

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

M. DIANE KOKEN,
Insurance Commissioner of the
Commonwealth of Pennsylvania,
in her official capacity as Liquidator
of Reliance Insurance Company,

Plaintiff,

v.

RELiance INSURANCE COMPANY,

Defendant.

No. 269 M.D. 2001

**SECOND QUARTER 2006 REPORT OF THE LIQUIDATOR
ON THE STATUS OF THE LIQUIDATION OF
RELiance INSURANCE COMPANY**

I. INTRODUCTION

M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, in her official capacity as Statutory Liquidator ("Liquidator") of Reliance Insurance Company ("Reliance or Estate"), through her undersigned counsel, hereby submits this report on the status of the liquidation of Reliance for the Second Quarter of 2006, incorporating financial results through March 31, 2006 and certain operational updates and litigation updates through June 30, 2006.

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II. REPORT

A. Financial Statements

1. Special Purpose Statement of Assets and Liabilities

Reliance has prepared and attached as Exhibit A, Special Purpose Statements of Assets and Liabilities showing the financial position of Reliance at March 31, 2006 and December 31, 2005 ("Statements"). The amounts set forth on the Statements for loss and loss adjustment expense liabilities, reinsurance recoverables and several other categories, are based upon actuarial estimates utilizing pre-liquidation historical data as of December 31, 2001, and will change as the loss payment patterns, Guaranty Association ("GA") payments and reserves, allowed Notices of Determination ("NODs") and other data become available over time. The independent actuarial review described in Section II.A.11 will assist in establishing a range of estimates at various confidence levels for loss and loss adjustment expenses of business reported by Reliance as direct insurance business based on, among other factors, post liquidation activity. Actual liability figures will not be known for several years because, among other things, many of the claims will not develop for some time or are contingent claims (collectively 40,912 claims) dependent on a resolution of underlying litigation which may not be resolved for several years. Consequently, the final allowed amount of numerous claims cannot be determined or is unknown at this time.

The assets shown on the Statements may also change significantly over time because, among other things, 1) the amount of reinsurance recoverable will not be known until all valid Proofs of Claim ("POCs") have been evaluated and allowed amounts determined and 2) reinsurance collection will be affected by valid offsets, disputes and uncollectible amounts due to the financial condition of reinsurers.

Thus, these Statements do not fully reflect the effects of the liquidation upon many assets and liabilities and also do not include an estimate of the liquidation expenses that will be incurred by Reliance and the GAs in administering the Estate over time. Reliance liquidation expenses are class (a) first priority payments under the Insurance Department Act of 1921, 40 P.S. §221.1 et seq. (“Act”), as are certain GA expenses, to the extent permitted by the Act. Both Liquidator and GA expenses will be significant and will be paid before distributions for claims under policies for losses, class (b) priority, and other lower class creditors. Consequently, the ultimate distribution to creditors cannot be projected at this time. For this reason, third parties should not rely on the financial information contained herein as providing any certainty or any clear indication as to the ultimate distribution that will be made from Reliance. The notes to the Special Purpose Statements attached as Exhibit D describe the limitations of the Statements and should be included in any review of Reliance’s financial information.

As of March 31, 2006, the Statements show estimated total assets were \$5.3 billion, with the most significant balance, \$2.6 billion, relating to reinsurance receivables and future reinsurance recoverables. Total invested assets were \$1 billion. Total estimated liabilities at March 31, 2006 were \$8.4 billion, with the most significant balance of \$4.8 billion estimated for losses and loss adjustment expenses on business reported by Reliance as direct insurance business. Court approved NODs for class (b) creditors were \$192 million, and losses and loss adjustment expenses paid by the GAs on business reported by Reliance as direct insurance business were \$2.2 billion. Also included in total liabilities is \$1.2 billion relating to losses and loss adjustment expenses on assumed reinsurance business, which are class (e) general creditor claims under 40 P.S. §221.44, unless valid offset rights exist.

Attached to this report as Exhibit B is a Special Purpose Statement of Changes in Policyholders' Surplus for the quarter ended March 31, 2006 and the period from October 3, 2001 to March 31, 2006. The estimated net deficit at March 31, 2006 was \$3.1 billion, up from \$2.7 billion at the date of liquidation, but is subject to change as noted above.

2. Statement of Cash Receipts and Disbursements and Changes in Short and Intermediate Duration Investments

Attached to this report as Exhibit C is a Statement of Cash Receipts and Disbursements and Changes in Short and Intermediate Duration Investments ("Cash Flow Statement") for the period from January 1, 2006 through March 31, 2006. Short and intermediate duration investments available at the beginning of the period were \$788.5 million, increasing to \$815.9 million at the end of the period

Reinsurance collections were the primary source of cash receipts totaling \$42.4 million. For further explanation of reinsurance collections see section A.10. Other sources of receipts included premium collections, claim recoveries, investment income, sales of investments and sales of Symbol Technologies common stock. Total cash receipts were \$62.6 million.

Cash disbursements consist of loss and loss adjustment expenses of \$0.3 million and operating expenses of \$27.6 million, which includes reimbursed GA expenses of \$0.8 million. Additional detail is provided for operating expenses in section B.2. Total cash disbursements were \$27.9 million. The decline in market value of short and intermediate duration investments managed by investment managers, which is considered a non-cash item, was \$7.3 million, primarily due to rising interest rates. Overall, short and intermediate duration investments increased during the quarter ended March 31, 2006 by \$27.4 million.

3. Audited Statements of Certain Assets

Ernst & Young recently completed an independent audit of certain cash and investment assets of the Estate as of December 31, 2005 and the related Cash Flow Statement for the year ended December 31, 2005. The audited statements and the unqualified opinion of Ernst & Young are attached as Exhibit E.

Only specific assets that are in the possession of Reliance and other amounts on deposit with or advanced to regulators or GAs are recorded as assets in the statements of certain assets. The statements of certain assets do not reflect the amounts of reinsurance recoverables and receivables, premium receivables, investment in subsidiary or affiliated companies, and certain other assets. In addition, no liabilities or obligations are included in the statements. These assets and liabilities, which are included in the financial statements prepared by Reliance as described above, are excluded due to the significant and variable nature of these values.

4. Short and Intermediate Duration Investments

Due to strong positive cash flows since the beginning of the liquidation, primarily reinsurance collections and asset sales, Reliance increased its liquid investment portfolio to \$815.9 million as of March 31, 2006. Excess cash flows over and above the immediate operating needs of the Estate are transferred to investment managers and invested in short and intermediate duration portfolios. An Investment Committee oversees the investment operations at Reliance under approved investment guidelines. The Committee utilizes investment advisors, money managers, valuation consultants and other professionals in its oversight duties. The current investment managers are Delaware Investment Advisors, Sovereign Asset Management, Standish Mellon Asset Management and Federated Investment Counseling.

5. Investment in Symbol Technologies Stock

At March 31, 2006, Reliance had substantial holdings in Symbol Technologies common stock with a total market value of \$61.9 million. During the first quarter of 2006, 526,000 shares were sold at an average price of \$12.02 per share with net proceeds of \$6 million. The market value at August 3, 2006 was \$10.50 per share. Reliance will continue to sell shares as appropriate depending on market conditions.

6. Investments Held in Trust for Secured Creditors

At March 31, 2006, Reliance held \$13.2 million in trust to secure specific obligations relating primarily to losses on assumed reinsurance business. In addition, Reliance held \$66.5 million representing collections under large deductible policies, which are not Estate assets and will be administered and paid to GAs and creditors in accordance with 40 P.S. §221.23a.

7. Real Estate

During the second quarter of 2006, Reliance closed on the sale of one property in Virginia, previously approved by the Court, with net proceeds of \$5.2 million. Sale of the remaining small parcel of land in Virginia is expected to close in 2006.

8. Affiliates and Subsidiaries

Reliance will continue to evaluate all remaining assets in this category to determine the best strategy and timing for maximizing value. Reliance's ability to sell certain affiliates and subsidiaries is limited by disputed liens and the potential for additional such liens filed by the Pension Benefit Guaranty Corporation arising out of alleged unpaid and/or unfunded pension liabilities (see section F.1).

9. Premium Balances

As of March 31, 2006, Reliance estimates current and future premium receivables of \$58.1 million which includes billed receivables and an estimate of future billings under retrospective rated policies, where future premium billings are based on paid losses. Reliance is aggressively pursuing receivable amounts due the Estate and legal proceedings have been initiated where appropriate.

10. Reinsurance

a. Reinsurance Billings and Collections

As of March 31, 2006, reinsurance receivables and future reinsurance recoverables were \$2.6 billion after deductions for estimated future uncollectible amounts and offsets. At March 31, 2006 Reliance held approximately \$645 million in collateral as security for this exposure. Reinsurance collections for the first quarter of 2006 totaled \$42.4 million with total collections since the date of liquidation of \$1.7 billion. These totals are inclusive of receipts on ordinary ceded loss billings, dispute settlements, commutations, releases of funds from reinsurance trusts and distributions from insolvent reinsurers.

The inventory of billed reinsurance receivables is \$439.2 million as of March 31, 2006. Included, as Exhibit F, is a listing of balances due from reinsurers at March 31, 2006. The inventory is comprised of both pre-liquidation and post-liquidation balances. Nearly all pre-liquidation balances of \$116 million are either in formal or informal dispute (approximately \$25 million), claimed by reinsurers as offsets (approximately \$65 million), or due from insolvent and financially distressed companies.

On a monthly basis, Reliance receives GA data feeds reflecting paid and outstanding claim information. This GA data plus the NODs issued by the Liquidator have generated

approximately \$1.4 billion of post liquidation reinsurance billings, of which approximately \$323 million were unpaid at March 31, 2006. The post-liquidation amount readily available to collect is estimated at \$247 million. The remaining \$76 million is subject to disputes, offsets, or is due from financially distressed companies.

Reliance deals with many reinsurers who have significant offset balances due to assumed reinsurance business written by Reliance. The research and reconciliation analysis required for the offset process will continue for several years as claims from assumed business mature and are reported to the Estate.

b. Reinsurance Collection Issues

Reinsurance is the largest asset of Reliance and the structure, procedures and controls within the Reinsurance Department and throughout Reliance operations have been analyzed and redesigned to maximize collections in a liquidation environment. Reliance has dedicated staff, many of whom have extensive reinsurance experience, coordinating with reinsurers to provide appropriate claims documentation, respond to inquiries, resolve disputes and verify proper offsets. Reliance also continues to seek additional cooperation and support from insureds, claimants and the GAs in providing timely, complete and accurate claims documentation and data to support reinsurance billings. During the first quarter of 2006, Reliance completed 11 onsite reinsurance audits at various GAs, bringing the total number of such onsite GA reinsurance audits to 115 since the inception of liquidation.

Notwithstanding these efforts, reinsurance collections are a difficult and lengthy process in liquidation. In almost all cases, time frames for responses and payments from reinsurers have lengthened considerably. While there are some reinsurers who have dealt with Reliance in a professional, responsive manner, many do not fall into this category. Many reinsurers now

require much more documentation (significantly more than prior to liquidation and often more than is contractually required) and then respond with numerous questions in a series of inquiries before even stating their payment position on the billings. Numerous requests for reinsurer audits have been accommodated and these requests will likely increase in the future. Some of the audits are used by the reinsurers to inflate perceived or minor discrepancies which provide reinsurers with a contrived basis for delay, forced compromise, commutation settlement or for trying to avoid liability altogether. Formal and informal dispute resolution actions continue against several reinsurers with substantial overdue balances. Reliance initiated arbitration with CX Re in the last quarter of 2005. During the third quarter of 2006, Reliance resolved its complete business relationship with CX Re through a total commutation for \$32 million which was approved by the Court. During the first quarter of 2006, Reliance received full payment in its arbitration against Brit Re. Reliance currently has legal actions pending against Trenwick and Underwriters at Lloyds. Reliance routinely reviews reinsurance collection problems and expects to commence additional legal actions in the upcoming months.

Collections in this environment result from constant, intensive day-to-day “blocking and tackling” by the Reinsurance Department, assisted by Claims and other Reliance staff at all levels. Liquidator and Reliance staffs have decades of experience in reinsurance collections, specifically including collections in a run-off or liquidation environment. In addition, they are intimately familiar with the several thousand complex treaties and facultative placements covering the wide variety of Reliance products over the last 20 years. Reliance is in constant contact with its major reinsurers and will continue its aggressive collection efforts.

Reinsurer financial strength remains a problem for the insurance industry in general, and will continue to be a major concern for the duration of the liquidation proceedings. Reliance has

dedicated resources to monitor the financial condition of its significant reinsurers and where possible will attempt to settle its overall exposure with distressed companies through commutation. In these distressed commutation situations, it is highly unlikely that Reliance will obtain full value for its recoverables. Where applicable, these commutations will be submitted for approval consistent with the asset guidelines previously communicated by the Court. Similar to many ongoing insurance entities, Reliance will experience significant write-offs for uncollectible reinsurance. Thus an appropriate bad debt reserve has been established.

11. Independent Actuarial Review

PriceWaterhouseCoopers LLP is in the process of performing a post-liquidation independent actuarial review of estimated loss and loss adjustment expenses. This review of business reported by Reliance as direct insurance business will be based on GA claim information, POC and NOD data as well as pre-liquidation reserves. Complicating factors in completing this review include the large number of contingent claims, limited claim data on many POCs, inconsistent reserving practices of the GAs and the status of non-GA pre-liquidation claims not yet matched to post-liquidation data. Due to these limitations, the primary conclusions expected from the study are a range of estimates for priority class (b) exposures at various confidence levels. The conclusions of the actuarial review will be used to support a recommendation to the Court for a partial distribution, with safety factors to ensure that pro-rata distributions can be made to all potential class (b) creditors.

B. Expenses

1. Losses and loss adjustment expenses

Losses and loss adjustment expenses represent amounts incurred by the Estate for handling certain creditor claims and the evaluation of POCs, issuance of NODs and the related

objection process. Also included are counsel fees incurred in defense of policyholder claims during rehabilitation but not reported, verified, processed and paid until after the liquidation date.

