible into or

exchangeable or exercisable for any equity or similar interest in, any corporation, partnership, joint venture or other business association or entity that directly or indirectly conducts any activity which is material to Parent.

(c) Capital Structure. The authorized capital stock of Parent consists of 240,000,000 shares of Parent Common Stock, of which 83,733,652 shares were outstanding as of the close of business on January 16, 1998, and 5,000,000 undesignated shares, of which 50,000 shares have been designated as Series A Junior Participating Preferred Stock (the "Parent Series A Preferred Stock"), 1,450,000 shares have been designated as Series B Convertible Preferred Stock (the "Parent Series B Preferred Stock") and 41,400 shares have been designated as Series C Cumulative Convertible Preferred Stock (the "Parent Series C Preferred Stock" and, collectively with the Parent Series A Preferred Stock and the Parent Series B Preferred Stock, the "Parent Preferred Shares"). As of the close of business on January 16, 1998, there were no shares of Parent Series A Preferred Stock outstanding, 955,594 shares of Parent Series B Stock outstanding and no shares of Parent Series C Preferred Stock outstanding. All of the outstanding Parent Common Stock and Parent Preferred Shares have been duly authorized and are validly issued, fully paid and nonassessable. Parent has no commitments to issue or deliver Common Stock or Parent Preferred Shares, except that, as of January 16, 1998, there were 5,651,858 shares of Parent Common Stock reserved for issuance pursuant to the Parent stock option and other plans listed on Section 5.2(c) of the Parent Disclosure Letter (the "Parent Stock Plans"), 7,331,026 shares of Parent Common Stock subject to issuance upon conversion of shares of Parent Series B Preferred Stock and Parent Series C Preferred Stock or Parent's 6% Convertible Subordinated Debentures due 2025, 41,400 shares of Parent Series C Preferred Stock reserved for issuance upon the exchange of Parent's 6% Convertible Subordinated Debentures due 2025 and 50,000 shares of Parent Series A Preferred Stock reserved for issuance pursuant to the Amended and Restated Shareholder Protection Rights Agreement, dated as of December 4, 1989, as amended as of March 9, 1990 and as amended and restated as of August 1, 1995, between Parent and First Chicago Trust Company of New York (the "Parent Rights Agreement"). Each of the outstanding shares of capital stock of each of Parent's Subsidiaries is duly authorized, validly issued, fully paid and nonassessable and, except for directors' qualifying shares, owned by Parent or a direct or indirect wholly-owned subsidiary of Parent, free and clear of any lien, pledge, security interest, claim or other encumbrance. Except as described above, there are no preemptive or other outstanding rights, options, warrants, conversion rights, stock appreciation rights, redemption rights, repurchase rights, agreements, arrangements or commitments to issue or sell any shares of capital stock or other securities of Parent or any of its Subsidiaries or any securities or obligations convertible or exchangeable into or exercisable for, or giving any Person a right to subscribe for or acquire, any securities of the Company or any of its Subsidiaries, and no securities or obligations, evidencing such rights are authorized, issued or outstanding. Parent does not have outstanding any bonds, debentures, notes or other obligations the holders of which have the right to vote (or, except as referred to in this subsection (c), convertible into or

exercisable for securities having the right to vote) with the stockholders of Parent on any matter.

(d) Corporate Authority, Fairness.

(i) Each of the Parent and Merger Subsidiary has all requisite corporate power and authority and has taken all corporate action necessary in order to execute, deliver and perform its obligations under this Agreement and, with respect to Parent, under the Stock Option Agreement, and to consummate, subject only to approval at a meeting of stockholders of the issuance of the shares of Parent Common Stock required to be issued pursuant to Article IV hereof by the holders of a majority of the shares of Parent Common Stock present and voting at the meeting (the "Parent Requisite Vote"), the Merger. This Agreement is a valid and binding agreement of Parent and Merger Subsidiary, enforceable against each of Parent and Merger Subsidiary in accordance with its terms, subject to the Bankruptcy and Equity Exception. The Stock Option Agreement is a valid and binding agreement of Parent, enforceable against Parent in accordance with its terms, subject to the Bankruptcy and Equity Exception.

(ii) Prior to the Effective Time, Parent will have taken all necessary action to permit it to issue the number of shares of Parent Common Stock required to be issued pursuant to Article IV. The Parent Common Stock, when issued, will be validly issued, fully paid and nonassessable, and no stockholder of Parent will have any preemptive right of subscription or purchase in respect thereof. The Parent Common Stock, when issued, will be registered under the Securities Act and Exchange Act and registered or exempt from registration under any applicable state securities or "blue sky" laws.

(iii) The board of directors of Parent has received the opinion of its financial advisors, Credit Suisse First Boston Corporation, to the effect that as of the date hereof the Exchange Ratio is fair to Parent from a financial point of view.

(e) Governmental Filings, No Violations. (i) Other than the filings and/or notices (A) pursuant to Section 1.3 hereof, (B) under the HSR Act, the Securities Exchange Act and the Securities Act, (C) to comply with state securities or "blue sky" laws, (D) required to be made with the NYSE or the London Stock Exchange and (E) of appropriate documents with, and approval of, the respective Commissioners of Insurance of the states of Maryland, Illinois, Indiana, Iowa, Michigan, Mississippi, New York, Ohio, Texas, Vermont and Wisconsin and such notices and consents as may be required under the insurance laws of any jurisdiction in which the Company, Parent or any of their respective subsidiaries is domiciled or does business or is licensed or authorized as an insurance company, no notices, reports or other filings are required to be made by Parent or Merger Subsidiary with, nor are any consents, registrations, approvals, permits or authorizations required to be obtained by Parent or Merger Subsidiary from, any

Governmental Entity, in connection with the execution and delivery of this Agreement by Parent and Merger Subsidiary and of the Stock Option Agreement by Parent and the consummation by Parent and Merger Subsidiary of the Merger and the other transactions contemplated hereby and thereby, except those that the failure to make or obtain are not, individually or in the aggregate, reasonably likely to have a Parent Material Adverse Effect or prevent, materially delay or materially impair the ability of Parent or Merger Subsidiary to consummate the transactions contemplated by this Agreement and the Stock Option Agreement.

(ii) The execution, delivery and performance of this Agreement by Parent and Merger Subsidiary and of the Stock Option Agreement by Parent do not, and the consummation by Parent and Merger Subsidiary of the Merger and the other transactions contemplated hereby and thereby will not, constitute or result in (A) a breach or violation of, or a default under, the charter or by-laws of Parent and Merger Subsidiary or the comparable governing instruments of any of its Subsidiaries, (B) a breach or violation of, or a default under, the acceleration of any obligations or the creation of a lien, pledge, security interest or other encumbrance on the assets of Parent or any of its Subsidiaries (with or without notice, lapse of time or both) pursuant to, any Contracts binding upon Parent or any of its Subsidiaries or (provided, as to consummation, the filings and notices are made, and approvals are obtained, as referred to in Section 5.2(e)(i)) any Law or governmental or non-governmental permit or license to which Parent or any of its Subsidiaries is subject or (C) any change in the rights or obligations of any party under any of the Contracts, except, in the case of clause (B) or (C) above, for any breach, violation, default, acceleration, creation or change that, individually or in the aggregate, is not reasonably likely to have a Parent Material Adverse Effect or prevent, materially delay or materially impair the ability of Parent or Merger Subsidiary to consummate the transactions contemplated by this Agreement and the Stock Option Agreement.

(f) Parent Reports; Financial Statements. Parent has delivered or made available to the Company each registration statement, report, proxy statement or information statement prepared by it since December 31, 1996 (the "Parent Audit Date"), including (i) Parent's Annual Report on Form 10-K for the year ended December 31, 1996 and (ii) Parent's Quarterly Reports on Form 10-Q for the periods ended March 31, 1997, June 30, 1997 and September 30, 1997, each in the form (including exhibits, annexes and any amendments thereto) filed with the SEC (collectively, including any such reports filed subsequent to the date hereof, the "Parent Reports"). As of their respective dates, the Parent Reports did not, and any Parent Reports filed with the SEC subsequent to the date hereof will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading. Each of the consolidated balance sheets included in or incorporated by reference into the Parent Reports (including the related notes and schedules) fairly presents, or will fairly present,

the consolidated financial position of Parent and its Subsidiaries as of its date and each of the consolidated statements of income and cash flows included in or incorporated by reference into the Parent Reports (including any related notes and schedules) fairly presents, or will fairly present, the consolidated results of operations and cash flows as the case may be, of Parent and its Subsidiaries for the periods set forth therein (subject, in the case of unaudited statements, to notes and normal year-end audit adjustments that will not be material in amount or effect), in each case in accordance with GAAP consistently applied during the periods involved, except as may be noted therein.

Parent has delivered or made available to the Company true and complete copies of the annual and quarterly statements of each of the Parent Insurance Subsidiaries as filed with the applicable insurance regulatory authorities for the years ended December 31, 1994, 1995 and 1996 and the quarterly periods ended March 31, 1997, June 30, 1997 and September 30, 1997, including all exhibits, interrogatories, notes, schedules and any actuarial opinions, affirmations or certifications or other supporting documents filed in connection therewith (collectively, the "Parent SAP Statements"). The Parent SAP Statements were prepared in conformity with statutory accounting practices prescribed or permitted by the applicable insurance regulatory authority consistently applied for the periods covered thereby and present fairly the statutory financial position of such Parent Insurance Subsidiaries as at the respective dates thereof and the results of operations of such Subsidiaries for the respective periods then ended. The Parent SAP Statements complied in all material respects with all applicable laws, rules and regulations when filed, and no material deficiency has been asserted with respect to any Parent SAP Statements by the applicable insurance regulatory body or any other governmental agency or body. The statutory financial statements of certain Parent Insurance Subsidiaries have been audited by KPMG Peat Marwick LLP, and Parent has delivered to the Company true and complete copies of such audited statutory financial statements and the audit opinions relating thereto. Parent has delivered or made available to the Company true and complete copies of all examination reports of insurance departments and any insurance regulatory agencies since January 1, 1994 relating to the Parent Insurance Subsidiaries.

(g) Absence of Certain Changes. Except as disclosed in the Parent Reports filed prior to the date hereof, since the Parent Audit Date, Parent and its Subsidiaries have conducted their respective businesses only in, and have not engaged in any material transaction other than according to, the ordinary and usual course of such businesses and there has not been (i) any change in the financial condition, properties, business or results of operations of Parent and its Subsidiaries or any development or combination of developments of which any executive officer of Parent has knowledge that, individually or in the aggregate, has had or is reasonably likely to result in a Parent Material Adverse Effect; (ii) any material damage, destruction or other casualty loss with respect to any material asset or property owned, leased or otherwise used by Parent or any of its Subsidiaries, whether or not covered by insurance; (iii) any declaration, setting aside or payment of any dividend or other distribution in respect of the stock of Parent except as

permitted by Section 6.1(b) hereof; (iv) any change by Parent in accounting principles, practices or methods other than as required by changes in applicable GAAP or statutory accounting principles; (v) any material addition to Parent's consolidated loss reserves or other policy claims and benefits prior to the date of this Agreement; or (vi) any material change in the accounting, actuarial, investment, reserving, underwriting or claims administration policies, practices, procedures, methods, assumptions or principles of any Parent Insurance Subsidiary.

(h) Litigation and Liabilities. Except as disclosed in the Parent Reports filed prior to the date hereof, there are no (i) civil, criminal or administrative actions, suits, claims, hearings, investigations or proceedings pending or, to the knowledge of any executive officer of Parent, threatened against Parent or any of its affiliates or (ii) obligations or liabilities of any nature, whether or not accrued, contingent or otherwise and whether or not required to be disclosed, including those relating to environmental and occupational safety and health matters, or any other facts or circumstances of which any executive officer of Parent has knowledge that could reasonably be expected to result in any claims against, or obligations or liabilities of, Parent or any of its affiliates, except for insurance claims litigation arising in the ordinary course for which claims reserves have been established and except for such actions, suits, claims, hearings, investigations, proceedings, obligations and liabilities as are not, individually or in the aggregate, reasonably likely to have a Parent Material Adverse Effect or prevent or materially impair the ability of Parent or Merger Subsidiary to consummate the transactions contemplated by this Agreement and the Stock Option Agreement.

(i) Employee Benefits.

(i) Each bonus, deferred compensation, pension, retirement, profit-sharing, thrift, savings, employee stock ownership, stock bonus, stock purchase, restricted stock, stock option, employment, termination, severance, change of control, compensation, medical, health or other plan, agreement, policy or arrangement that covers employees, directors, former employees or former directors of Parent and its Subsidiaries (the "Parent Compensation and Benefit Plans") is in substantial compliance with all applicable law, including the Code and ERISA. Each Parent Compensation and Benefit Plan that is an "employee pension benefit plan" within the meaning of Section 3(2) of ERISA (a "Parent Pension Plan") and that is intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the IRS, and Parent is not aware of any circumstances likely to result in revocation of any such favorable determination letter. There is no pending or, to the knowledge of the executive officers of Parent, threatened material litigation relating to the Parent Compensation and Benefit Plans. Neither Parent nor any of its Subsidiaries has engaged in a transaction with respect to any Parent Compensation and Benefit Plan that, assuming the taxable period of such transaction expired as of the date hereof, would subject Parent or any of its

Subsidiaries to a material tax or penalty imposed by either Section 4975 of the Code or Section 502 of ERISA.

(ii) As of the date hereof, no liability under Subtitle C or D of Title IV of ERISA has been or is expected to be incurred by Parent or any of its Subsidiaries with respect to any ongoing, frozen or terminated "single-employer plan," within the meaning of Section 4001(a)(15) of ERISA, currently or formerly maintained by any of them, or the single-employer plan of an entity which is considered one employer with Parent under Section 4001 of ERISA or Section 414 of the Code (a "Parent ERISA Affiliate"). Parent and its Subsidiaries have not incurred and do not expect to incur any withdrawal liability with respect to a multiemployer plan under Subtitle E to Title IV of ERISA. No notice of a "reportable event," within the meaning of Section 4043 of ERISA for which the 30-day reporting requirement has not been waived, has been required to be filed for any Parent Pension Plan or by any Parent ERISA Affiliate within the 12-month period ending on the date hereof or will be required to be filed in connection with the transactions contemplated by this Agreement.

(iii) All contributions required to be made under the terms of any Parent Compensation and Benefit Plan as of the date hereof have been timely made or have been reflected on the most recent consolidated balance sheet filed or incorporated by reference in the Parent Reports prior to the date hereof. Neither any Parent Pension Plan nor any single-employer plan of a Parent ERISA Affiliate has an "accumulated funding deficiency" (whether or not waived) within the meaning of Section 412 of the Code or Section 302 of ERISA. Neither Parent nor its Subsidiaries has provided, or is required to provide, security to any Parent Pension Plan or to any single-employer plan of a Parent ERISA Affiliate pursuant to Section 401(a)(29) of the Code.

(iv) Under each Parent Pension Plan which is a single-employer plan, as of the last day of the most recent plan year ended prior to the date hereof, the actuarially determined present value of all "benefit liabilities", within the meaning of Section 4001(a)(16) of ERISA (as determined on the basis of the actuarial assumptions contained in the Parent Pension Plan's most recent actuarial valuation), did not exceed the then current value of the assets of such Parent Pension Plan, and there has been no material change in the financial condition of such Parent Pension Plan since the last day of the most recent plan year.

(v) All Parent Compensation and Benefit Plans covering current or former non-U.S. employees or former employees of Parent and its Subsidiaries comply in all material respects with applicable local law. Parent and its Subsidiaries have no material unfunded liabilities with respect to any Parent Pension Plan that covers such non-U.S. employees.

(j) Compliance with Laws, Permits. (i) The business and operations of Parent and the Parent Insurance Subsidiaries have been conducted in compliance with all applicable Insurance Laws, except where the failure to so conduct such business and operations would not, individually or in the aggregate, be reasonably likely to have a Parent Material Adverse Effect. Notwithstanding the generality of the foregoing, except where the failure to do so would not, individually or in the aggregate, be reasonably likely to have a Parent Material Adverse Effect, each Parent Insurance Subsidiary and, to the knowledge of the executive officers of Parent, its agents have marketed, sold and issued insurance products in compliance, in all material respects, with Insurance Laws applicable to the business of such Parent Insurance Subsidiary and in the respective jurisdictions in which such products have been sold, including, without limitation, in compliance with (a) all applicable prohibitions against "redlining" or withdrawal of business lines, (b) all applicable requirements relating to the disclosure of the nature of insurance products as policies of insurance and (c) all applicable requirements relating to insurance product projections and illustrations. In addition, (i) there is no pending or, to the knowledge of the executive officers of Parent, threatened charge by any insurance regulatory authority that any of the Parent Insurance Subsidiaries has violated, nor any pending or, to the knowledge of the executive officers of Parent, threatened investigation by any insurance regulatory authority with respect to possible violations of, any applicable Insurance Laws where such violations would, individually or in the aggregate, be reasonably likely to have a Parent Material Adverse Effect; (ii) none of the Parent Insurance Subsidiaries is subject to any order or decree of any insurance regulatory authority relating specifically to such Parent Insurance Subsidiary (as opposed to insurance companies generally) which would, individually or in the aggregate, be reasonably likely to have a Parent Material Adverse Effect; and (iii) the Parent Insurance Subsidiaries have filed all reports required to be filed with any insurance regulatory authority on or before the date hereof as to which the failure to file such reports would, individually or in the aggregate, be reasonably likely to have a Parent Material Adverse Effect.

(ii) In addition to Insurance Laws, except as set forth in the Parent Reports filed prior to the date hereof, the businesses of each of Parent and its Subsidiaries have not been, and are not being, conducted in violation of any Laws, except for violations or possible violations that, individually or in the aggregate, are not reasonably likely to have a Parent Material Adverse Effect or prevent or materially impair the ability of Parent or Merger Subsidiary to consummate the transactions contemplated by this Agreement and the Stock Option Agreement. Except as set forth in the Parent Reports filed prior to the date hereof, no investigation or review by any Governmental Entity with respect to Parent or any of its Subsidiaries is pending or, to the knowledge of the executive officers of Parent, threatened, nor has any Governmental Entity indicated an intention to conduct the same, except for those the outcome of which are not, individually or in the aggregate, reasonably likely to have a Company Material Adverse Effect or prevent or materially burden or materially impair the ability of Parent or Merger

Subsidiary to consummate the transactions contemplated by this Agreement and the Stock Option Agreement. To the knowledge of the executive officers of Parent, no material change is required in Parent's or any of its Subsidiaries' processes, properties or procedures in connection with any such Laws, and Parent has not received any notice or communication of any material noncompliance with any such Laws that has not been cured as of the date hereof. Parent and its Subsidiaries each has all permits, licenses, trademarks, patents, trade names, copyrights, service marks, franchises, variances, exemptions, orders and other governmental authorizations, consents and approvals necessary to conduct its business as presently conducted except those the absence of which are not, individually or in the aggregate, reasonably likely to have a Parent Material Adverse Effect or prevent or materially burden or materially impair the ability of Parent or Merger Subsidiary to consummate the Merger and the other transactions contemplated by this Agreement and the Stock Option Agreement.

(k) Environmental Matters. Except as disclosed in the Parent Reports filed prior to the date hereof and except for such matters that, alone or in the aggregate, are not reasonably likely to have a Parent Material Adverse Effect: (i) Parent and its Subsidiaries are in substantial compliance with all applicable Environmental Laws; (ii) the properties currently owned or operated by Parent (including soils, groundwater, surface water, buildings or other structures) are not contaminated with any Hazardous Substances; (iii) the properties formerly owned or operated by Parent or any of its Subsidiaries were not contaminated with Hazardous Substances during the period of ownership or operation by Parent or any of its Subsidiaries; (iv) neither Parent nor any of its Subsidiaries is subject to liability for any Hazardous Substance disposal or contamination on any third party property (excluding policies written in connection with the insurance business); (v) no Hazardous Substance has been transported from any of the properties owned or operated by Parent or any of its Subsidiaries other than as permitted under applicable Environmental Law; (vi) neither Parent nor any of its Subsidiaries has received any written notice, demand, letter, claim or request for information from any Governmental Entity or third party indicating that Parent or any of its Subsidiaries may be in violation of or liable under any Environmental Law; (vii) Parent and its Subsidiaries are not subject to any court order, administrative order or decree arising under any Environmental Law and are not subject to any indemnity or other agreement with any third party relating to liability under any Environmental Law or relating to Hazardous Substances (excluding policies written in connection with the insurance business); and (viii) there are no circumstances or conditions involving Parent or any of its Subsidiaries that could reasonably be expected to result in any claims, liability, investigations, costs or restrictions on the ownership, use, or transfer of any property of Parent pursuant to any Environmental Law.

(l) Accounting and Tax Matters. As of the date hereof, neither Parent nor any of its affiliates has taken or agreed to take any action, nor do the executive officers of Parent have any knowledge of any fact or circumstance, that would prevent Parent from accounting for the business combination to be effected by the Merger as a "pooling-of-interests" or prevent the Merger and the other transactions contemplated by this Agreement from qualifying as a "reorganization" within the meaning of Section 368(a) of the Code.

(m) Taxes. Except as provided in Section 5.2(m) of the Parent Disclosure Letter:

(i) Parent and each of its Subsidiaries have filed completely and correctly in all material respects all Tax Returns which are required by all applicable laws to be filed by them, and have paid, or made adequate provision for the payment of, all material Taxes which have or may become due and payable pursuant to said Tax Returns and all other Taxes, governmental charges and assessments received to date other than those Taxes being contested in good faith for which adequate provision has been made on the most recent balance sheet included in the Parent Reports. The Tax Returns of Parent and its Subsidiaries have been prepared, in all material respects, in accordance with all applicable laws consistently applied;

(ii) all material Taxes which Parent and its Subsidiaries are required by law to withhold and collect have been duly withheld and collected, and have been paid over, in a timely manner, to the proper Taxing Authorities to the extent due and payable;

(iii) no liens for a material amount of Taxes exist with respect to any of the assets or properties of Parent or its Subsidiaries, except for statutory liens for Taxes not yet due or payable or that are being contested in good faith;

(iv) all of the U.S. Federal income Tax Returns filed by or on behalf of each of Parent and its Subsidiaries have been examined by and settled with the Internal Revenue Service, or the statute of limitations with respect to the relevant Tax liability expired, for all taxable periods through and including the period ending on the date on which the Effective Time occurs; and

(v) there is no audit, examination, deficiency, or refund litigation pending with respect to any material amount of Taxes and during the past three years no Taxing Authority has given written notice of the commencement of any audit, examination, deficiency or refund litigation, with respect to any material amount of Taxes.

(n) Labor Matters. Neither Parent nor any of its Subsidiaries is a party to or otherwise bound by any collective bargaining agreement, contract or other agreement or understanding with a labor union or labor organization.

(o) Material Contracts. All of the material contracts of Parent and its Subsidiaries that are required to be described in the Parent Reports or to be filed as exhibits thereto are described in the Parent Reports or filed as exhibits thereto and are in full force and effect. Neither Parent nor any of its Subsidiaries nor any other party is in breach of or in default under any such contract except for such breaches and defaults as individually or in the aggregate have not had and are not reasonably likely to have a Parent Material Adverse Effect.

(p) Ownership of Shares. Neither Parent nor any of its Subsidiaries "Beneficially Owns" or is the "Beneficial Owner" of (as such terms are defined in the Rights Agreement, as amended, or for purposes of Section 3-601 of the MGCL) 10% or more of the outstanding Shares.

(q) Brokers and Finders. Neither Parent nor any of its executive officers, directors or employees has employed any broker or finder or incurred any liability for any brokerage fees, commissions or finders fees in connection with the Merger or the other transactions contemplated by this Agreement or the Stock Option Agreement, except that Parent has employed Credit Suisse First Boston Corporation as its financial advisor, the arrangements with which have been disclosed to the Company prior to the date hereof.

(r) Insurance Matters. (i) Except as otherwise would not, individually or in the aggregate, be reasonably likely to have a Parent Material Adverse Effect, all policies, binders, slips, certificates, annuity contracts and participation agreements and other agreements of insurance, whether individual or group, in effect as of the date hereof (including all applications, supplements, endorsements, riders and ancillary agreements in connection therewith) that are issued by the Parent Insurance Subsidiaries (the "Parent Insurance Contracts") and any and all marketing materials, are, to the extent required under applicable law, on forms approved by applicable insurance regulatory authorities or which have been filed and not objected to by such authorities within the period provided for objection, and such forms comply in all material respects with the insurance statutes, regulations and rules applicable thereto and, as to premium rates established by Parent or any Parent Insurance Subsidiary which are required to be filed with or approved by insurance regulatory authorities, the rates have been so filed or approved, the premiums charged conform thereto in all material respects, and such premiums comply in all material respects with the insurance statutes, regulations and rules applicable thereto.

(ii) All reinsurance and coinsurance treaties or agreements, including retrocessional agreements, to which Parent or any Parent Insurance Subsidiary is a party or under which Parent or any Parent Insurance Subsidiary has any existing rights, obligations or liabilities are in full force and effect except for such treaties or agreements the failure to be in full force and effect as individually or in the aggregate are not reasonably likely to have a Parent Material Adverse Effect.

(iii) Prior to the date hereof, Parent has delivered or made available to the Company a true and complete copy of any actuarial reports prepared by actuaries, independent or otherwise, with respect to Parent or any Parent Insurance Subsidiary since December 31, 1994, and all attachments, addenda, supplements and modifications thereto (the "Parent Actuarial Analyses"). To the knowledge of the executive officers of Parent, the information and data furnished by Parent or any Parent Insurance Subsidiary to its independent actuaries in connection with the preparation of the Parent Actuarial Analyses were accurate in all material respects. Furthermore, to the knowledge of the executive officers of Parent, each Parent Actuarial Analysis was based upon an accurate inventory of policies in force for Parent and the Parent Insurance Subsidiaries, as the case may be, at the relevant time of preparation, was prepared using appropriate modeling procedures accurately applied and in conformity with generally accepted actuarial standards consistently applied, and the projections contained therein were properly prepared in accordance with the assumptions stated therein.

(iv) As of the date hereof, Parent has no reason to believe that any rating presently held by the Parent Insurance Subsidiaries is likely to be modified, qualified, lowered or placed under surveillance for a possible downgrade for any reason other than as a result of the transactions contemplated hereby.

(s) Liabilities and Reserves. (i) The reserves carried on the Parent SAP Statements of each Parent Insurance Subsidiary for the year ended December 31, 1996 for losses, claims and similar purposes (including claims litigation) are in compliance in all material respects with the requirements for reserves established by the insurance departments of the state of domicile of such Company Insurance Subsidiary, were determined in all material respects in accordance with generally accepted actuarial standards and principles consistently applied, and are fairly stated in all material respects in accordance with sound actuarial and statutory accounting principles. Such reserves were adequate in the aggregate to cover the total amount of all reasonably anticipated liabilities of Parent and each Parent Insurance Subsidiary under all outstanding insurance, reinsurance and other applicable agreements as of the respective dates of such Parent SAP Statements. The admitted assets of Parent and each Parent Insurance Subsidiary as determined under applicable Laws are in an amount at least equal to the minimum amounts required by applicable Laws.

(ii) Except for regular periodic assessments in the ordinary course of business or assessments based on developments which are publicly known within the insurance industry, to the knowledge of the executive officers of Parent, no claim or assessment is pending or threatened against any Parent Insurance Subsidiary which is peculiar or unique to such Parent Insurance Subsidiary by any state insurance guaranty associations in connection with such association's fund relating to insolvent insurers which if determined adversely, would, individually or in the aggregate, be reasonably likely to have a Parent Material Adverse Effect.