2. Operating Expenses

The operating expenses of Reliance relate to efforts by the Liquidator to marshal and maximize the assets of the Estate for the benefit of all Reliance policyholders and claimants, as well as to review and determine the ultimate liabilities of the Estate, to fulfill the public policies and purposes of the Act and the liquidation process, and to investigate and hold accountable those third parties responsible for the insolvency of Reliance. Attached as Exhibit G is the Annual Budget/Historical Comparison Report which indicates the total budget dollar amount estimated for each expense category for the year ended December 31, 2006 compared to the actual operating expenses for years ended December 31, 2005, 2004 and 2003 and the fifteen months ended December 31, 2002. As detailed in the Exhibit, administrative expenses of Reliance for 2006 are projected to be \$89.4 million compared to actual operating expenses in 2005 of \$95.3 million (excluding GA expenses).

Attached as Exhibit H is an Operating Expense Analysis which indicates the total dollar amount for each expense category for the quarter ended March 31, 2006 and compares actual performance to budgeted amounts and prior year's actual expenses. As detailed in the Operating Expense Analysis and supporting schedules, the administrative expenses of Reliance for the first quarter of 2006 totaled \$26.8 million, compared to a budget of \$28.5 million and actual expenses in 2005 of \$29.2 million. Additional operating expenses were incurred in the first quarter of 2006 by the GAs, with expense reimbursements of \$0.8 million compared to a budget of \$1.0 million and actual reimbursements in 2005 of \$3.2 million. Brief explanations regarding certain aspects of the expenses are provided below, by category.

a. Salaries, Employee Benefits and Taxes

At June 30, 2006, Reliance had a total of 310 employees in both the Philadelphia and New York City offices. Since January of 2006, staff count has declined by 7 employees.

b. IT Outsourcing Expenses

Axiom, a third party provider, now maintains the IT technical infrastructure necessary to execute Reliance's business application systems. The Axiom outsourcing arrangement covers data center and network equipment, software and services, plus support services for help desk, desktops, on-site servers, and operational and disaster recovery. The outsourcing transition to Axiom was completed at the end of November 2005 and is estimated to result in a cost savings of \$2.8 million. RCG, which is a wholly owned subsidiary of Reliance, continues to provide production support, maintenance, security and development services for Reliance's business application systems.

Reliance had significant IT requirements as a company in liquidation, including the development of several new systems specifically related to liquidation operations and claim processing. The bulk of the development process for these systems was completed in 2004. The major development project for 2006 relates to the Asset Distribution System that must calculate, track, record and maintain documentation relating to distributions to creditors, and also interface with the POC and NOD systems.

c. Legal Fees and Expenses

Attached as Exhibit I is a schedule containing the legal expense detail by firm for the first quarter of 2006. In addition to law firms, the schedule includes consultants, document management firms, and other litigation and legal support services providers. The legal expenses of the Reliance Estate can be divided into four general categories of legal matters: (1) stays of

litigation; (2) Estate administration; (3) general asset recovery; and (4) third party liability litigation. Each of these general categories is discussed below. Budget variances are due to the variable nature and timing of the legal process in various aspects of the Estate operations.

Stays of Litigation: Although new litigation against Reliance has largely subsided, a few new lawsuits are received every month requiring Reliance to seek stays of these matters

Estate Administration: In the course of administering the Estate, Reliance continues to address and resolve several complex and multifaceted legal issues and challenges arising both from ordinary operations and from the complex Reliance products and business structures. These issues often implicate the laws of many jurisdictions, including state, federal and foreign, and involve such things as (1) various claim issues; (2) issues arising with the GAs; (3) reinsurance cut-through requests; (4) draw downs of collateral; (5) premium and reinsurance set-off issues; (6) the negotiation and execution of various asset transactions; and (7) foreign subsidiary management.

General Asset Recovery: Reliance has also undertaken numerous plaintiff actions to recover assets owed to the Estate. Some of these actions seek recovery of deductible amounts that benefit the GAs. The actions currently pending include both litigation and arbitrations for (1) approximately \$24 million sought from agencies, TPAs, brokers or program managers; (2) approximately \$37 million sought in bankruptcy proceedings from financially distressed insureds for which we have no collateral, insufficient collateral, or the collateral for our claim is disputed; (3) approximately \$30 million sought in subrogation matters; (4) approximately \$34 million sought in premium and large deductible collections; (5) approximately \$67 million sought in reinsurance recoveries; and (6) approximately \$650,000 sought in other litigation. In the second quarter of 2006, Reliance recovered approximately \$4 million through legal actions. Since

January 2003, Reliance has recovered in excess of \$165 million through legal actions, a portion of which benefits the GAs.

Third Party Liability Litigation: The Liquidator continues certain actions against third parties who may be liable to the Estate for injuring Reliance, its policyholders, creditors and the public generally. The litigation is discussed more fully in section F.

d. Professional Services Expenses

Attached as Exhibit J is a schedule containing the professional service expense detail by vendor name for the first quarter of 2006. The individual professionals and firms listed in the schedule include, among other things, investment managers, broker services, imaging services, auditing services, actuarial services, assumed reinsurance services, and permanent and temporary staffing services which provide resources for the IT, claims, reinsurance and accounting departments as needed. The professional service expense schedule also contains two entries for professional services provided to Reliance by the Pennsylvania Insurance Department (PID), either directly by the professional staff of the Office of Liquidations, Rehabilitations and Special Funds, or through specialized consultants hired to assist the Liquidator in administering the liquidation of Reliance.

e. Rent

Rent is primarily attributable to office space in New York and Philadelphia. Reliance has renegotiated the leases in both locations to reduce costs and reconfigured workspace wherever possible in order to consolidate space requirements. In 2006, Reliance entered into a new lease to replace its existing New York office space. The new contract is estimated to result in cost savings exceeding \$2.5 million.

f. Guaranty Association Expenses

The Expense Analysis lists as administrative expenses of the Estate, under 40 P.S. §221.44(a), certain expenses of GAs incurred in handling claims of Reliance policyholders and claimants. Reliance is now receiving regular quarterly reports from most GAs and administrative expenses are reimbursed by the Estate on an ongoing basis. The total allowable GA administrative expenses paid by Reliance from inception of the liquidation through March 31, 2006, is \$139.3 million with submissions totaling \$38.3 million awaiting review and reimbursement. Attached as Exhibit K is a schedule showing the administrative expenses submitted to Reliance by each GA through June 30, 2006. Reliance conducts periodic desk and on-site reviews of GA administrative expenses and makes appropriate adjustments. With respect to inaccurate administrative expense data, overpayments, reductions, reclassifications or adjustments, both the Liquidator and the GAs have reserved their respective rights to seek appropriate relief, if and as needed. As Reliance ultimately evaluates these expenses, the vast majority will be allowable as class (a) claims. However, there will likely be certain disagreements between the Liquidator and the GAs that will require the Court to address and resolve the issues.

C. National Conference of Insurance Guaranty Funds (“NCIGF”)

The GAs are an essential part of the liquidation safety net, providing significant coverage to certain policyholders and paying covered claims as defined and required by their respective statutes. The liquidation of Reliance, as the largest U.S. property and casualty liquidation, has been challenging for all involved, including GAs. From the start of the liquidation, Reliance met regularly with a task force and various working groups organized through the NCIGF, whose members include almost all of the state property and casualty insurance GAs in the United

States. The meetings have focused on continuing operational issues such as large deductible reimbursements; claim handling procedures; communication protocols; GA data reporting; the priority, classification and reporting of administrative expenses and related audits; and Reliance product and policy information. Another area of continuous discussion is the necessity for coordination of reinsurance audits and loss reporting to maximize reinsurance collections. The NCIGF, most GAs, and Reliance have established a close working relationship and will continue to address the extensive and complex issues involved in the Reliance Estate in a professional, mutually cooperative and beneficial manner.

1. Status of Uniform Data Standards (“UDS”)

A dedicated department within Reliance was established early in the liquidation to coordinate with the various GAs and their vendors in managing the data reporting process and reviewing exception items. There are now 56 GAs reporting monthly paid and outstanding loss information, through a UDS automated interface, which is subsequently processed in Reliance operating systems to update records and generate the related reinsurance billings. Two small GAs are reporting on a manual basis to the Estate. Through June 30, 2006, the GAs have paid \$2.2 billion for loss and allocated loss adjustment expenses (“ALAE”) under Reliance policies. The GAs outstanding reserves aggregated \$2 billion. Exhibit K shows the total claims and ALAE paid as well as claim and ALAE reserves reported by each GA at June 30, 2006. Over 99% of GA payments and reserves have been matched to Reliance systems.

2. Early Access

Through the early access mechanism, Reliance has distributed over \$1 billion in cash advances to GAs to assist them in fulfilling their obligation to pay certain covered claims. In addition, several states had pre-liquidation statutory deposits, totaling over \$400 million, which

will be used to fund GA claims. Reliance will continue to assess the level of early access advances to GAs and, as appropriate, will consider additional distributions.

3. Large Deductible Policies

Prior to liquidation, pursuant to large deductible agreements with insureds, either the insureds made arrangements with Reliance for the resolution of claims within the deductible and funded the claims payments, or in some cases, Reliance paid all claims and subsequently billed and collected the deductible amounts from the insureds. In either event, most insureds were required to provide collateral to Reliance to secure their obligations to pay or to reimburse Reliance for claims paid by Reliance within the deductible. Under the law in effect until June 28, 2004, the Liquidator and the GAs disagreed on which party was entitled to the benefit of the deductible reimbursements and both parties filed petitions with this Court in July 2003 asserting their position.

Subsequent to those filings on June 28, 2004, the legislature adopted Act 46, 40 P.S. §221.23a, which amended the Act to confer the benefit of the large deductible reimbursements solely on the GAs. In the wake of the legislation, and after extensive negotiation, Reliance and the GAs agreed upon a resolution of the large deductible reimbursement dispute and, on February 21, 2006, submitted the settlement to the Court for approval. On June 20, 2006, the Court approved the settlement and all parties are currently working to implement the terms of the agreement.

The provisions of 40 P.S. §221.23a create numerous additional duties and responsibilities for a liquidator in the handling of insured collateral and collection of deductibles. The GAs are coordinating with Reliance to ensure a cooperative implementation of 40 P.S. §221.23a.

D. Claims Process

The deadline for filing Proofs of Claim was December 31, 2003. As of June 30, 2006, Reliance has received a total of 156,282 POCs. Of these 156,282 POCs, 7,881 were received after the claim filing deadline. Notwithstanding the claim filing deadline, Reliance continues to receive new POCs.

1. Status of POCs

As of June 30, 2006, Reliance has issued NODs for 72,474 of the 156,282 POCs for a total allowed amount of \$372,573,611. This Court has approved 55,063 of those NODs for a total allowed amount of \$258,813,721. Exhibit L breaks down this information by priority class and Exhibit M provides the same information for only the second quarter of 2006. Exhibit N indicates the status of all 156,282 POCs received as of June 20, 2006.

Of the remaining 83,808 POCs, 20,631 relate to claims currently being handled by the GAs and these claims will be addressed by Reliance once the GAs close their claim files and return them to Reliance. Approximately 40,912 of these POCs are either 1) POCs where the claimant has identified a specific claim but the underlying claim has not yet been resolved or proper documentation has not been provided to Reliance or 2) POCs where the claimant has notified Reliance that there may be a claim in the future, but has not yet identified any particular claim.¹ Approximately 19,987 POCs are in various stages of review and evaluation and therefore, in one or more aspects, awaiting information. As part of that process, Reliance requests additional information from the claimant, or other sources, as necessary. When

¹ Reliance wrote a variety of long tail lines of business, including: (1) workers compensation; (2) medical malpractice; (3) construction defect; (4) errors & omissions; (5) directors & officers liability; (6) environmental (asbestos and pollution); and (7) professional liability. For reasons unrelated to the Reliance receivership, but based rather on the nature of the insurance coverage written by Reliance and the claims under those policies, it will be many years before some of these long tail claims will be resolved so that they can proceed through the review and evaluation process.

complete information is provided quickly, the POC will move to the next category of Ready to Evaluate. As of June 30, 2006, there were 2,278 POCs ready to evaluate and for which NODs are to be issued within 180 days. The movement of POCs through the various categories is a continuous process when adequate information is provided by claimants.

2. Obtaining Claims Information from Claimants

There are many claimants as described above that have filed their claims on or before the claim filing deadline but failed to provide the supporting information required by the Act. To encourage claimants to provide the required information, the Liquidator has taken and continues to take, certain steps to request additional information from the claimant, or other sources, as necessary. For example, on June 22, the Liquidator filed a Petition to Supplement the Court's September 9, 2002 Claims Procedures Order ("Claims Information Petition") seeking an Order from this Court that assists the Liquidator in eliciting from claimants the information that is required by the Act. The Claims Information Petition also proposes that the claims information must be provided within certain time frames with certain remedies provided for non-compliance. Notice of the petition was published in several major newspapers. Upon issuance of an Order, Reliance will mail a copy to all affected claimants.

The most certain means of finalizing the total claims liability for Reliance is to establish a court ordered bar date and the Liquidator continues to evaluate the appropriate timing to request that this Court bar the filing of any new claims and require that all existing claims be appropriately documented. However, the need to conclude the claims process must be balanced with the rights of claimants to participate in a distribution to compensate them for valid, material losses they have experienced due to the Reliance liquidation. Given the number and significant

amounts of long tail, contingent and unknown claims being handled both by Reliance and the GAs, the Liquidator does not currently believe that a bar date is in the best interests of the Estate or its policyholders and claimants.

3. Status of Distribution

The Liquidator also believes that the potential of a partial interim distribution will be an additional step toward encouraging all claimants wishing to participate in the distribution to be forthcoming in providing the necessary information required to document their claims. The independent actuarial review, described in paragraph A.11 above, plus completion of the Asset Distribution System, described in paragraph B.2.b above, are both prerequisites to any partial interim distribution.

Based on the facts currently available, the Liquidator believes that by early 2007, the Estate will be in a position to recommend to the Court an interim distribution to all class (b) claimants whose claim has been allowed in amount and priority by the Liquidator and approved by the Court for distribution.

4. Objections to NODs

The Liquidator has received a total of 849 objections to the 72,474 NODs issued, an objection rate of slightly more than 1%. Large groups of these objections relate to several claimants with similar types of claims and thus are resolved collectively through the dispute resolution process. Of the 849 objections received as of June 30, 2006, 711 have been resolved. Of the 138 unresolved objections, 108 are assigned to referees and 30 have not yet been assigned to referees as of June 30, 2006.² Exhibit O indicates the status of all objections received through

² Of the 108 objections assigned to referees, 36 are from Warrantech.