ARTICLE VI

Covenants

6.1.(a) Interim Operations of the Company. The Company covenants and agrees as to itself and its Subsidiaries that, after the date hereof and prior to the Effective Time (except as otherwise expressly contemplated by this Agreement or the Stock Option Agreement or set forth in Section 6.1(a) of the Company Disclosure Letter), without the prior written consent of Parent, which consent shall not be unreasonably withheld or delayed:

(i) its and its Subsidiaries' businesses shall be conducted in all material respects in the ordinary and usual course (it being understood and agreed that nothing contained herein shall permit the Company to enter into or engage (through acquisition, product extension or otherwise), in any material respect, in any new line of business);

(ii) to the extent consistent with (a) above it and its Subsidiaries shall use their reasonable best efforts to preserve its business organization intact and maintain its existing relations and goodwill with customers, suppliers, reinsurers, distributors, creditors, lessors, employees and business associates;

(iii) it shall not (i) issue, sell, pledge, dispose of or encumber any capital stock owned by it in any of its Subsidiaries; (ii) amend its charter or by-laws or amend, modify or terminate the Rights Agreement; (iii) split, combine or reclassify its outstanding shares of stock; (iv) authorize, declare, set aside or pay any dividend payable in cash, stock or property in respect of any capital stock other than dividends from its direct or indirect wholly-owned Subsidiaries and other than regular quarterly cash dividends paid by the Company not in excess of \$.07 per share; or (v) repurchase, redeem or otherwise acquire, except in connection with any of the Company Stock Plans, or permit any of its Subsidiaries to purchase or otherwise acquire, any shares of its stock or any securities convertible into or exchangeable or exercisable for any shares of its stock;

(iv) neither it nor any of its Subsidiaries shall (i) except as permitted under clause (v), issue, sell, pledge, dispose of or encumber any (x) shares of, or securities convertible into or exchangeable or exercisable for, or options, warrants, calls, commitments or rights of any kind to acquire any shares of, its capital stock of any class or (y) securities convertible into or exchangeable for any other property or assets (other than Shares issuable pursuant to options outstanding on the date hereof under any of the Company Stock Plans or upon conversion of the Convertible Notes); (ii) other than in the ordinary and usual course of business, transfer, lease, license, guarantee, sell, mortgage, pledge, dispose of or encumber any other material property or assets (including capital stock of any of its Subsidiaries) or take any action to incur or modify any material indebtedness or other material liability; (iii) other than for information systems, make or authorize or commit for any capital expenditures other than in amounts less than \$20.0 million individually and \$20.0 million in the aggregate; or (iv) make or authorize or commit for any capital expenditures for information systems except for amounts which, individually or in the aggregate, are less than \$25.0 million; or (v) make any acquisition of, or investment in, the assets or stock of any other Person or entity (other than a Subsidiary) except for ordinary course investment activities or as otherwise permitted by Section 6.1(a);

(v) neither it nor any of its Subsidiaries shall terminate, establish, adopt, enter into, make any new grants or awards under, amend or otherwise modify, any Compensation and Benefit Plans or increase the salary, wage, bonus or other compensation of any employees except increases for employees of the Company occurring in the ordinary and usual course of business (which shall include, but not be limited to, (i) regular annual grants of options under the Company Stock Plans, the number of Company Options subject to and the recipient of each such grant to be determined in consultation with Parent; provided that the vesting of such options shall not accelerate as a result of the change in control contemplated by the Merger and provided, further, that the maximum number of Shares issuable pursuant to such options shall be calculated in accordance with past practice and the terms of the Company Stock Plans and shall not exceed 3,300,000 Shares (each such option, when granted, shall be a Company Option), (ii) grants and payment of awards under the Company's Management Incentive Plan and Long-Term Incentive Plan in accordance with the terms of such plans and (iii) salary increases for those employees who have a rank of vice president or higher in accordance with the Company's normal salary guidelines and annual salary pool which, in the aggregate, do not exceed 4% of their aggregate current salaries, and salary increases for other employees which do not exceed, in the aggregate, 3.5% of their aggregate current salaries) and except reasonable retention arrangements which are necessary for the operation of the Company entered into with the prior written consent of Parent, which consent shall not be unreasonably withheld.

(vi) neither it nor any of its Subsidiaries shall pay, discharge, settle or satisfy (x) any insurance claim, liability or obligation (absolute, accrued, asserted or

unasserted, contingent or otherwise) for amounts in excess of \$2,500,000 or (y) any non-insurance claim, liability or obligation (including extra-contractual obligations), other than (I) the payment, discharge or satisfaction of such claims, liabilities or obligations in the ordinary and usual course of business for amounts not in excess of \$500,000 or (II) ordinary course repayment of indebtedness or payment of contractual obligations when due;

(vii) neither it nor any of its Subsidiaries shall make or change any Tax election, settle any material audit, file any amended tax returns or permit any insurance policy naming it as a beneficiary or loss-payable payee to be canceled or terminated except in the ordinary and usual course of business;

(viii) neither it nor any of its Subsidiaries shall enter into any agreement containing any provision or covenant limiting in any material respect the ability of the Company or any Subsidiary or affiliate to (A) sell any products or services of or to any other person, (B) engage in any line of business or (C) compete with or to obtain products or services from any person or limiting the ability of any person to provide products or services to the Company or any of its Subsidiaries or affiliates;

(ix) neither it nor any of its Subsidiaries shall enter into any (x) new quota share or reinsurance transaction pursuant to which \$2,000,000 or more in annual ceded written premiums are ceded by the Company Insurance Subsidiaries or (y) renewal, extension or modification of an existing treaty or other program pursuant to which \$15,000,000 or more in annual ceded written premiums are ceded by the Company Insurance Subsidiaries;

(x) neither it nor any of its Subsidiaries shall take any action that would cause any of its representations and warranties herein to become untrue in any material respect; and

(xi) neither it nor any of its Subsidiaries will authorize or enter into an agreement to do any of the foregoing.

6.1 (b) Interim Operations of Parent. Parent covenants and agrees as to itself and its Subsidiaries that, after the date hereof and prior to the Effective Time (except as otherwise expressly contemplated by this Agreement or the Stock Option Agreement or as set forth in Section 6.1(b) of the Parent Disclosure Letter), without the prior written consent of the Company, which consent shall not be unreasonably withheld or delayed:

(i) its and its Subsidiaries' businesses shall be conducted in the ordinary and usual course;

(ii) to the extent consistent with (i) above, each of it and its Subsidiaries shall use their reasonable best efforts to preserve its business organization intact and maintain its existing relations and goodwill with customers, suppliers, reinsurers, distributors, creditors, lessors, employees and business associates;

(iii) it shall not (v) issue, sell, pledge, dispose of or encumber any capital stock owned by it in any of its Significant Subsidiaries (as defined in Regulation S-X under the Securities Exchange Act); (w) amend its charter; (x) split, combine or reclassify its outstanding shares of stock; (y) authorize, declare, set aside or pay any dividend payable in cash, stock or property in respect of any capital stock other than dividends from its direct or indirect wholly-owned Subsidiaries and other than regular quarterly cash dividends paid by Parent not in excess of \$0.47 per share; or (z) repurchase, redeem or otherwise acquire, except in connection with any of the Parent Stock Plans, or permit any of its Subsidiaries to purchase or otherwise acquire, any shares of its stock or any securities convertible into or exchangeable or exercisable for any shares of its stock if such purchase, redemption or acquisition would preclude Parent's accounting for the Merger as a pooling-of-interests;

(iv) except for ordinary course investment activities, neither it nor any of its Subsidiaries shall make any acquisition of, or investment in, assets or stock of any other Person or entity (other than a Subsidiary) in excess of \$2.0 billion in the aggregate;

(v) neither it nor any of its Subsidiaries shall take any action that would cause any of its representations and warranties herein to become untrue in any material respect; and

(vi) neither it nor any of its Subsidiaries will authorize or enter into an agreement to do any of the foregoing.

6.2. Company Acquisition Proposals. From the date hereof until the termination hereof and except as expressly permitted by the following provisions of this Section 6.2, the Company will not, and will not permit or cause any of its Subsidiaries or any of the executive officers and directors of it or its Subsidiaries to, and shall direct and use its best efforts to cause its and its Subsidiaries' employees, agents and representatives (including any investment banker, attorney or accountant retained by it or any of its Subsidiaries) not to, directly or indirectly, initiate, solicit, or knowingly encourage or otherwise intentionally facilitate any inquiries or the making of any proposal or offer (other than the Merger) with respect to a merger, reorganization, share exchange, consolidation or similar transaction involving, or any purchase of all or a substantial portion of the assets or any equity securities of, it or any of its Subsidiaries (any such proposal or offer being hereinafter referred to as a "Company Acquisition Proposal"). The Company will not, and will not permit or cause any of its Subsidiaries or any of the

officers and directors of it or its Subsidiaries to and shall direct and use its best efforts to cause its and its Subsidiaries' employees, agents and representatives (including any investment banker, attorney or accountant retained by it or any of its Subsidiaries) not to, directly or indirectly, engage in any negotiations concerning, or provide any confidential information or data to, or have any discussions with, any Person relating to a Company Acquisition Proposal, whether made before or after the date of this Agreement, or otherwise intentionally facilitate any effort or attempt to make or implement a Company Acquisition Proposal (including, without limitation, by means of an amendment to the Rights Agreement); provided, however, that nothing contained in this Agreement shall prevent the Company or its Board of Directors from complying with Rule 14e-2 promulgated under the Exchange Act with regard to a Company Acquisition Proposal or at any time prior to the time that the Merger shall have been approved by the Company Requisite Vote (A) providing information in response to a request therefor by a Person who has made an unsolicited bona fide written Company Acquisition Proposal if the Board of Directors receives from the Person so requesting such information an executed confidentiality agreement the terms of which are (without regard to the terms of the Company Acquisition Proposal) (x) no less favorable to the Company and (y) no less restrictive on the Person requesting such information than those contained in the Company Confidentiality Letter (as defined in Section 9.7); (B) engaging in any negotiations or discussions with any Person who has made an unsolicited bona fide written Company Acquisition Proposal; or (C) recommending such a Company Acquisition Proposal to the stockholders of the Company, if and only to the extent that, (i) in each such case referred to in clause (A), (B) or (C) above, the Board of Directors of the Company determines in good faith after consultation with outside legal counsel that such action is necessary in order for its directors to comply with their respective fiduciary duties under applicable law and (ii) in each case referred to in clause (B) or (C) above, the Board of Directors of the Company determines in good faith (after consultation with its financial advisor) that such Company Acquisition Proposal, if accepted, is reasonably likely to be consummated, taking into account all legal, financial and regulatory aspects of the proposal and the Person making the proposal and would, if consummated, result in a transaction more favorable to the Company's stockholders from a financial point of view than the transaction contemplated by this Agreement (any such more favorable Company Acquisition Proposal being referred to in this Agreement as a "Superior Proposal"). The Company will immediately cease and cause to be terminated any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any of the foregoing. The Company agrees that it will take the necessary steps to promptly inform the individuals or entities referred to in the first sentence hereof of the obligations undertaken in this Section 6.2 and in the Confidentiality Agreements (as defined in Section 9.7). The Company will promptly notify Parent if after the date hereof any such inquiries, proposals or offers are received by, any such information is requested from, or any such discussions or negotiations are sought to be initiated or continued with, any of its representatives indicating, in connection with such notice, the name of such Person and the material terms and conditions of any proposals or offers and thereafter shall keep

Parent informed, on a current basis, on the status and terms of any such proposals or offers and the status of any such negotiations or discussions. The Company also will promptly request each Person that has heretofore executed a confidentiality agreement in connection with its consideration of a Company Acquisition Proposal to return or destroy all confidential information heretofore furnished to such Person by or on behalf of it or any of its Subsidiaries. Notwithstanding the foregoing, nothing in this Section 6.2 shall be deemed to prevent the Company from selling or disposing of the capital stock or assets of any Subsidiary (or any actions in preparation or contemplation thereof) to the extent such sale or disposition is permitted by Section 6.1(a).

6.3. Information Supplied. The Company and Parent each agrees, as to itself and its Subsidiaries, that none of the information supplied or to be supplied by it or its Subsidiaries for inclusion or incorporation by reference in (i) the Registration Statement on Form S-4 to be filed with the SEC by Parent in connection with the issuance of shares of Parent Common Stock in the Merger (including the joint proxy statement and prospectus (the "Prospectus/Proxy Statement") constituting a part thereof) (the "S-4 Registration Statement") will, at the time the S-4 Registration Statement becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and (ii) the Prospectus/Proxy Statement and any amendment or supplement thereto will, at the date of mailing to stockholders and at the times of the meetings of stockholders of the Company and Parent to be held in connection with the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

6.4. Stockholders Meetings. The Company will take, in accordance with its charter and bylaws, all action necessary to convene a meeting of holders of Shares (the "Stockholders Meeting") as promptly as practicable after the S-4 Registration Statement is declared effective to consider and vote upon the approval of the Merger, and the Company's board of directors, subject to fiduciary obligations under applicable law, will recommend such approval by its stockholders, will not withdraw or modify such recommendation and shall take all lawful action to solicit such approval; *provided* that the Company's board of directors may modify or withdraw such recommendation following receipt of a Superior Proposal. Parent will take, in accordance with its charter and bylaws, all action necessary to convene a meeting of holders of Parent Common Stock (the "Parent Stockholders Meeting") as promptly as practicable after the S-4 Registration Statement is declared effective to consider and vote upon the approval of the issuance of Parent Common Stock in the Merger, and Parent's board of directors, subject to fiduciary obligations under applicable law, will recommend such approval by its stockholders, will not withdraw or modify such recommendation and will take all lawful action to solicit such approval. Prior to the Parent Stockholders Meeting, Parent shall not enter into any

agreement relating to a Parent Acquisition Proposal that is conditioned upon the Merger not being consummated (it being understood the Parent shall remain obligated both before and after the date of the Parent Stockholders Meeting to perform the covenants set forth in Section 6.5(c) in accordance with the provisions thereof).

6.5. Filings; Other Actions; Notification. (a) Parent and the Company shall promptly prepare and file with the SEC the Prospectus/Proxy Statement, and Parent shall prepare and file with the SEC the S-4 Registration Statement as promptly as practicable. Parent and the Company each shall use its reasonable best efforts to have the S-4 Registration Statement declared effective under the Securities Act as promptly as practicable after such filing, and promptly thereafter mail the Prospectus/Proxy Statement to the respective stockholders of each of the Company and Parent. Parent shall also use its reasonable best efforts to obtain prior to the effective date of the S-4 Registration Statement all necessary state securities law or "blue sky" permits and approvals required in connection with the Merger and to consummate the other transactions contemplated by this Agreement and the Stock Option Agreement and will pay all expenses incident thereto.

(b) The Company and Parent each shall use all reasonable efforts to cause to be delivered to the other party and its directors a letter of its independent auditors, dated (i) the date on which the S-4 Registration Statement shall become effective and (ii) the Closing Date, and addressed to the other party and its directors, in form and substance customary for "comfort" letters delivered by independent public accountants in connection with registration statements similar to the S-4 Registration Statement.

(c) The Company and Parent each shall from the date hereof until the Effective Time cooperate with the other and use (and shall cause their respective Subsidiaries to use) its reasonable best efforts to cause to be done all things, necessary, proper or advisable on its part under this Agreement, the Stock Option Agreement and applicable Laws to consummate and make effective the Merger and the other transactions contemplated by this Agreement and the Stock Option Agreement as soon as practicable, including preparing and filing as promptly as practicable all documentation to effect all necessary notices, reports and other filings and to obtain as promptly as practicable all consents, registrations, approvals, permits and authorizations necessary or advisable to be obtained from any third party and/or any Governmental Entity in order to consummate the Merger or any of the other transactions contemplated by this Agreement and the Stock Option Agreement; provided, however, that nothing in this Section 6.5 shall require, or be construed to require, Parent, in connection with the receipt of any regulatory approval, to proffer to, or agree to (i) sell or hold separate and agree to sell or to discontinue or limit, before or after the Effective Time, any assets, businesses, or interest in any assets or businesses of Parent, the Company or any of their respective affiliates (or to consent to any sale, or agreement to sell, or discontinuance or limitation by the Company of any of its assets or businesses) or (ii) agree to any conditions relating to, or changes or restriction in,

the operations of any such asset or businesses which, in either case would be reasonably expected to materially and adversely impact the economic or business benefits to Parent of the transactions contemplated by this Agreement. Subject to applicable laws relating to the exchange of information, Parent and the Company shall have the right to review in advance, and to the extent practicable each will consult the other on, all the information relating to Parent or the Company, as the case may be, and any of their respective Subsidiaries, that appear in any filing made with, or written materials submitted to, any third party and/or any Governmental Entity in connection with the Merger and the other transactions contemplated by this Agreement and the Stock Option Agreement. In exercising the foregoing right, each of the Company and Parent shall act reasonably and as promptly as practicable.

(d) The Company and Parent each shall, upon request by the other, furnish the other with all information concerning itself, its Subsidiaries, directors, executive officers and stockholders and such other matters as may be reasonably necessary or advisable in connection with the Prospectus/Proxy Statement, the S-4 Registration Statement or any other statement, filing, notice or application made by or on behalf of Parent, the Company or any of their respective Subsidiaries to any third party and/or any Governmental Entity in connection with the Merger and the transactions contemplated by this Agreement and the Stock Option Agreement.

(e) The Company and Parent each shall keep the other apprised of the status of matters relating to completion of the transactions contemplated hereby, including promptly furnishing the other with copies of notice or other communications received by Parent or the Company, as the case may be, or any of its Subsidiaries, from any third party and/or any Governmental Entity with respect to the Merger and the other transactions contemplated by this Agreement and the Stock Option Agreement. The Company and Parent each shall give prompt notice to the other of any change that is reasonably likely to result in a Company Material Adverse Effect or Parent Material Adverse Effect, respectively.

6.6. Taxation and Accounting. Subject to Section 6.2 and Parent's rights under the Stock Option Agreement, neither Parent nor the Company shall take or cause to be taken any action, whether before or after the Effective Time, that would disqualify the Merger as a "pooling of interests" for accounting purposes or as a "reorganization" within the meaning of Section 368(a) of the Code. Each of Parent and the Company agrees to use its reasonable best efforts to cure any impediment to the qualification of the Merger as a "pooling of interests" for accounting purposes or as a "reorganization" within the meaning of Section 368(a) of the Code.

6.7. Access. Upon reasonable notice, and except as may otherwise be required by applicable law, the Company and Parent each shall (and shall cause its Subsidiaries to) afford the other's executive officers, employees, counsel, accountants and

other authorized representatives (“Representatives”) access, during normal business hours throughout the period prior to the Effective Time, to its properties, books, contracts and records and, during such period, each shall (and shall cause its Subsidiaries to) furnish promptly to the other all information concerning its business, properties and personnel as may reasonably be requested, provided that no investigation pursuant to this Section shall affect or be deemed to modify any representation or warranty made by the Company, Parent or Merger Subsidiary, and provided, further, that the foregoing shall not require the Company or Parent to permit any inspection, or to disclose any information, that (i) in the reasonable judgment of the Company or Parent, as the case may be, would result in the disclosure of any trade secrets of third parties or violate any of its obligations with respect to confidentiality if the Company or Parent, as the case may be, shall have used all reasonable efforts to obtain the consent of such third party to such inspection or disclosure or (ii) would violate any attorney-client privilege of the Company or Parent, as the case may be. All requests for information made pursuant to this Section shall be directed to an executive officer of the Company or Parent, as the case may be, or such Person as may be designated by either of its executive officers, as the case may be. All such information shall be governed by the terms of the Confidentiality Agreements (as hereinafter defined).

6.8. Affiliates. (i) At least 45 days prior to the Effective Time, the Company shall deliver to Parent a list of names and addresses of those Persons who will be, in the opinion of the Company, “affiliates” of the Company within the meaning of Rule 145 under the Securities Act and for the purposes of applicable interpretations regarding the pooling-of-interests method of accounting. The Company shall exercise its best efforts to deliver or cause to be delivered to Parent, at least 30 days prior to the Effective Time, from each affiliate of the Company identified in the foregoing list, a letter in the form attached as Exhibit A-1 (the “Company Affiliates Letter”). The certificates representing Parent Common Stock received by such affiliates shall bear a customary legend regarding applicable Securities Act restrictions and “pooling restrictions.”

(ii) At the election of an affiliate of the Company who is an employee of the Company at the Effective Time and who is required to and so-provides a letter in the form attached as Exhibit A-1, Parent shall employ, or shall cause the Surviving Corporation to employ, such affiliate of the Company until the date of publication of results covering at least 30 days of combined operations of the Company and Parent in the form of a quarterly earnings report, an effective registration statement filed with the Commission, a report on Form 8-K or any other public filing or announcement which includes such combined results of operations.

(iii) At least 45 days prior to the Effective Time, Parent shall deliver to the Company a list of names and addresses of those Persons who will be, in the opinion of the Parent, “affiliates” of Parent for the purposes of applicable interpretations regarding the pooling-of-interests method of accounting. Parent shall exercise its best efforts to deliver or cause to be delivered to the Company, at least 30 days prior to the Effective

Time, from each of such affiliates of Parent identified in the foregoing list, a letter in the form attached as Exhibit A-2 (the "Parent Affiliates Letter").

6.9. Stock Exchange Listing. Parent shall use its best efforts to cause the shares of Parent Common Stock to be issued in the Merger to be approved for listing on the NYSE subject to official notice of issuance, prior to the Closing Date.

6.10. Publicity. The initial press release shall be a joint press release in the form previously agreed upon by the Company and Parent and thereafter the Company and Parent shall consult with each other prior to issuing, and will provide each other with a meaningful opportunity to review, comment upon and concur with, any press releases or otherwise making public announcements with respect to the Merger and the other transactions contemplated by this Agreement and the Stock Option Agreement and prior to making any filings with any third party and/or any Governmental Entity (including any national securities exchange) with respect thereto, except as may be required by law, court process or by obligations pursuant to any listing agreement with or rules of any national securities exchange interdealer quotation service.

6.11. Benefits. (a) Stock Options.

(i) At the Effective Time, each Company Option whether vested or unvested, without any action on the part of the holder, shall be deemed to constitute an option to acquire, on the same terms and conditions as were applicable under such Company Option, a number of shares of Parent Common Stock equivalent to (x) the number of Shares that could have been purchased immediately prior to the Effective Time under such Company Option multiplied by (y) the Exchange Ratio (rounded down to the nearest whole number), at a price per share of Parent Common Stock (rounded up to the nearest whole cent) equal to the aggregate exercise price for the Shares otherwise purchasable pursuant to such Company Option divided by the number of shares of Parent Common Stock determined above; provided, however, that the foregoing provisions shall be subject to such adjustments as are necessary in order to satisfy the requirements of Section 424(a) of the Code in the case of any Company Option to which Section 422 of the Code applies. At or prior to the Effective Time, the Company shall make all necessary arrangements with respect to the Company Stock Plans to permit the assumption of the unexercised Company Options by Parent pursuant to this Section.

(ii) Effective at the Effective Time, Parent shall assume each Company Option in accordance with the terms of the relevant Company Stock Plan under which it was issued and the stock option agreement by which it is evidenced. At or prior to the Effective Time, Parent shall take all corporate action necessary to reserve for issuance a sufficient number of shares of Parent Common Stock for delivery upon exercise of Company Options and payment of Vested Stock Units (as defined below) assumed by it in accordance with this Section. At the Effective Time, all vested stock units allocated to

each director's account under the Company's Amended and Restated 1993 Stock Plan for Non-Employee Directors ("Vested Stock Units"), without any action on the part of the director, shall be paid, on the same terms and conditions as are applicable under such plan, in a number of shares of Parent Common Stock equal to the number of Vested Stock Units allocated to the director's account in such plan multiplied by the Exchange Ratio (rounded down to the nearest whole number). As soon as practicable, and in no event later than 10 days after the Effective Time, Parent shall file a registration statement on Form S-3 or Form S-8, as the case may be (or any successor or other appropriate forms), or another appropriate form (or shall cause such Company Option or Vested Stock Unit to be deemed to be issued pursuant to a Parent Stock Plan for which shares of Parent Common Stock have previously been registered pursuant to an appropriate registration form) with respect to the Parent Common Stock subject to such Company Options or payable pursuant to such Vested Stock Unit, and shall use its best efforts to maintain the effectiveness of such registration statements (and maintain the current status of the prospectus or prospectuses contained therein) for so long as such Company Options remain outstanding.

(b) Employee Benefits. Parent agrees that, during the period commencing at the Effective Time and ending on the first anniversary thereof, the employees of the Company and its Subsidiaries will continue to be provided with benefits under employee benefit plans (other than plans involving the issuance of Shares) that are no less favorable in the aggregate than those benefits currently provided by the Company and its Subsidiaries to such employees. For a period of one year following the Effective Time, Parent shall provide, or cause the Surviving Corporation to provide, severance benefits for Company employees whose employment is terminated during such period which are at least equal to the severance benefits provided on Section 6.11(b) of the Company Disclosure Letter. Following the Effective Time, Parent shall honor, or shall cause the Surviving Corporation to honor, all individual employment or severance agreements in effect for employees (or former employees) of the Company as of the date hereof to the extent that such individual agreements are listed in Section 6.11(b) of the Company Disclosure Letter; provided, however, that nothing contained herein shall prevent Parent from amending or terminating any such agreement in accordance with its terms.

6.12. Expenses. The Surviving Corporation shall pay all charges and expenses, including those of the Exchange Agent, in connection with the transactions contemplated in Article IV, and Parent shall reimburse the Surviving Corporation for such charges and expenses. Except as otherwise provided in Sections 8.5(b) and 8.5(c), whether or not the Merger is consummated, all costs and expenses incurred in connection with this Agreement, the Stock Option Agreement and the Merger and the other transactions contemplated by this Agreement and the Stock Option Agreement shall be paid by the party incurring such expense, except that expenses incurred in connection with the filing fee for the S-4 Registration Statement and printing and mailing the

Prospectus/Proxy Statement and the S-4 Registration Statement shall be shared equally by Parent and the Company.

6.13. Indemnification: Directors' and Officers' Insurance. (a) From and after the Effective Time, Parent agrees that it will indemnify and hold harmless each present and former director and officer of the Company, (when acting in such capacity) determined as of the Effective Time (each, an Indemnified Party and, collectively, the "Indemnified Parties"), against any costs or expenses (including reasonable attorneys' fees and expenses), judgments, fines, losses, amounts paid in settlement claims, damages or liabilities (collectively, "Costs") incurred in connection with any claim, action, suit, proceeding or investigation, actual or threatened, whether civil, criminal, administrative or investigative, in whole or in part based on or arising in whole or in part out of matters existing or occurring at or prior to the Effective Time, whether asserted or claimed prior to, at or after the Effective Time, to the fullest extent that the Company would have been permitted under Maryland law and its charter or by-laws in effect on the date hereof to indemnify such Person (and Parent shall also advance expenses as incurred to the fullest extent permitted under applicable law provided the Person to whom expenses are advanced provides (x) a written affirmation of his or her good faith belief that the standard of conduct necessary for indemnification has been met, and (y) an undertaking to repay such advances if it is ultimately determined that such Person is not entitled to indemnification).

(b) Parent shall cause to be maintained, for a period of not less than six years from the Effective Time, the Company's current directors' and officers' liability insurance policy to the extent that it provides coverage for events occurring prior to the Effective Time (the "D&O Insurance") for all present and former directors and officers of the Company or any subsidiary thereof, so long as the annual premium therefor would not be in excess of 200% of the last annual premium paid for the D&O Insurance prior to the date of this Agreement (200% of such premium, the "Maximum Premium"); provided that Parent may, in lieu of maintaining such existing D&O Insurance as provided above, cause no less favorable coverage to be provided under any policy maintained for the benefit of the directors and officers of Parent or a separate policy provided by the same insurer. If the existing D&O Insurance expires, is terminated or canceled by the insurer or if the annual premium would exceed the Maximum Premium during such six-year period, Parent shall obtain, in lieu of such D&O Insurance, such comparable directors' and officers' liability insurance as can be obtained for the remainder of such period for an annualized premium not in excess of the Maximum Premium and on terms and conditions no less advantageous than the existing D&O Insurance.

(c) The provisions of this Section are in addition to the rights that an Indemnified Party may have under the certificate of incorporation, bylaws or agreements of or with the Company or any of its Subsidiaries or under applicable law. Parent agrees to pay all costs and expenses (including fees and expenses of counsel) that

may be incurred by any Indemnified Party in successfully enforcing the indemnity or other obligations under this Section. The provisions of this Section shall survive the Merger and are intended to be for the benefit of, and shall be enforceable by, each of the Indemnified Parties, their heirs and their representatives.

6.14. Election to Parent's Board of Directors. Promptly after the Effective Time of the Merger, Parent shall increase the size of its Board of Directors and shall cause Mr. Norman P. Blake, Jr. and two additional directors of the Company determined by the Board Governance Committee of Parent to be appointed to Parent's board of directors (such directors to be appointed to such committees of the Board of Directors as the Board Governance Committee of the Board of Directors of Parent shall determine). In addition, subject to its fiduciary duties under applicable law, Parent agrees to nominate two, or if the Effective Time occurs on or after August 15, 1998, three, of such directors for election to Parent's Board of Directors at its first annual meeting with a mailing date after the Effective Time.

6.15. Convertible Notes. The Company shall take all necessary action to enter into a supplemental indenture prior to the Effective Time with the Trustee (as defined in the Convertible Notes) pursuant to the indenture under which the Convertible Notes were issued to provide, among other things, that on and after the Effective Time the Convertible Notes will be convertible only into the Merger Consideration.

6.16. Satisfaction of Section 15 of the 1940 Act.

(a) The Company shall use commercially reasonable efforts to cause Pacholder to use commercially reasonable efforts to cause the board of directors of Pacholder Fund, Inc. ("Pacholder Fund") to approve, and to solicit the shareholders of Pacholder Fund as promptly as practicable with regard to the approval of, a new investment advisory agreement with Pacholder, to be effective on or as promptly as practicable after the Effective Time, pursuant to the provisions of Section 15 of the 1940 Act, and consistent with all requirements of the 1940 Act applicable thereto, provided that such agreement is identical in all respects to the existing agreement other than the term of the agreement.

(b) The Company shall use commercially reasonable efforts to cause Pacholder to use commercially reasonable efforts to secure the satisfaction of the conditions set forth in Section 15(f)(1) of the 1940 Act with respect to Pacholder Fund.

(c) In the alternative, the covenant contained in this Section 6.16 shall be deemed to be complied with if Parent and Merger Subsidiary shall have received an opinion from counsel reasonably acceptable to Parent and Merger Subsidiary in form and substance satisfactory to such Persons and dated the Closing Date, to the effect that

consummation of the Merger will not result in an "assignment" (within the meaning of the 1940 Act) of the investment advisory agreement between Pacholder and Pacholder Fund.