June 30, 2006 and Exhibit P breaks down this information by priority class and also includes the Allowed Amounts for objections in each priority class.

5. GA Claims

The various GAs have filed claims in the Estate for administrative expenses and loss payments made to claimants which include loss adjustment expenses and unearned premium payments.

a. Administrative Expense Claims

Allowed GA administrative expenses are priority class (a) under 40 P.S. §221.44. As previously noted, most GAs report their administrative expenses on a quarterly basis and are reimbursed on a regular basis. As of June 30, 2006, the GAs have reported administrative expenses totaling approximately \$184.5 million. Paragraph B.2.f above explains the review process for these administrative expense claims in some detail.

b. Loss and ALAE Claim Payments

Most GAs report their loss and ALAE payments through the UDS interface. As of June 30, 2006, the GAs have paid approximately \$2.2 billion for losses and ALAE under Reliance policies and have received early access monies totaling over \$1 billion as cash advance distributions, in addition to over \$400 million held in special deposits. The GAs outstanding reserve for remaining loss and ALAE totals slightly over \$2 billion. Therefore, in total through the end of the receivership, the GAs expect to pay out approximately \$4.2 billion in loss claims and ALAE. Both the paid loss claims and outstanding reserves reported by GAs over time are graphically shown in Exhibit Q attached hereto. As indicated by the graph, the GAs have processed and paid approximately half of the total amount that they ultimately expect to incur. These totals do not include past or future GA administrative expenses.

c. Processing GA Claims

In addition to reviewing and evaluating all POCs filed with Reliance by policyholders and third party claimants, it will also be necessary to review and evaluate administrative expense claims, loss and ALAE claims, and unearned premium claims submitted by the GAs and then reconcile the GA quarterly expense reports and UDS data with Reliance books and records. As a group, the GAs represent the largest creditor of the Estate.

E. Other Operational Updates

1. Collateral Release

Pursuant to the November 30, 2001 Order of this Court, the Liquidator has established a structured process to carefully review requests for the release of collateral held to secure obligations for direct insureds (primarily large deductible policies), certain reinsurers (including captive reinsurers), and premium receivables. The extensive review process includes input from several Reliance departments, including Policy Finance and Administration, Actuarial, Claims and Finance. As of March 31, 2006, Reliance held collateral of approximately \$1.4 billion to secure current and future obligations. For the quarter ended March 31, 2006, 47 accounts were reviewed, resulting in a release of \$29.8 million for 32 accounts; denials were issued for 5 accounts; and the remaining 10 accounts were otherwise resolved (e.g., closeouts, no remaining collateral).

As noted earlier in the report, the enactment of 40 P.S. §221.23a relates to the handling of large deductible policies and also specifically addresses collateral provided for these policies. Reliance has made adjustments to the collateral process as deemed appropriate and necessary to comply with 40 P.S. §221.23a.

2. Reinsurance Cut-Throughs

A committee was established to review and recommend action for cut-through requests submitted to the Liquidator. Since the implementation of the guidelines, 26 cut-through requests have been submitted to the Liquidator. The Liquidator has approved 15 of these requests, all of which were also approved by the Court. Of the remaining 11 requests, 8 were disapproved by the Liquidator, 2 were withdrawn and 1 was pending before the Liquidator as of the end of the second quarter. Two of the 8 requests that were disapproved by the Liquidator were never contested; 2 were also disapproved by the Court and 4 are currently disputed. One of the 4 disputed matters is in the discovery stage, 2 have been stayed by the Court upon the consent of the parties and 1 is proceeding before the referee.

3. Ancillary and Foreign Receiverships

Ancillary receivership proceedings were initiated in Arizona, Arkansas, Florida, Idaho, Massachusetts, New Mexico, New York, North Carolina, Oregon, Puerto Rico, and South Carolina, primarily to trigger the obligations of GAs in those states or to take possession of the statutory deposits so that they could be transferred to the appropriate state GA. Both Florida and Idaho have closed their ancillary receiverships and there has been limited activity in the other ancillaries.

As previously reported, the Reliance Canadian branch was placed in liquidation in Canada and the Reliance Liquidator was appointed as an inspector in those proceedings. KPMG, in its capacity as liquidator of the Canadian branch, oversees daily operations. Although a long-term run-off plan has been developed and is being monitored by KPMG and Reliance, a sales or assumption transaction may be possible and would be considered where appropriate.

F. Major Litigation

1. Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation (“PBGC”)³ has attempted to assert claims and file liens outside of the liquidation proceedings, directly against certain current and former Reliance subsidiaries with respect to the funding of the pension plans sponsored by Reliance and its ultimate parent company, Reliance Group Holdings, Inc. (“RGH”) (collectively, the Pension Plans). The PBGC has also alleged it may recover funds directly from Reliance to the extent Reliance or its subsidiaries sold downstream subsidiaries which the PBGC contends were subject to its liens and where the proceeds were ultimately paid to Reliance. The PBGC has asserted that the subsidiaries are members of the “controlled group” of Reliance and RGH, as that term is defined in the Employee Retirement Income Security Act of 1974, as amended, and that the subsidiaries are therefore jointly and severally liable for the Pension Plans’ unpaid minimum funding contributions and unfunded benefits liabilities. The PBGC has filed liens against various Reliance subsidiaries for the unpaid minimum funding contributions. The Pension Plans have been terminated.

Given that the PBGC’s claims, as a matter of state and federal law, are not entitled to priority over those of policyholders, as set forth in 40 P.S. §221.44, and considering previous orders of this Court, the Liquidator filed a petition with this Court to challenge the actions of the PBGC against the Reliance subsidiaries. The Liquidator’s petition, filed August 25, 2004, sought an order requiring that all claims of the PBGC be made and determined solely in the liquidation proceedings and voiding any and all liens asserted by the PBGC. The PBGC removed the matter to Federal Court and that Court subsequently denied the Liquidator’s motion

³ The PBGC is a federal corporation which guarantees pension benefits up to certain annual limits.

to remand and the Liquidator's motion to reconsider or certify the matter for interlocutory appeal.

The Liquidator has amended her complaint to make certain other claims against the PBGC, including a challenge to the dollar amount of the liens that were filed. The PBGC has filed counterclaims against Reliance, against RCG International, Inc. ("RCG") (a first tier Reliance subsidiary) and against Moody International Finance Limited ("Moody"), the company that purchased the stock of a number of companies from RCG, seeking a declaration that the liens it filed are valid. Moody filed a Motion to Dismiss the claims against it, which was granted, on the basis that the Court did not have personal jurisdiction over it. Discovery between Reliance, RCG and the PBGC has been completed and the current scheduling order requires motions for summary judgment to be filed in October.

In addition to the claims and liens asserted against Reliance subsidiaries, the PBGC also filed class (c) POCs against the Estate for the unpaid minimum funding contributions, unfunded benefit liabilities allegedly owed to both Plans on their termination dates and certain premiums due to the PBGC. Reliance issued priority class (c) NODs for each of the POCs filed and the PBGC did not object to that priority class. The amount was not addressed in the NODs as it is not expected at this time that Reliance will have sufficient assets to provide a distribution to class (c) claimants.

2. Matters Involving Reliance's Parent Company - RGH Settlement

Pursuant to the settlement agreement between Reliance and its parent holding companies, Reliance and RGH share 50/50 certain "New Cash". Since the last status report, Reliance received \$7.5 million in distributions of RGH New Cash. There may be potential future cash

payments to Reliance under the settlement depending on whether other potential assets of the parent companies can be identified and/or liquidated.


3. Major Third Party Claims

The Liquidator commenced in this Court a lawsuit against eighteen former directors and officers of Reliance (“D&O case”), and a separate malpractice lawsuit against Reliance’s former auditor and outside actuary, Deloitte & Touche and one of its principals (“Deloitte case”). On petition of the Liquidator, the Court ordered these cases consolidated for pre-trial purposes.


By agreement dated February 24, 2005, the parties agreed to a settlement of the D&O case (the D&O Settlement”). The D&O Settlement resulted in the payment of more than \$86 million on April 25, 2006. Pursuant to the settlement agreement with Reliance’s parent companies mentioned above, Reliance received \$52,080,386; the RGH Liquidating Trust received \$25,172,186; and the reorganized Reliance Financial Services received \$9,528,070.

The D&O Settlement did not resolve the Liquidator’s claims in the Deloitte case. After limited deposition discovery and mediation sessions, the parties notified the Court by letter dated March 31, 2006 that, while they desired to hold the mediation “open”, it was now necessary to engage in some additional deposition discovery to permit each party to gain a better understanding of their opponent’s respective position. The parties completed the additional discovery in July 2006 and are currently exploring their options with regard to the next steps.

Respectfully submitted:

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Attorneys for M. DIANE KOKEN,
Insurance Commissioner of the Commonwealth of
Pennsylvania, in her official capacity as Statutory
Liquidator of RELIANCE INSURANCE COMPANY

Dated: August 14, 2006

Exhibit A

**RELIANCE INSURANCE COMPANY (IN LIQUIDATION)
SPECIAL PURPOSE STATEMENTS OF ASSETS AND LIABILITIES - UNAUDITED**

(In Millions)

	<u>March 31, 2006</u>	<u>Dec. 31, 2005</u>
ASSETS		
Short and intermediate duration investments	\$ 815.9	\$ 788.5
Investment in Symbol Technologies	61.9	81.7
Investments held in segregated accounts for secured creditors	79.7	75.3
Real estate	5.9	5.9
	<hr/>	<hr/>
Invested assets excluding affiliates	963.4	951.4
	<hr/>	<hr/>
Investments in affiliates	85.1	85.1
	<hr/>	<hr/>
Total invested assets	1,048.5	1,036.5
Premium balances	58.1	66.6
Reinsurance receivable	439.2	446.4
Reinsurance recoverables	2,191.7	2,222.2
Early access advances to guaranty associations	1,503.0	1,503.7
Other assets	44.0	46.7
	<hr/>	<hr/>
	5,284.5	5,322.1
	<hr/>	<hr/>
LIABILITIES		
Losses and loss adjustment expenses - paid by guaranty associations	2,155.7	2,077.6
Losses and loss adjustment expenses - direct	4,756.4	4,813.2
Losses and loss adjustment expenses - assumed	1,197.7	1,200.6
Notices of Determination issued for class (b) creditors	192.0	192.0
Funds held	57.8	60.6
Other liabilities	64.2	65.7
	<hr/>	<hr/>
Total liabilities	8,423.8	8,409.7
	<hr/>	<hr/>
Net deficit	<u>\$ (3,139.3)</u>	<u>\$ (3,087.6)</u>

The special purpose statements of assets and liabilities of Reliance Insurance Company (in Liquidation) are prepared on a unique financial reporting basis, in that, the statements do not fully reflect the effect of the company's liquidation. The liquidation process will result in the realization of amounts on transfer or disposition of assets and in the satisfaction of liabilities at amounts substantially different than those reflected in the accompanying statements of assets and liabilities. The statements do not include any adjustments that might result from the outcome of the uncertainties related to the future effects of the liquidation and various potential exposures, recoveries or benefits.

The special purpose statements of assets and liabilities are not intended to be in conformity with, and will vary significantly from, generally accepted accounting principles and statutory accounting practices for a property and casualty insurance company as prescribed by the National Association of Insurance Commissioners.

SEE NOTES TO THE SPECIAL PURPOSE STATEMENTS OF ASSETS AND LIABILITIES, CHANGES IN POLICYHOLDERS' SURPLUS AND CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN SHORT AND INTERMEDIATE DURATION INVESTMENTS.

Exhibit B

**RELIANCE INSURANCE COMPANY (IN LIQUIDATION)
SPECIAL PURPOSE STATEMENT OF CHANGES IN POLICYHOLDERS' SURPLUS - UNAUDITED**

(In Millions)

	<u>Qtr. Ended Mar. 31, 2006</u>	<u>Period From Oct. 3, 2001 To Mar. 31, 2006</u>
Policyholders' surplus - beginning of period	(\$3,087.6)	(\$2,683.5)
Underwriting loss	(43.3)	(955.8)
Net investment income	10.3	83.4
Other income/(expense) *	2.1	331.9
Net realized and unrealized capital gains/(losses) excluding Investment in Symbol Technologies	(7.3)	66.4
Net realized and unrealized capital gains/(losses) for Investment in Symbol Technologies	<u>(13.5)</u>	<u>18.3</u>
Change in policyholders' surplus	<u>(51.7)</u>	<u>(455.8)</u>
Policyholders' surplus - end of period	<u><u>(\$3,139.3)</u></u>	<u><u>(\$3,139.3)</u></u>

* Other income/(expense) includes the elimination of other liabilities, relating primarily to pre-liquidation expenses, loss based assessments and premium taxes which are unlikely to be paid or offset against any other assets of the Estate. See Note 15 on Exhibit D.

The special purpose statement of changes in policyholders' surplus of Reliance Insurance Company (in Liquidation) is prepared on a unique financial reporting basis, in that, the statement does not fully reflect the effect of the company's liquidation. The liquidation process will result in the realization of amounts on transfer or disposition of assets and in the satisfaction of liabilities at amounts substantially different than those reflected in the accompanying statement of assets and liabilities. The statement does not include any adjustments that might result from the outcome of the uncertainties related to the future effects of the liquidation and various potential exposures, recoveries or benefits.

The special purpose statement of changes in policyholders' surplus is not intended to be in conformity with, and will vary significantly from, generally accepted accounting principles and statutory accounting practices for a property and casualty insurance company as prescribed by the National Association of Insurance Commissioners.

SEE NOTES TO THE SPECIAL PURPOSE STATEMENTS OF ASSETS AND LIABILITIES, CHANGES IN POLICYHOLDERS' SURPLUS AND CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN SHORT AND INTERMEDIATE DURATION INVESTMENTS.