6.17. Advisory Contract Consents. As promptly as practicable, the Company shall cause the non-registered investment company advisory clients of the Asset Management Subsidiaries to be informed of the transactions contemplated by this Agreement and shall give such clients an opportunity to terminate their advisory contracts with such Asset Management Subsidiaries or any of their affiliates. Unless written consent is required by the terms of such advisory contracts, the Company shall satisfy this obligation to the extent that applicable law permits insofar as it relates to non-registered investment company advisory clients by providing them with the notice contemplated by the first sentence of this Section and obtaining such clients' consent in the form of actual or implied consent by way of informing such clients of the Asset Management Subsidiaries' intention to continue the advisory services, pursuant to the Asset Management Subsidiaries' existing contracts with such clients, subject to such clients' right to terminate such contracts within sixty (60) days of receipt of such notice, and that each such client's consent will be implied if it continues to accept the services without rejection during such specified sixty-day period.

6.18. Other Actions by the Company and Parent.

(a) Rights. The Company shall take all necessary action with respect to all of the outstanding Rights so that, immediately prior to the Effective Time, (x) neither the Company nor Parent will have any obligations under the Rights or the Rights Agreement and (y) the holders of the Rights will have no rights under the Rights or the Rights Agreement.

(b) Takeover Statute. If any Takeover Statute is or may become applicable to the Merger or the other transactions contemplated by this Agreement or the Stock Option Agreement, each of Parent and the Company and its board of directors shall grant such approvals and take such actions as are necessary so that such transactions may be consummated as promptly as practicable on the terms contemplated by this Agreement or by the Stock Option Agreement, as the case may be, or by the Merger and otherwise act to eliminate or minimize the effects of such statute or regulation on such transactions.

(c) Dividends. The Company shall coordinate with Parent the declaration, setting of record dates and payment dates of dividends on Shares so that holders of Shares do not receive dividends on both Shares and Parent Common Stock received in the Merger in respect of any calendar quarter or portion thereof or fail to receive a dividend on either Shares or Parent Common Stock received in the Merger in respect of any calendar quarter.

ARTICLE VII

Conditions

7.1. Conditions to Each Party's Obligation to Effect the Merger.

The respective obligation of each party to effect the Merger is subject to the satisfaction or waiver at or prior to the Effective Time of each of the following conditions:

(a) Stockholder Approval. The Merger shall have been duly approved by holders of Shares constituting the Company Requisite Vote and shall have been duly approved by the sole stockholder of Merger Subsidiary in accordance with applicable law, and the issuance of Parent Common Stock pursuant to the Merger shall have been duly approved by the holders of Parent Common Stock constituting the Parent Requisite Vote.

(b) NYSE Listing. The shares of Parent Common Stock issuable to the Company stockholders pursuant to this Agreement shall have been authorized for listing on the NYSE upon official notice of issuance.

(c) Regulatory Consents. The waiting period applicable to the consummation of the Merger under the HSR Act shall have expired or been terminated. Other than the filing provided for in Section 1.3, all other notices, reports and other filings required to be made prior to the Effective Time by the Company or Parent or any of their respective Subsidiaries with, and all consents, registrations, approvals, permits and authorizations required to be obtained prior to the Effective Time by the Company or Parent or any of their respective Subsidiaries from, any Governmental Entity (collectively, "Governmental Consents"), in connection with the execution and delivery of this Agreement and the consummation of the Merger and the other transactions contemplated by this Agreement or by the Stock Option Agreement shall have been made or obtained (as the case may be), except where the failure to make any such filing(s) or obtain any such Governmental Consent(s) would not reasonably be expected to result in an aggregate loss of \$50.0 million or more in annual net written premiums for Parent, the Company and their respective Subsidiaries in all jurisdictions requiring such filing(s) or Governmental Consent(s) in the event such filing(s) is (are) not made or such Consent(s) is (are) not obtained.

(d) Litigation. No court or Governmental Entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any law, statute, ordinance, rule, regulation, judgment, decree, injunction or other order (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits consummation of the Merger (collectively, an "Order") and no Governmental Entity shall have instituted any proceeding which continues to be pending seeking any such Order.

(e) S-4. The S-4 Registration Statement shall have become effective under the Securities Act. No stop order suspending the effectiveness of the S-4 Registration Statement shall have been issued, and no proceeding for that purpose shall have been initiated or be threatened, by the SEC.

7.2. Conditions to Obligations of Parent and Merger Subsidiary. The obligations of Parent and Merger Subsidiary to effect the Merger are also subject to the satisfaction or waiver by Parent at or prior to the Effective Time of the following conditions:

(a) Representations and Warranties. (i) To the actual knowledge of the Responsible Executive Officers of the Company on the date of this Agreement, the representations and warranties of the Company set forth in this Agreement shall not have been untrue or incorrect in any material respect as of the date of this Agreement; and (ii) the representations and warranties of the Company set forth in this Agreement shall be true and correct as of the Closing Date as though made on and as of the Closing Date (except to the extent any such representation or warranty expressly speaks as of an earlier date) except where the failure of such representations and warranties to be so true and correct (without giving effect to any qualifications as to "Company Material Adverse Effect", "material" or similar qualifications) would not, individually or in the aggregate, reasonably be expected to have a Company Material Adverse Effect; and Parent shall have received a certificate signed on behalf of the Company by an executive officer of the Company to the effect stated in the foregoing clauses (i) and (ii).

(b) Performance of Obligations of the Company. The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement and the Stock Option Agreement at or prior to the Closing Date, and Parent shall have received a certificate signed on behalf of the Company by an executive officer of the Company to such effect.

(c) Consents. The Company shall have obtained the consent or approval of each Person whose consent or approval shall be required under any Contract (other than as set forth on Section 7.2(c) of the Company Disclosure Letter) to which the Company or any of its Subsidiaries is a party, except those for which the failure to obtain such consents or approvals, individually or in the aggregate, is not reasonably likely to have a Company Material Adverse Effect or is not reasonably likely to prevent or materially impair the ability of the Company to consummate the transactions contemplated by this Agreement.

(d) Tax Opinion. Parent shall have received the opinion of Sullivan & Cromwell, counsel to Parent, dated the Closing Date, to the effect that the Merger will be treated for Federal income tax purposes as a reorganization within the

meaning of Section 368(a) of the Code, and that each of Parent, Merger Subsidiary and the Company will be a party to that reorganization within the meaning of Section 368(b) of the Code. In rendering such opinion, Sullivan & Cromwell shall require delivery of and rely upon the representations letters delivered by Parent, Merger Subsidiary and the Company substantially in the forms of Section 7.3(d)(1) and Section 7.3(d)(2) of the Company Disclosure Letter prior to the Closing Date.

(e) Accountant Letters. Parent shall have received, in form and substance reasonably satisfactory to Parent, from each of KPMG Peat Marwick LLP (or its successor) and Ernst & Young (or its successor) a favorable letter, dated the Closing Date, regarding the appropriateness of "pooling-of-interests" accounting treatment for the Merger.

7.3. Conditions to Obligation of the Company. The obligation of the Company to effect the Merger is also subject to the satisfaction or waiver by the Company at or prior to the Effective Time of the following conditions:

(a) Representations and Warranties. (i) To the actual knowledge of the Responsible Executive Officers of Parent on the date of this Agreement, the representations and warranties of Parent and Merger Subsidiary set forth in this Agreement shall not have been untrue or incorrect in any material respect as of the date of this Agreement; and (ii) the representations and warranties of Parent and Merger Subsidiary set forth in this Agreement shall be true and correct as of the Closing Date as though made on and as of the Closing Date (except to the extent any such representation or warranty expressly speaks as of an earlier date) except where the failure of such representations and warranties to be so true and correct (without giving effect to any qualifications as to "Parent Material Adverse Effect," "material" or similar qualifications) would not, individually or in the aggregate, reasonably be expected to have a Parent Material Adverse Effect; and the Company shall have received a certificate signed on behalf of Parent by an executive officer of Parent and on behalf of Merger Subsidiary by an executive officer of Merger Subsidiary to the effect stated in the foregoing clauses (i) and (ii).

(b) Performance of Obligations of Parent and Merger Subsidiary. Each of Parent and Merger Subsidiary shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing Date, and the Company shall have received a certificate signed on behalf of Parent by an executive officer of Parent and on behalf of Merger Subsidiary by an executive officer of Merger Subsidiary to such effect.

(c) Consents Under Agreements. Parent shall have obtained the consent or approval of each Person whose consent or approval shall be required in order to consummate the transactions contemplated by this Agreement under any Contract to

which Parent or any of its Subsidiaries is a party, except those for which failure to obtain such consents and approvals, individually or in the aggregate, is not reasonably likely to have a Parent Material Adverse Effect or is not reasonably likely to prevent or to materially burden or materially impair the ability of Parent to consummate the transactions contemplated by this Agreement.

(d) Tax Opinion. The Company shall have received the opinion of Piper & Marbury L.L.P., counsel to the Company, dated the Closing Date, to the effect that the Merger will be treated for Federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Code, and that each of Parent, Merger Subsidiary and the Company will be a party to that reorganization within the meaning of Section 368(b) of the Code. In rendering such opinion, Piper & Marbury L.L.P. shall require delivery of and rely upon the representations letters delivered by Parent, Merger Subsidiary and the Company substantially in the forms of Section 7.3(d)(1) and Section 7.3(d)(2) of the Company Disclosure Letter prior to the Closing Date.

(e) Accountant Letters. The Company shall have received, in form and substance reasonably satisfactory to the Company, from each of KPMG Peat Marwick LLP (or its successor) and Ernst & Young (or its successor) a favorable letter, dated the Closing Date, regarding the appropriateness of "pooling-of-interests" accounting treatment for the Merger.

ARTICLE VIII

Termination

8.1. Termination by Mutual Consent. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, whether before or after the approval by stockholders of the Company and Parent referred to in Section 7.1(a), by mutual written consent of the Company and Parent by action of their respective Boards of Directors.

8.2. Termination by Either Parent or the Company. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time by action of the Board of Directors of either Parent or the Company if (i) the Merger shall not have been consummated by August 15, 1998, whether such date is before or after the date of approval by the stockholders of the Company or Parent (the "Termination Date"); provided, however, that if either Parent or the Company determines that additional time is necessary in connection with obtaining any Governmental Consents, the Termination Date may be extended by Parent or the Company from time to time by written notice to the other party to a date not beyond December 15, 1998, (ii) the approval of the Company's stockholders required by Section 7.1(a) shall not have been

obtained at a meeting duly convened therefor or at any adjournment or postponement thereof, (iii) the approval of Parent's stockholders as required by Section 7.1(a) shall not have been obtained at a meeting duly convened therefor or at any adjournment or postponement thereof or (iv) any Order permanently restraining, enjoining or otherwise prohibiting consummation of the Merger shall become final and non-appealable (whether before or after the approval by the stockholders of the Company or Parent); provided, that the right to terminate this Agreement pursuant to clause (i) above shall not be available to any party that has breached in any material respect its obligations under this Agreement in any manner that shall have proximately contributed to the occurrence of the failure of the Merger to be consummated.

8.3. Termination by the Company. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, whether before or after the approval by stockholders of the Company referred to in Section 7.1(a), by action of the Board of Directors of the Company:

(a) if (i) the Company is not in material breach of Section 6.2, (ii) the Merger shall not have been approved by the Company Requisite Vote, (iii) the Board of Directors of the Company authorizes the Company, subject to complying with the terms of this Agreement, to enter into a binding written agreement concerning a transaction that constitutes a Superior Proposal and the Company notifies Parent in writing that it intends to enter into such an agreement, attaching the most current version of such agreement to such notice, (iv) Parent does not make, within five business days of receipt of the Company's written notification of its intention to enter into a binding agreement for a Superior Proposal, an offer that the Board of Directors of the Company determines, in good faith after consultation with its financial advisors, is at least as favorable, from a financial point of view, to the stockholders of the Company as the Superior Proposal and (v) if so requested in writing by Parent prior to the Company's termination pursuant to this Section 8.3(a), the Company prior to such termination pays to Parent in immediately available funds the fees required to be paid pursuant to Section 8.5. The Company agrees (x) that it will not enter into a binding agreement referred to in clause (iii) above until at least the sixth business day after it has provided the notice to Parent required thereby and (y) to notify Parent promptly if its intention to enter into a written agreement referred to in its notification shall change at any time after giving such notification.

(b) if there is a breach by Parent or Merger Subsidiary of any representation, warranty, covenant or agreement contained in this Agreement that cannot be cured and would cause a condition set forth in Section 7.3(a) or 7.3(b) to be incapable of being satisfied.

8.4. Termination by Parent. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time, whether before or

after the approval by the stockholders of Parent referred to in Section 7.1(a), by action of the Board of Directors of Parent if (a) the Company enters into a binding agreement for a Superior Proposal or the Board of Directors of the Company shall have withdrawn or adversely modified its approval or recommendation of this Agreement or the Merger or failed to reconfirm its recommendation of this Agreement or the Merger within five business days after a written request by Parent to do so or (b) there is a breach by the Company of any representation, warranty, covenant or agreement contained in this Agreement that cannot be cured and would cause a condition set forth in Section 7.2(a) or 7.2(b) to be incapable of being satisfied.

8.5. Effect of Termination and Abandonment. (a) In the event of termination of this Agreement and the abandonment of the Merger pursuant to this Article VIII, this Agreement (other than as set forth in Section 9.1) shall become void and of no effect with no liability on the part of any party hereto (or of any of its directors, officers, employees, agents, legal and financial advisors or other representatives); provided, however, except as otherwise provided herein, no such termination shall relieve any party hereto of any liability or damages resulting from any willful or grossly negligent breach of this Agreement.

(b) In the event that (i) a Company Acquisition Proposal shall have been made to the Company or any of its Subsidiaries or any of its stockholders or any Person shall have publicly announced an intention (whether or not conditional) to make a Company Acquisition Proposal with respect to the Company or any of its Subsidiaries and thereafter this Agreement is terminated by either Parent or the Company pursuant to Section 8.2(ii) or (ii) this Agreement is terminated (x) by the Company pursuant to Section 8.3(a) or (y) by Parent pursuant to Section 8.4 (a), then the Company shall promptly, but in no event later than two days after the date Parent makes a written request for payment, pay Parent a termination fee of \$70,000,000 and shall promptly, but in no event later than two days after being notified of such by Parent, pay to Parent an amount equal to all of the charges and expenses incurred by Parent or Merger Subsidiary in connection with this Agreement and the Stock Option Agreement and the transactions contemplated by this Agreement and the Stock Option Agreement up to a maximum amount of \$5,000,000, in each case payable by wire transfer of same day funds.

(c) In the event that (i) a proposal or offer with respect to a merger, reorganization, share exchange, consolidation or similar transaction involving, or any purchase of all or a substantial portion of the assets or equity securities of, Parent or any of its Subsidiaries (a "Parent Acquisition Proposal") shall have been made to Parent or any of its Subsidiaries or any Person shall have publicly announced an intention (whether or not conditional) to make a Parent Acquisition Proposal with respect to Parent or any of its Subsidiaries and thereafter this Agreement is terminated by either Parent or the Company pursuant to Section 8.2(iii) or (ii) Parent has withdrawn or modified in a manner adverse to the Company its recommendation contemplated by Section 6.4 and thereafter this

Agreement is terminated by either Parent or the Company pursuant to Section 8.2(iii), then Parent shall promptly, but in no event later than two days after the date the Company makes a written request for payment, pay the Company a termination fee of \$70,000,000 and shall promptly, but in no event later than two days after being notified of such by the Company, pay to the Company an amount equal to all of the charges and expenses incurred by the Company in connection with this Agreement and the Stock Option Agreement and the transactions contemplated by this Agreement and the Stock Option Agreement up to a maximum amount of \$5,000,000, in each case payable by wire transfer of same day funds.

(d) The Company and Parent each acknowledge that the agreements contained in Sections 8.5(b) and (c) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, the Company, Parent and Merger Subsidiary would not enter into this Agreement; accordingly, if the Company fails to promptly pay the amount due pursuant to Section 8.5(b), or Parent fails to promptly pay the amount due pursuant to Section 8.5(c), and, in order to obtain such payment, Parent or the Company, as the case may be, commences a suit which results in a judgment against Parent or the Company, as the case may be, for the fee set forth in this Section 8.5, the Company shall pay to Parent or Parent shall pay to the Company, as the case may be, its costs and expenses (including attorneys' fees) in connection with such suit, together with interest from the date of termination of this Agreement on the amounts owed at the prime rate of Chemical Bank in effect from time to time during such period plus two percent.

ARTICLE IX

Miscellaneous and General

9.1. Survival. This Article IX and the agreements of the Company, Parent and Merger Subsidiary contained in Section 6.6 (Taxation and Accounting), Section 6.11 (Benefits), Section 6.13 (Indemnification; Directors' and Officers' Insurance) and Section 6.14 (Election to Parent's Board of Directors) shall survive the consummation of the Merger. This Article IX, the agreements of the Company, Parent and Merger Subsidiary contained in Section 6.12 (Expenses) and Section 8.5 (Effect of Termination and Abandonment) shall survive the termination of this Agreement. All other representations, warranties, covenants and agreements in this Agreement shall not survive the consummation of the Merger or the termination of this Agreement.

9.2. Modification or Amendment. Subject to the provisions of the applicable law, at any time prior to the Effective Time, the parties hereto may modify or amend this Agreement, by written agreement executed and delivered by duly authorized officers of the respective parties.

9.3. Waiver of Conditions. The conditions to each of the parties' obligations to consummate the Merger are for the sole benefit of such party and may be waived by such party in whole or in part to the extent permitted by applicable law.

9.4. Counterparts. This Agreement may be executed in any number of counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts shall together constitute the same agreement.

9.5. **GOVERNING LAW; WAIVER OF JURY TRIAL.**

(a) THIS AGREEMENT SHALL BE DEEMED TO BE MADE IN AND IN ALL RESPECTS SHALL BE INTERPRETED, CONSTRUED AND GOVERNED BY AND IN ACCORDANCE WITH THE LAW OF THE STATE OF MARYLAND WITHOUT REGARD TO THE CONFLICT OF LAW PRINCIPLES THEREOF.

(b) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT OR THE STOCK OPTION AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE STOCK OPTION AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR THE STOCK OPTION AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (ii) EACH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (iii) EACH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (iv) EACH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE STOCK OPTION AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.5.

9.6. Notices. Any notice, request, instruction or other document to be given hereunder by any party to the others shall be in writing and delivered personally or sent by registered or certified mail, postage prepaid, or by facsimile:

if to Parent or Merger Subsidiary

The St. Paul Companies, Inc.
385 Washington Street
Saint Paul, Minnesota 55102

Attention: President
fax: (612) 310-3378

(with a copy to Joseph B. Frumkin, Esq.,
Sullivan & Cromwell
125 Broad Street
New York, NY 10004
fax: (212) 558-3588)

if to the Company

USF&G Corporation
6225 Smith Avenue
Baltimore, Maryland 21209
Attention: President
fax: (410) 205-6802

(with a copy to John R. Ettinger, Esq.,
Davis Polk & Wardwell
450 Lexington Avenue
New York, New York 10017
fax: (212) 450-4800

and a copy to
R.W. Smith Jr., Esq.
Piper & Marbury L.L.P.
36 S. Charles Street
Baltimore, MD 21201)

or to such other persons or addresses as may be designated in writing by the party to receive such notice as provided above.

9.7. Entire Agreement. No Other Representations. This Agreement (including any exhibits hereto), the Company Disclosure Letter, the Parent Disclosure Letter, the Stock Option Agreement and the Confidentiality Agreement, dated March 28, 1997 (the "Company Confidentiality Letter"), and October 28, 1997 (the "Parent Confidentiality Letter"), between Parent and the Company (the "Confidentiality Agreements") constitute the entire agreement, and supersede all other prior agreements, understandings, representations and warranties both written and oral, among the parties, with respect to the subject matter hereof. The parties hereto agree that the Confidentiality Agreements shall be hereby amended to provide that any provision therein which in any manner would be inconsistent with this Agreement, the Stock Option Agreement or the transactions contemplated hereby or thereby shall terminate as of the date hereof;

provided, however, that such provisions of the Confidentiality Agreements shall be reinstated in the event of any termination of this Agreement.

9.8. No Third Party Beneficiaries. Except as provided in Section 6.13 (Indemnification; Directors' and Officers' Insurance) and Section 6.14 (Election to Parent's Board of Directors), this Agreement is not intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

9.9. Obligations of Parent and of the Company. Whenever this Agreement requires a Subsidiary of Parent to take any action, such requirement shall be deemed to include an undertaking on the part of Parent to cause such Subsidiary to take such action. Whenever this Agreement requires a Subsidiary of the Company to take any action, such requirement shall be deemed to include an undertaking on the part of the Company to cause such Subsidiary to take such action and, after the Effective Time, on the part of the Surviving Corporation to cause such Subsidiary to take such action.

9.10. Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability or the other provisions hereof. If any provision of this Agreement, or the application thereof to any Person or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

9.11. Interpretation. The table of contents and headings herein are for convenience of reference only, do not constitute part of this Agreement and shall not be deemed to limit or otherwise affect any of the provisions hereof. Where a reference in this Agreement is made to a Section or Exhibit, such reference shall be to a Section of or Exhibit to this Agreement unless otherwise indicated. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

9.12. Assignment. This Agreement shall not be assignable by operation of law or otherwise; *provided, however*, that Parent may designate, by written notice to the Company, another wholly-owned direct or indirect Subsidiary to be a Constituent Corporation in lieu of Merger Subsidiary, in which event all references herein to Merger Subsidiary shall be deemed references to such other Subsidiary, except that all representations and warranties made herein with respect to Merger Subsidiary as of the date of this Agreement shall be deemed representations and warranties made with respect to such other Subsidiary as of the date of such designation.

9.13. Location of Certain Definitions.

	<u>Section</u>
affiliate	4.2(e)
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Audit Date	5.1(e)
Average Parent Price	4.1(a)
Bankruptcy and Equity Exception	5.1(c)(i)
Beneficially Owns	5.2(p)
Beneficial Owner	5.2(p)
Bylaws	2.2
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Code	Recitals
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Company Acquisition Proposal	6.2
Company Actuarial Analyses	5.1(s)(iii)
Company Affiliates Letter	6.8(i)
Company Confidentiality Letter	9.7
Company Disclosure Letter	5.1
Company Insurance Contracts	5.1(s)(i)
Company Insurance Subsidiaries	5.1(a)
Company Intellectual Property Rights	5.1(o)(ii)(B)
Company Material Adverse Effect	5.1(a)
Company Option	5.1(b)
Company Reports	5.1(e)
Company Requisite Vote	5.1(c)(i)
Company SAP Statements	5.1(e)
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Convertible Notes	5.1(b)
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Exchange Agent	4.2(a)
Exchange Fund	4.2(a)
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Hazardous Substance	5.1(k)
HSR Act	5.1(a)
Indemnified Parties	6.13(a)
Insurance Laws	5.1(i)(i)
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Lower Collar	4.1(a)
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Merger Subsidiary	Preamble
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Pacholder	5.1(u)(iii)
Pacholder Fund	6.16(a)
Parent	Preamble
Parent Acquisition Proposal	8.5(c)
Parent Actuarial Analyses	5.2(r)(iii)
Parent Affiliates Letter	6.8(iii)
Parent Audit Date	5.2(f)
Parent Common Stock	4.1(a)
Parent Companies	4.1(a)
Parent Compensation and Benefits Plans	5.2(i)(i)
Parent Confidentiality Letter	9.7
Parent Disclosure Letter	5.2
Parent ERISA Affiliate	5.2(i)(ii)
Parent Insurance Contracts	5.2(r)(i)
Parent Insurance Subsidiaries	5.2(b)
Parent Material Adverse Effect	5.2(b)
Parent Pension Plan	5.2(i)(i)
Parent Preferred Shares	5.2(c)
Parent Reports	5.2(f)

Parent Requisite Vote	5.2(d)(i)
Parent Rights Agreement	5.2(c)
Parent SAP Statements	5.2(f)
Parent Series A Preferred Stock	5.2(c)
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Parent Stockholder Meeting	6.4
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Rights Agreement	5.1(b)
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SEC	5.1(e)
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Upper Collar	4.1(a)
1940 Act	5.1(u)(iii)

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of the parties hereto as of the date first written above.


USF&G CORPORATION

By: 

Name: Norman P. Blake, Jr.

Title: Chairman of the Board, President
and Chief Executive Officer

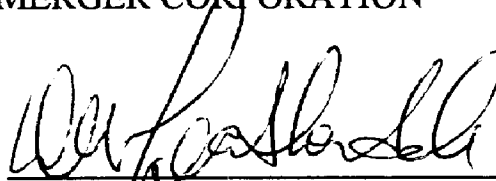
THE ST. PAUL COMPANIES, INC

By: 

Name: Douglas W. Leatherdale

Title: Chairman of the Board, President
and Chief Executive Officer

SP MERGER CORPORATION

By: 

Name: Douglas W. Leatherdale

Title: Chairman of the Board, President
and Chief Executive Officer

[FORM OF COMPANY AFFILIATE LETTER]

[Date]

USF&G Corporation
6225 Smith Avenue
Baltimore, Maryland 21209

The St. Paul Companies, Inc.
385 Washington Street
St. Paul, Minnesota 55102

Ladies and Gentlemen:

I have been advised that as of the date hereof, I may be deemed to be an "affiliate" of USF&G Corporation, a Maryland corporation (the "Company"), as such term (i) is defined for purposes of paragraphs (c) and (d) of Rule 145 of the Rules and Regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Securities Act"), or (ii) is used in and for purposes of Accounting Series Releases 130 and 135, as amended, of the Commission. Pursuant to the terms of the Agreement and Plan of Merger dated as of January 19, 1998, as it may be amended, supplemented or modified from time to time (the "Merger Agreement"), among the Company, The St. Paul Companies, Inc., a Minnesota corporation ("Parent"), and SP Merger Corporation, a Maryland corporation and a wholly owned subsidiary of Parent ("Merger Sub"), Merger Sub will be merged with and into the Company (the "Merger"). Capitalized terms used herein but not defined herein shall have the meanings ascribed to such terms in the Merger Agreement.

I further understand that the Merger will be treated for financial accounting purposes as a "pooling of interests" in accordance with generally accepted accounting principles and that the Staff of the Commission has issued certain guidelines that should be followed to ensure the pooling of the entities.

In consideration of the agreements contained herein, Parent's reliance on this letter in connection with the consummation of the Merger and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, I

hereby represent, warrant and agree that (i) I will not make any sale or transfer or otherwise dispose of my interests in, or acquire or sell options or other securities relating to securities of the Company or Parent that would be intended to reduce my risk relative to, any shares of Common Stock, without par value, of Parent (the "Parent Common Stock") or Common Stock, par value \$2.50 per share, of the Company ("Company Common Stock") until after such time as results covering at least 30 days of combined operations of the Company and Parent have been published by Parent, in the form of a quarterly earnings report, an effective registration statement filed with the Commission, a report to the Commission on Form 10-K, 10-Q or 8-K, or any other public filing or announcement which includes such combined results of operations, and (ii) I will not make any sale, transfer or other disposition of any shares of Parent Common Stock received by me pursuant to the Merger in violation of the Securities Act or the rules and regulations thereunder. I have been advised that the issuance of the shares of Parent Common Stock pursuant to the Merger will have been registered with the Commission under the Securities Act on a Registration Statement on Form S-4. I have also been advised, however, that since I may be deemed to be an affiliate of the Company at the time the Merger is submitted for a vote of the shareholders of the Company, the Parent Common Stock received by me may be disposed by me only (i) pursuant to an effective registration under the Securities Act, (ii) in conformity with the volume and other limitations of Rule 145 promulgated by the Commission under the Securities Act, or (iii) in reliance upon an exemption from registration that is available under the Securities Act.

I also understand that instructions will be given to Parent's transfer agent with respect to the Parent Common Stock to be received by me pursuant to the Merger and that there may be placed on the certificates representing such shares of Parent Common Stock, or any substitutes therefor, a legend stating in substance as follows:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ISSUED IN A TRANSACTION TO WHICH RULE 145 PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, APPLIES AND MAY ONLY BE SOLD OR OTHERWISE TRANSFERRED IN COMPLIANCE WITH THE REQUIREMENTS OF RULE 145 OR PURSUANT TO A REGISTRATION STATEMENT UNDER THAT ACT OR AN EXEMPTION FROM SUCH REGISTRATION."

It is understood and agreed that the legend set forth above shall be removed upon surrender of certificates bearing such legend by delivery of substitute certificates without such legend if I shall have delivered to Parent an opinion of counsel, in form and substance reasonably satisfactory to Parent, to the effect that the sale or disposition of the shares represented by the surrendered certificates may be effected without registration of the offering, sale and delivery of such shares under the Securities Act.

I further understand and agree that Parent is under no obligation to register the sale, transfer or other disposition of the Parent Common Stock by me or on my behalf under the Securities Act or to take any other action necessary in order to make compliance with an exemption from such registration available.

Execution of this letter should not be considered an admission on my part that I am an "affiliate" of the Company as described in the first paragraph of this letter, or as a waiver of any rights I may have to object to any claim that I am such an affiliate on or after the date of this letter.

This letter agreement constitutes the complete understanding between Parent and me concerning the subject matter hereof. Any notice required to be sent to either party hereunder shall be sent by registered or certified mail, return receipt requested, using the addresses set forth herein or such other address as shall be furnished in writing by the parties. This letter agreement shall be governed by and construed and interpreted in accordance with, the laws of the State of Maryland.

If you are in agreement with the foregoing, please so indicate by signing below and returning a copy of this letter to the undersigned, at which time this letter shall become a binding agreement between us.

Very truly yours,

By: _____

Name:

Address:

Accepted this ____ day
of _____, 1998.

USF&G Corporation

By: _____

Name:

Title:

The St. Paul Companies, Inc.

By: _____

Name:

Title:

A-1-4

TRADEMARK
REEL: 1830 FRAME: 0402

[FORM OF PARENT AFFILIATE LETTER]

[Date]

USF&G Corporation
6225 Smith Avenue
Baltimore, Maryland 21209

The St. Paul Companies, Inc.
385 Washington Street
St. Paul, Minnesota 55102

Ladies and Gentlemen:

I have been advised that as of the date hereof, I may be deemed to be an "affiliate" of The St. Paul Companies, Inc., a Minnesota corporation ("Parent"), as such term (i) is defined for purposes of paragraphs (c) and (d) of Rule 145 of the Rules and Regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Securities Act"), or (ii) is used in and for purposes of Accounting Series Releases 130 and 135, as amended, of the Commission. Pursuant to the terms of the Agreement and Plan of Merger (the "Merger Agreement"), dated as of January 19, 1998, as it may be amended, supplemented or modified from time to time, among USF&G Corporation, a Maryland corporation (the "Company"), Parent, and SP Merger Corporation, a Maryland corporation and a wholly owned subsidiary of Parent ("Merger Sub"), Merger Sub will be merged with and into the Company (the "Merger"). Capitalized terms used herein but not defined herein shall have the meanings ascribed to such terms in the Merger Agreement.

I further understand that the Merger will be treated for financial accounting purposes as a "pooling of interests" in accordance with generally accepted accounting principles and that the Staff of the Commission has issued certain guidelines that should be followed to ensure the pooling of the entities.

In consideration of the agreements contained herein, the Company's reliance on this letter in connection with the consummation of the Merger and for other good and valuable consideration, the receipt and sufficiency of which are hereby

A-2-1

TRADEMARK
REEL: 1830 FRAME: 0403

acknowledged, I hereby represent, warrant and agree that I will not make any sale or transfer or otherwise dispose of my interests in, or acquire or sell options or other securities relating to securities of the Company or Parent that would be intended to reduce my risk relative to, any shares of Common Stock, without par value, of Parent (the "Parent Common Stock") or Common Stock, par value \$2.50 per share, of the Company (the "Company Common Stock") until such time as results covering at least 30 days of combined operations of the Company and Parent have been published by Parent, in the form of a quarterly earnings report, an effective registration statement filed with the Commission, a report to the Commission on Form 10-K, 10-Q or 8-K, or any other public filing or announcement which includes such combined results of operations.

Execution of this letter should not be considered an admission on my part that I am an "affiliate" of Parent as described in the first paragraph of this letter, or as a waiver of any rights I may have to object to any claim that I am such an affiliate on or after the date of this letter.

This letter agreement constitutes the complete understanding between the Company and me concerning the subject matter hereof. Any notice required to be sent to either party hereunder shall be sent by registered or certified mail, return receipt requested, using the addresses set forth herein or such other address as shall be furnished in writing by the parties. This letter agreement shall be governed by and construed and interpreted in accordance with, the laws of the Commonwealth of Minnesota.

If you are in agreement with the foregoing, please so indicate by signing below and returning a copy of this letter to the undersigned, at which time this letter shall become a binding agreement between us.

Very truly yours,

Name:
Address:

Accepted this ____ day of _____, 1998.

The St. Paul Companies, Inc.

By: _____
Name:
Title:

USF&G Corporation

By: _____
Name:
Title:

AMENDMENT NO. 1
TO
AGREEMENT AND PLAN OF MERGER

Among

USF&G CORPORATION,

THE ST. PAUL COMPANIES, INC.

and

SP MERGER CORPORATION

Dated as of February 10, 1998

AMENDMENT NO. 1 TO
AGREEMENT AND PLAN OF MERGER

AMENDMENT NO. 1 TO AGREEMENT AND PLAN OF MERGER (hereinafter called this "Amendment"), dated as of February 10, 1998 among USF&G Corporation, a Maryland corporation (the "Company"), The St. Paul Companies, Inc., a Minnesota corporation ("Parent"), and SP Merger Corporation, a Maryland corporation and a wholly-owned subsidiary of Parent ("Merger Subsidiary").

RECITALS

WHEREAS, the respective boards of directors of each of Parent, Merger Subsidiary and the Company have determined that the merger of Merger Subsidiary with and into the Company (the "Merger"), upon the terms and subject to the conditions set forth in that certain Agreement and Plan of Merger, dated as of January 19, 1998 (the "Agreement"), among the Company, Parent and Merger Subsidiary is advisable and have approved the Merger; and

WHEREAS, the Company, Parent and Merger Sub desire to make certain amendments to the Agreement.

NOW, THEREFORE, in consideration of the premises, and of the representations, warranties, covenants and agreements contained herein and in the Agreement, the parties hereto agree as follows:

1. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Agreement.
2. The first sentence of paragraph 5.2(d)(i) of the Agreement is amended to replace the phrase "by the holders of a majority of the shares of Parent Common Stock" with the phrase "by the holders of shares of Parent Common Stock and Parent Series B Preferred Stock representing a majority of the votes represented by the outstanding shares of Parent Common and Parent Series B Preferred Stock".
3. Paragraph 7.1(a) of the Agreement is amended to replace the phrase "by the holders of Parent Common Stock" with the phrase "by the holders of Parent Common Stock and Parent Series B Preferred Stock".
4. This Amendment may be executed in any number of counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts shall together constitute the same agreement.

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered by the duly authorized officers of the parties hereto as of the date first written above.

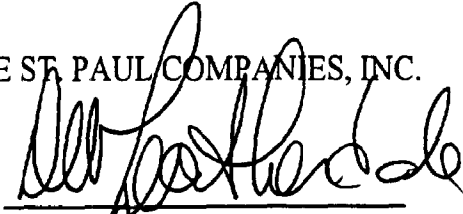
USF&G CORPORATION

By: 

Name: Norman P. Blake, Jr.

Title: Chairman of the Board, President
and Chief Executive Officer


THE ST. PAUL COMPANIES, INC.

By: 

Name: Douglas W. Leatherdale

Title: Chairman of the Board, President
and Chief Executive Officer

SP MERGER CORPORATION

By: 

Name: Douglas W. Leatherdale

Title: Chairman of the Board, President
and Chief Executive Officer

Chen



U S F + G
INSURANCE

Corporate Legal Department

Writer's Direct No.
(410) 205-6338

Via Federal Express

January 26, 1998

Maureen Phillips
The St. Paul Companies, Inc.
385 Washington Street
St. Paul, Minnesota 55102

RE: Disclosure Schedules

Dear Maureen:

Enclosed is a copy of the final disclosure schedules containing eight signature pages signed by our chairman, Norman P. Blake. Please note that this copy does not include the list of outstanding stock options (Exhibit A to Section 5.1(b)), which is rather voluminous and was previously sent to Dan Nemo at Sullivan & Cromwell.

After you have had an appropriate official of The St. Paul Companies, Inc. acknowledge the schedules, please forward a copy to me for our records.

Very truly yours,

Richard D. Moore
Counsel

RDM/dg

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Dated: January 19, 1998

The St. Paul Companies, Inc.
385 Washington Street
St. Paul, MN 55102

Re: **Company Disclosure Letter**

Ladies and Gentlemen:

This letter is being provided to you pursuant to the Agreement and Plan of Merger among USF&G Corporation ("Company"), The St. Paul Companies, Inc. ("Parent") and SP Merger Corporation dated as of January 19, 1998 ("Agreement"). Unless defined herein all capitalized terms are as defined in the Agreement.

The following information is disclosed subject to the obligation of confidentiality contained in the Confidentiality Agreement between The St. Paul Companies, Inc. and USF&G Corporation and should not be used for any purpose except in furtherance of the transactions contemplated by the Agreement. The disclosure of information in this Company Disclosure Letter shall not imply that the disclosed information is or could reasonably be expected to be material in the context of, or for any other purposes under, the Agreement. The information provided in this Company Disclosure Letter is being provided solely for the purpose of making the disclosures to the Parent under the Agreement.

Please be advised of the following:

Section 5.1(a) of Company Disclosure Letter

The Company has made available the charter and by-laws or other organizational documents of the Company and the Subsidiaries set forth on Exhibit B to Section 5.1(b) of Company Disclosure Letter (other than Titan Holdings, Inc. and its subsidiaries).

For purposes of this Agreement, the term "responsible executive officers" means the following officers of the Company:

- | | |
|------------------|----------------------|
| 1. Norm Blake | 8. John MacColl |
| 2. Dan Hale | 9. Kim Rich |
| 3. Ken Cihy | 10. Steve Lilienthal |
| 4. Andy Stern | 11. John Berger |
| 5. Bob Mueller | 12. Glenn Anderson |
| 6. Bob Lamendola | 13. Harry Stout |
| 7. Jay Huber* | |

*Executive officer for purposes of this definition only. Jay Huber is not an executive officer of the Company for any other purpose.

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The Company directly or indirectly owns 100% (99.99% in the case of Afianzadora Insurgentes Serfin, S.A.) (and excluding any directors qualifying shares) of the capital stock of the following insurance companies (the "Company Insurance Subsidiaries"):

1. Afianzadora Insurgentes Serfin, SA
2. Bosworth Insurance Company, Ltd.
3. Discover Reinsurance Company
4. F&G International Insurance, Ltd.
5. F&G Overseas, Ltd.
6. Fidelity and Guaranty Insurance Company
7. Fidelity and Guaranty Insurance Underwriters, Inc.
8. Fidelity and Guaranty Life Insurance Company
9. GeoVera Insurance Company
10. Inner Harbor Reinsurance, Inc.
11. Mountain Ridge Insurance Company
12. Northern Indemnity, Inc.
13. St. George Reinsurance, Ltd.
14. Thomas Jefferson Life Insurance Company
15. USF&G Business Insurance Company
16. USF&G Family Insurance Company
17. United States Fidelity and Guaranty Company
18. USF&G Insurance Company of Illinois
19. USF&G Insurance Company of Mississippi
20. USF&G Insurance Company of Wisconsin
21. USF&G Specialty Insurance Company
22. Victoria Specialty Insurance Company (formerly named Victoria Atek Insurance Company)
23. Victoria Automobile Insurance Company
24. Victoria National Insurance Company (formerly named Victoria Electra Insurance Company)
25. Victoria Fire & Casualty Company
26. Victoria Select Insurance Company
27. USF&G Founders Insurance Company
28. USF&G Pacific Insurance Company

29. USF&G Small Business Insurance Company
30. USF&G West Insurance Company
31. Titan Indemnity Company
32. Titan Insurance Company

In addition to the Company Insurance Subsidiaries, the Company participates in the taking of insurance risk by deploying its capital with Lloyd's Syndicate 1211 (and its subsyndicates 1411 and 1511), a syndicate managed by Ashley Palmer Limited exclusively for the Company, and by deploying its capital with certain other Lloyd's syndicates managed by Ashley Palmer Limited for other names as well as the Company. The Company also has assumed certain exposures to catastrophe risks through its purchase of CAT-risk investments, including \$10,000,000 in principal amount of CAT-linked bonds issued by Residential Reinsurance Ltd., a Risk Swap of \$2,000,000 of California catastrophe risk, a number of CBOT CAT options in an aggregate amount at risk of less than \$1,000,000, and \$2,000,000 in principal amount of Japanese earthquake bonds issued by Parametric Re.

The Company conducts certain aspects of its insurance operations through Ashley Palmer Limited, F&G UK Holdings Limited, F&G UK Investments, Ltd., F&G Underwriters Limited, F&G Re, Inc., Discovery Managers, Ltd., F&G Specialty Insurance Services, Inc., Charter House Underwriters, Inc. and three wholly-owned subsidiaries of Charter House Underwriters, Inc., each of which is a Subsidiary of the Company, as well as certain captive insurance companies established in connection with the business of Discover Re Managers, Inc. In addition, certain aspects of Titan's non-standard automobile business in Texas are handled through Quick-Sure Auto Agency, Inc., a Texas insurance agency that, for regulatory reasons, is owned by individuals. Finally, the Company conducts certain commercial lines business through purchasing group associations or member corporations which are not owned by the Company or its Subsidiaries, and the Company and its Subsidiaries conduct insurance and reinsurance business through memberships or participations in certain pools and associations.

Certain of the Company's "Subsidiaries" are partnerships, limited liability companies, trusts or other non-corporate entities.

The Company directly or indirectly owns equity or similar interests in the following entities:

1. As described above, the Company deploys capital in several Lloyd's syndicates and conducts certain aspects of its insurance operations through Ashley Palmer Limited, F&G UK Holdings Limited, F&G UK Investments, Ltd., F&G Underwriters Limited, F&G Re, Inc., Discovery Managers, Ltd., F&G Specialty Insurance Services, Inc., Charter House Underwriters, Inc. and three wholly-owned subsidiaries of Charter House Underwriters, Inc., as well as certain captive insurance companies established in connection with the business of Discover Re Managers, Inc.

2. The Company conducts investment advisory and real estate activities through two indirect, wholly-owned subsidiaries, Falcon Asset Management, Inc. (including Falcon Asset

Management (Bermuda), Ltd.) and USF&G Realty Advisors, Inc., certain claim adjustment services through Octagon Services, Inc. and certain fraud investigative services through Nemax, Inc. (recently announced winding down).

3. A substantial portion of the Company's real estate portfolio is held by United States Fidelity and Guaranty Company, Fidelity and Guaranty Life Insurance Company, USF&G Realty, Inc., USF&G Pegasus Realty, Inc. and USF&G Pegasus Partners, Inc. directly or through equity or similar interests in real estate limited partnerships, corporations or limited liability entities.

4. As of December 31, 1997, the Company indirectly owned 2,426,137 shares (or approximately 11.1%) of the common stock of RenaissanceRe Holdings Ltd., which shares were held of record by United States Fidelity and Guaranty Company.

5. United States Fidelity and Guaranty Company and Fidelity and Guaranty Life Insurance Company own in the aggregate \$12.5 million of Second Priority Senior Secured Notes, \$9.0 million of Third Priority Senior Secured Notes, \$12.15 million of Senior Subordinated Notes and \$2.85 million of Junior Subordinated Notes issued by Mt. Washington CBO I, Limited. Such notes were issued by Mt. Washington CBO I, Limited in connection with a \$177.35 million collateralized bond obligation transaction for which Falcon Asset Management, Inc., an indirect, wholly-owned subsidiary of the Company, is acting as collateral manager. By virtue of its ownership of certain of such notes, the Company may be deemed to own an equity interest in Mt. Washington CBO I, Limited.

6. In connection with the recent acquisition of Titan Holdings, Inc., the Company indirectly acquired a premium finance business (Westchester Premium Finance Corporation and its subsidiaries), and several insurance agencies primarily dedicated to Titan's non-standard automobile business.

7. The Company owns all of the common securities (but none of the preferred securities) issued by USF&G Capital I, USF&G Capital II and USF&G Capital III, all of which are statutory business trusts created under Delaware law. USF&G Capital I, USF&G Capital II and USF&G Capital III have issued an aggregate of \$300 million of preferred securities, the proceeds of which were used by the trusts to purchase certain junior subordinated debentures issued by the Company.

8. See also the list of the Company's Subsidiaries included in Section 5.1(b) of Company Disclosure Letter.

Secondary filings under the HSR Act may be required with respect to the Company's investments in PetroCorp, Georgeson International, Inc. and RenaissanceRe Holdings, Limited.

Section 5.1(b) of Company Disclosure Letter

As of January 15, 1998, 116,470,432 Shares were outstanding. This amount includes the issuance of Shares to former shareholders of Titan that is described below in Item 3.

The Company Stock Plans consist of the following stock option plans:

1. Stock Option Plan of 1987
2. Stock Option Plan of 1990
3. Amended and Restated Stock Incentive Plan of 1991
4. Employee Stock Option Plan of 1994
5. Stock Incentive Plan of 1997
6. Discover Re Stock Option Plan
7. Titan Stock Option Plan
8. Amended and Restated 1993 Plan for Non-Employee Directors

As of January 15, 1998, 10,116,531 Shares were subject to issuance pursuant to the Company Stock Plans. This total includes the options issued in connection with the Titan merger as described below in Item 3.

As of January 15, 1998, 2,400,000 Preferred Shares were subject to issuance pursuant to the Rights Agreement.

As of January, 15, 1998, 5,181,588 Shares were subject to issuance upon conversion of the Convertible Notes.

In addition to the Company Stock Plans, the Company has the following commitments to issue or deliver Shares:

(1) 57,148 Shares are issuable under the IS Partners Plan pursuant to phantom stock awards approved in 1996 and 1997. The Company has the option, however, of paying these awards in either Shares or in cash.

(2) The Company's Long Term Incentive Plan provides for awards of Shares to certain senior executives of the Company. Awards are based on a three year performance period, and are made in March of the first year with payment being made in March of the year following the end of the three year performance period. The Company establishes a target award for each three year period and then accrues the award based on performance during the period. Currently, three LTIP performance periods (1995-1997, 1996-1998, and 1997-1999) are open. The maximum number of shares awarded with respect to outstanding LTIP awards is 1,148,928. For executives covered by the Key Executive Severance Plan or the Senior Executive Severance Plan (which constitute substantially all LTIP participants), these awards would be subject to calculation as of the date of the merger closing, and cash would be payable in lieu of the Shares. For purposes of determining the cash payable in lieu of Shares, the following would apply: (i) the closing date Share price would be used; (ii) percentage achievement levels for each uncompleted

performance period would be equal to 100% of the target level for that performance period; and (iii) awards for uncompleted performance periods would be prorated. The Company also intends to make LTIP awards in the spring of 1998.

(3) Pursuant to the Agreement and Plan of Merger, dated as of August 7, 1997, with Titan Holdings, Inc., the Company issued 5,103,632 Shares. The allocation of these Shares to former Titan shareholders is subject to proration and to be determined after such shareholders make their elections, the deadline for which is currently January 22, 1998. The Company may elect to extend this deadline and pay an interest factor during the extension period on the cash component of the merger consideration. In connection with the merger, the Company also (i) converted Titan options into Company options, (ii) issued 22,635 restricted Shares and options to acquire 20,000 Shares to Thomas Mangold (these were in addition to options received by Mr. Mangold when the Titan options were converted into Company options as described in clause (i)), and (iii) agreed to issue 21,582 restricted Shares to Mark E. Watson III.

(4) The Company's Dividend Reinvestment Plan allows shareholders of record and non-shareholders to periodically purchase Shares and reinvest dividends in additional Shares. Under the Plan, the Company (through The Bank of New York as Plan Administrator) may deliver Shares to be purchased either by (i) open market purchase, or (ii) directly issuing Shares. Currently the Plan is in the open market purchase mode and the Company has no plans to switch to the direct purchase mode.

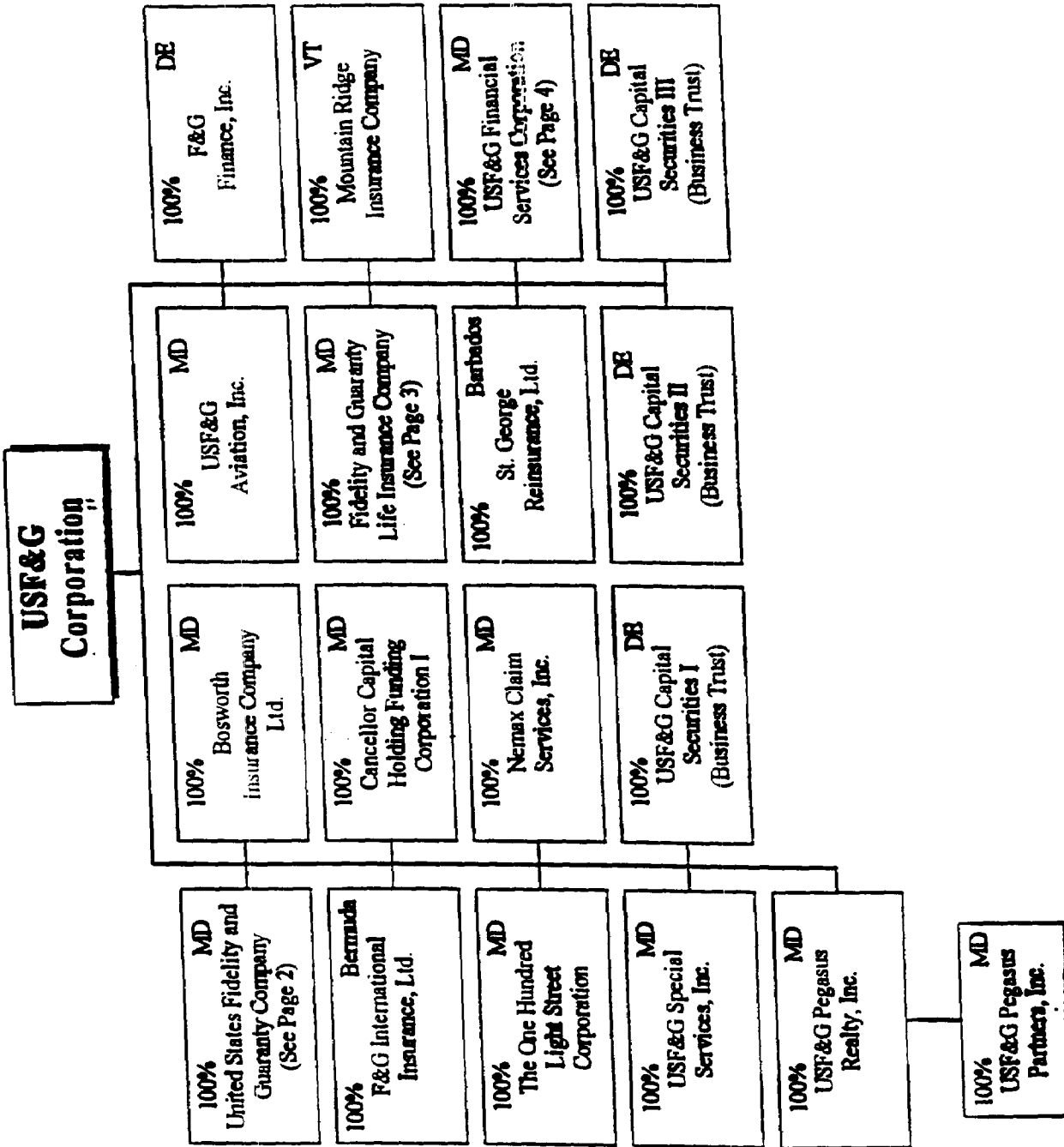
(5) The Company has entered into agreements with various counter-parties to hedge its obligation to issue Shares pursuant to the Long Term Incentive Plan. Under these agreements, the Company is required to either purchase Shares or deliver Shares. The total number of Shares subject to these agreements is 600,000. These agreements may also be settled in cash.

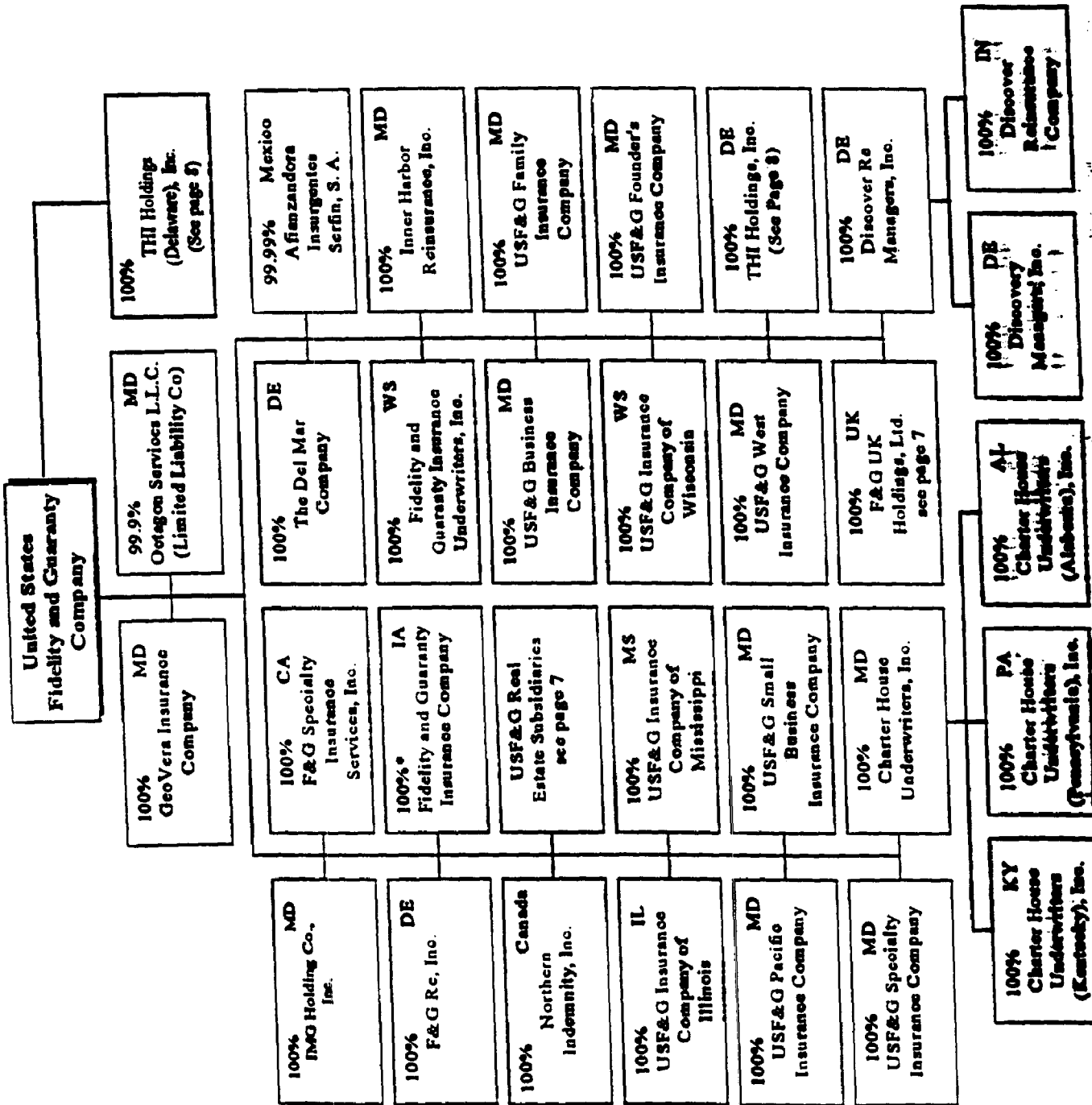
Attached hereto as Exhibit A to Section 5.1(b) of Company Disclosure Letter is a list of outstanding options to purchase Shares under the Company Stock Plans as of January 15, 1998.

A list of the Company's principal Subsidiaries is attached hereto as Exhibit B to Section 5.1(b) of Company Disclosure Letter. In addition to the Subsidiaries listed on Exhibit B, the Company owns part or all of a number of single purpose real estate Subsidiaries, including partnerships, limited partnerships, corporations, limited liability companies and similar entities, that were established to hold specific pieces of real estate. Except for directors qualifying shares or as set forth in this paragraph or on Exhibit B, the Company directly or indirectly owns all of the outstanding common stock or similar equity interests in such Subsidiaries. The Company does not own all of the equity or similar interests in certain of the single purpose real estate Subsidiaries. The Company owns 100% of the class 2 common stock of Georgeson International, Inc. (as well as certain shares of preferred stock), but does not own any of the class 1 common stock of Georgeson.

Pursuant to Section 8.4 of the Shareholders Agreement, F&G UK Investments (formerly named Ashley Palmer Limited), must provide a right of first refusal to Martin Ashley prior to transferring more than 50% of the Ashley Palmer shares to a non-affiliate.