Exhibit C

RELIANCE INSURANCE COMPANY (IN LIQUIDATION)
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS, AND CHANGES IN SHORT AND
INTERMEDIATE DURATION INVESTMENTS
FOR THE PERIOD JANUARY 1, 2006 TO MARCH 31, 2006 - UNAUDITED

(In Millions)

Cash Receipts:

Reinsurance collections	\$42.4
Premium collections	2.7
Claim recoveries	0.8
Investment income received	10.3
Net proceeds from sales of investments	1.3
Sales of Symbol Technologies common stock	6.0
Transfer from segregated funds	0.0
Other	<u>(0.9)</u>
Total Cash Receipts	<u>62.6</u>

Cash Disbursements:

Loss and loss adjustment expenses	(0.3)
Operating expenses	<u>(27.6)</u>
Total Cash Disbursements	<u>(27.9)</u>
Net change in short and intermediate duration investments from cash activity	<u>34.7</u>

Non-cash items affecting short and intermediate term investments:

Change in value of investments managed by investment managers	<u>(7.3)</u>
Total Non-cash activity	<u>(7.3)</u>

Net change in short and intermediate duration investments	27.4
Beginning Balance - Short and intermediate duration investments	<u>788.5</u>
Ending Balance - Short and intermediate duration investments	<u><u>\$815.9</u></u>

SEE NOTES TO THE SPECIAL PURPOSE STATEMENTS OF ASSETS AND LIABILITIES, CHANGES IN POLICYHOLDERS' SURPLUS AND CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN SHORT AND INTERMEDIATE DURATION INVESTMENTS.

Exhibit D

**RELIANCE INSURANCE COMPANY (IN LIQUIDATION)
NOTES TO THE SPECIAL PURPOSE STATEMENTS OF ASSETS AND
LIABILITIES, CHANGES IN POLICYHOLDERS' SURPLUS AND CASH
RECEIPTS AND DISBURSEMENTS AND CHANGES IN SHORT AND
INTERMEDIATE DURATION INVESTMENTS
UNAUDITED**

Note 1 – Basis of presentation

Reliance Insurance Company was placed into liquidation by order of Commonwealth Court on October 3, 2001. The principal activities since the date of the order consist of the collection and marshalling of assets and determination of claims. The largest assets are reinsurance receivables and recoverables due for losses ceded under reinsurance agreements. All creditor claims submitted to Reliance Insurance Company (in Liquidation) ("Company") must be evaluated through the proof of claim process to determine and assign the proper class priority and dollar value. The largest class of creditors are claims for losses under policies issued prior to liquidation. Ultimately, the net assets of the Company are expected to be distributed to creditors.

The special purpose statements of assets and liabilities and changes in policyholders' surplus of Reliance Insurance Company (in Liquidation) are prepared on a unique financial reporting basis, in that, the statements do not fully reflect the effect of the Company's liquidation. Liabilities for losses and loss adjustment expenses, reinsurance recoverables and several other balances are based on actuarial estimates using pre-liquidation historical data. The liquidation process will result in the realization of amounts on transfer or disposition of assets and in the satisfaction of liabilities at amounts substantially different than those reflected in the special purpose statement of assets and liabilities. The statements do not include an estimate of liquidation expenses or any adjustments that might result from the outcome of the uncertainties related to the future effects of the liquidation and various potential exposures, recoveries or benefits.

The special purpose statements of assets and liabilities, changes in policyholders' surplus and cash receipts and disbursements and changes in short and intermediate duration investments are not intended to be in conformity with, and will vary significantly from, generally accepted accounting principles and statutory accounting practices for a property and casualty insurance company as prescribed by the National Association of Insurance Commissioners. The statements include Reliance Insurance Company (in Liquidation) and its domestic property and casualty insurance operations. Loss and loss adjustment expenses are presented gross of reinsurance.

The preparation of financial statements requires the use of estimates and assumptions that affect amounts reported in these financial statements and accompanying notes. Actual results may vary from these estimates.

Prior period financial statements and all supporting exhibits have been reclassified to conform with the current periods' presentation.

Note 2 – Cash disbursements

Cash disbursements for which checks have been issued but are outstanding at the date of the special purpose statements of assets and liabilities are not recorded as deductions to short and intermediate duration investments. Check disbursements are recorded as deductions to short and intermediate duration investments only when presented to the bank.

Note 3 – Short and intermediate duration investments

Short and intermediate duration investments consist primarily of short-term investments and marketable bonds and notes. Such investments are recorded at fair value using recognized national pricing services. However, no accrued but unpaid interest income is reported in the special purpose statements of assets and liabilities related to such investments.

Note 4 – Investment in Symbol Technologies

Investment in Symbol Technologies common stock is reported at fair value based upon the closing price as quoted on the New York Stock Exchange on the date of the special purpose statements of assets and liabilities.

Note 5 – Investments held in segregated accounts for secured creditors

Investments held in segregated accounts secure specific obligations of the Company including liabilities arising from losses on certain assumed reinsurance business. Investments held in segregated accounts at March 31, 2006 and December 31, 2005, also include \$67 million and \$62 million, respectively, of funds collected on large deductible policies which are not Estate assets and will be administered and paid to the guaranty associations and creditors in accordance with Act 46.

Note 6 – Real estate

Real estate investments include direct ownership of real estate which is reported at net realizable value. Net realizable value is based upon actual sales contract prices.

Note 7 – Investments in affiliates

Investments in affiliates include the net assets of the Company's non-insurance subsidiaries, foreign insurance subsidiaries and Canadian branch, which is under liquidation proceedings in Canada. The carrying value of these investments has been adjusted to reflect an estimate of net realizable value. Market values are not available for these entities, therefore proceeds from the ultimate disposition of these entities may be significantly different than the amount reflected in the special purpose statements of assets and liabilities.

Note 8 – Premium balances

Premium balances are based upon information in the Company's books and records and include accrued retrospective premiums. Accrued retrospective premiums are based upon pre-liquidation actuarial loss estimates and will be adjusted based on changes in loss estimates. Other premium balances include estimates and may not reflect all transactions processed by agents, insureds and program managers. Certain balances may only be collectible through legal proceedings. Due to these uncertainties, balances ultimately collectible may be significantly different than the amount reflected in the special purpose statements of assets and liabilities.

Note 9 – Reinsurance recoverable and Losses and loss adjustment expenses - direct and assumed

Reinsurance recoverable and Losses and loss adjustment expenses are based upon pre-liquidation actuarial estimates of ultimate liabilities. These estimates have not been adjusted for changes in the ultimate liability resulting from the liquidation process. As a result of the liquidation, the ultimate liability to claimants and the corresponding reinsurance recoverable on these claims will be based solely on the proofs of claim filed by claimants. Accordingly, the ultimate amount of losses and loss adjustment expenses and reinsurance recoverables may be significantly different than the amount reflected in the special purpose statements of assets and liabilities.

Note 10 – Reinsurance recoverable – reserve for uncollectible balances and offsets

Reinsurance recoverable has been reduced by an estimate for reinsurer insolvencies and other uncollectible or compromise dispute settlements with reinsurers, as well as an estimate of permitted offsets of assumed reinsurance. These estimates could not be based upon an analysis of the solvency and potential disputes of specific reinsurers which may occur in the future, and accordingly, are very preliminary. In light of the inherent uncertainties relating to future insolvencies, settlement compromises and dispute resolutions, the actual uncollectible amounts and offsets may be significantly different than the reserve included in the special purpose statements of assets and liabilities.

Note 11 – Early access advances to guaranty associations

In 2003, the Commonwealth Court approved an Early Access petition in accordance with the Pennsylvania Insurance Statutes which provided a mechanism for early distribution of assets to various state guaranty associations to assist those associations in fulfilling their obligation to pay certain policy claims of the Company. The related agreements executed by the guaranty associations provide that they agree to return assets under certain circumstances to ensure pro-rata distributions amongst members of the same class of creditors of the Company. Payments made to various state guaranty associations under Early Access petitions are recorded as assets in the special purpose statements of assets and liabilities as they represent payments made in advance of distributions to other claimants. Guaranty association advances will be reclassified when final distributions to creditors are paid by Reliance. At March 31, 2006 and December 31, 2005, early access includes early access cash payments to the guaranty associations of \$1.075 billion, statutory deposits of \$404 million and payments made by the Company on behalf of certain guaranty associations shortly after October 3, 2001.

Note 12 – Losses and loss adjustment expenses - paid by guaranty associations

Losses and loss adjustment expenses paid by guaranty associations include payments reported by guaranty associations and processed in the Company's operating systems.

Note 13 – Notices of Determination issued for class (b) creditors

Notices of Determination ("NOD") are issued by the Company in response to a Proof of Claim filed against the Estate. The NOD includes the classification and value, if any, of the claim as determined by the Estate. NODs issued by the Company are subject to an objection period, during which the claimant can disagree with the value and classification assigned, and are subject to court approval. NODs for class (b) creditors are included in the special purpose statements of assets and liabilities after objections have been resolved or the objection period has expired and after court approval has been received.

Note 14 – Funds held

Funds held represent liabilities arising from cash received as collateral on large deductible policies and reinsurance contracts. Funds held liabilities relating to collateral are expected to continue to decrease as policyholders and reinsurers honor their obligations under policies and contracts and the related cash collateral is released. Cash collateral related to large deductible policies is included in other assets in the special purpose statements of assets and liabilities.

Note 15 – Other liabilities

Other liabilities consist primarily of pre-rehabilitation liabilities. As a result of the liquidation, the ultimate pre-rehabilitation liability will be based solely on the Proofs of Claim filed by claimants. Generally, Proofs of Claim for creditors below class (b) are not being valued by the Company and the NODs include only the class of the claim. These claimants are being advised that a value will be determined only if the Company believes that sufficient funds will be available for distributions to creditors below class (b). Accordingly, other liabilities, relating primarily to pre-rehabilitation expenses, loss based assessments and premium taxes which are unlikely to be paid or offset against any other assets of the Estate were eliminated. The ultimate amount of other liabilities may be significantly different than the amount reflected in the special purpose statements of assets and liabilities.

Note 16 – Commitments

The Company leases office space and equipment under operating leases primarily expiring in 2006 and 2009. Reliance entered into a new five-year lease in May 2006 for office space in New York. After considering the recently executed lease, the minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year are \$9.6 million.

Note 17 – Litigation

The Company is a party to litigation both as a plaintiff and as a defendant. The ultimate effect of litigation on the financial condition of the Company is uncertain and cannot be reasonably estimated but may be material.

Note 18 – Other collateral held

The Company holds significant levels of other collateral from policyholders and reinsurers in the form of letters of credit and surety bonds. This collateral is not included in the special purpose statement of assets and liabilities and will be utilized when payment and other obligations under policies and contracts are not honored.

Exhibit E

RELIANCE INSURANCE COMPANY (IN LIQUIDATION)

Financial Statements (Modified Cash Basis)

Years ended December 31, 2005 and 2004 with Report of Independent Auditors

 **ERNST & YOUNG**

Reliance Insurance Company (in Liquidation)

Financial Statements
(Modified Cash Basis)

Years ended December 31, 2005 and 2004

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Report of Independent Auditors

Audit Committee
Reliance Insurance Company (in Liquidation)

We have audited the accompanying statements of certain assets (modified cash basis) of Reliance Insurance Company (in Liquidation) (the "Company") as of December 31, 2005 and 2004, and the related statements of cash receipts and disbursements and changes in short and intermediate duration investments (modified cash basis) for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion in the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements have been prepared on a modified cash basis of accounting accepted by the Pennsylvania Department of Insurance, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the certain assets (modified cash basis) of Reliance Insurance (in Liquidation) at December 31, 2005 and 2004, and the cash receipts and disbursements and changes in short and intermediate duration investments (modified cash basis) for the years then ended in conformity with the basis of accounting described in Note 1.

This report is intended solely for the information and use of the Company, the Pennsylvania Department of Insurance, and the Commonwealth Court of Pennsylvania to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

June 7, 2006

Reliance Insurance Company (in Liquidation)
 Statements of Certain Assets (Modified Cash Basis)

(In millions)

	December 31	
	2005	2004
Certain assets		
Investments (at fair value):		
Short and intermediate duration investments	\$ 788.5	\$ 611.8
Symbol Technologies common stock	81.7	143.7
Investments held in segregated accounts for secured creditors	75.3	208.9
Real estate and real estate-related investments	5.9	41.7
Invested assets	951.4	1,006.1
Early access advances to guaranty associations	1,503.7	1,203.8
Total certain assets	\$ 2,455.1	\$ 2,209.9

The accompanying notes are an integral part of the financial statements.

Reliance Insurance Company (in Liquidation)

Statements of Cash Receipts and Disbursements and Changes in Short and Intermediate Duration Investments (Modified Cash Basis)

(In millions)

	Year ended December 31	
	2005	2004
Cash receipts:		
Reinsurance collections	\$ 434.9	\$ 607.0
Premium collections	32.3	30.8
Claims recoveries	18.1	20.5
Investment income received	41.1	19.9
Proceeds from sales of investments, real estate, and affiliates	44.8	58.5
Settlement with former parent	—	45.3
Transfer from segregated accounts	24.4	12.5
Proceeds from sales of Symbol Technologies common stock	24.3	32.8
Other	0.4	10.1
Total cash receipts	<u>620.3</u>	<u>837.4</u>
Cash disbursements:		
Early access advances to guaranty associations	(300.0)	(413.4)
Prior-year early access checks presented to bank in subsequent year	—	(35.1)
Loss and loss adjustment expenses	(3.9)	(5.1)
Operating expenses	(129.7)	(177.3)
Total cash disbursements	<u>(433.6)</u>	<u>(630.9)</u>
Net change in short and intermediate duration investments from cash activity	186.7	206.5
Noncash items affecting short and intermediate duration investments:		
Reduction of restricted cash for large deductible policies	—	(52.4)
Change in fair value of short and intermediate duration investments	(10.0)	(6.6)
Total noncash activity	<u>(10.0)</u>	<u>(59.0)</u>
Net change in short and intermediate duration investments	176.7	147.5
Beginning balance—short and intermediate duration investments	611.8	464.3
Ending balance—short and intermediate duration investments	<u>\$ 788.5</u>	<u>\$ 611.8</u>

The accompanying notes are an integral part of the financial statements.