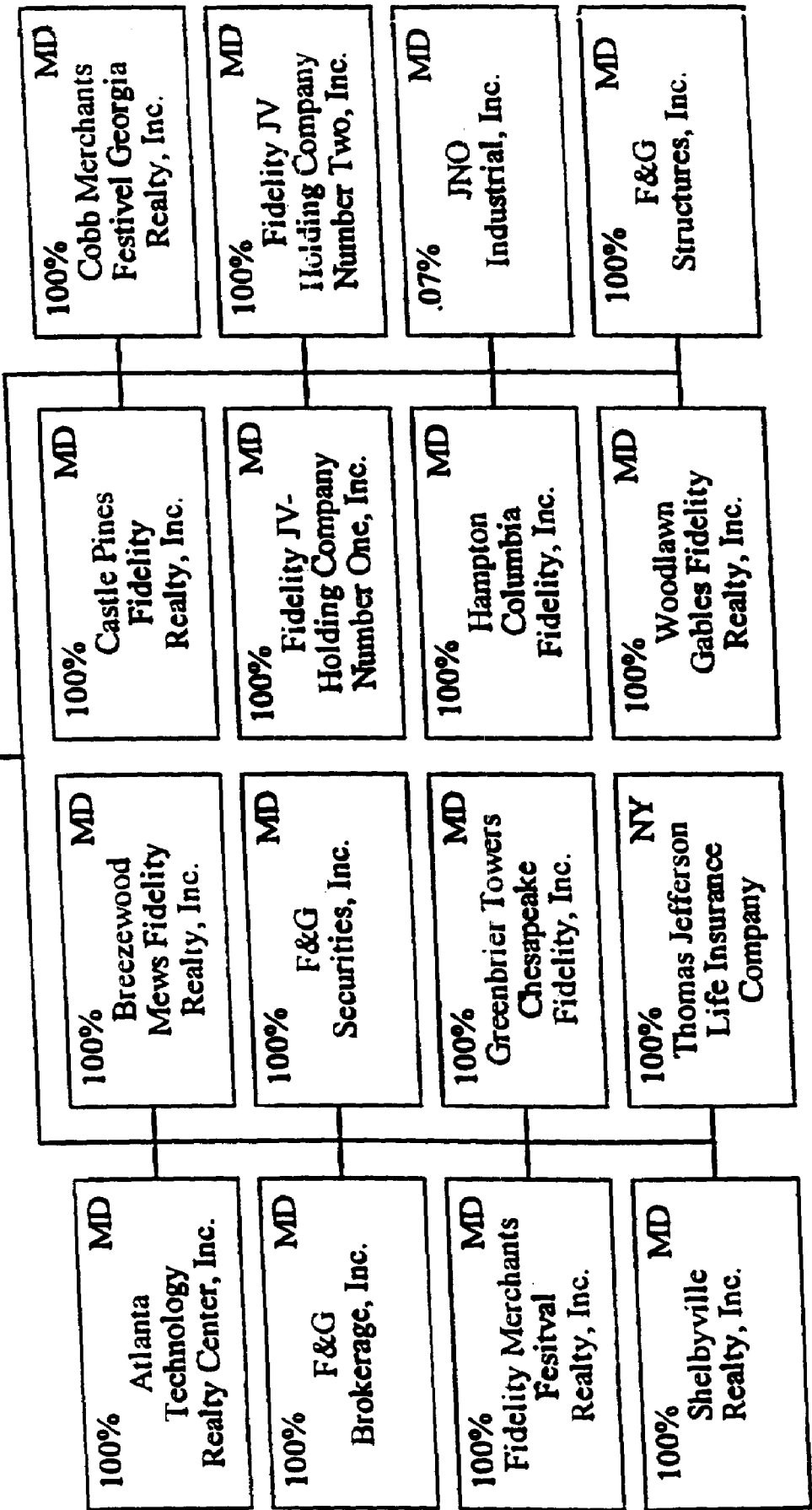
List of Stock Options

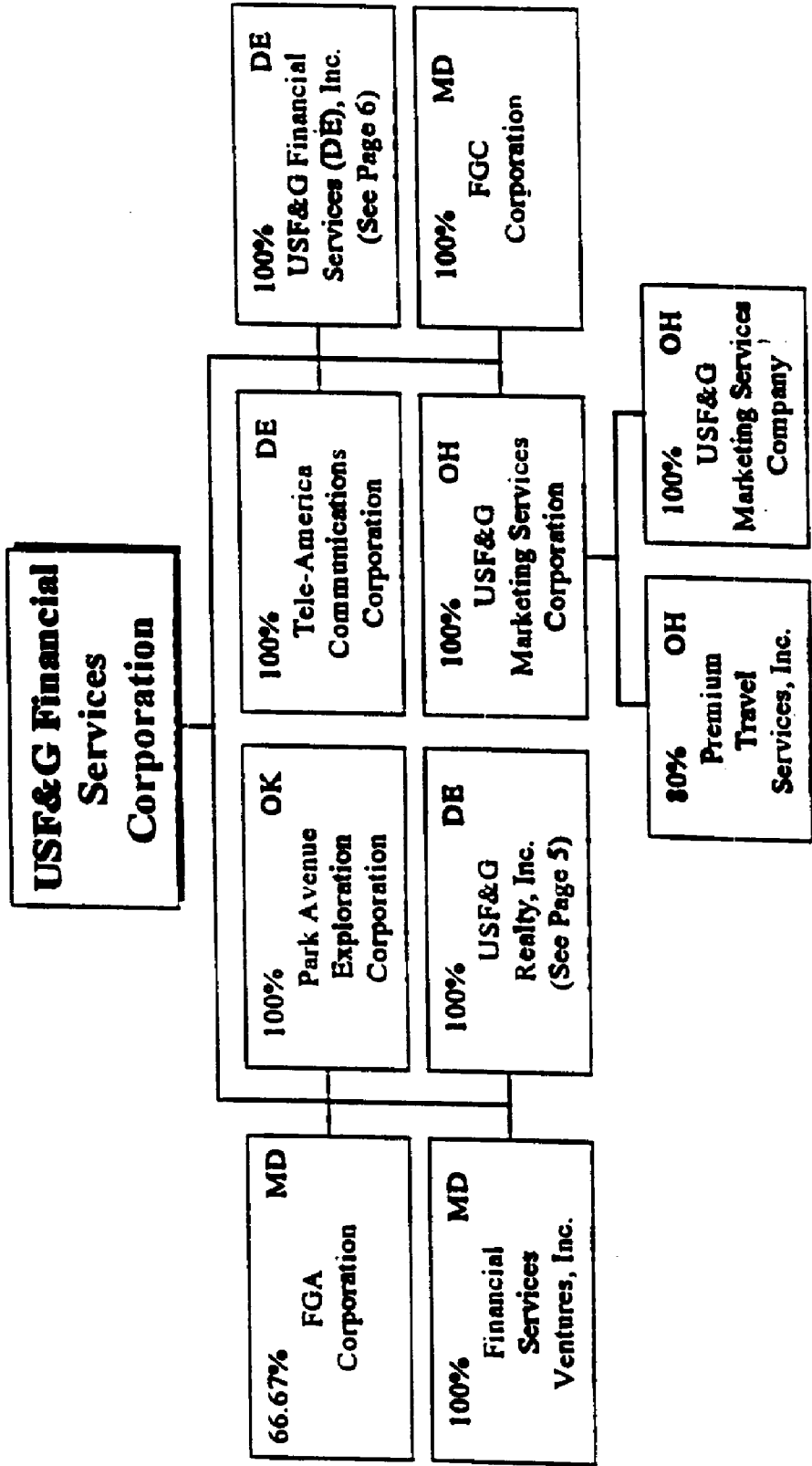




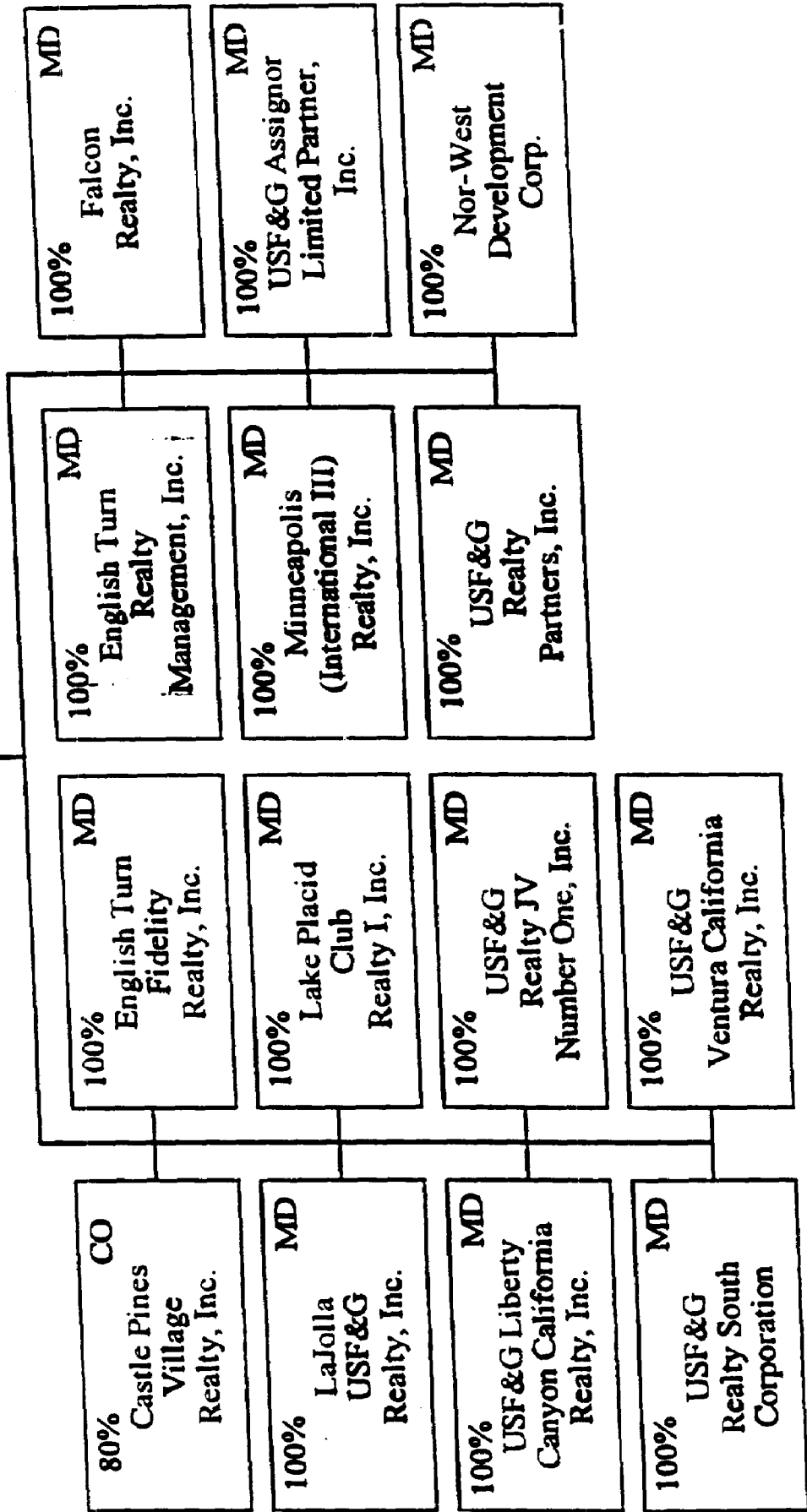
Excluding Director's
qualifying shares

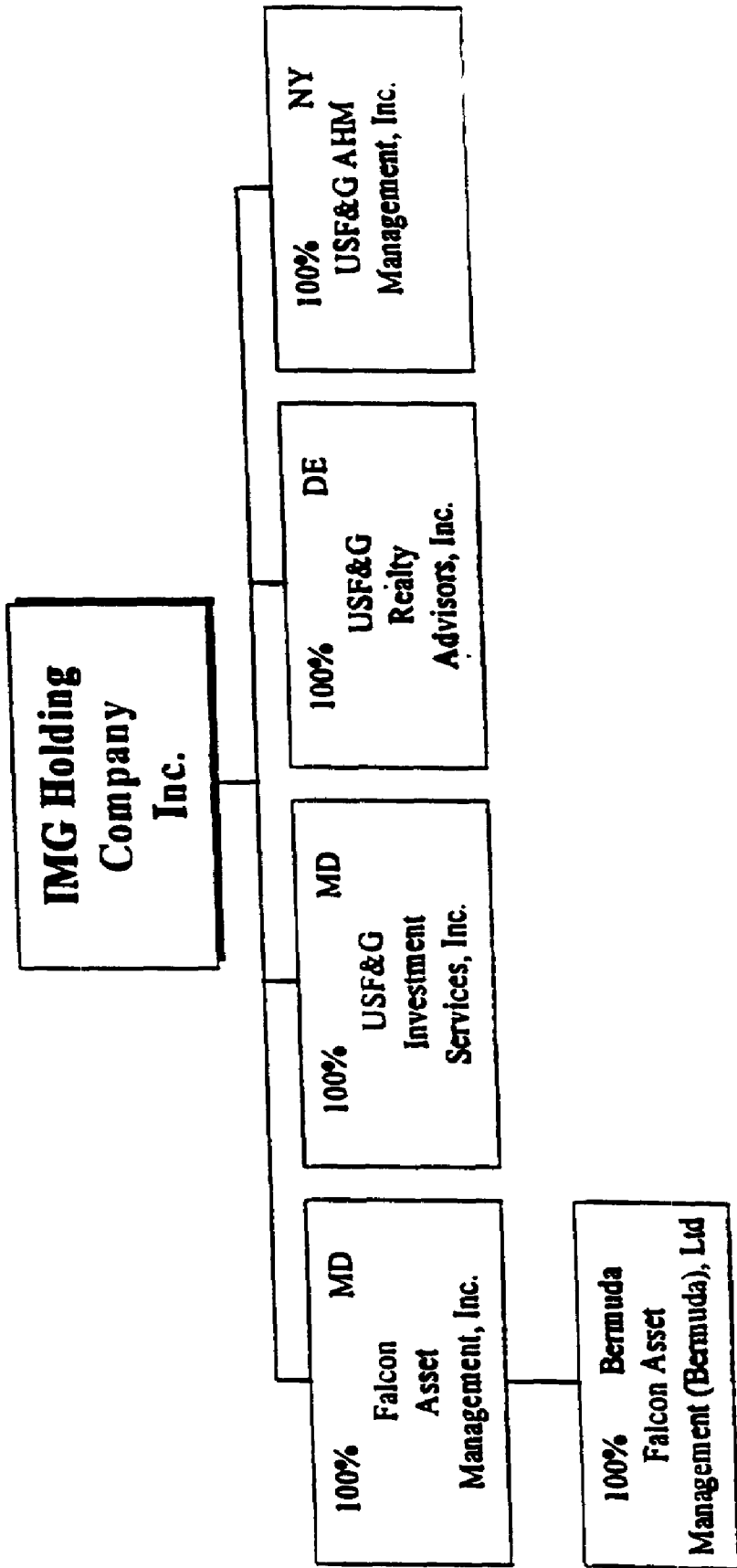
**Fidelity and Guaranty
Life Insurance
Company**

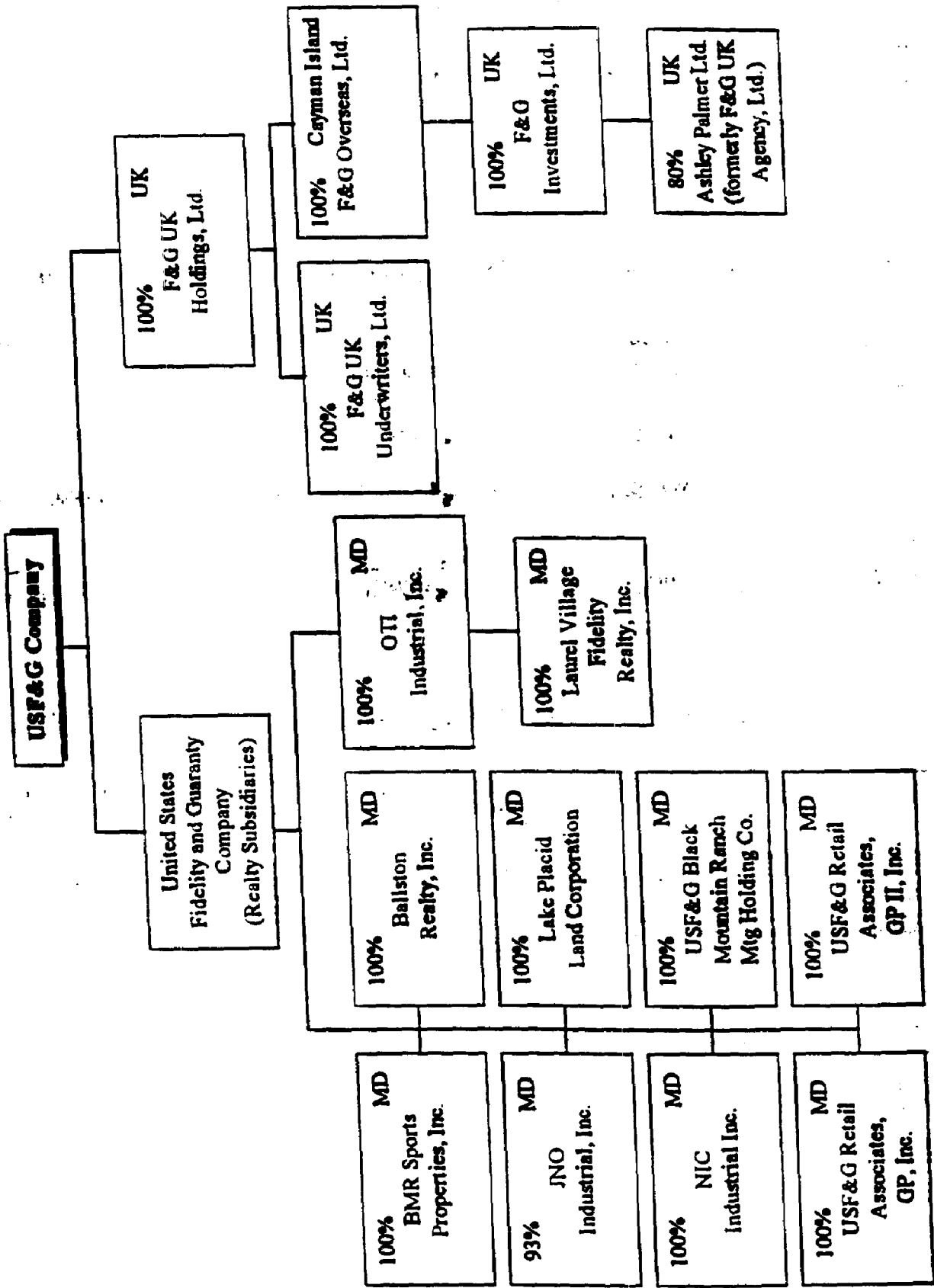




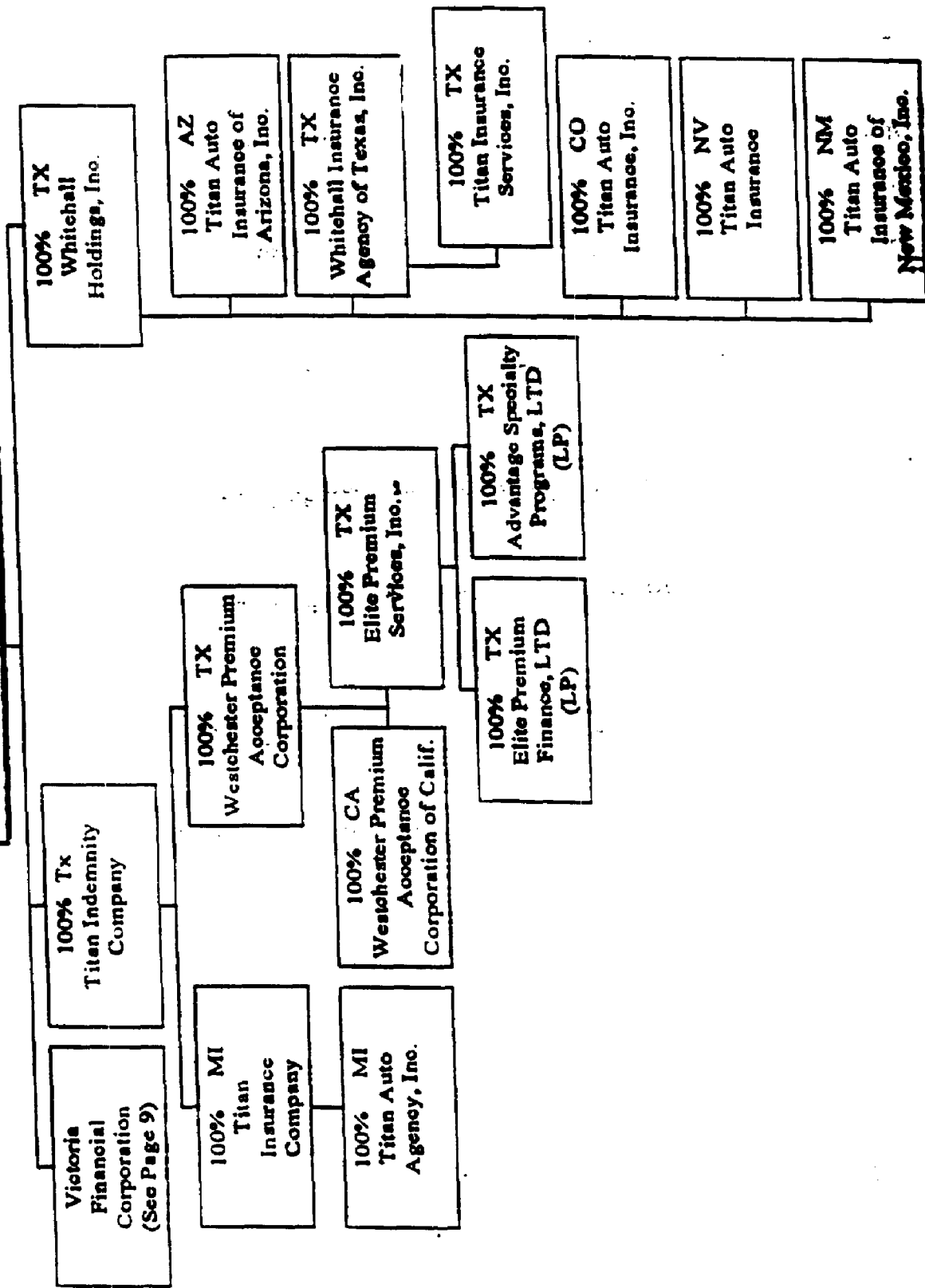
USF&G Realty, Inc.







THI Holdings (Delaware), Inc.



THI Holdings (Delaware), Inc.

**100%
Victoria
Financial
Corporation**

**100%
Victoria Insurance
Agency, Inc.**

**100%
Automated
Brokerage
Services, Inc.**

**100%
Victoria Fire &
Casualty Company**

**100%
Victoria Select
Insurance
Company**

**100%
Victoria National
Insurance
Company**

**100%
Victoria Automobile
Insurance
Company**

**100%
Victoria Specialty
Insurance
Company**

Section 5.1(c) of Company Disclosure Letter

NONE

Section 5.1(d) of Company Disclosure Letter

Paragraph (i)

1. Filings under the Investment Advisers Act of 1940 and corresponding requirements of the Laws of the State of Maryland are required in connection with a change in ultimate control of Falcon Asset Management, Inc. and USF&G Realty Advisers, Inc., and may be required in connection with the USF&G Pacholder Fund, Inc.

Paragraph (ii)

1. Under the Company's Five Year and 365 Day Credit Agreements (for aggregate borrowings of up to \$450 million), an Event of Default will occur when any person or group of persons acquires beneficial ownership of 30% or more of the outstanding shares of common stock of the Company, or a majority of the board of directors of the Company changes. The credit agreements provide that banks holding 50% or more of the outstanding indebtedness may direct acceleration of amounts outstanding upon the occurrence and continuance of an event of default.

2. Under the Subordinated Debt Securities Indenture between the Company and Chemical Bank dated January 28, 1994 with respect to the issuance of \$220,000,000 Zero Coupon Bonds due 2009, upon a merger or share exchange the Company must execute a supplemental indenture providing that each outstanding Zero Coupon Bond shall have the right to convert into the securities receivable by holders of common stock as if such security had been converted immediately prior to the merger or share exchange.

3. It is an event of default of the lessees under the Lease Agreement among UML Leasing Inc., as lessor, and United States Fidelity and Guaranty Company and Fidelity and Guaranty Life Insurance Company, as lessees, dated September 28, 1990, as amended by a First Amendment dated October 15, 1993 and a Second Amendment dated November 30, 1994 (collectively, the "UML Lease"), if (i) any person or group of persons shall have acquired beneficial ownership of 30% or more of the outstanding shares of common stock of the Company or (ii) during any period of twelve consecutive calendar months, individuals who were directors of the Company on the first day of such period shall cease to constitute a majority of the board of directors.

4. Each of the Company's Surety Aggregate Excess of Loss Reinsurance Agreement, Surety First Excess of Loss Reinsurance Agreement, Surety Second Excess of Loss Reinsurance Agreement and Surety Third Excess of Loss Reinsurance Agreement provides that the agreement may be terminated by the reinsurers thereunder upon a change of control of the Company Insurance Subsidiaries that are parties to the agreements.

5. Pursuant to a Deed dated January 10, 1997 among the Society of Lloyds, F&G UK Investments Limited, and Ashley Palmer Limited, notice must be given to Lloyd's of a change in the managing agency's ultimate holding company.

6. Section 13(e) of the Collateral Management Agreement, dated as of August 28, 1997, between Mt. Washington CBO I, Limited, and Falcon Asset Management, Inc. provides that the agreement may be terminated by Mt. Washington CBO I, Limited if a material change in the ownership of shares in Falcon Asset Management, Inc. has occurred.

7. To the extent the Merger constitutes an "assignment", as such term is defined under the Investment Advisers Act of 1940, as amended, client consent may be required to be obtained with respect to the investment advisory agreements, including:

(a) Investment Management Agreement dated as of October 1, 1994 between The Midland Mutual Life Insurance Company and Falcon Asset Management, Inc.

(b) Investment Management Agreement dated as of September 23, 1996 between WMA International Corporation and Falcon Asset Management, Inc.

(c) Investment Management Agreement dated as of September 30, 1996 between Legal Mutual Liability Insurance Society of Maryland and Falcon Asset Management, Inc.

(d) Investment Management Agreement dated as of March 15, 1997 between RenaissanceRe Holdings Ltd. and Falcon Asset Management, Inc.

(e) Investment Management Agreement dated as of July 28, 1997 between Grand Pacific Life Insurance, Ltd. and Falcon Asset Management, Inc.

(f) Intercompany investment advisory agreements between Falcon Asset Management, Inc. and/or Falcon Asset Management (Bermuda), Ltd. and the Company and its insurance company subsidiaries.

(g) Agreements with USF&G Realty Advisors, Inc.

(h) Agreements with respect to USF&G Pacholder Fund, Inc.

8. The Sublease Agreement between Marland Leasing Corp., as lessor, and The Company, as lessee, provides that it is a condition precedent to the merger of the Company into another entity, to the consolidation of the Company with one or more other entities, and to the sale or disposition of all or substantially all the assets of the Company, that the surviving entity (or transferee of assets) shall deliver to the lessor an acknowledged instrument in recordable form assuming all obligations of the Company under the sublease. The Company has covenanted that it will not merge into another entity, consolidate with one or more other entities or sell all or substantially all of its assets unless it has complied with the provisions described above.

9. The Company is a party to two agreements with Applied Insurance Research that require the consent of Applied Insurance Research to any "assignment" of the agreements by the Company. As defined in Section 10.4 of the agreements, the term "assignment" includes "a merger, acquisition or change of control of the Company. These agreements are annual

agreements for licensing of certain catastrophe modeling software used by the Company. The aggregate annual payments under these agreements is less than \$600,000.

10. Also, see Section 5.1(h) of the Company Disclosure Letter with respect to, among other things, acceleration of vesting of stock options and shares of restricted stock or bonus arrangements, or certain rights granted under employment contracts, severance plans or stay put arrangements, in each case in the event of a change in control of the Company.

11. Five of F&G Re's finite risk assumption reinsurance agreements contain provisions giving the other party the right to terminate the agreements upon a change of control of F&G Re. In the event of termination, the other party would be entitled to receive a return payment of cash from F&G Re that would be approximately offset by a corresponding reduction in a liability on the Company's balance sheet. Such termination would, however, have a negative cashflow impact on the Company. The aggregate amount that could be repayable by the Company if all such agreements were terminated would be \$200 million.

Section 5.1(e) of Company Disclosure Letter

Set forth below is a description of the statutory financial statements provided or made available by the Company with respect to the Company Insurance Subsidiaries. Except as set forth below, the Company has not provided statutory financial statements for the Company Insurance Subsidiaries. The Company has provided audit opinions of Ernst & Young LLP with respect to the Statutory Financial Statements only as indicated below.

1. Statutory financial statements have not been provided with respect to Afianzadora Insurgentes; however, Afianzadora Insurgentes' balance sheet was reflected in the Company's consolidated GAAP balance sheet as of December 31, 1996, and Afianzadora Insurgentes' balance sheet and income statement were reflected in the Company's consolidated GAAP income statement and balance sheet for the quarters ended March 31, 1997, June 30, 1997 and September 30, 1997.
2. Financial statements for Bosworth Insurance Company, Ltd. were provided for the years ended December 31, 1995 and 1996. An audit opinion was provided with respect to both the 1995 and the 1996 financial statements.
3. Statutory financial statements for Discover Reinsurance Company were provided for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997. No audit opinion was provided with respect to the financial statements.
4. Financial statements for F&G International Insurance, Ltd. were provided for the years ended December 31, 1995 and 1996. An audit opinion was provided with respect to both the 1995 and the 1996 financial statements.
5. No financial statements were provided with respect to F&G Overseas, Ltd., which did not begin insurance operations until 1997.
6. Statutory financial statements for Fidelity and Guaranty Insurance Company were provided for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997. An audit opinion was provided with respect to both the 1995 and the 1996 financial statements.
7. Statutory financial statements for Fidelity and Guaranty Insurance Underwriters, Inc. were provided for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997. An audit opinion was provided with respect to both the 1995 and the 1996 financial statements.
8. Statutory financial statements for Fidelity and Guaranty Life Insurance Company were provided for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997. No audit opinion was provided with respect to the financial statements.
9. GeoVera Insurance Company was first licensed in 1997 and was not required to file an Annual Statement for 1996. A quarterly statement for the quarter ended June 30, 1997 was provided. This statement was not audited.

10. Statutory financial statements for Inner Harbor Reinsurance, Inc. were provided for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997. An audit opinion was provided with respect to both the 1995 and the 1996 financial statements.
11. Statutory financial statements for Mountain Ridge Insurance Company were provided for the year ended December 31, 1996. An audit opinion was provided with respect to these financial statements.
12. Financial statements for Northern Indemnity, Inc. were provided for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997. No audit opinion was provided with respect to these financial statements.
13. Financial statements for St. George Reinsurance, Ltd. were provided for the years ended December 31, 1995 and 1996. An audit opinion was provided with respect to both the 1995 and the 1996 financial statements.
14. Statutory financial statements for Thomas Jefferson Life Insurance Company were provided for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997. No audit opinion was provided with respect to these financial statements.
15. Statutory financial statements for USF&G Business Insurance Company were provided for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997. An audit opinion was provided with respect to both the 1995 and the 1996 financial statements.
16. Statutory financial statements for USF&G Family Insurance Company were provided for the years ended December 31, 1995 (partial year November 1995 through December 31, 1995) and 1996 and the six months ended June 30, 1997. An audit opinion was provided with respect to both the 1995 and the 1996 financial statements.
17. Statutory financial statements for United States Fidelity and Guaranty Company were provided for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997. An audit opinion was provided with respect to both the 1995 and the 1996 financial statements.
18. Statutory financial statements for USF&G Insurance Company of Illinois were provided for the years ended December 31, 1995 (partial year April 1995 through December 31, 1995) and 1996 and the six months ended June 30, 1997. An audit opinion was provided with respect to both the 1995 and the 1996 financial statements.
19. Statutory financial statements for USF&G Insurance Company of Mississippi were provided for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997. An audit opinion was provided with respect to both the 1995 and the 1996 financial statements.

20. **Statutory financial statements for USF&G Insurance Company of Wisconsin were provided for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997. An audit opinion was provided with respect to both the 1995 and the 1996 financial statements.**
21. **Statutory financial statements for USF&G Specialty Insurance Company were provided for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997. An audit opinion was provided with respect to both the 1995 and the 1996 financial statements.**
22. **Statutory financial statements for Victoria Specialty Insurance Company (formerly named Victoria Atek Insurance Company) were provided for the six months ended June 30, 1997. 1997 was the first year of operation for Victoria Specialty Insurance Company. An audit opinion was not provided with respect to these financial statements.**
23. **Statutory financial statements for Victoria Automobile Insurance Company were provided for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997. No audit opinion was provided with respect to these financial statements.**
24. **Statutory financial statements for Victoria National Insurance Company (formerly named Victoria Electra Insurance Company) were provided for the six months ended June 30, 1997. 1997 was the first year of operation for Victoria National Insurance Company. An audit opinion was not provided with respect to these financial statements.**
25. **Statutory financial statements for Victoria Fire & Casualty Insurance Company were provided for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997. No audit opinion was provided with respect to these financial statements.**
26. **Statutory financial statements for Victoria Select Insurance Company were provided for the years ended December 31, 1995 and 1996 and the six months ended June 30, 1997. No audit opinion was provided with respect to these financial statements.**
27. **No statutory financial statements have been provided with respect to USF&G Founders Insurance Company because this company was not formed until December 1997.**
28. **No statutory financial statements have been provided with respect to USF&G Pacific Insurance Company because this company was not formed until December 1997.**
29. **No statutory financial statements have been provided with respect to USF&G Small Business Insurance Company because this company was not formed until December 1997.**

30. No statutory financial statements have been provided with respect to USF&G West Insurance Company because this company was not formed until December 1997.
31. Statutory financial statements have not been provided with respect to the Company's participation in Lloyd's Syndicate 1211; however, this participation is reflected in the Company's GAAP financial statements for the year ended December 31, 1996 and the quarters ended March 31, 1997 and June 30, 1997.
32. The Company has not provided statutory financial statements or related audit opinions with respect to Titan Indemnity Company and Titan Insurance Company. The Company has delivered or made available a copy of the Titan merger proxy statement, which included summary financial information for Titan Holdings, Inc. for the nine months ended September 30, 1997 and 1996 and the years ended December 31, 1996, 1995, 1994, 1993 and 1992.

Certain of the Company Insurance Subsidiaries were formed after January 1, 1994, and were subject at the time of formation to routine organizational examinations. The Company has not provided any copies of these organizational examinations. In addition, the Company has not provided examination reports with respect to Titan Indemnity Company or Titan Insurance Company.

During 1997, the Company issued 22,000 restricted Shares to Kevin Nish under the terms of a Restricted Stock Agreement.

The Company paid bonuses, issued stock options, paid long term incentive compensation and adjusted salaries in March, 1997. Such payments and adjustments were made in March 1997 in the ordinary course. See also Section 5.1(h) of the Company Disclosure Letter.

The information provided with respect to the last sentence of Section 5.1(f) relates only to senior vice presidents and above (i.e., Grade 21 and above) and does not include any employee of a Subsidiary whose title is senior vice president or above if such person does not have an employee grade that is at least Grade 21.

Section 5.1(g) of Company Disclosure Letter

Non-claim Litigation:

John Kelly Smith

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Items with an asterick (*) have "change in control" or similar provisions.

Section 5.1(h) of Company Disclosure Letter

Item (i)

Set forth below is a list of the Company's Compensation and Benefit Plans:

1. Summary Plan Description (USF&G Employee Benefits Book)
2. USF&G Corporation Flexible Benefits Plan, as amended and restated effective January 1, 1996, including the Health Care Flexible Spending Account, the Dependent Care Flexible Spending Account, USF&G Corporation Point-of-Service Self-Funded Plan, and the USF&G Corporation Employee Dental Benefit Plan
3. Group Life Insurance Policy issued to United States Fidelity and Guaranty Company by Connecticut General Life Insurance Company
4. Group Insurance Contract issued to United States Fidelity and Guaranty Company by Fidelity and Guaranty Life Insurance Company with respect to Accidental Death and Dismemberment Coverage
5. USF&G Long-Term Disability Plan, as amended and restated effective as of [January 1, 1996]
6. USF&G Short-Term Disability Plan, as amended and restated effective as of January 1, 1993
7. Group Long Term Care Insurance Policy for employees of United States Fidelity and Guaranty Company issued by Aetna Life Insurance Company
8. Financial Planning for employees of USF&G provided by The Ayco Company, L.P. pursuant to a Service Agreement dated as of January 1, 1996 between The Ayco Company, L.P. and USF&G Corporation
9. The USF&G Legal Plan effective January 1, 1996
10. Blanket Accident Policy issued to United States Fidelity and Guaranty Company by the Life Insurance Company of North America
11. USF&G Corporation Retiree Medical, Dental and Medicare Supplement Plan effective as of January 1, 1993
12. Retirement Pension Plan for U.S.A. Employees of USF&G Corporation
13. USF&G Supplemental Retirement Plan
14. USF&G Capital Accumulation Plan (formerly USF&G Savings and Investment Plan)
15. Executive Deferred Bonus Payment Plan
16. Director Retirement Plan (applicable to Walker, Harvey, Allard and Frey)
17. *Stock Option Plan of 1987 (Section IVa)
18. *Stock Option Plan of 1990 [Section IV(a)]

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19. ***Amended and Restated Stock Incentive Plan of 1991 [Section I(c), III(c)]**
20. ***Employee Stock Option Plan of 1992 [Section III(c)]**
21. ***Employee Stock Option Plan of 1994 (Resolution #3)**
22. ***Stock Incentive Plan of 1997 [I(e), III(c)]**
23. **Discover Re Stock Option Plan**
24. **Titan Stock Option Plan**
25. **Amended and Restated 1993 Plan for Non-Employee Directors**
26. **Stock Appreciation Rights Plan and Agreement for Paul Ingrey**
27. ***USF&G Corporation Stock Incentive Plan of 1991 Restricted Stock Agreement with Kevin Nish [Section I(b)(ii)]**
28. **The Company has agreed to pay Fred Gurba (Surety) a \$100,000 retention bonus that is payable in 1998 (approximately April) and has had preliminary discussion with him regarding a restricted stock grant.**
29. **Employment Agreement dated November 10, 1993 with Norm Blake**
30. ***USF&G Supplemental Executive Retirement Agreement (relating to Norman P. Blake, Jr.) [Section 16]**
31. **Executive Consulting Agreement with Paul Ingrey**
32. **Employment Agreement with George Estes of Discover Re**
33. **Employment Agreement with Scott Doyle of Discover Re (currently the terms of a new employment and consulting agreement are being negotiated with Scott Doyle)**
34. **[Agreements with Dan Dennison and Michael Buck of Castle Pines]**
35. **USF&G Corporation Severance Policy and 1996 5500**
36. ***Compensation and Benefit Plans of Discover Re, including Founders Award Incentives Plan, Founders LTIP, Key Employees Annual Incentive Plan, Health & Welfare Plan and Discover Re 401(k) Plan.**
37. **Compensation and Benefit Plans of Victoria Plans Financial Corporation, including 1996 Victoria Sales Incentive Plan and Victoria 401(k) Plan, Victoria Health & Welfare Plan.**
38. **Compensation and Benefit Plans of Castle Pines, including 401(k) plan, flexible benefits plan and welfare benefits plan**
39. **Compensation and Benefit Plans of English Turn, including flexible benefits plan and welfare benefits plan**
40. **Compensation and Benefit Plans of Northern Indemnity, Inc.**
41. ***USF&G Corporate LTIP Plan [I(g), III(g)]**
42. **Management Incentive Plan (MIP)**
43. **Value Involvement Performance Plan (VIP)**
44. **IS Partners Compensation Plan; "Catalyst" Award Program; IS Principles Plan**

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45. IS Catalyst - Information Services Project Bonus Incentive Plan
46. Claim Compensation Program
47. Realty Advisors 1997 Compensation Program
48. Afianzadora Insurgentes Executive Compensation Plan
49. CIG GM/RVP MIP & Emerging Distribution Compensation Plan
50. FBIG Plans, including the CAS Compensation Plan, MIP, APM, Supervising Underwriter.
All FBIG plans are currently under review.
51. Falcon SVP Compensation target levels and broad bonding structure
52. CRC Compensation Plan
53. F&G Re 1996 Plan target levels
54. Charter House Incentive Bonus Plan
55. Home Office and Field Executive Management Compensation Plan targets
56. F&G Life Compensation Plans
57. In the ordinary course of its business, USF&G makes offer letters to certain potential employees setting forth certain of the terms of their employment.
58. Executive Split Dollar Life Plan
59. F&G Re, Inc. has employment agreements with three employees in Hong Kong and one employee in the United Kingdom.
60. Additional Charter House agreements
 - Employment Agreement dated January 1, 1997 between F&G Insurance Services, and David Cooper
 - Employment Agreement dated January 1, 1997 between F&G Insurance Services, and Del Powell
 - Employment Agreement dated January 1, 1997 between F&G Insurance Services, and Dave Van Dyke
 - Employment Agreement dated January 1, 1997 between F&G Insurance Services, and Travis Shamel
 - Employment Agreement dated January 1, 1997 between F&G Insurance Services, and Delbert Butts
61. Afianzadora Insurgentes Compensation and Benefit Plans
 - See List of Insurgentes benefit plans attached hereto as Exhibit A to Section 5.1(h) of Company Disclosure Letter
 - Employment Agreements with certain employees of Afianzadora Insurgentes
 - Letter Agreement dated May 5, 1997 with John Welch, Chief Financial Officer of Afianzadora Insurgentes

- Inpatriate agreement with an employee from Afianzadora Insurengtes working in the United States

62. Titan Compensation and Benefit Plans

- In connection with the acquisition of Titan, employment agreements were entered into (or are in negotiation) with Mark E. Watson, Jr. (Consulting Agreement and Non-competition Agreement), Thomas E. Mangold, Mark E. Watson III, Michael Arledge and Merle Harris.

Employment Agreements in place at the time of the transaction that are still in force consist of the following:

- Employment Agreement with Michael W. Grandstaff, dated January 1, 1994: Agreement renews annually with base salary at \$100,000, and provides for additional bonus and profit sharing.
- Employment Agreement with Dennis Walsh, dated February 1, 1996: four (4) year term, \$80,000 base salary.
- Employment Agreement with Raymond E. Fuson, dated September 13, 1996: terminable at will.
- Employment Agreement with Embrey C. Stultz, III, dated October 1, 1994: three (3) year term, \$84,000 base salary plus bonus.
- Consulting Agreement with Ernest Solomon, dated May 1, 1995: five (5) year term.
- Consulting Agreement with Stephen Easley, dated February 1, 1996.
- Employment Agreement with Terry Nolan, dated July 1, 1997: Base Salary \$95,000. If his position is eliminated before July 1, 1998, due to change of control, Titan will provide closing costs on his home in San Antonio and pay to ship his belongings back to Vail, CO.
- Employment Agreement with Ned Watson, dated June 16, 1997: One Year Period ending June 15, 1998, Base Salary \$130,000, bonus up to fifty percent (50%) of base.
- Employment Agreement with Scott Fitkin, dated June 9, 1997: Base Salary \$125,000 plus \$15,000 sign on bonus, bonus up to thirty (30%) percent of base.
- Employment agreements with WPAC marketing employees (Woodson A. Huggins - Base pay: \$35,000 + commissions; Linda S. Leos - Base pay: \$30,000 + commissions; Lisa Brightman - Base pay: \$30,000 + commissions; Jack Shell - Base pay: \$30,000 + commissions)
- At the time of the acquisition commitments also were made with respect to severance, retention and benefits to all employees providing in general as follows: (i) two weeks

severance per year of service, minimum of two months; (ii) up to one year's severance for certain officers; (iii) protection if recently relocated; and (iv) substantially the same benefits for one year and no subsequent overall reduction of benefits

- Offer letter for Titan Public Entity State Manager (including equity incentives).
- Certain affiliates of Titan have assumed, pursuant to the Tri-West Asset Purchase Agreement, the outstanding contractual obligations under various employment agreements with employees of Tri-West (many of whom had been prior owners of agencies whose assets were sold to Tri-West).
- See List of Titan benefit plans attached hereto as Exhibit B to Section 5.1(h) of Company Disclosure Letter.
- Titan Employment Retention and Severance letters (approximately 75-100 individuals).

63. Compensation and Benefit Plans relating to Ashley Palmer, including the following:

- Ashley Palmer Holdings Limited Staff Pension Scheme with Lloyd's Superannuation Fund (the "Ashley Palmer Scheme"). The obligations under the Ashley Palmer Scheme were transferred to Ashley Palmer Limited in connection with the purchase of certain assets of Ashley Palmer Syndicates. See Item (viii) below for additional information regarding the Ashley Palmer Scheme.
- Ashley Palmer Limited operates a private health insurance arrangement for the benefit of its UK employees which is insured with "BUPA".
- Ashley Palmer Limited provides 26 weeks of short term disability and has committed in the employment agreements to establish a permanent health insurance scheme providing benefits after 26 weeks of consecutive incapacity.
- Service [Employment] Agreement dated December 31, 1996 among Ashley Palmer Limited, David Reed and USF&G Corporation
- Service [Employment] Agreement dated December 31, 1996 among Ashley Palmer Limited, Justin Tweedie and USF&G Corporation
- Service [Employment] Agreement dated December 31, 1996 among Ashley Palmer Limited, Martin Ashley and USF&G Corporation
- Service [Employment] Agreement dated December 31, 1996 among Ashley Palmer Limited, Nicholas Boardman and USF&G Corporation
- Service [Employment] Agreement dated October 13, 1997 between Ashley Palmer Limited and Simon Allport
- Service [Employment] Agreement dated August 1, 1997 between Ashley Palmer Limited and Andrew Steel McKinna
- Offer of employment to Christopher Price by Ashley Palmer Limited dated October 27, 1997

64. *USF&G Corporation Senior Executive Severance Plan

65. *USF&G Corporation Key Executive Severance Plan

66. *F&G Life Executive Retention and Severance Plan
67. Kim Rich \$100,000 relocation bonus
68. Shalom Saar Agreement (severance and consulting)
69. F&G Life Sales Incentive Plan (50 participants in sales and marketing)
70. Tuition Reimbursement Plan
71. CIG Workers Compensation Severance and Retention Agreements
72. CIG Transportation Transition Team Severance and Retention Agreements
73. John Reed Separation Agreement
74. Elizabeth Dunn Separation Agreement
75. Joe Thielen Separation Agreement
76. Marita Zuraitis Relocation Loan Agreement

Item (v)

1. Retirement Pension Plan for U.S.A. Employees of USF&G Corporation.

The actuarial valuation for the most recent plan year ended prior to the date hereof has not been completed as of the date hereof. However, based on the actuarial report for the plan year ended December 31, 1996, the actuarially-determined accrued liabilities was \$332,150,032 and the market value of assets was \$348,362,546. A copy of this actuarial report has been provided to Parent.

2. USF&G Supplemental Retirement Plan.
3. USF&G Supplemental Executive Retirement Agreement (Norman P. Blake, Jr.)

[Liabilities for Items (v)(2) and (3) are reflected on Company Financial Statements in accordance with GAAP.]

4. Ashley Palmer Scheme.

No amounts due in respect to this scheme were unpaid, as of March 31, 1995. By letter dated July 25, 1996, from Watson Wyatt, actuaries, the Ashley Palmer Scheme was sufficiently and effectively funded on an ongoing basis as of March 31, 1995.

Item (vi)

1. The following Compensation and Benefit Plans provide retiree health and life benefits:

(a) **USF&G Corporation Executive Split Dollar Life Insurance Plan.**

Provides coverage of five times basic salary for Executives Grade 23 and above and four times basic salary for Executives Grades 19 through 22. Executives become 25% vested after five years, grading annually to 100% vesting after 15 years. If a covered employee retires or becomes disabled, Company contributions continue for the total period specified by the Plan (generally 10 years if Executive was age 55 or older at the Plan's effective date or, if Executive was younger than 55, until the later of age 62 or 20 years).

(b) **USF&G Retiree Medical, Dental and Medicare Supplement Plan effective as of January 1, 1993**

(c) **In connection with Mr. Ken Cihiy's original employment in May 1993, the Company contractually agreed to provide certain retiree health benefits to Mr. Cihiy on attainment of age 50. Mr. Cihiy has vested in this contractual benefit.**

Item (vii)

The change in control contemplated by the Merger may (x) entitle certain employees of the Company or its Subsidiaries to severance pay or (y) accelerate the time of payment or vesting or trigger payment of compensation or benefits under, or increase the amount payable or trigger other material obligations pursuant to those Compensation and Benefit Plans listed in Item (i) which have been designated with an asterick.

Upon a change of control (as defined below), the employee shareholders of Ashley Palmer Limited may elect to terminate their Service Contracts with the Company and receive the value of their salary and other contractual benefits which they would otherwise have received under their Service Contracts through January 1, 2000 (pursuant to Section 14 of their Service Agreements).

Martin Ashley will be entitled to employment benefits through September 3, 2002, including full pension. In addition, the employees have the right to put and the Company has the right to call their shares of Ashley Palmer Limited stock (pursuant to Section 8.8 of the Shareholders Agreement). "Change of control" is defined as "a sale, merger, acquisition, consolidation or other transaction involving USF&G [Corporation] pursuant to which USF&G is not the surviving ultimate holding company and within the 6 month period immediately thereafter both the President of F&G Re . . . and the Chief Executive Officer of the surviving ultimate holding company" are different than those immediately preceding the event. For purposes of the Service Agreements, an acquisition of more than 50% of the issued share capital of the Company by entities unaffiliated with USF&G is also deemed a change of control.

The USF&G Corporation Senior Executive Severance Plan and the USF&G Corporation Key Executive Severance Plan each provide that the individuals covered thereunder will receive a cash payment within 30 days of the approval of the merger by the Company's stockholders equal to the value of all outstanding long-term incentive plan awards. These plans provide further severance benefits ranging from one to three times compensation, plus benefit continuation, acceleration of deferred compensation and supplemental pension benefits and certain other

amounts (including tax gross-up payments for Executives in the Senior Executive Severance Plan).

All Company Stock Plans and awards thereunder provide for accelerated vesting as a result of the change in control contemplated by the Merger.

USF&G Supplemental Executive Retirement Agreement (Norman P. Blake, Jr.) provides for the acceleration of vesting of deferred compensation.

Paul Ingrey -- Stock Appreciation Rights Plan and Agreement providing for acceleration of vesting of stock appreciation rights (payable in cash).

Discover Re Founders Annual Incentive Plan provides for vesting of deferred bonus amounts upon the change in control contemplated by the Merger.

Discover Re Founders Long-Term Incentive Plan provides for acceleration of vesting and payment of deferred shares (based on the maximum target award) upon the change in control contemplated by this Merger.

F&G Life Executive Retention Incentive Plan provides for accelerated vesting and payment of certain amounts in the event of a change in control of F&G Life. It is not anticipated that the change in control contemplated by the Merger will trigger payments under this Plan.

Item (xi)

Amounts payable to the following individuals pursuant to the USF&G Corporation Senior Executive Severance Plan may be characterized as an "excess parachute payment":

Anderson, Glenn
Blake, Jr., Norman
Cihiy, Kenneth
Hale, Dan
Lamendola, Robert
Lewis, Jr., Thomas
Lilienthal, Stephen
MacColl, John
Rich, Kim
Stern, Andrew
Stout, Harry

In addition, amounts received (or deemed to be received) by these individuals under the Company Stock Plans or other plans in which they participate may be taken into account in determining whether these individuals receive amounts characterized as "excess parachute payments."

TITAN BENEFIT PLANS

1. TITAN LIFE & DISABILITY

- A. **GROUP TERM LIFE/AD&D** (LIFE: 2 x annual salary to a maximum of \$100,000; AD&D: 2 x annual salary to a maximum of \$50,000) Standard Insurance Company.
- B. **SHORT TERM DISABILITY** (pays after 14 days of disability at 60% of the first \$3,333 of predisability earnings, reduced by Deductible income for 90 days minus the length of the waiting period; maximum would be \$2,000 weekly) Standard Insurance Company.
- C. **LONG TERM DISABILITY** (pays after 90 days of disability at 60% of the first \$16,667, or a maximum of \$10,000 monthly before reduction by deductible income; pays to age 65, death or return to work).
- D. The above benefits are provided effective on the first day of the month following 30 days of employment.

2. TITAN MEDICAL

- A. **MEDICAL INSURANCE** in San Antonio, and all other locations with exception Michigan: Provided by Prudential Health Care after 90 days of employment; Employees share in the cost of the coverage at approximately 12.5% of the total premium; total premium being determined by the tier (i.e. employee only, employee and spouse, employee and children or family).
- B. **MEDICAL INSURANCE** in Michigan: Provided by Blue Cross/Blue Shield; a managed care Point of Service Plan. Employees pay a portion of premiums at approximately 12.5% of total premium. Eligibility for Coverage is after 90 days of employment.
- C. **DENTAL INSURANCE** at all locations (provided by Prudential Health Care after 90 days of employment); with a choice of a traditional plan or a DMO (managed care); This is a 100% employer sponsored plan; Titan pays the full premium regardless of tiers of coverage.
- D. **FLEXIBLE SPENDING ACCOUNT**: Provided by Prudential Service Bureau; Features include Dependent Care Reimbursement, Unreimbursed medical, and pre-tax healthcare premiums; enrollment eligibility requires 90 days of employment.

3. TITAN RETIREMENT

401(k): Administered by Prudential Mutual Funds; Eligibility for enrollment -- first quarter following one year of employment. See attached Titan Holdings, Inc. 401(k) Plan Summary Plan Description.

4. TITAN VACATION/SICK DAY

A. **PAID TIME OFF: (SAN ANTONIO) (combination of vacation and sick leave).**

Begins accruing on first day of employment at:

FULL TIME EMPLOYEES: 10 hours/month for 1-4 years of service; 13.13 hrs./mo. for yrs. 5-9; 16.25 hrs. for yrs. 10-14; 19.38 for yrs. 15+. **Maximum carry-over from one year to next is 75 hours; excess goes into "reserve" bank for medical emergencies, i.e. FMLA.**

PART TIME EMPLOYEES: Accrue at a reduced rate depending on the number of hours per week they are scheduled to work.

* No PTO can be taken the first three months of employment.

B. **VACATION TIME: (MICHIGAN) Two weeks of vacation per year, to be used by a pre-identified date; SICK LEAVE is given at one week per year, can be carried over year to year up to a maximum of 65 days or 520 hours.**

C. **VACATION/SICK LEAVE: (RETAIL): Vacation: one week after one year; two after two years; three after five or more; Sick: accrues at rate of 4 hrs./mo. for a total not to exceed one week or 40 hrs./yr. of employment.**

D. **HOLIDAYS OBSERVED: New Year's Day, Good Friday, Fiesta Friday (in San Antonio), Memorial Day, Fourth of July, Labor Day, Thanksgiving and following Friday, Christmas Day. Other locations substitute a "floating" holiday for the Fiesta Friday.**

E. **DRC's HOLIDAYS OBSERVED: New Year's Day, Memorial Day, Fourth of July, Labor Day, Thanksgiving Day, Christmas Day.**

F. **CONTINUING EDUCATION PROGRAM: IIA/CPCU classes offered -- registration fees and books paid by Titan; College courses that are job related are reimbursed with a passing grade.**

5. **See attached Benefits Plan, Blue Cross/Blue Shield Blue Care Network of Michigan, Community Blue PPO, Plan 2 Including PCD, Preferred Rx Prescription Drug Program, Vision Program.**

6. PEP BONUS INFORMATION

Performance through Participation employee profit sharing program. Every full-time employee working for Titan Auto in Michigan and Arizona (exclusive of agency employees) who was employed for the most recent full quarter is an eligible participant. PEP bonuses are allocated from a PEP bonus pool based on (i) 50% allocated evenly to each participant and (ii) 50% allocated to each participant based on his or her relative base salary. Payments are made within forty-five (45) days after the end of each quarter (but not until the independent audit is completed at yearend). The PEP bonus pool, which is subject to board approval, is currently 2% of Titan Auto pre-tax net income. Any employee 401(k) matching expenses are deducted from the pool and, accordingly, the pool ends up running close to 1.5% of pre-tax net income. For the first three quarters of the year, the Company pays 1.25% of pre-tax net income and then settles up for the full pool at yearend.

AFIANZADORA INSURGENTES
BENEFITS INFORMATION
E C O N O M I C B E N E F I T S

MONETARY BENEFITS

GENERAL BENEFITS.

1. Annual Bonus. Annual Bonus based on seniority, 30 days of salary from 1 to 3 years, 35 days of salary from 4 to 6 years, 40 days of salary after 6 years (days of monthly base salary, including if such is the case, seniority compensation). It is granted each year, 50% on the first half of November and the remaining 50% on the first half of December.
2. Profit Sharing. Due to the transfer of the personnel or the Bonding Company to the services subsidiary, there is no obligation to make this payment; simultaneously, a different compensation has been created, which is equivalent to 1 month of salary, with a maximum of 8 minimum monthly banking salaries, payable annually. (Clause 40 of the Collective Bargaining Agreement).

In accordance to the Federal Labor Law, personnel shall have a right to perceive 10% of the company's income.
3. Workers Social Security Quotas. The institution pays the social security quotas corresponding to the employees.
4. Vacation Premium. A 50% premium on the base salary is paid for the vacation period, payable at the request of the worker without exceeding the year during which it is entitled to it.
5. Food Benefits (Despensa). This benefit disappeared with the creation of the services subsidiary.

A monthly amount of \$20.00 is paid by means of food coupons for each worker and for each relative who depends on him (wife and children) and an additional \$5.00 for each business day of the month.

6. Savings Fund. The institution contributes on a monthly basis to the fund, 13% of the monthly salary with a maximum equivalent to 13% of 10% general monthly minimum wages of the corresponding region.

The withdrawal of principal and interest accrued by the contributions of the company and the workers shall be made on an annual basis (loans are not granted against the Savings Fund).

7. Seniority Premium. This benefit disappeared with the creation of the services subsidiary.

With a seniority of five years, the worker shall be entitled to 2.0833% of the minimum monthly banking wage in effect in the location, which shall be increased in the same percentage every five years until forty years are reached.

The payment shall be made on a pro-rata basis every fifteen days and shall be a part of the worker's monthly salary.

Seniority in Years	Factor %
5 to 9 years	2,08333
10 to 14 years	4,16666
15 to 19 years	6,24999
20 to 24 years	8,33332
25 to 29 years	10,416665
30 to 34 years	12,49998
34 to 39 years	14,58331
40 or more years	16,66664

INDIVIDUAL BENEFITS.

8. Premiums based on Results. According to the specific characteristics of certain titles, the following types of premiums based on results shall be applicable:

Base. Intended for personal subject to evaluation based on goals and income (granted semi-annually).

Management. Intended for the support personnel from the manager level (granted) to upper levels (granted semi-annually).

Productivity. Intended for unionized and non-unionized personnel which do not receives premiums of any other kind (granted annually).

Legal. Intended solely for the legal area, based on the results of proceedings, the supply of funds and the recovery of claim payments (granted quarterly).

9. Automobile Bonus. Special Compensatory Premium granted through the salary, in accordance with the following schedule:

<u>Title</u>	<u>Monthly Bonus</u>
Directors	\$4,100.00
Under-Directors	\$3,200.00
Managers	\$2,300.00

10. Marriage Bonus. This benefit disappeared with the creation of the services subsidiary.

The sum of \$600.00 is granted once, with a minimum seniority of 3 years.