Reliance Insurance Company (in Liquidation)

Notes to Financial Statements (Modified Cash Basis)

December 31, 2005 and 2004

1. Significant Accounting Policies

Reliance Insurance Company (the Company) was placed into rehabilitation by order of the Commonwealth Court of Pennsylvania on May 29, 2001. On October 3, 2001, the Company was declared insolvent by order (the Order) of the Commonwealth Court of Pennsylvania. The Order of the Commonwealth Court appointed the Insurance Commissioner of Pennsylvania as Liquidator of the Company. Representatives of the Liquidator oversee the daily operations of the Company. The Order applies to all former subsidiaries of Reliance Insurance Company that were previously merged into Reliance Insurance Company, including Reliance National Indemnity Company, Reliance National Insurance Company, Union Pacific Insurance Company, Reliance Direct Company, Reliance Surety Company, Reliance Universal Insurance Company, United Pacific Insurance Company of New York, and Reliance Insurance Company of Illinois. The entity is now known as Reliance Insurance Company (In Liquidation) (Reliance).

The principal activities since the date of the Order consist of the collection and marshalling of assets and determination of claims. The largest assets are reinsurance receivables and recoverables due for losses ceded under reinsurance agreements. All creditor claims submitted to Reliance must be evaluated through the proof of claim process to determine and assign the proper class priority and dollar value. The largest class of creditors are claims for losses under policies issued prior to liquidation. Ultimately, the net assets of Reliance are expected to be distributed to creditors.

The following represent the significant accounting policies affecting Reliance that are used in preparing the accompanying modified cash basis financial statements. These policies differ from accounting principles generally accepted in the United States (GAAP) and, as a result, the accompanying modified cash basis financial statements are materially different from GAAP basis financial statements.

Basis of Accounting

Reliance's financial statements are prepared using a modified cash basis of accounting accepted by the Pennsylvania Department of Insurance, which differs from accounting principles generally accepted in the United States. The financial statements are on a cash basis with adjustments to the carrying amount of investments to fair value and other adjustments, and are therefore considered to be prepared on a modified cash basis of accounting. Only specific assets that are within the possession of the Liquidator and other certain amounts on deposit with or advanced to regulators or guaranty associations are recorded as assets in the accompanying Statements of Certain Assets.

Reliance Insurance Company (in Liquidation)

Notes to Financial Statements (Modified Cash Basis) (continued)

1. Significant Accounting Policies (continued)

Basis of Accounting (continued)

Under this basis of accounting, Reliance does not reflect the amounts of certain assets, such as reinsurance recoverables and receivables, premium receivables, investments in subsidiary or affiliated companies, and certain other assets in the accompanying Statements of Certain Assets. In addition, no liabilities or obligations are recorded in the Statements of Certain Assets. These assets and liabilities, which have been included in financial statements previously filed with Commonwealth Court, are excluded from the accompanying Statements of Certain Assets due to the significant and variable nature of the estimates used to establish these values.

The preparation of financial statements requires the use of estimates and assumptions by management that affect amounts reported in these financial statements and accompanying notes. Actual results may vary from these estimates.

Cash Disbursements

Cash disbursements for which checks have been issued but are outstanding at the balance sheet date are not recorded as deductions to the total of certain assets (short and intermediate duration investments). Check disbursements are recorded as deductions to certain assets only when presented to the bank.

Short and Intermediate Duration Investments

Short and intermediate duration investments consist primarily of short-term investments and marketable bonds and notes. Such investments are reported at fair value using recognized national pricing services. However, under the modified cash basis of accounting no accrued but unpaid interest income is reported in the accompanying Statements of Certain Assets related to such investments.

Real Estate Investments

Real estate investments include direct ownership of real estate, as well as investments in limited partnerships that own real estate. Such investments are reported at net realizable value (fair value less costs to sell). Net realizable value is determined by management based upon comparable values of similar properties, or actual sales contract prices.

Reliance Insurance Company (in Liquidation)

Notes to Financial Statements (Modified Cash Basis) (continued)

1. Significant Accounting Policies (continued)

Investment in Symbol Technologies

Investment in Symbol Technologies common stock is reported at fair value based upon the closing price as quoted on the New York Stock Exchange at each statement date.

Investments Held in Segregated Accounts—Secured Creditors

Investments held in segregated accounts secure specific obligations of Reliance, including funds held arising from premiums payable on reinsurance treaties, liabilities arising from large deductible collections and losses on certain assumed reinsurance contracts. All obligations arising from premiums payable on reinsurance treaties were settled in 2005. Funds collected on large deductible policies, which are not Estate assets, will be administered and paid to the guaranty associations and creditors in accordance with Insurance Department Act of 1921, 40 P.S. §221.23a (“Act”).

Priority of Claims and Distribution to Creditors

Reliance will distribute funds to creditors in accordance with Section 221.44 of the Act, which governs asset distributions from insolvent insurance estates. The following summarizes the classes of creditors under the Act:

- (a) The costs and expenses of administration, including but not limited to the actual and necessary costs of preserving or recovering the assets of the insurer, compensation for all services rendered in the liquidation, reasonable attorney’s and other expenses and fees.
- (b) All claims under policies for losses wherever incurred, including third-party claims, and all claims against the insurer for liability for bodily injury or for injury to or destruction of tangible property which are not under policies, shall have the next priority.
- (c) Claims of the Federal government.
- (d) Debts due to employees for services performed to the extent that they do not exceed \$1,000 and represent payment for services performed within one year before the filing of the petition for liquidation.

Reliance Insurance Company (in Liquidation)

Notes to Financial Statements (Modified Cash Basis) (continued)

1. Significant Accounting Policies (continued)

Priority of Claims and Distribution to Creditors (continued)

- (e) Claims under nonassessable policies for unearned premium or other premium refunds and claims of general creditors.
- (f) Claims of any state or local government.
- (g) Claims filed late and certain other special claims.
- (h) Surplus or contribution notes, or similar obligations, and premium refunds on assessable policies.
- (i) The claims of shareholders or other owners.

Every claim in each class shall be paid in full or adequate funds retained for such payment before the members of the next class receive any payment. No subclasses shall be established within any class.

Reclassification

Certain amounts from the prior year have been reclassified to conform to current-year presentation.

2. Short and Intermediate Duration Investments

The estimated fair values of short and intermediate duration investments by major category are summarized as follows (in millions):

	December 31	
	2005	2004
Cash and cash equivalents	\$ 107.9	\$ 63.7
U.S. treasury securities	189.4	101.9
Mortgage-backed securities, primarily government agencies	214.3	161.7
Corporate bonds	201.0	198.9
Asset-backed securities	75.9	85.6
Total	<u>\$ 788.5</u>	<u>\$ 611.8</u>

Reliance Insurance Company (in Liquidation)

Notes to Financial Statements (Modified Cash Basis) (continued)

2. Short and Intermediate Duration Investments (continued)

Reliance has contracts with several professional investment managers to manage their short and intermediate duration investments. Reliance has established investment policies which define criteria for the credit quality and duration of its portfolios. The average duration of investments is approximately 2.7 years as of December 31, 2005 (2.4 years at December 31, 2004).

Certain cash and investments that are not available for distribution to creditors and are held for the benefit of large deductible policyholders in the amount of \$32.1 million and \$52.4 million as of December 31, 2005 and 2004, respectively, are excluded from the accompanying statements of certain assets (modified cash basis).

3. Early Access Advances to Guaranty Associations

During 2003, 2004, and 2005, the Commonwealth Court approved Early Access petitions in accordance with Section 221.36 of the Act which provides a mechanism for early distribution of assets to various state guaranty associations to assist those associations in fulfilling their obligation to pay certain policy claims of the Company. The related agreements executed by the guaranty associations provide that they agree to return assets under certain circumstances to ensure pro rata distributions amongst members of the same class of creditors of Reliance.

Payments made to various state guaranty associations under Early Access petitions are recorded as assets in the accompanying Statements of Certain Assets as they represent payments made in advance of distributions to other claimants. Guaranty association advances will be reclassified when final distributions to creditors are paid by Reliance.

Reliance Insurance Company (in Liquidation)

Notes to Financial Statements (Modified Cash Basis) (continued)

3. Early Access Advances to Guaranty Associations (continued)

Statutory deposits represent amounts that were on deposit with various state insurance departments prior to October 3, 2001. The following summarizes the components of early access advances for the six largest states and all other states as of December 31, 2005 (in millions):

	Statutory Deposits	Early Access Advances	Other Deemed Early Access Advances	Total
California	\$ 266.8	\$ 89.6	\$ 4.7	\$ 361.1
Florida	4.8	143.5	4.0	152.3
New York	0.3	173.5	1.1	174.9
Texas	—	75.3	2.0	77.3
Massachusetts	56.3	5.9	0.4	62.6
Pennsylvania	—	78.5	0.9	79.4
Other states	75.9	508.7	11.5	596.1
Total	\$ 404.1	\$ 1,075.0	\$ 24.6	\$ 1,503.7

The following summarizes the components of early access advances for the six largest states and all other states as of December 31, 2004 (in millions):

	Statutory Deposits	Early Access Advances	Other Deemed Early Access Advances	Total
California	\$ 266.8	\$ 73.9	\$ 4.5	\$ 345.2
Florida	4.8	105.0	4.0	113.8
New York	.3	89.8	1.1	91.2
Texas	—	67.5	1.9	69.4
Massachusetts	56.3	4.4	.4	61.1
Pennsylvania	—	57.2	.8	58.0
Other states	77.0	377.2	10.9	465.1
Total	\$ 405.2	\$ 775.0	\$ 23.6	\$ 1,203.8

Reliance Insurance Company (in Liquidation)

Notes to Financial Statements (Modified Cash Basis) (continued)

4. Operating Expenses

Operating expenses are comprised of the following (in millions):

	Year ended December 31	
	2005	2004
Salaries	\$ 41.2	\$ 45.9
Employee benefits and taxes	6.8	7.6
IT outsourcing expenses	15.7	14.3
Legal fees and expenses	10.4	18.5
Professional services expenses	10.0	10.5
Rent	5.0	7.1
Equipment	3.1	4.1
Other operating expenses	3.1	4.2
Subtotal	<u>95.3</u>	<u>112.2</u>
Guaranty association expenses	34.4	65.1
Total operating expenses	<u>\$ 129.7</u>	<u>\$ 177.3</u>

The Company made payments for IT services of \$11.6 million and \$5.3 million to a wholly owned subsidiary in 2005 and 2004, respectively.

5. Commitments

As of December 31, 2005, Reliance leases office space under operating leases primarily expiring in 2006 and 2009. The lease for office space in New York will expire on September 30, 2006. Reliance entered into a new five-year lease in May 2006 for office space in New York.

After considering the recently executed lease, the minimum future rental payments under noncancelable operating leases having remaining terms in excess of one year are \$9.6 million.

6. Litigation

Reliance is a party to litigation both as a plaintiff and as a defendant. The ultimate effect of litigation on the financial condition of Reliance is uncertain and cannot be reasonably estimated but may be material.

Exhibit F

**RELIANCE INSURANCE COMPANY (IN LIQUIDATION)
REINSURANCE RECEIVABLE
MARCH 31, 2006 - UNAUDITED**

REINSURANCE COMPANY NAME	
CX REINSURANCE COMPANY, LTD.	\$22,156,055
CONTINENTAL CASUALTY COMPANY	19,073,782
SWISS REINSURANCE AMERICA CORP.	14,912,072
ZURICH SPECIALTIES LONDON LTD.	14,333,439
EMPLOYERS REINSURANCE CORP.	13,415,341
AMERICAN REINSURANCE COMPANY	13,019,015
CLARENDON NATIONAL INSURANCE CO.	12,593,625
BROWNSTONE INS. (GUERNSEY) LTD.	12,395,061
GE REINSURANCE CORP.	10,188,778
HARTFORD FIRE INSURANCE CO.	9,008,120
FOLKSAM INTERNATIONAL INS. CO.	8,760,776
MONUMENTAL LIFE INS. CO.	8,748,348
GEN RE LIFE CORP.	8,529,844
HANNOVER RUCKVERSICHERUNGS AG.	8,464,191
OFFSHORE MARINE INDEMNITY CO.	8,064,426
LLOYDS SYND. 2999	7,301,563
LLOYDS SYND. 5000	7,038,363
COMMERCIAL RISK REINSURANCE CO.	6,770,565
NISSAN FIRE & MARINE INS.	5,874,997
FOLKSAMERICA REINSURANCE CO.	5,858,981
LLOYDS SYND. 376	5,764,609
CONVERIUM REINSURANCE, NA INC.	5,754,862
GORDIAN RUN-OFF LTD.	5,142,752
LLOYDS SYND. 435	4,939,713
LLOYDS SYND. 53	4,850,901
GE FRANKONA REINS. LTD.	4,809,530
GENERAL REINSURANCE CORP.	4,742,441
SWISS RE. LIFE & HEALTH AMERICA	4,482,400
TRENWICK AMERICA REINSURANCE	4,453,281
TRANSATLANTIC REINSURANCE CO.	4,389,798
MARKEL INTERNATIONAL INS. CO.	4,058,989
REPUBLIC WESTERN INS. CO.	4,036,356
RELIANCE STANDARD LIFE INSURANCE CO.	3,448,902
SPHERE DRAKE INSURANCE, LTD.	3,399,893
LLOYDS SYND. 1185	3,214,695
LLOYDS SYND. 2020	3,163,945
GENERAL SECURITY NATIONAL INS.	3,163,136
LLOYDS SYND. 2001	3,147,109
SAFETY NATIONAL CASUALTY CORP.	3,049,100
ODYSSEY RE (BERMUDA) LTD.	3,045,248
CAL-SOUTHAMPTON REINSURANCE CO.	3,021,290
CAMELBACK INSURANCE LTD.	2,995,908
MINSTER INSURANCE CO. LTD.	2,935,220
LLOYDS SYND. 1007	2,734,195
U.S. LIFE INSURANCE COMPANY	2,604,972
GE FRANKONA RUCKVERSICHERUNGS	2,568,175
SCOR REINSURANCE COMPANY	2,548,924

LLOYDS SYND. 1101	2,466,759	
CHARTWELL REINSURANCE COMPANY	2,380,870	
LLOYDS SYND. 1212	2,373,364	
LLOYDS SYND. 205	2,362,927	
KEMPER REINS LONDON LTD.	2,357,208	
HIH CASUALTY & GENERAL INSURANCE CO.	2,291,215	
SPARTAN INSURANCE CO., LTD.	2,194,890	
ING RE (UK) LTD.	2,176,566	
LLOYDS SYND. 2488	2,143,071	
LLOYDS SYND. 102	2,049,078	
UNDERWRITERS AT LLOYDS-AUTH	2,024,345	
AXA REINSURANCE (UK) PLC.	1,951,658	
GERLING GLOBAL RE CORP. OF AMERICA	1,903,243	
SIGNET STAR REINSURANCE CO.	1,890,071	
CONTINENTAL INSURANCE CO.	1,858,698	
ST PAUL REINSURANCE CO. LTD.	1,854,542	
LLOYDS SYND. 861	1,840,305	
PHOENIX LIFE INS CO.	1,829,288	
CORE REINSURANCE CO, LTD.	1,813,278	
FEDERAL INSURANCE CO.	1,811,525	
C.P.S. INSURANCE COMPANY	1,754,875	
LLOYDS SYND. 1003	1,678,949	
XL REINSURANCE AMERICA INC.	1,649,891	
LLOYDS SYND. 780	1,581,832	
LUMBERMENS MUTUAL CASUALTY	1,534,161	
LONDON LIFE & CASUALTY REINSURANCE COMPANY	1,524,827	
CROWN LIFE INSURANCE COMPANY	1,523,438	
LLOYDS SYND. 1209	1,512,768	
LLOYDS SYND. 2003	1,504,418	
CONN. GENERAL LIFE INS. CO.	1,390,236	
XL RE LTD.	1,387,096	
LLOYDS SYND. 2	1,318,263	
LLOYDS SYND. 1211	1,306,365	
LLOYDS SYND. 33	1,297,702	
ROYAL & SUN ALLIANCES INSURANCE PLC. CO. LTD.	1,289,859	
UNUM LIFE INSURANCE COMPANY OF AMERICA	1,283,541	
LLOYDS SYND. 991	1,260,740	
TRANSAMERICA REINSURANCE CO. (DOMESTIC)	1,258,201	
COTERIE INSURANCE, LTD.	1,244,438	
FREMONT INDEMNITY CO.	1,177,055	
AXA REASSURANCE	1,162,072	
MANULIFE REINSURANCE CORP.	1,117,612	
ODYSSEY REINSURANCE CORP.	1,111,898	
ATLANTIC INDEMNITY LTD.	1,096,852	
LLOYDS SYND. 1096	1,066,073	
TRANSAMERICA REINSURANCE CO. (BERMUDA)	1,042,840	
NDA INSURANCE COMPANY, LTD.	1,039,969	
R.G.A. REINSURANCE COMPANY	1,026,359	
LLOYDS SYND. 219	1,006,833	
	<hr/>	
	398,695,750	91%
OTHER REINSURERS	40,521,638	9%
REINSURANCE RECEIVABLE	<hr/>	<hr/>
	\$439,217,388	100%

Exhibit G

RELIANCE INSURANCE COMPANY (IN LIQUIDATION)
OPERATING EXPENSES - UNAUDITED
ANNUAL BUDGET / HISTORICAL COMPARISON REPORT

	Year Ended Dec. 31, 2006 Budget	Year Ended Dec. 31, 2005 Actual	Year Ended Dec. 31, 2004 Actual	Year Ended Dec. 31, 2003 Actual	15 Mo. Ended Dec. 31, 2002 Actual
Salaries					
Regular Salaries	\$31,748,964	\$32,356,387	\$35,391,300	\$36,620,934	\$45,890,374
Performance-Retention Incentives	7,195,070	7,309,774	7,990,995	7,461,246	4,841,992
Severance	1,975,306	1,512,950	2,515,739	2,316,833	3,363,362
Total Salaries	40,919,340	41,179,111	45,898,033	46,399,013	54,095,729
Employee Benefits					
Group Hospital and Life Insurance	2,067,000	2,068,301	2,314,371	2,415,491	4,005,076
SIP - Employer Contributions	2,171,050	2,156,563	2,196,153	1,948,499	872,881
Other Benefits	409,910	74,528	192,933	348,160	101,055
Total Employee Benefits	4,647,960	4,299,393	4,703,458	4,712,150	4,979,012
Payroll Taxes	2,526,006	2,540,974	2,895,156	2,897,220	3,313,932
Total Salaries, Benefits and Taxes	48,093,306	48,019,478	53,496,647	54,008,384	62,388,673
IT Services	11,899,772	15,738,017	14,325,299	19,197,086	20,871,868
Legal Fees	12,925,500	10,367,117	18,542,062	12,995,021	20,632,547
Professional and Other Services	9,519,643	9,954,261	10,463,602	17,727,341	45,034,794
Rent					
Corporate Home Office	3,230,498	4,222,532	5,999,942	6,951,936	10,298,996
Field and other Rent	-	-	-	(94,870)	1,203,465
Record Archiving Services	801,200	685,178	622,526	735,636	860,846
Other Rent Items	(8,235)	81,049	495,438	128,707	581,948
Total Rent	4,023,463	4,988,759	7,117,906	7,721,408	12,945,255
Equipment					
Computer Equipment	86,251	910,045	1,377,578	1,169,559	1,500,667
Office Machine Rent & Repair	50,800	147,699	140,059	246,522	396,864
Data Processing Software	699,999	2,030,841	2,514,741	2,771,456	4,793,853
Other Equipment	12,600	14,265	29,617	1,649,710	138,982
Total Equipment	849,650	3,102,850	4,061,995	5,837,248	6,830,366

SEE NOTES TO THE SPECIAL PURPOSE STATEMENTS OF ASSETS AND LIABILITIES, CHANGES IN POLICYHOLDERS' SURPLUS AND CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN SHORT AND INTERMEDIATE DURATION INVESTMENTS.

RELIANCE INSURANCE COMPANY (IN LIQUIDATION)
OPERATING EXPENSES - UNAUDITED
ANNUAL BUDGET / HISTORICAL COMPARISON REPORT

	Year Ended Dec. 31, 2006 Budget	Year Ended Dec. 31, 2005 Actual	Year Ended Dec. 31, 2004 Actual	Year Ended Dec. 31, 2003 Actual	15 Mo. Ended Dec. 31, 2002 Actual
Other Operating					
Travel	307,151	212,288	227,467	251,834	240,280
Professional Dues & Conferences	59,363	50,514	44,684	24,883	31,603
Insurance	756,117	900,384	1,825,302	256,501	5,176,212
Voice and Data Communication	312,123	734,666	619,991	1,235,650	2,384,388
Supplies and Subscriptions	301,719	302,625	369,026	453,969	857,853
Postage, Freight & Express	147,828	138,867	226,039	187,663	657,423
Proof of Claims Mailing	-	-	-	341,078	1,470,606
Bank Charges	119,300	21,400	155,630	272,969	510,522
Real Estate	81,769	774,113	711,814	737,393	3,359,206
Taxes, BBA and Other	-	-	-	663,785	4,851,651
Total Other Operating	2,085,370	3,134,857	4,179,952	4,425,726	19,539,742
Subtotal	89,396,704	95,305,338	112,187,463	121,912,215	188,243,245
Guaranty Association Expenses	50,000,000	34,403,416	65,075,273	37,658,329	868,997
Total Operating Expenses	\$139,396,704	\$129,708,755	\$177,262,736	\$159,570,543	\$189,112,242

SEE NOTES TO THE SPECIAL PURPOSE STATEMENTS OF ASSETS AND LIABILITIES, CHANGES IN POLICYHOLDERS' SURPLUS AND CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN SHORT AND INTERMEDIATE DURATION INVESTMENTS.

Exhibit H

RELIANCE INSURANCE COMPANY (IN LIQUIDATION)
OPERATING EXPENSES - UNAUDITED

	Year to Date Mar. 31, 2006		Actual to Budget Variance	% Change	Year to Date Mar. 31, 2005			
	Actual	Budget			Actual	Variance to Prior Year	% Change	
Salaries								
Regular Salaries	\$7,816,075	\$7,979,967	(\$163,892)	-2.1%	\$8,198,759	(\$382,683)	-4.7%	
Performance-Retention Incentives	6,934,592	7,036,098	(101,506)	-1.4%	7,160,799	(226,207)	-3.2%	
Severance	438,535	436,379	2,156	0.5%	489,376	(50,841)	-10.4%	
Total Salaries	15,189,202	15,452,444	(263,242)	-1.7%	15,848,934	(659,731)	-4.2%	
Employee Benefits								
Group Hospital and Life Insurance	700,629	516,750	183,879	35.6%	583,129	117,501	20.2%	
SIP - Employer Contributions	2,133,139	2,171,050	(37,911)	-1.7%	2,156,941	(23,802)	-1.1%	
Other Benefits	66,741	116,813	(50,072)	-42.9%	6,665	60,076	---	
Total Employee Benefits	2,900,510	2,804,613	95,897	3.4%	2,746,735	153,775	5.6%	
Payroll Taxes	1,278,613	1,330,596	(51,983)	-3.9%	1,356,191	(77,579)	-5.7%	
Total Salaries, Benefits and Taxes	19,368,325	19,587,653	(219,328)	-1.1%	19,951,860	(583,535)	-2.9%	
IT Services	2,800,258	2,879,130	(78,872)	-2.7%	3,462,564	(662,306)	-19.1%	
Legal Fees	1,103,317	1,713,500	(610,183)	-35.6%	1,416,900	(313,582)	-22.1%	
Professional and Other Services	1,931,632	2,228,913	(297,281)	-13.3%	1,876,999	54,633	2.9%	
Rent								
Corporate Home Office	1,008,933	855,000	153,933	18.0%	932,884	76,049	8.2%	
Record Archiving Services	157,832	210,400	(52,568)	-25.0%	160,793	(2,961)	-1.8%	
Other Rent Items	158,954	245,750	(86,796)	-35.3%	(45,871)	204,825	---	
Total Rent	1,325,720	1,311,150	14,570	1.1%	1,047,806	277,913	26.5%	
Equipment								
Computer Equipment	7,569	39,308	(31,739)	-80.7%	187,952	(180,383)	-96.0%	
Office Machine Rent & Repair	15,439	14,800	639	4.3%	19,650	(4,212)	-21.4%	
Data Processing Software	135,805	155,364	(19,559)	-12.6%	550,355	(414,549)	-75.3%	
Other Equipment	2,954	3,150	(196)	-6.2%	3,241	(287)	-8.8%	
Total Equipment	161,767	212,622	(50,855)	-23.9%	761,198	(599,431)	-78.7%	

SEE NOTES TO THE SPECIAL PURPOSE STATEMENTS OF ASSETS AND LIABILITIES, CHANGES IN POLICYHOLDERS' SURPLUS AND CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN SHORT AND INTERMEDIATE DURATION INVESTMENTS.

RELIANCE INSURANCE COMPANY (IN LIQUIDATION)
OPERATING EXPENSES - UNAUDITED

	Year to Date Mar. 31, 2006		Actual to Budget Variance	% Change	Year to Date Mar. 31, 2005		
	Actual	Budget			Actual	Variance to Prior Year	% Change
Other Operating							
Travel	55,289	92,410	(37,121)	-40.2%	38,221	17,067	44.7%
Professional Dues & Conferences	9,520	9,760	(240)	-2.5%	3,670	5,850	159.4%
Insurance	(145,538)	129,000	(274,538)	-212.8%	316,954	(462,491)	-145.9%
Voice and Data Communication	88,730	102,983	(14,253)	-13.8%	194,830	(106,100)	-54.5%
Supplies and Subscriptions	52,921	68,926	(16,005)	-23.2%	59,270	(6,349)	-10.7%
Postage, Freight & Express	37,261	62,282	(25,021)	-40.2%	37,931	(671)	-1.8%
Bank Charges	6,042	7,010	(968)	-13.8%	4,641	1,401	30.2%
Real Estate	48,179	91,550	(43,371)	-47.4%	76,974	(28,796)	-37.4%
Total Other Operating	152,405	563,922	(411,517)	-73.0%	732,493	(580,088)	-79.2%
Subtotal	26,843,423	28,496,890	(1,653,467)	-5.8%	29,249,819	(2,406,397)	-8.2%
Guaranty Association Expenses	766,343	951,401	(185,058)	-19.5%	3,177,949	(2,411,606)	-75.9%
Total Operating Expenses	\$27,609,766	\$29,448,291	(\$1,838,525)	-6.2%	\$32,427,769	(\$4,818,003)	-14.9%

SEE NOTES TO THE SPECIAL PURPOSE STATEMENTS OF ASSETS AND LIABILITIES, CHANGES IN POLICYHOLDERS' SURPLUS AND CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN SHORT AND INTERMEDIATE DURATION INVESTMENTS.