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NON MONETARY BENEFITS

GENERAL BENEFITS.

11. Medical Service. The institution concerned for the health of its personnel and retired and pensions personnel, as well as other entitled parties, provides Complete Medical Services in accordance to the provisions of the substitution agreement with the Mexican Social Security Institute.

It operates through private doctors, medical institutions, pharmacies, laboratories and vision centers at each working site.

12. Life Insurance. Personnel and pensioned personnel are covered by a Life insurance covering (i) natural death with a benefit of 40 times the last base monthly salary or pension and (ii) accidental death with the double of such amount.

13. Pension Plan. AAA Plan: Life pension (indexed in accordance to the National Consumer Price Index) at 65 years of age and a minimum seniority of 15 years. Possible Guaranteed Pension.

2.5% for each year of services calculated at the average salary of the two previous years.

Each worker at the age of fifty-five years with a minimum seniority of thirty five years, or sixty years of age notwithstanding his seniority, shall be entitled to a retirement pension for life. This pension is supplementary to the old age and early retirement granted by the Mexican Social Security Institute.

The amount of this pension is determined considering 2.5% for each year of services at the average monthly salary for the previous five year period including the complete Annual Bonus.

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14. Vacations. Personnel shall be entitled to an annual vacation period according to the following schedule:

<u>Seniority in Years</u>	<u>Number of Business Days</u>
1 to 3 years	10
4 to 9 years	15
10 to 24 years	20
25 years and above	20
1 to 10 years	20
11 to 15 years	25
16 years and above	30

Employees shall be entitled to their annual period of vacations within the six months following the maturity of each year of services. These vacations are not cumulative and may not be exchanged for a consideration.

15. Non-Working Days. The days considered as non-working on which the employees shall be entitled to their salary are the following:

- January 1st.
- February 5
- Thursday and Friday of Easter
- May 5
- September 16
- November 2
- November 20
- December 1st.

Every six years, in the event there is a change in the country's presidency.

- December 25
- The days determined by the local or federal election laws for those days on which local elections are going to take place.

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Additionally:

- October 12
 - November 1st.
 - December 12
16. Sports, Arts and Culture. The institution shall grant facilities and financial aid required for the promotion, development and practice of athletic, artistic and recreational activities a month the employees.
 17. Scholarships and Seminars. The institution shall grant facilities for seminars, courses, conferences and any other training courses.
 18. Death. In the event of natural death of an employee or of a person with life long pension, the persons designated as beneficiaries shall have the right to a life insurance equivalent to 40 months of salary or pension, and 80 months of salary or pension in the event of accidental death.

In case of death, permanent incapacity or disability of an employee in service or a retired employee with life long pension, his beneficiaries shall receive from the institution:

- a. six months of salary or pension to which the employee or retired employee was entitled to at the time the death occurred;
- b. funeral expenses for up to two months of such salary or pension;
- c. 50% of the salary or pension that the employee received at the moment of his death payable monthly during the eighteen months following the death;

All of these benefits shall not exceed forty times the minimum bank salary corresponding to such economic zone.

- 19. Disability. In the event of disability due to labor accidents, the employee shall be entitled to 50% more of the benefits established under the Social Security Law.
- 20. Insurance for Major Medical Expenses: The institution shall provide to the employees located in a state of the United Mexican States, where the General Medical Service is not contracted, an insurance policy for \$500,000.00 (Five Hundred Thousand Pesos) against payment of \$250.00 (Two Hundred and Fifty Pesos).
- 21. Uniforms. For purposes of maintaining a good institutional image, all unionized secretaries shall have the right to receive two uniforms per year.
- 22. Check-Up for Executives. Third level officers or Executive Directors, as well as their respective husband or wife shall have the right to an annual medical check-up.

OTHER BENEFITS

- 23. Loans through the C.U.P. The employee requesting a loan with preferential rates to the Credit Unit for Personnel (C.U.P.) must waive to the conditions of the loan-benefit he is entitled to. Below is the description of the principal requirements for the granting of loans from the C.U.P.

Type of Loan: (a) Car
 (b) Mortgage

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If the employee has any amount outstanding under an automobile loan, the employee shall contract a full coverage policy.

25. Life Insurance Contracted by a Mortgage Loan Received. The employee shall contract and pay a life insurance for an amount equal to the unpaid balance of the loan, designating the institution as first beneficiary.

Additionally, the employee shall obtain insurance against fire, explosion and earthquake for the total value of the real estate.

Both group insurances are negotiated by the institution at a preferential cost and are discounted every fifteen days through the pay-roll, until the mortgage loan is paid in full.

Section 5.1(i) of Company Disclosure Letter

A. See Section 5.1(m)(v) of the Company Disclosure Letter regarding pending tax audits.

B. The Company's indirect, wholly-owned subsidiaries **Falcon Asset Management, Inc.** and **USF&G Realty Advisors, Inc.** are registered investment advisors under the **Investment Advisors Act of 1940**, as amended, and, as such, are subject to periodic review by the **SEC**. The Company has no knowledge that any such review is pending.

C. The State of **Ohio** is currently conducting a review of **Victoria Fire & Casualty Company's** compliance with state escheat laws.

Section 5.1(j) of Company Disclosure Letter

NONE

Section 5.1(k) of Company Disclosure Letter

Item (ii)

200, 300, and 400 Atlanta Technology Center. The Owner of these three buildings is a subsidiary of Fidelity and Guaranty Life Insurance Company. The Owner, in the process of selling an adjacent parcel known as 100 ATC, discovered certain groundwater contamination, which the Owner believes was caused by a nearby dry cleaner. Subsequent to the discovery the Owner notified the Georgia Environmental Protection Division and on January 10, 1997 that Division sent a letter to the Owner stating that 100 ATC would not be listed on the Georgia Hazardous Site Inventory. The parcel was subsequently sold on June 19th, 1997 for \$2,447,910 and the sale was structured with a view to minimizing ongoing liability to the Owner. No groundwater tests were performed on 200, 300 and 400 ATC. The Owner is currently negotiating a contract of sale for the 200, 300 and 400 parcels for \$11,500,000. The potential buyer has been put on notice of the groundwater contamination on the 100 parcel and plans to perform groundwater tests as part of its due diligence.

Item (iii)

100 Atlanta Technology Center. A subsidiary of Fidelity and Guaranty Life Insurance Company previously owned an improved parcel in Atlanta, Georgia. The subsidiary, in the process of selling the parcel, discovered certain groundwater contamination, which the subsidiary believes was caused by a nearby dry cleaner. Subsequent to the discovery the subsidiary notified the Georgia Environmental Protection Division and on January 10, 1997 that Division sent a letter to the subsidiary stating that 100 ATC would not be listed on the Georgia Hazardous Site Inventory. The parcel was subsequently sold on June 19th, 1997 for \$2,477,910 and the sale was structured with a view to minimizing liability to the subsidiary.

Old Orchard. A subsidiary of the Company acquired an office development through foreclosure in 1994. The Fidelity and Guaranty Life Insurance Company and United States Fidelity and Guaranty Company previously held loans on the property. Certain hazardous wastes were discovered on the parcels prior to foreclosure. The subsidiary only purchased at the foreclosure sale the portion of the property believed to be clean and the subsequent sale of the parcel in 1996 for \$8,500,000 was structured to minimize liability from any contamination.

Section 5.1(l) of Company Disclosure Letter

NONE

Section 5.1(m) of Company Disclosure Letter

Item (iv)

Latest year examined was 1981. Statute open from 1983 forward due to net operating loss carryover position.

Item (v)

IRS Examinations:

1. The Internal Revenue Service is currently examining USF&G Corporation & Subsidiaries' (USF&G) 1992 and 1993 tax years. Their focus is primarily on the Life subgroup's tax reserve computations. There are basically three IDRs outstanding at this time. The actuaries are still in the process of calculating the absolute dollar impact of these IDRs. In connection with the audit, USF&G is filing 1992 & 1993 amended tax returns claiming approximately \$5.2 million of research and development credit carry forwards, of which \$5 million will be utilized in 1993. The IRS has indicated that these research and development claims will be carefully scrutinized.

2. Prior to the current audit, the IRS performed a full examination of USF&G's 1981 tax year and surveyed USF&G's 1989 tax year. The IRS decided not to formally examine the 1989 year due to USF&G's large net operating loss and resulting cash tax position for 1989.

3. The Internal Revenue Service has assessed \$300,000 in TIN (Taxpayer Identification Number) penalties for the 1994 year. A letter requesting abatement of penalties has been sent. Probability of abatement is favorable.

4. The Internal Revenue Service is currently performing an audit of English Turn Joint Venture, a partnership in which a Company Subsidiary is a general partner and tax matters partner, with respect to forgiveness of certain indebtedness in 1994.

State Tax Examinations:

1. Maryland Sales Tax Audit - Sales tax auditors are currently examining 7/1/91 through the present. The assessed liability is \$614,307 plus penalties and interest, which is currently being appealed. A large portion of this liability is generated by the auditor reclassifying installation charges as fabrication costs. Strategically, USF&G is presently working on mitigating this potential liability by utilizing a research and development exemption available against Maryland sales tax.

2. Kentucky Workers Compensation - Auditors are proposing \$500,000 refund to policyholders. The rates charged to customers did not equal amount submitted to Kentucky. The amounts submitted to Kentucky were correct. USF&G is currently appealing the decision and is working on abating penalties, netting interest, and obtaining better records.

3. Connecticut Sales Tax - Auditor is proposing a \$61,000 assessment (including penalty and interest) for the 1993 - 1996 tax years. USF&G is currently appealing.

4. Illinois Income Tax - Audit in progress. Refunds expected. Because Illinois grants a premium tax credit for income taxes paid by an insurance company, the audit should have no "bottom-line" impact.

5. The State of New York is currently conducting a sales tax audit of software sales by Insurance Automation Systems, Inc. IAS, a former operating subsidiary of Victoria Financial Corporation, operated a rating disk software business until the business was sold in March of 1997. The estimated exposure is approximately \$30,000.

6. The State of Texas has indicated its intention to perform a franchise tax audit of Titan Holdings, Inc. The Company estimates that the potential exposure to the Company is approximately \$72,000.

Item (x)

Favorable letter ruling exists under Section 382 of the Code.

Section 5.1(n) of Company Disclosure Letter

Collective bargaining agreement in force between Servicios Corporativos Insurgentes Serfin, S.A. de C.V. and the *Sindicato Nacional de Trabajadores de Instituciones Financieras y Bancarias, Organizaciones y Actividades auxiliares de crédito, empleados de oficina, similares y conexos de la República Mexicana.*

Section 5.1(o) of Company Disclosure Letter

NONE

Section 5.1(p) of Company Disclosure Letter

1. The following agreements contain provisions limiting the ability of the Company to solicit certain customers or compete for certain business:
- a) Under a Broker Agreement dated July 1, 1996 among Gemsco, Inc., Plus Excess, Inc., Professional Liability Underwriting Services, Inc., Plus Managers, Inc., (collectively, "Broker"), USF&G Specialty Insurance Company and United States Fidelity and Guaranty Company, the Broker has been appointed as the companies' exclusive agent for marketing or soliciting the USF&G Insurance Wholesalers E&O Program. This exclusive appointment is applicable only to USF&G Specialty Insurance Company and United States Fidelity and Guaranty Company. The Agreement may be terminated on ninety (90) days prior written notice.
 - b) General Agency Agreement dated November 21, 1996 between United States Fidelity and Guaranty Company and Insureco Services, Inc. This Agreement provides for Insureco to be the exclusive agent for mortgage and auto force placed property insurance. The agreement is for two years, but is currently terminable by United States Fidelity and Guaranty Company upon 180 days written notice as a result of a change in control of Insureco. The agreement applies to affiliates controlled by, controlling or under common control with United States Fidelity and Guaranty Company. If the agreement is terminated by change of control, no post termination restrictions will apply.
 - c) General Agency Agreement dated April 21, 1997 between Poe & Brown, Inc. and United States Fidelity and Guaranty Company relating to the sale of the Manufacturers Protection Plan. The Agreement is exclusive only if specific products are designated in writing as exclusive. No products have been nor will be designated as exclusive.
 - d) Agreement with Rollins Hudig of Missouri, Inc.
 - e) Strategic Agreement - Technology Market between United States Fidelity and Guaranty Company and Sedgwick, Inc. and certain of its subsidiaries, dated July 1, 1997. By the terms of the agreement, Sedgwick is granted the exclusive right to sell products jointly developed under the Agreement for a period of six (6) months in the surplus lines market. The agreement may be terminated upon ninety (90) days prior written notice.
 - f) Agreement and Amendment dated 1/31/97 between United States Fidelity and Guaranty Company, USF&G Family and Business Insurance Company and the Iowa Bankers Association. The agreement runs until 12/31/99 and designates the association's captive agency as the exclusive agent for Iowa financial institutions business. The exclusive arrangement may be terminated if written premium is less than \$1,000,000 in any year.
 - g) Independent Agency Agreement dated January 1, 1994, as amended by an Amendment to Independent Agency Agreement effective June 1, 1996, between Holmes, Murphy

& Associates, Inc., United States Fidelity and Guaranty Company, Fidelity and Guaranty Insurance Company, Inc., and USF&G Insurance Company of Wisconsin. The agreement appoints Holmes, Murphy as exclusive agent of USF&G Insurance Company of Wisconsin in Iowa. The agreement may be terminated upon 180 days prior written notice.

- h) **UK Cooperation Agreement between Independent Insurance Company Limited and United States Fidelity and Guaranty Company effective January 14, 1997. During the term of the agreement and for one (1) year after termination, United States Fidelity and Guaranty Company and its subsidiaries may not solicit policyholders of Independent that were introduced to United States Fidelity and Guaranty Company by Independent. The Agreement may be terminated upon ninety (90) days prior written notice.**
- i) **US Cooperation Agreement between United States Fidelity and Guaranty Company and Guardian Insurance Company of Canada dated June 4, 1997. The Agreement may be terminated upon ninety (90) days prior written notice. During the term of the Agreement and for one (1) year thereafter, USF&G and each of its insurance company subsidiaries may not solicit policyholders of Guardian that were introduced to USF&G by Guardian.**
- j) **Australasian Cooperation Reinsurance Agreement between FAI General Insurance Company Limited and certain of its affiliates and United States Fidelity and Guaranty Company and certain of its affiliates, dated as of October 10, 1997. During the term of the Agreement and for one (1) year thereafter, neither United States Fidelity and Guaranty Company nor its affiliates may knowingly solicit policyholders of FAI who were introduced to USF&G by FAI. In addition, during the term of the Agreement and for one (1) year thereafter, neither United States Fidelity and Guaranty Company nor its affiliates may knowingly sell an insurance product to any person on risks in Australia if that person is an FAI policyholder and FAI sells that line of insurance.**
- k) **US Cooperation and Reinsurance Agreement between FAI General Insurance Company Limited and certain of its affiliates and United States Fidelity and Guaranty Company and certain of its affiliates, dated as of October 10, 1997. During the term of the Agreement and for one (1) year thereafter, neither United States Fidelity and Guaranty Company nor its affiliates may knowingly solicit policyholders of FAI who were introduced to USF&G by FAI. In addition, during the term of the Agreement and for one (1) year thereafter, neither United States Fidelity and Guaranty Company nor its affiliates may knowingly sell an insurance product to any person on risks in Australia if that person is an FAI policyholder and FAI sells that line of insurance.**
- l) **Cooperation and Reinsurance Agreement for the Australasian Technology Market dated October 10, 1997 between FAI General Insurance Company Limited and its insurance company subsidiaries and United State Fidelity and Guaranty Company and its insurance company subsidiaries. During the term of the Agreement, United States Fidelity and Guaranty Company and its insurance company subsidiaries will not market or sell in Australia, New Zealand, the Islands of the South Pacific, Papua New Guinea, Hong Kong, Guam, and Saipan any insurance products that compete with the policies**

produced through the joint technology program. In addition, during the term of the Agreement United States Fidelity and Guaranty Company and its insurance company subsidiaries will not develop any insurance products for the Australasian Technology Market without first providing FAI the exclusive opportunity to participate with United States Fidelity and Guaranty Company in developing such insurance products. The Agreement may be terminated upon 180 days prior written notice, such notice not to be given on or before December 31, 1998.

- m) **Strategic Alliance Agreement for the International Technology Market between FAI General Insurance Company Limited and its insurance company subsidiaries and United States Fidelity and Guaranty Company and its insurance company subsidiaries, dated October 10, 1997. In countries other than Europe (excluding Russia), Latin America, South America, the United States and Australia, FAI shall be the lead company in developing strategic alliances with local insurance companies and shall have the exclusive right to develop such alliances. During the period in which the retrocession agreement relating to the alliance is in effect, United States Fidelity and Guaranty Company and its affiliates shall not market or sell insurance products in any country if such products compete with products covered by the alliance. The Agreement may be terminated upon 180 days prior written notice, such notice not to be given on or prior to December 31, 1998.**
- n) **CIGNA/USF&G Management Agreement for International Exposures between CIGNA Insurance Company and United States Fidelity and Guaranty Company. During the term of the Agreement and for two (2) years thereafter, United States Fidelity and Guaranty Company (and its insurance company subsidiaries and affiliates) may not knowingly solicit any CIGNA international advantage policyholder for incidental international coverages provided under the Agreement. The Agreement expires March 31, 1998.**
- o) **Management Agreement for USF&G Global Ocean Cargo between the Insurance Company of North America and United States Fidelity and Guaranty Company on behalf of itself and its insurance company subsidiaries and affiliates. During the term of the Agreement and for two (2) years thereafter United States Fidelity and Guaranty Company (and its insurance company subsidiaries and affiliates) may not solicit, negotiate with or provide any ocean cargo or war coverages to any of Insurance Company of North America's ocean cargo or war policyholders. The Agreement expires on December 31, 2000 and may be terminated upon 180 days prior written notice.**
- p) **Pursuant to Section 4.1 of the Shareholders Agreement with the Ashley Palmer Limited employee shareholders, the Company has agreed that prior to September 3, 2002, it will not directly or indirectly engage in the business of, or have any interest in, a managing agent at Lloyd's other than Ashley Palmer Limited unless the business of such other managing agency is transferred to Ashley Palmer Limited. The Company does not believe that this agreement will constrain The St. Paul Companies, Inc. from maintaining its existing managing agencies or from acquiring other managing agencies in Lloyd's so long as they are operated independently of Ashley Palmer.**

- q) Pursuant to a Program Management Agreement between ASSURCO and Titan Indemnity Company, Titan Indemnity has covenanted "for and on behalf of itself and its affiliates" that for a period of 36 months after termination/expiration of the agreement, they will not offer workers compensation insurance to "any account insured by any of" the Assurco insurance affiliates (Guard Insurance Group, Inc.).
- r) In connection with the sale of substantially all of the assets of Insurance Automation Systems, Inc., a wholly owned subsidiary of Victoria Financial Corporation, pursuant to an Asset Purchase Agreement dated March 7, 1997 among Victoria Financial Corporation, Insurance Automation Systems, Inc. and InsureQuote/IAS, Inc., Victoria and IAS agreed that for a period of three (3) years from the effective date of the Agreement they would not engage in or compete with or own any corporation, partnership or any other entities that engages in or competes with the IAS business as such was conducted by IAS on the closing date of the Asset Purchase Agreement.
- s) Stock and Asset Purchase Agreement between Titan and Educators Personal Insurance Center Agency, Inc. Titan Indemnity Company and certain of its subsidiaries are subject to a non-compete agreement pursuant to which Titan is prohibited from producing or underwriting non-standard auto business in Minnesota using the Titan name for three (3) years.
- t) Program Management Agreement between Titan Indemnity Company and Casualty Reciprocal Exchange, Reciprocal Exchange, and Equity Mutual Insurance Company, effective January 28, 1997.
- u) Purchase Agreement between Titan Indemnity Company and the Connecticut Surety Company, dated March 1, 1996. Under the Purchase Agreement, the Titan Companies agree not to conduct miscellaneous surety activities in the United States for five (5) years after the date of closing.
- v) Casualty Managed Care Agreement between QMC3, Inc. and Titan Indemnity Company, dated June 28, 1996. The term of the Agreement is indefinite, but can be terminated by either party with 60 days' prior written notice. During the term of the Agreement, Titan Indemnity Company may not enter into similar agreements with other parties.
- w) In connection with the Company's exit from the transportation business, United States Fidelity and Guaranty Company has agreed to sell its bus and limo business consisting of approximately \$13 million in written premium, to Legion Insurance Company and its affiliated MGA, Professional Underwriters, Inc. As part of this sale, United States Fidelity and Guaranty Company has agreed that, for a period of two (2) years after closing, neither it nor any of its insurance company subsidiaries will write or offer to write insurance for any of the accounts sold to Legion through a program similar to the USF&G Transportation Segment program. This agreement does not apply to any company engaged in the Lloyd's market, the reinsurance business or the alternative risk transfer business, or to any company that becomes affiliated with USF&G through a merger or acquisition or similar transaction.

- x) United States Fidelity and Guaranty Company is currently negotiating a strategic alliance agreement with KeyCorp (and certain of its banking and insurance agency affiliates) for the establishment of a direct response property and casualty insurance program to be offered to customers of Key. As currently proposed, the agreement would include a prohibition against United States Fidelity and Guaranty Company entering into an agreement with any other bank to provide a bank direct response program (as defined in the agreement) to small business customers located in any of the 13 states targeted by the Key program if such competing program offers any of the specific lines of business offered under the Key program.
- y) In addition, the Company is currently negotiating or has recently completed agreements with several third parties that may contain exclusivity or non-compete provisions. These include agreements with (i) Williams Underwriting Group, Inc. regarding the appointment of Williams as the exclusive agent for Real Estate Agents and Brokers E&O; (ii) Victor O. Schinnerer & Co. regarding the appointment of Schinnerer as the exclusive agent for Insurance Agents and Brokers E&O; (iii) Willis Corroon regarding the appointment of Willis Corroon as the exclusive agent for the sale of insurance for cellular telephones and accessories so long as premium goals of \$7,500,000, \$15,000,000, and \$25,000,000 are met in 1998, 1999 and 2000, respectively; and (iv) Litigation Risk Management, Inc. relating to LRM providing certain patent enforcement evaluation services to the Company.
- z) Agency and Distribution Agreement dated April 1, 1993 between Fidelity and Guaranty Life Insurance Company and R. W. Durham & Company, as amended on August 18, 1993. The agreement provides Durham with the exclusive right to market certain annuity products during the term of the agreement and provides that F&G Life's right to sell certain of such products shall terminate upon termination of the agreement. The exclusive provision of this agreement is currently in the process of being amended.
- aa) Independent Agency Agreement with Fred A. Moreton & Company, as amended through September 1, 1997. Under the Agreement, USF&G Insurance Company of Wisconsin has appointed Moreton as its exclusive agent in the State of Idaho. The Agreement may be terminated by either party upon 180 days notice.

2. United States Fidelity and Guaranty Company is a party to a Maintenance Services Agreement with NCR Corporation for maintenance on hubs, routers, and switches for USF&G network computers. This agreement provides that NCR will be the exclusive provider of maintenance services for the equipment covered by the agreement for a period of two years from April 3, 1997. Total payments under this agreement are approximately \$3.6 million over the two year term.

3. United States Fidelity and Guaranty Company is negotiating or has completed a Maintenance Services Agreement with NCR Corporation for maintenance on its key production servers. This agreement provides for NCR to be the exclusive provider of maintenance services for the equipment covered by the agreement for a period of three years from the date of execution of the agreement. Total payments under this agreement are expected to be approximately \$4.0 million over the three year term.

4. Under an agreement with GE Investments, USF&G Realty Advisors, Inc. has agreed to offer to GE Investments the right to participate in 50% (by amount loaned) of loans in excess of \$20 million that Realty Advisors originates. The agreement, which was executed during 1997, is a three year agreement, but may be terminated upon 90 days notice.

5. The Company has entered into agreements with ERS (roadside services) and Kozen & O'Connor (subrogation claims) pursuant to which such parties will be the exclusive provider of services. These agreements are terminable on 120 days notice or less.

6. The Company has an exclusive arrangement with TaTa Consulting Services for year 2000 modifications to its Legacy systems.

7. The Company has an agreement with Intercom for the provision of PC and desktop installation and services.

Section 5.1(q) of Company Disclosure Letter

NONE

Section 5.1(r) of Company Disclosure Letter

NONE

Section 5.1(s) of Company Disclosure Letter

Item (ii)

1. See information disclosed under Section 5.1(d) of Company Disclosure Letter regarding reinsurance agreements that may be subject to termination by the other party thereto as a result of the merger.

2. During 1996, Fidelity and Guaranty Life Insurance Company entered into a coinsurance transaction with Keyport Life Insurance Company pursuant to which F&G Life transferred approximately \$1.0 billion of reserves (including unearned premium, loss and loss adjustment expense reserves).

3. In addition, the Company ceded more than 2% of its consolidated gross premium income to the National Workers Compensation Reinsurance Pool during each of 1996 and 1997, and ceded more than 2% of its consolidated gross premium income to Vesta Fire Insurance Corporation during 1997.

4. During 1997, Fidelity and Guaranty Life Insurance Company entered into a coinsurance transaction with London Life Reinsurance Company that involved a transfer of approximately \$142 million of reserves by Fidelity and Guaranty Life Insurance Company. Such amount exceeds 2% of the Company's consolidated gross premium income for 1997.

Item (v)

In the ordinary course of Fidelity and Guaranty Life Insurance Company's business, F&G Life enters into hold harmless agreements with school districts and other education-related entities to the extent necessary to do business with such entities.

Section 5.1(t) of Company Disclosure Letter

NONE

Section 5.1(u) of Company Disclosure Letter

Items (iii)

The Company owns 20% of the stock of Pacholder Associates, Inc., which owns the other 50% of the general partnership interests in Pacholder & Company.

Section 6.1(a) of Company Disclosure Letter

NONE

Section 6.11(b) of Company Disclosure Letter

See attached Exhibit A to Section 6.11(b) of Company Disclosure Letter.

Section 7.2(c) of the Company Disclosure Letter

All of the Contracts identified in Section 5.1(d)(ii) of the Company Disclosure Letter.

Very truly yours,

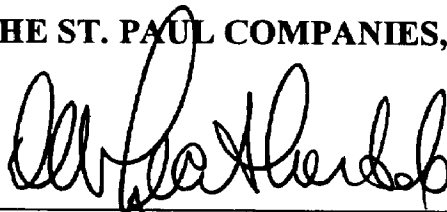
USF&G CORPORATION



By: Norman P. Blake
Its: Chairman of the Board, President
and Chief Executive Officer

ACKNOWLEDGED BY:

THE ST. PAUL COMPANIES, INC.



By: Douglas W. Leatherdale
Its: Chairman, President and
and Chief Executive Officer

**EXHIBIT A to Section 6.11(b)
of Company Disclosure Letter**

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- 3 -

**TRADEMARK
REEL: 1830 FRAME: 0475**

USF&G Severance Pay

All employees not covered by an employment or severance agreement who are terminated within 12 months of the close of the transaction will be provided with Lump Sum Pay and pay for Benefits Continuation at the time of termination. Lump Sum Pay and Benefits Continuation pay will also be provided if a position is relocated more than 50 miles from the current work site and an employee declines the relocation. Lump Sum Pay and Benefits Continuation pay will be provided based on the following:

Notice Period: Following the close of the transaction, employees will be provided with minimum notice prior to the termination of position:

Base Pay At Termination	Minimum Notice Period
< \$80,000	2 months
>= \$80,000 < \$95,000	3 months
>= \$95,000	4 months

Lump Sum Pay: 2 weeks severance for each year of service (prorated to cover full months worked in partial years). 8 week minimum. 52 week maximum.

Benefits Continuation: All terminated employees are eligible for COBRA medical and dental benefits continuation upon their enrollment. At the time of termination, in addition to Lump Sum Pay, eligible employees will receive a lump sum payment equal to a number of months cost of COBRA coverage for their in-force levels of medical and dental benefits net of tax withholding, on the following schedule:

Service	Benefits Lump Sum
< 1 year	3 months COBRA costs
>= 1 year < 5 years	6 months COBRA costs
>= 5 years < 10 years	12 months COBRA costs
>= 10 years < 15 years	15 months COBRA costs
>= 15 years	18 months COBRA costs

Accrued Incentive:

MIP Plan participants terminated between the close of the transaction and the payment of the FY1998 MIP will receive a partial plan year 1998 MIP payment prorated to date of termination, assuming target financial performance, subject to individual performance assessment. The prorata calculation will consider the number of full and partial months service between 1/1/98 and the date of termination, excluding any severance period. The prorata MIP will be paid as a lump sum at the time of termination.

Career Transition Services:

All employees will be eligible for professional outplacement services.

Coordination of Benefits: Lump Sum Pay and Benefits Continuation Pay will be available to all employees whose positions are eliminated, regardless of their eligibility for retirement and/or stay bonus. Employees who leave during their notice period will be eligible for their Lump Sum Pay and Benefits Continuation Pay.

Release of Claims: Benefits are contingent upon employee execution of a release of all claims against the company, in a form acceptable to the company.

January 19, 1998

USF&G Corporation
6225 Smith Avenue
Baltimore, Maryland 21209Re: Parent Disclosure Letter

Ladies and Gentlemen:

This letter is being provided to you pursuant to the Agreement and Plan of Merger by and between The St. Paul Companies, Inc. ("Parent"), SP Merger Corporation and USF&G Corporation ("Company") dated as of January 19, 1998 ("Agreement"). Unless defined herein all capitalized terms are as defined in the Agreement.