Exhibit I

**RELIANCE INSURANCE COMPANY (IN LIQUIDATION)
LEGAL FEES AND EXPENSES
FOR THE PERIOD JANUARY 1, 2006 TO MARCH 31, 2006 - UNAUDITED**

VENDOR NAME	
ADORNO & YOSS	\$72,418
BAKER BOTTS LLP.	21,164
BLANK ROME COMISKY & MCCAULEY	219,435
BRAVERMAN DANIELS KASKEY LTD.	12,429
ESQUIRE DEPOSITION SERVICES, LTD.	11,302
FOX, ROTHSCHILD LLP.	98,077
FULBRIGHT & JAWORSKI, LLP.	78,922
GRP, LLC.	17,014
INVESTIGATION CONSULTANT/EXPERT NO. 2	68,267
INVESTIGATION CONSULTANT/EXPERT NO. 3	59,640
KISOR & WINKLER LLC.	22,138
MARTIN D. HABER, ESQUIRE	5,470
OBERMAYER REBMANN MAXWELL	5,938
OZANNES	5,202
PEPPER HAMILTON LLP.	16,776
PRIMMER & PIPER, P.C.	8,231
RICHARD S. BAKKA (AMICABLE RESOLUTION COMPANY)	8,851
SCRIBNER, HALL & THOMPSON, LLP.	16,500
SKYLINE DUPLICATION	5,406
SMART & ASSOCIATES	29,972
STRADLEY, RONON, STEVENS & YOUNG	115,877
WALSH, COLUCCI, LUBELEY	32,643
WOLF BLOCK SCHORR & SOLIS-COHEN LLP.	140,533
TOTAL VENDORS UNDER \$5,000	31,113
TOTAL LEGAL FEES AND EXPENSES	<u><u>\$1,103,317</u></u>

Exhibit J

**RELIANCE INSURANCE COMPANY (IN LIQUIDATION)
PROFESSIONAL SERVICE EXPENSES
FOR THE PERIOD JANUARY 1, 2006 TO MARCH 31, 2006 - UNAUDITED**

VENDOR NAME	
ACROBAT ENTERPRISES, INC.	\$16,500
ALTAIR ASSOCIATES, INC.	11,194
BMS MANAGEMENT SERVICES LTD.	343,150
CAMBRIDGE INTEGRATED SERVICES GROUP	413,371
CERIDIAN EMPLOYER SERVICES	21,628
CUNNINGHAM, PORTER AND PHILLIPS	19,905
DELAWARE INVESTMENT ADVISORS	64,831
DIANE H. CHAIT	6,349
DIRECT CONSULTING	22,492
DORANNE BIGELOW & ASSOCIATES	13,892
ERNST & YOUNG	28,238
FEDERATED INVESTORS, INC.	38,675
FILEX DOCUMENT IMAGING SERVICE, INC.	171,312
LAKEMONT SYSTEMS	33,649
LANDMARK CONSULTING	27,150
MARY PAT COTTY	11,601
MARYELLEN R. DURNING	10,575
MELLON GLOBAL SECURITIES SERVICES	77,605
PA. DEPT. - LIQUIDATION CONSULTANTS	225,842
PA. DEPT. - OFFICE OF LIQUIDATIONS	15,785
PRICE WATERHOUSE COOPERS	38,232
RSI, L.L.C.	59,090
SHELTER ISLAND RISK SERVICES	15,029
SMART & ASSOCIATES	7,180
SOVEREIGN ASSET MANAGEMENT	97,459
STANDISH MELLON ASSET MANAGEMENT	41,346
THERESA M. TACCA	5,125
WORLDWIDE CLAIMS MANAGEMENT	74,139
TOTAL VENDORS UNDER \$5,000	20,287
TOTAL PROFESSIONAL SERVICE EXPENSES	<u><u>\$1,931,632</u></u>

Exhibit K

Guaranty Association Data as of 06-30-06

STATE	LOCATION	CLAIMS & ALAE PAID	CLAIMS & ALAE RESERVES	ADMIN EXPENSE REPORTED	TOTAL BY STATE
ALABAMA	P&C	\$35,268,790	\$56,657,584	\$3,226,360	\$95,152,734
ALASKA	P&C	\$7,945,027	\$4,119,270	\$154,903	\$12,219,200
ARIZONA	P&C	\$6,065,159	\$578,588	\$1,113,870	\$7,757,617
ARIZONA	WC	\$4,016,279	\$9,090,094	\$0	\$13,106,373
ARKANSAS	P&C	\$6,154,564	\$1,724,601	\$0	\$7,879,165
CALIFORNIA	P&C	\$511,016,275	\$190,706,836	\$41,972,649	\$743,695,760
COLORADO	P&C	\$18,110,515	\$29,457,945	\$1,147,493	\$48,715,953
CONNECTICUT	P&C	\$39,602,234	\$17,376,187	\$3,421,891	\$60,400,312
DELAWARE	P&C	\$5,089,253	\$2,573,178	\$558,958	\$8,221,389
DISTRICT OF COLUMBIA	P&C	\$6,809,946	\$12,092,193	\$322,794	\$19,224,933
FLORIDA	P&C	\$77,765,524	\$8,776,590	\$4,176,503	\$90,718,617
FLORIDA	WC	\$164,798,627	\$99,116,630	\$6,108,833	\$270,024,090
GEORGIA	P&C	\$38,200,238	\$30,995,466	\$3,354,974	\$72,550,678
HAWAII	P&C	\$5,193,501	\$2,949,545	\$501,434	\$8,644,480
IDAHO	P&C	\$1,990,998	\$959,135	\$233,151	\$3,183,284
ILLINOIS	P&C	\$46,114,105	\$12,035,809	\$7,111,833	\$65,261,747
INDIANA	P&C	\$5,277,159	\$1,160,322	\$994,640	\$7,432,121
IOWA	P&C	\$10,331,608	\$2,189,251	\$696,500	\$13,217,359
KANSAS	P&C	\$12,205,758	\$11,341,175	\$687,100	\$24,234,033
KENTUCKY	P&C	\$16,280,225	\$20,211,828	\$897,155	\$37,389,208
LOUISIANA	P&C	\$54,622,726	\$719,551,019	\$0	\$774,173,745
MAINE	P&C	\$3,990,835	\$3,979,914	\$346,925	\$8,317,674
MARYLAND	P&C	\$22,047,956	\$12,613,113	\$4,257,320	\$38,918,389
MASSACHUSETTS	P&C	\$35,287,284	\$26,868,103	\$3,325,505	\$65,480,892
MICHIGAN	P&C	\$43,492,809	\$50,334,378	\$5,527,545	\$99,354,732
MINNESOTA	P&C	\$14,694,314	\$6,419,996	\$1,275,732	\$22,390,042
MISSISSIPPI	P&C	\$29,733,216	\$17,185,351	\$1,925,061	\$48,843,628
MISSOURI	P&C	\$29,158,932	\$10,176,365	\$1,600,165	\$40,935,462
MONTANA	P&C	\$2,945,549	\$998,701	\$307,950	\$4,252,200
NEBRASKA	P&C	\$5,288,509	\$7,101,576	\$135,806	\$12,525,891
NEVADA	P&C	\$6,193,790	\$2,058,898	\$717,362	\$8,970,050
NEW HAMPSHIRE	L&H	\$0	\$0	\$35,918	\$35,918
NEW HAMPSHIRE	P&C	\$10,255,804	\$12,140,643	\$844,812	\$23,241,259
NEW JERSEY	P&C	\$61,541,815	\$22,911,642	\$3,512,473	\$87,965,930
NEW JERSEY	WC	\$36,304,877	\$14,263,408	\$2,287,550	\$52,855,835
NEW MEXICO	P&C	\$4,863,527	\$2,399,254	\$419,460	\$7,682,241
NEW YORK**	P&C	\$217,890,383	\$139,801,173	\$34,189,763	\$391,881,319
NEW YORK**	WC	\$112,432,034	\$97,007,514	\$0	\$209,439,548
NORTH CAROLINA	P&C	\$48,848,098	\$28,202,265	\$2,929,518	\$79,979,881
NORTH DAKOTA	P&C	\$241,263	\$0	\$61,255	\$302,518
OHIO	P&C	\$9,003,005	\$1,239,540	\$1,349,521	\$11,592,066
OKLAHOMA	P&C	\$16,588,747	\$4,577,892	\$1,385,516	\$22,552,155
OREGON	P&C	\$21,421,149	\$8,137,906	\$781,344	\$30,340,399
PENNSYLVANIA	P&C	\$34,650,929	\$42,435,879	\$1,140,935	\$78,227,743
PENNSYLVANIA	WC	\$97,559,105	\$96,820,435	\$8,585,407	\$202,964,947
PUERTO RICO	P&C	\$7,577,951	\$4,153,000	\$293,249	\$12,024,200
RHODE ISLAND	P&C	\$8,135,527	\$3,613,585	\$532,215	\$12,281,327
SOUTH CAROLINA	P&C	\$29,543,693	\$8,787,618	\$1,585,308	\$39,916,619
SOUTH DAKOTA	P&C	\$1,772,497	\$40,290	\$131,192	\$1,943,979
TENNESSEE	P&C	\$27,848,647	\$25,015,502	\$3,141,371	\$56,005,520
TEXAS	P&C	\$116,326,292	\$91,625,082	\$12,861,924	\$220,813,298
UTAH	P&C	\$6,111,797	\$8,644,822	\$910,143	\$15,666,762
VERMONT	P&C	\$5,407,775	\$6,312,159	\$288,725	\$12,008,659
VIRGIN ISLANDS	P&C	\$375,355	\$4,869,902	\$0	\$5,245,257
VIRGINIA	P&C	\$27,803,511	\$23,267,089	\$1,680,644	\$52,751,244
WASHINGTON	P&C	\$29,332,795	\$6,413,623	\$2,395,157	\$38,141,575
WEST VIRGINIA	P&C	\$2,176,988	\$651,000	\$263,501	\$3,091,489
WISCONSIN	P&C	\$10,044,082	\$4,320,908	\$1,114,390	\$15,479,380
WYOMING	P&C	\$459,978	\$217,704	\$123,358	\$801,040
		\$2,210,209,329	\$2,029,269,476	\$184,545,803	\$4,424,024,608

**New York WC and NY P&C Administrative Expense are combined and reported under NY P&C

Exhibit L

Proof Of Claim Statistics (POCs) - Inception To Date 06-30-06

CLASS DESCRIPTION	TOTAL POCs RECEIVED	POCs RECEIVED AFTER 12-31-03	TOTAL NODs ISSUED	LIQUIDATOR ALLOWED AMOUNTS	NODs APPROVED FOR DISTRIBUTION	NODs AMOUNT APPROVED FOR DISTRIBUTION
NO CLASS ASSIGNED	106	3	0	\$0.00	0	\$0.00
A - ADMIN COSTS AND EXPENSES	3,901	275	2,354	\$0.00	1,793	\$0.00
B - POLICY HOLDER CLAIMS	82,115	2,017	18,643	\$337,829,393.19	12,074	\$227,362,171.39
C - FEDERAL GOVT	9	0	9	\$0.00	3	\$0.00
D - EMPLOYEES	1	0	0	\$0.00	0	\$0.00
E - GEN CREDITORS/UNEARNED PREM	64,094	2,751	49,829	\$31,474,443.44	39,883	\$28,767,631.52
F - STATE/LOCAL GOVT	189	3	188	\$0.00	188	\$0.00
G - LATE FILED/SUBROGATION	5,862	2,832	1,448	\$3,269,774.72	1,122	\$2,683,918.30
H - SURPLUS, PREM REFUNDS	2	0	0	\$0.00	0	\$0.00
I - SHAREHOLDERS, OTHER OWNERS	3	0	3	\$0.00	0	\$0.00
TOTAL	156,282	7,881	72,474	\$372,573,611.35	55,063	\$258,813,721.21
OTHER COUNTS		INCEPTION TO DATE				
POCs With Claims at Gas	20,631					
Contingent Unliquidated POCs	40,912					
Ready to Evaluate	2,278					
Awaiting Information	19,987					
TOTAL	83,808					

Exhibit M

Proof Of Claim Statistics (POCs) - Quarter To Date 06-30-06

CLASS DESCRIPTION	TOTAL POCs RECEIVED	TOTAL NODs ISSUED	LIQUIDATOR ALLOWED AMOUNTS	NODs APPROVED FOR DISTRIBUTION	NODs AMOUNT APPROVED FOR DISTRIBUTION
NO CLASS ASSIGNED	0	0	\$0.00	0	\$0.00
A - ADMIN COSTS AND EXPENSES	6	118	\$0.00	372	\$0.00
B - POLICY HOLDER CLAIMS	135	3,675	\$46,139,560.49	3,259	\$35,438,714.64
C - FEDERAL GOVT	0	0	\$0.00	0	\$0.00
D - EMPLOYEES	0	0	\$0.00	0	\$0.00
E - GEN CREDITORS/UNEARNED PREM	172	5,679	\$1,008,393.96	4,301	\$2,225,248.98
F - STATE/LOCAL GOVT	0	0	\$0.00	5	\$0.00
G - LATE FILED/SUBROGATION	424	119	\$245,599.52	226	\$503,227.45
H - SURPLUS, PREM REFUNDS	0	0	\$0.00	0	\$0.00
I - SHAREHOLDERS, OTHER OWNERS	0	3	\$0.00	0	\$0.00
TOTAL	737	9,594	\$47,393,553.97	8,163	\$38,167,191.07