The following information is disclosed subject to the obligation of confidentiality contained in the Confidentiality Agreement, dated October 28, 1997, between Parent and the Company and should not be used for any purpose except in furtherance of the transactions contemplated by the Agreement. The disclosure of information in this Parent Disclosure Letter shall not imply that the disclosed information is or could reasonably be expected to be material in the context of, or for any other purposes under, the Agreement. The information provided in this Parent Disclosure Letter is being provided solely for the purpose of making the disclosures to the Company under the Agreement.

Please be advised of the following:

Section 5.2 (b)

The Responsible Executive Officers of the Parent are as follows:

Douglas W. Leatherdale	Chairman, President and Chief Executive Officer
Patrick A. Thiele	Executive Vice President, President and Chief Executive Officer-Worldwide Insurance Operations
Paul J. Liska	Executive Vice President and Chief Financial Officer
Bruce A. Backberg	Senior Vice President, Chief Legal Counsel and Corporate Secretary
Howard E. Dalton	Senior Vice President and Chief Accounting Officer
Greg A. Lee	Senior Vice President-Human Resources
James F. Duffy	President, St. Paul Re, Inc.

The Subsidiaries, both foreign and United States domestic, of the Parent that conduct insurance operations (collectively, the "Parent Insurance Subsidiaries") are:

- St. Paul Fire and Marine Insurance Company
- St. Paul Mercury Insurance Company
- St. Paul Guardian Insurance Company
- The St. Paul Insurance Company
- The St. Paul Insurance Company of Illinois
- St. Paul Surplus Lines Insurance Company
- Seaboard Surety Company
- St. Paul Fire and Casualty Insurance Company
- St. Paul Indemnity Insurance Company
- St. Paul Property and Casualty Insurance Company
- St. Paul Insurance Company of North Dakota
- Athena Assurance Company
- St. Paul Medical Liability Insurance Company
- Economy Fire and Casualty Company
- Economy Preferred Insurance Company
- Economy Premier Assurance Company
- Northbrook National Insurance Company
- Northbrook Property and Casualty Insurance Company
- Northbrook Indemnity Company
- Seaboard Surety Company of Canada
- St. Paul Reinsurance Company Limited
- St. Paul International Insurance Company Limited
- St. Paul Insurance Espana, Seguros Y Reaseguros S.A.
- New World Insurance Company Limited
- St. Paul Argentina Compania de Seguros S.A.
- St. Paul Insurance Company (S.A). Ltd.
- Botswana General Insurance Limited
- Seguros St. Paul de Mexico, S.A. de C.V.
- St. Paul (Bermuda), Ltd.
- St. Paul Re (Bermuda), Ltd.
- Lesotho National Insurance Holdings Limited
- St. Paul Surety Europe Limited

Non-Insurance Parent Subsidiaries not wholly owned by the Parent which conduct activities which are material to Parent are as follows:

- Parent owns 77% of the voting common stock and voting power (100% of Class B common stock) of **The John Nuveen Company**, a publicly-traded company which conducts investment banking and asset management activities.
- Parent owns 81% of the common stock of **St. Paul Venture Capital, Inc.**, which conducts the Parent's venture capital operations.

Section 5.2 (c)

The following is a list of Parent stock option and other plans for which the Parent Board of Directors have reserved for issuance shares of Parent Common Stock ("Parent Stock Plans").

Plan Name	Reserved Shares
Parent 1994 Stock Incentive Plan	3,769,245
Non-Employee Director Stock Retainer Plan	78,129
1988 Stock Option Plan	1,205,424
Minet Stock Plan	208,505
St. Paul International Stock Plan	111,565
1996 St. Paul Holdings Sharesave Scheme	50,000
1996 St. Paul Holdings Executive Stock Option Plan	150,000
Deferred Stock Award Plan	51,874
Chairman's Service Award Plan	26,200
Junior Fire Marshall Plan	916
TOTAL	5,651,858

Parent Subsidiaries not wholly-owned by Parent or a direct or wholly-owned Subsidiary of Parent are as follows:

- See references in Section 5.2 (b) to **The John Nuveen Company** and **St. Paul Venture Capital, Inc.**
- Parent's Subsidiary, **St. Paul Fire and Marine Insurance Company**, owns 100% of the common stock of **Northbrook Holdings, Inc.** However 20,000 shares of Northbrook Holdings, Inc. Series A Preferred Stock are held by investors that are not affiliated with Parent.

Section 5.2 (i) (iv)

The actuarially determined present value of benefit liabilities under each Parent Pension Plan that is subject to Title IV of ERISA as of the last day of the 1997 plan year did not exceed the then current value of the assets of such Parent Pension Plan. The Parent maintains several unfunded nonqualified deferred compensation plans that are not intended to be subject to the minimum funding requirements of Section 302 of ERISA or the plan termination provisions of Title IV of ERISA.

Section 5.2 (m) (iv) and (v)

The Parent's U.S. Federal income tax returns filed for the calendar years through 1992 have been examined by the Internal Revenue Service (IRS). The IRS is currently examining the returns filed for the calendar years 1993 and 1994. The Federal income tax returns for calendar years 1995 and later have not yet been examined by the IRS. The applicable statutes of limitations have been extended as follows:

1991	Through June 30, 1998
1992	Through June 30, 1998
1993	Through September 30, 1998

A Refund Claim is pending for the calendar year 1987 relating to the Reserve Strengthening issue in the amount of \$8 million.

Section 5.2 (n)

The Parent's newly licensed Mexican insurance subsidiary, Seguros St. Paul de Mexico, may be required, under applicable Mexican law or custom, to enter into reasonable and customary agreements with local labor unions or labor organizations.

Section 6.1 (b)

Subject to Section 4.4, Parent may split or combine the Parent Common Stock and authorize, declare and pay a dividend to holders of Parent Common Stock in Parent Common Stock and may amend its Certificate of Incorporation to increase the authorized number of shares of Parent Common Stock.

Consistent with past practices, Parent may increase regular quarterly cash dividends paid; in no event will such increase result in a dividend in excess of \$.60 per share.

Parent's Subsidiaries which are not wholly-owned (i.e. The John Nuveen Company; St. Paul Venture Capital, Inc.; and Northbrook Holdings, Inc.) may authorize, declare and pay dividends.

St. Paul Capital L.L.C. may fulfill its dividend obligations in respect of its mandatorily redeemable preferred securities ("MIPS").

Very truly yours,

THE ST. PAUL COMPANIES, INC.

By: 

Name: Douglas W. Leatherdale

Title: Chairman, President & CEO

SP MERGER CORPORATION

By: 

Name: Douglas W. Leatherdale

Title: President

STOCK OPTION AGREEMENT

STOCK OPTION AGREEMENT, dated as of January 19, 1998 (the "Agreement"), between The St. Paul Companies, Inc., a Minnesota corporation (the "Grantee"), and USF&G Corporation, a Maryland corporation (the "Grantor").

WHEREAS, the Grantee, SP Merger Corporation, a Maryland corporation and a wholly owned subsidiary of the Grantee ("Newco"), and the Grantor are entering into an Agreement and Plan of Merger, dated as of the date hereof (the "Merger Agreement"), which provides, among other things, for the merger of the Newco with and into Grantor (the "Merger");

WHEREAS, as a condition and inducement to Grantee's and Newco's willingness to enter into the Merger Agreement, the Grantee and Newco have requested that the Grantor grant to the Grantee an option to purchase up to 23,181,596 shares of Common Stock, par value \$2.50 per share, of the Grantor (the "Common Stock"), upon the terms and subject to the conditions hereof; and

WHEREAS, in order to induce the Grantee and Newco to enter into the Merger Agreement, the Grantor is willing to grant the Grantee the requested option.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

1. The Option; Exercise; Adjustments; Payment of Spread. (a) Contemporaneously herewith the Grantee, Newco and the Grantor are entering into the Merger Agreement. Subject to the other terms and conditions set forth herein, the Grantor hereby grants to the Grantee an irrevocable option (the "Option") to purchase up to 23,181,596 shares of Common Stock (the "Shares") at a cash purchase price equal to \$22.00 per share (the "Purchase Price"). The Option may be exercised by the Grantee, in whole or in part, at any time, or from time to time, following (but not prior to) the occurrence of one of the events set forth in Section 2(d) hereof, and prior to the termination of the Option in accordance with the terms of this Agreement.

(b) In the event the Grantee wishes to exercise the Option, the Grantee shall send a written notice to the Grantor (the "Stock Exercise Notice") specifying a date (subject to the HSR Act (as defined below) and applicable

insurance regulatory approvals) not later than 10 business days and not earlier than three business days following the date such notice is given for the closing of such purchase. In the event of any change in the number of issued and outstanding shares of Common Stock by reason of any stock dividend, stock split, split-up, recapitalization, merger or other change in the corporate or capital structure of the Grantor, the number of Shares subject to this Option and the purchase price per Share shall be appropriately adjusted to restore the Grantee to its rights hereunder, including its right to purchase Shares representing 19.9% of the capital stock of the Grantor entitled to vote generally for the election of the directors of the Grantor which is issued and outstanding immediately prior to the exercise of the Option.

(c) If at any time the Option is then exercisable pursuant to the terms of Section 1(a) hereof, the Grantee may elect, in lieu of exercising the Option to purchase Shares provided in Section 1(a) hereof, to send a written notice to the Grantor (the "Cash Exercise Notice") specifying a date not later than 20 business days and not earlier than 10 business days following the date such notice is given on which date the Grantor shall pay to the Grantee an amount in cash equal to the Spread (as hereinafter defined) multiplied by all or such portion of the Shares subject to the Option as Grantee shall specify. As used herein "Spread" shall mean the excess, if any, over the Purchase Price of the higher of (x) if applicable, the highest price per share of Common Stock (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid or proposed to be paid by any person pursuant to any Company Acquisition Proposal (as defined in the Merger Agreement) (the "Alternative Purchase Price") or (y) the closing price of the shares of Common Stock on the NYSE Composite Tape on the last trading day immediately prior to the date of the Cash Exercise Notice (the "Closing Price"). If the Alternative Purchase Price includes any property other than cash, the Alternative Purchase Price shall be the sum of (i) the fixed cash amount, if any, included in the Alternative Purchase Price plus (ii) the fair market value of such other property. If such other property consists of securities with an existing public trading market, the average of the closing prices (or the average of the closing bid and asked prices if closing prices are unavailable) for such securities in their principal public trading market on the five trading days ending five days prior to the date of the Cash Exercise Notice shall be deemed to equal the fair market value of such property. If such other property

consists of something other than cash or securities with an existing public trading market and, as of the payment date for the Spread, agreement on the value of such other property has not been reached, the Alternative Purchase Price shall be deemed to equal the Closing Price. Upon exercise of its right to receive cash pursuant to this Section 1(c), the obligations of the Grantor to deliver Shares pursuant to Section 3 shall be terminated with respect to such number of Shares for which the Grantee shall have elected to be paid the Spread.

2. Conditions to Delivery of Shares. The Grantor's obligation to deliver Shares upon exercise of the Option is subject only to the conditions that:

(a) No preliminary or permanent injunction or other order issued by any federal or state court of competent jurisdiction in the United States prohibiting the delivery of the Shares shall be in effect; and

(b) Any applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act") shall have expired or been terminated; and

(c) Any approval required to be obtained prior to the delivery of the Shares under the insurance laws of any state or foreign jurisdiction shall have been obtained and be in full force and effect; and

(d) (i) any person (other than Grantee or any of its subsidiaries) shall have acquired beneficial ownership (as such term is defined in Rule 13d-3 under the Exchange Act) or the right to acquire beneficial ownership of, or any "group" (as such term is defined under the Exchange Act) shall have been formed which beneficially owns or has the right to acquire beneficial ownership of, shares of Common Stock (other than trust account shares) aggregating 15 percent or more of the then outstanding Common Stock; (ii) in the event a Company Acquisition Proposal shall have been made to Grantor or any of its Subsidiaries or any of its stockholders or any person shall have publicly announced an intention (whether or not conditional) to make a Company Acquisition

Proposal with respect to Grantor or any of its Subsidiaries and thereafter the Merger Agreement is terminated by either Grantor or Grantee pursuant to Section 8.2(ii) of the Merger Agreement; (iii) the Merger Agreement is terminated by Grantor pursuant to Section 8.3(a) of the Merger Agreement; (iv) the Merger Agreement is terminated by Grantee pursuant to Section 8.4(a) of the Merger Agreement; or (v) Grantor shall have delivered to Grantee the written notification pursuant to Section 8.3(a)(iii) of the Merger Agreement and Grantee shall have notified Grantor in writing that Grantee does not intend to match the Superior Proposal (as defined in the Merger Agreement) referred to in such notification. As used in this Agreement, "person" shall have the meaning specified in Sections 3(a)(9) and 13(d)(3) of the Exchange Act.

3. The Closing. (a) Any closing hereunder shall take place on the date specified by the Grantee in its Stock Exercise Notice or Cash Exercise Notice, as the case may be, at 9:00 A.M., local time, at the offices of Sullivan & Cromwell, 125 Broad Street, New York, New York, or, if the conditions set forth in Section 2(a), (b) or (c) have not then been satisfied, on the second business day following the satisfaction of such conditions, or at such other time and place as the parties hereto may agree (the "Closing Date"). On the Closing Date, (i) in the event of a closing pursuant to Section 1(b) hereof, the Grantor will deliver to the Grantee a certificate or certificates, representing the Shares in the denominations designated by the Grantee in its Stock Exercise Notice and the Grantee will purchase such Shares from the Grantor at the price per Share equal to the Purchase Price or (ii) in the event of a closing pursuant to Section 1(c) hereof, the Grantor will deliver to the Grantee cash in an amount determined pursuant to Section 1(c) hereof. Any payment made by the Grantee to the Grantor, or by the Grantor to the Grantee, pursuant to this Agreement shall be made by certified or official bank check or by wire transfer of federal funds to a bank designated by the party receiving such funds.

(b) The certificates representing the Shares shall bear an appropriate legend relating to the fact that such Shares have not been registered under the Securities Act of 1933, as amended (the "Securities Act").

4. Representations and Warranties of the Grantor.

The Grantor represents and warrants to the Grantee that (a) the Grantor is a corporation duly organized, validly existing and in good standing under the laws of the State of Maryland and has the requisite corporate power and authority to enter into and perform this Agreement; (b) the execution and delivery of this Agreement by the Grantor and the consummation by it of the transactions contemplated hereby have been duly authorized by the Board of Directors of the Grantor and this Agreement has been duly executed and delivered by a duly authorized officer of the Grantor and constitutes a valid and binding obligation of the Grantor, enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles; (c) the Grantor has taken all necessary corporate action to authorize and reserve the Shares issuable upon exercise of the Option and the Shares, when issued and delivered by the Grantor upon exercise of the Option and paid for by Grantee as contemplated hereby, will be duly authorized, validly issued, fully paid and non-assessable and free of preemptive rights; (d) except as otherwise required by the HSR Act and applicable insurance laws, the execution and delivery of this Agreement by the Grantor and the consummation by it of the transactions contemplated hereby do not require the consent, waiver, approval or authorization of or any filing with any person or public authority and will not violate, result in a breach of or the acceleration of any obligation under, or constitute a default under, any provision of Grantor's charter or by-laws, or any material indenture, mortgage, lien, lease, agreement, contract, instrument, order, law, rule, regulation, judgment, ordinance, or decree, or restriction by which the Grantor or any of its subsidiaries or any of their respective properties or assets is bound; (e) no "fair price", "moratorium", "control share acquisition," "interested shareholder" or other form of antitakeover statute or regulation, including without limitation, Section 3-602 of the Maryland General Corporation Law, or similar provision contained in the charter or by-laws of Grantor, is or shall be applicable to the acquisition of Shares pursuant to this Agreement; and (f) the Grantor has taken all corporate action necessary so that any Shares acquired pursuant to this Agreement shall not be counted for purposes of determining the number of shares of Common Stock beneficially owned by the Grantee or any of its Affiliates or Associates (as such terms are

defined in the Rights Agreement) pursuant to the Amended and Restated Rights Agreement, dated as of March 11, 1997, between Grantor and The Bank of New York, as Rights Agent (the "Rights Agreement").

5. Representations and Warranties of the Grantee.

The Grantee represents and warrants to the Grantor that (a) the execution and delivery of this Agreement by the Grantee and the consummation by it of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Grantee and this Agreement has been duly executed and delivered by a duly authorized officer of the Grantee and constitutes a valid and binding obligation of Grantee; and (b) the Grantee is acquiring the Option and, if and when it exercises the Option, will be acquiring the Shares issuable upon the exercise thereof for its own account and not with a view to distribution or resale in any manner which would be in violation of the Securities Act.

6. Listing of Shares; Filings; Governmental Consents. Subject to applicable law and the rules and regulations of the New York Stock Exchange, Inc. (the "NYSE"), after the Option becomes exercisable hereunder, the Grantor will promptly file an application to list the Shares on the NYSE and will use its reasonable best efforts to obtain approval of such listing and to effect all necessary filings by the Grantor under the HSR Act and the applicable insurance laws of each state and foreign jurisdiction; provided, however, that if the Grantor is unable to effect such listing on the NYSE by the Closing Date, the Grantor will nevertheless be obligated to deliver the Shares upon the Closing Date. Each of the parties hereto will use its reasonable best efforts to obtain consents of all third parties and governmental authorities, if any, necessary to the consummation of the transactions contemplated.

7. Repurchase of Shares. If by the date that is the first anniversary of the date the Merger Agreement was terminated pursuant to the terms thereof (the "Merger Termination Date"), neither the Grantee nor any other Person has acquired more than fifty percent (excluding the Shares) of the shares of outstanding Common Stock, then the Grantor has the right to purchase (the "Repurchase Right") all, but not less than all, of the Shares acquired upon exercise of this Option at the greater of (i) the Purchase Price or (ii) the average of the last sales prices for shares of Common Stock on the five trading days ending five days prior to the

date the Grantor gives written notice of its intention to exercise the Repurchase Right. If the Grantor does not exercise the Repurchase Right within thirty days following the end of the one year period after the Merger Termination Date, the Repurchase Right lapses. In the event the Grantor wishes to exercise the Repurchase Right, the Grantor shall send a written notice to the Grantee specifying a date (not later than 20 business days and not earlier than 10 business days following the date such notice is given) for the closing of such purchase.

8. Sale of Shares. At any time prior to the first anniversary of the Merger Termination Date, the Grantee shall have the right to sell (the "Sale Right") to the Grantor all, but not less than all, of the Shares acquired upon exercise of this Option at the greater of (i) the Purchase Price, or (ii) the average of the last sales prices for shares of Common Stock on the five trading days ending five days prior to the date the Grantee gives written notice of its intention to exercise the Sale Right. If the Grantee does not exercise the Sale Right prior to the first anniversary of the Merger Termination Date, the Sale Right terminates. In the event the Grantee wishes to exercise the Sale Right, the Grantee shall send a written notice to the Grantor specifying a date not later than 20 business days and not earlier than 10 business days following the date such notice is given for the closing of such sale.

9. Registration Rights. (a) In the event that the Grantee shall desire to sell any of the Shares within three years after the purchase of such Shares pursuant hereto, and such sale requires, in the opinion of counsel to the Grantee, which opinion shall be reasonably satisfactory to the Grantor and its counsel, registration of such Shares under the Securities Act, the Grantor will cooperate with the Grantee and any underwriters in registering such Shares for resale, including, without limitation, promptly filing a registration statement which complies with the requirements of applicable federal and state securities laws, and entering into an underwriting agreement with such underwriters upon such terms and conditions as are customarily contained in underwriting agreements with respect to secondary distributions; provided that the Grantor shall not be required to have declared effective more than two registration statements hereunder and shall be entitled to delay the filing or effectiveness of any registration statement for up to 120 days if the offering would, in the judgment of the Board of Directors of the Grantor, require

premature disclosure of any material corporate development or material transaction involving the Grantor or interfere with any previously planned securities offering by the Company.

(b) If the Common Stock is registered pursuant to the provisions of this Section 9, the Grantor agrees (i) to furnish copies of the registration statement and the prospectus relating to the Shares covered thereby in such numbers as the Grantee may from time to time reasonably request and (ii) if any event shall occur as a result of which it becomes necessary to amend or supplement any registration statement or prospectus, to prepare and file under the applicable securities laws such amendments and supplements as may be necessary to keep available for at least 45 days a prospectus covering the Common Stock meeting the requirements of such securities laws, and to furnish the Grantee such numbers of copies of the registration statement and prospectus as amended or supplemented as may reasonably be requested. The Grantor shall bear the cost of the registration, including, but not limited to, all registration and filing fees, printing expenses, and fees and disbursements of counsel and accountants for the Grantor, except that the Grantee shall pay the fees and disbursements of its counsel, and the underwriting fees and selling commissions applicable to the shares of Common Stock sold by the Grantee. The Grantor shall indemnify and hold harmless (i) Grantee, its affiliates and its officers and directors and (ii) each underwriter and each person who controls any underwriter within the meaning of the Securities Act or the Securities Exchange Act of 1934, as amended (collectively, the "Underwriters") ((i) and (ii) being referred to as "Indemnified Parties") against any losses, claims, damages, liabilities or expenses, to which the Indemnified Parties may become subject, insofar as such losses, claims, damages, liabilities (or actions in respect thereof) and expenses arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained or incorporated by reference in any registration statement filed pursuant to this paragraph, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that the Grantor will not be liable in any such case to the extent that any such loss, liability, claim, damage or expense arises out of or is based upon an untrue statement or alleged untrue statement in or omission or alleged omission from any such documents in reliance upon

and in conformity with written information furnished to the Grantor by the Indemnified Parties expressly for use or incorporation by reference therein.

(c) The Grantee and the Underwriters shall indemnify and hold harmless the Grantor, its affiliates and its officers and directors against any losses, claims, damages, liabilities or expenses to which the Grantor, its affiliates and its officers and directors may become subject, insofar as such losses, claims, damages, liabilities (or actions in respect thereof) and expenses arise out of or are based upon any untrue statement of any material fact contained or incorporated by reference in any registration statement filed pursuant to this paragraph, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Grantor by the Grantee or the Underwriters, as applicable, specifically for use or incorporation by reference therein.

10. Expenses. Each party hereto shall pay its own expenses incurred in connection with this Agreement, except as otherwise specifically provided herein.

11. Specific Performance. The Grantor acknowledges that if the Grantor fails to perform any of its obligations under this Agreement immediate and irreparable harm or injury would be caused to the Grantee for which money damages would not be an adequate remedy. In such event, the Grantor agrees that the Grantee shall have the right, in addition to any other rights it may have, to specific performance of this Agreement. Accordingly, if the Grantee should institute an action or proceeding seeking specific enforcement of the provisions hereof, the Grantor hereby waives the claim or defense that the Grantee has an adequate remedy at law and hereby agrees not to assert in any such action or proceeding the claim or defense that such a remedy at law exists. The Grantor further agrees to waive any requirements for the securing or posting of any bond in connection with obtaining any such equitable relief.

12. Notice. All notices, requests, demands and other communications hereunder shall be deemed to have been

duly given and made if in writing and if served by personal delivery upon the party for whom it is intended or delivered by registered or certified mail, return receipt requested, or if sent by facsimile transmission, upon receipt of oral confirmation that such transmission has been received, to the person at the address set forth below, or such other address as may be designated in writing hereafter, in the same manner, by such person:

If to the Grantee:

The St. Paul Companies, Inc.
385 Washington Street
St. Paul, MN 55102
Attn: Chief Executive Officer
Telecopy: (612) 310-3378

With a copy to:

Sullivan & Cromwell
125 Broad Street
New York, NY 10004
Attn: Joseph B. Frumkin, Esq.
Telecopy: (212) 558-3588

If to the Grantor:

USF&G Corporation
6225 Centennial Way
Baltimore, MD 21208
Attn: Chief Executive Officer
Telecopy: (410) 205-6802

With a copy to:

Davis Polk & Wardwell
450 Lexington Avenue
New York, New York 10017
Attn: John R. Ettinger, Esq.
Telecopy: (212) 450-4800

13. Parties in Interest. This Agreement shall inure to the benefit of and be binding upon the parties named herein and their respective successors and assigns; provided, however, that such successor in interest or assigns shall agree to be bound by the provisions of this Agreement. Nothing in this Agreement, express or implied, is intended to confer upon any person other than the Grantor

or the Grantee, or their successors or assigns, any rights or remedies under or by reason of this Agreement.

14. Entire Agreement; Amendments. This Agreement, together with the Merger Agreement and the other documents referred to therein, contains the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings, oral or written, with respect to such transactions. This Agreement may not be changed, amended or modified orally, but may be changed only by an agreement in writing signed by the party against whom any waiver, change, amendment, modification or discharge may be sought.

15. Assignment. No party to this Agreement may assign any of its rights or obligations under this Agreement without the prior written consent of the other party hereto, except that the Grantee may assign its rights and obligations hereunder to any of its direct or indirect wholly owned subsidiaries (including Newco), but no such transfer shall relieve the Grantee of its obligations hereunder if such transferee does not perform such obligations.

16. Headings. The section headings herein are for convenience only and shall not affect the construction of this Agreement.

17. Counterparts. This Agreement may be executed in any number of counterparts, each of which, when executed, shall be deemed to be an original and all of which together shall constitute one and the same document.

18. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Maryland (regardless of the laws that might otherwise govern under applicable Maryland principles of conflicts of law).

19. Termination. The right to exercise the Option granted pursuant to this Agreement shall terminate at the earliest of (i) the Effective Time (as defined in the Merger Agreement) (ii) if the Option is not exercised within 60 days after first becoming exercisable and (iii) if not then exercisable, thirty days after termination of the Merger Agreement in accordance with its terms (the dates referred to in clause (ii) and (iii) being hereinafter referred to as the "Termination Date"); provided that, if

the Option cannot be exercised or the Shares cannot be delivered to Grantee upon such exercise because the conditions set forth in Section 2(a), (b) or (c) hereof have not yet been satisfied, the Termination Date shall be extended until thirty days after such impediment to exercise or delivery has been removed.

All representations and warranties contained in this Agreement shall survive delivery of and payment for the Shares.

20. Profit Limitation. (a) Notwithstanding any other provision of this Agreement or the Merger Agreement, in no event shall the Grantee's Total Profit (as hereinafter defined) exceed \$75 million and, if it otherwise would exceed such amount, the Grantee shall repay such excess amount to Grantor in cash (or the purchase price for purposes of Section 7 or 8, as applicable, shall be reduced) so that Grantee's Total Profit shall not exceed \$75 million after taking into account the foregoing actions.

Notwithstanding any other provision of this Agreement, this Option may not be exercised for a number of Shares as would, as of the date of the Stock Exercise Notice, result in a Notional Total Profit (as defined below) of more than \$75 million and, if exercise of the Option otherwise would exceed such amount, the Grantee, at its discretion, may increase the Purchase Price for that number of Shares set forth in the Stock Exercise Notice so that the Notional Total Profit shall not exceed \$75 million; provided, that nothing in this sentence shall restrict any exercise of the Option permitted hereby on any subsequent date at the Purchase Price set forth in Section 1(a) hereof.

As used herein, the term "Total Profit" shall mean the aggregate amount (before taxes) of the following:

(i) (x) the amount of cash received by Grantee pursuant to Section 8.5 of the Merger Agreement and Section 1(c) hereof, less (y) any repayment of such cash to Grantor, (ii) (x) the amount received by Grantee pursuant to the Grantor's repurchase of Shares pursuant to Sections 7 or 8 hereof, less (y) the Grantee's purchase price for such Shares, and (iii) (x) the net cash amounts received by Grantee pursuant to the sale of Shares (or any other securities into or for which such Shares are converted or exchanged) to any unaffiliated party, less (y) the Grantee's purchase price for such Shares.

As used herein, the term "Notional Total Profit" with respect to any number of Shares as to which Grantee may propose to exercise this Option shall be the Total Profit determined as of the date of the Stock Exercise Notice assuming that this Option were exercised on such date for such number of Shares and assuming that such Shares, together with all other Shares acquired upon exercise of the Option and held by Grantee and its affiliates as of such date, were sold for cash at the closing market price for the Common Stock as of the close of business on the preceding trading day (less customary brokerage commissions).

21. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

22. Public Announcement. The initial press release referring to this Option shall be a joint press release in the form previously agreed by Grantor and Grantee and thereafter the Grantee and the Grantor shall consult with each other prior to issuing, and will provide each other with a meaningful opportunity to review, comment upon and concur with, any press releases or otherwise making public announcements with respect to the Option and prior to making any filings with any third party and/or Governmental Entity (as defined in the Merger Agreement) (including any national securities exchange) with respect thereto, except as may be required by law, court process or by obligations pursuant to any listing agreement with or rules of any national securities exchange or interdealer quotation system.

IN WITNESS WHEREOF, the Grantee and the Grantor have caused this Agreement to be duly executed and delivered on the day and year first above written.

USF&G CORPORATION

By: 

Name: Norman P. Blake, Jr.

Title: Chairman of the Board, President
and Chief Executive Officer

THE ST. PAUL COMPANIES, INC.

By: 

Name: Douglas W. Leatherdale

Title: Chairman of the Board, President
and Chief Executive Officer