Exhibit N

Status of POCs as of 06-30-06

Total: 156,282

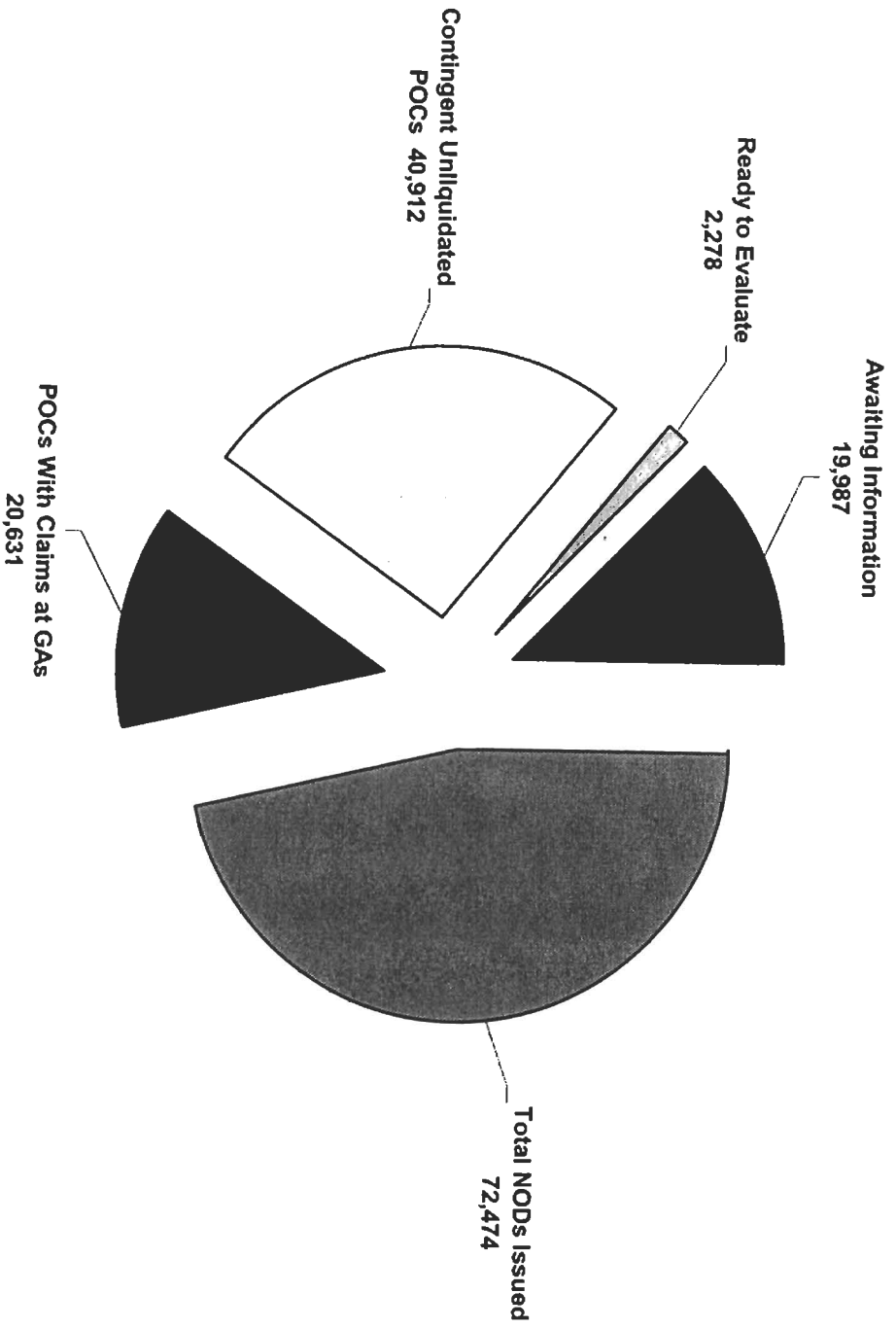


Exhibit O

Status of NOD Objections Received Through 06-30-06
Total: 849

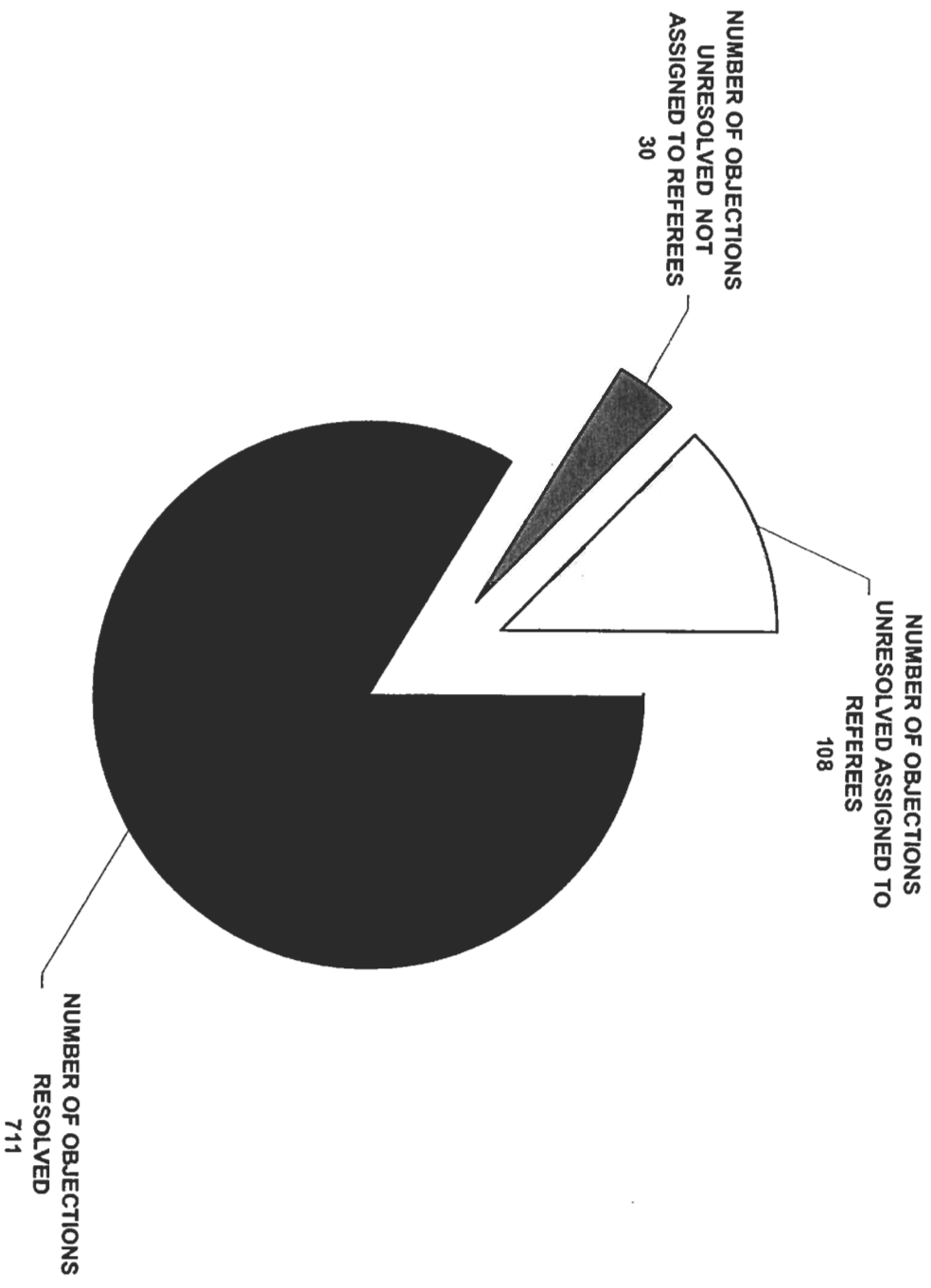


Exhibit P

Objection Statistics Through 06-30-06

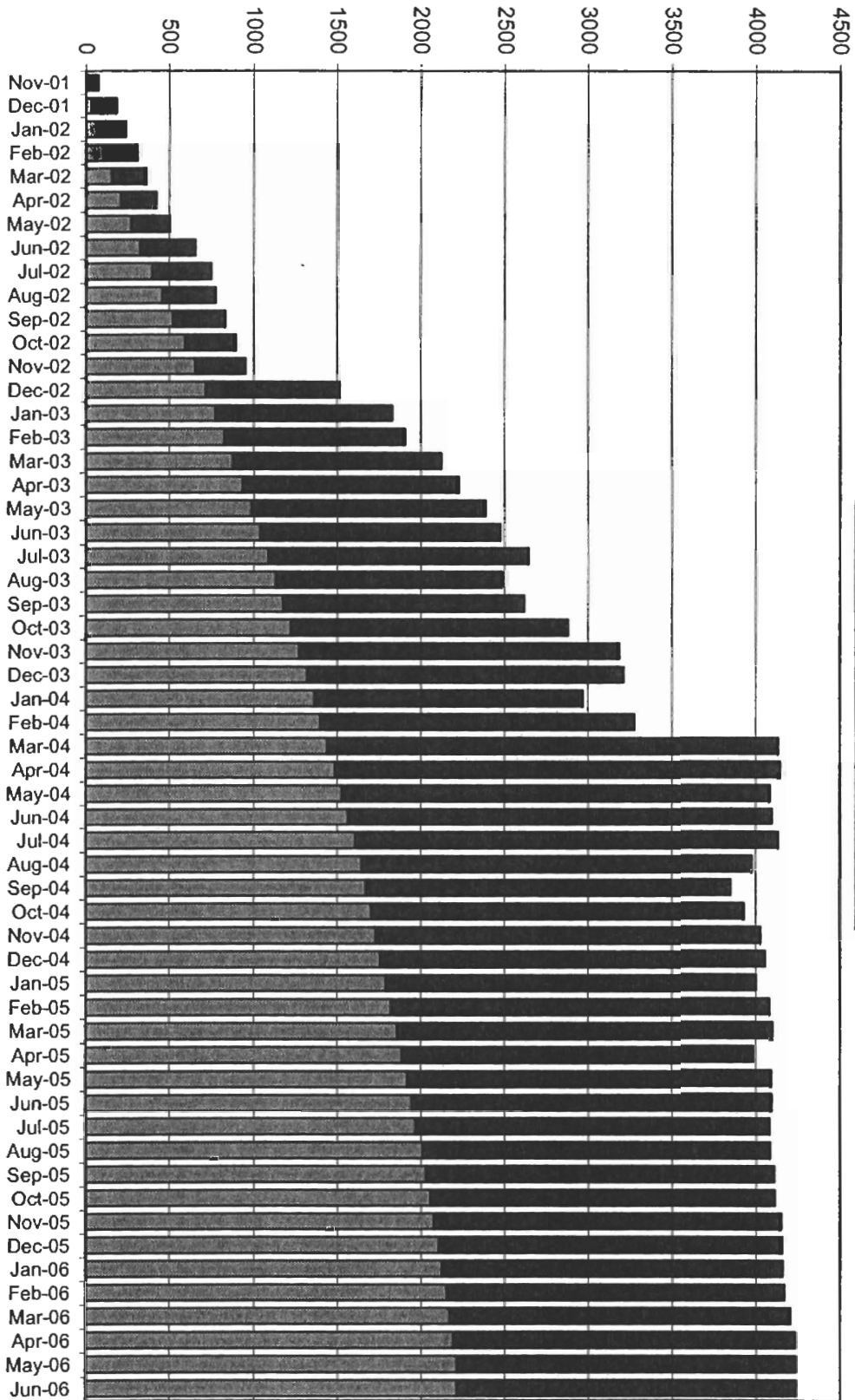
CLASS DESCRIPTION	NUMBER OF NO OBJECTIONS RECEIVED	LIQUIDATOR ALLOWED AMOUNTS ON OBJECTIONS	NUMBER OF OBJECTIONS RESOLVED	LIQUIDATOR ALLOWED AMOUNTS ON OBJECTIONS RESOLVED
NO CLASS ASSIGNED	0	\$0.00	0	\$0.00
A - ADMIN COSTS AND EXPENSES	140	\$0.00	140	\$0.00
B - POLICY HOLDER CLAIMS	178	\$23,978,039.00	125	\$15,106,173.00
C - FEDERAL GOVT	0	\$0.00	0	\$0.00
D - EMPLOYEES	0	\$0.00	0	\$0.00
E - GEN CREDITORS/UNEARNED PREM	513	\$429,536.63	437	\$121,137.66
F - STATE/LOCAL GOVT	1	\$0.00	1	\$0.00
G - LATE FILED/SUBROGATION	17	\$696,145.50	8	\$696,145.50
H - SURPLUS, PREM REFUNDS	0	\$0.00	0	\$0.00
I - SHAREHOLDERS, OTHER OWNERS	0	\$0.00	0	\$0.00
TOTAL	849	\$25,103,721.13	711	\$15,923,456.16

CLASS DESCRIPTION	NUMBER OF OBJECTIONS UNRESOLVED	LIQUIDATOR ALLOWED AMOUNTS ON OBJECTIONS UNRESOLVED	NUMBER OF OBJECTIONS UNRESOLVED ASSIGNED TO REFEREES	LIQUIDATOR ALLOWED AMOUNTS ON OBJECTIONS UNRESOLVED ASSIGNED TO REFEREES	NUMBER OF OBJECTIONS UNRESOLVED NOT ASSIGNED TO REFEREES	LIQUIDATOR ALLOWED AMOUNTS ON OBJECTIONS UNRESOLVED NOT ASSIGNED TO REFEREES
NO CLASS ASSIGNED	0	\$0.00	0	\$0.00	0	\$0.00
A - ADMIN COSTS AND EXPENSES	0	\$0.00	0	\$0.00	0	\$0.00
B - POLICY HOLDER CLAIMS	53	\$8,871,866.00	47	\$8,871,866.00	6	\$0.00
C - FEDERAL GOVT	0	\$0.00	0	\$0.00	0	\$0.00
D - EMPLOYEES	0	\$0.00	0	\$0.00	0	\$0.00
E - GEN CREDITORS/UNEARNED PREM	76	\$308,398.97	60	\$0.00	16	\$308,398.97
F - STATE/LOCAL GOVT	0	\$0.00	0	\$0.00	0	\$0.00
G - LATE FILED/SUBROGATION	9	\$0.00	1	\$0.00	8	\$0.00
H - SURPLUS, PREM REFUNDS	0	\$0.00	0	\$0.00	0	\$0.00
I - SHAREHOLDERS, OTHER OWNERS	0	\$0.00	0	\$0.00	0	\$0.00
TOTAL	138	\$9,180,264.97	108	\$8,871,866.00	30	\$308,398.97

Exhibit Q

Cumulative GA Activity Reported Through June 30, 2006

millions



Guarantee Association Files Not Received For Reporting Period - June 30,
2006

State	Loc	Filed	Added to O/S Reserves Total (in millions)			Paid	Comments
			Last Apr-06 Last O/S Res	May-06 Last O/S Res	Jun-06 Last O/S Res		
Arizona	WC	Jun-05	0	0	0	0	Stopped Reporting Data June 2005
North Dakota	P&C	Dec-05	0	0	0	0	All Claims are closed
Oklahoma	P&C	Mar-06	4,577,892.14	4,577,892.14	4,577,892.14	0	
Puerto Rico	P&C	Mar-06	4,153	4,153	4,153	0	
Virgin Islands	P&C	Mar-06	4,869,902	4,869,902	4,869,902	0	
Arizona	P&C	Apr-06		0,556,346.81	0,556,346.81	0	
Florida	LPT	Apr-06		17,088,802.24	17,088,802.24	0	
Florida	WC	Apr-06		82,027,828.08	82,027,828.08	0	
Louisiana	P&C	Apr-06		719,551,019	719,551,019	0	
All Other		May-06	0	0	1189,676,029	2212,521,32	No GA files were received for June - Carried Paid forward for period.
		Total	13,600,794.14	832,824,790.3	2022,500,819	2212,521,32	

CERTIFICATE OF SERVICE

I, Sheila E. Branyan, hereby certify that on or about this day, pursuant to the Court's Order of April 1, 2004, service of the foregoing Second Quarter 2006 Report of the Liquidator on the Status of the Liquidation of Reliance Insurance Company was made on the attached Master Service List through the transmission of a Notice of Filing and through posting of a true and correct copy in PDF file format on the Reliance Documents website (www.reliancedocuments.com).

Dated: August **15**, 2006


SHEILA E. BRANYAN

Master Service List

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v.

Reliance Insurance Company

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