

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

Joel S. Ario,  
Insurance Commissioner of the  
Commonwealth of Pennsylvania,  
Plaintiff

v.

Reliance Insurance Company,  
Defendant

No. 269 M.D. 2001

IN RE: *Commutation, Settlement Agreement and Release between  
Reliance Insurance Company (in Liquidation) and  
Castlewood (US) Inc. for and on behalf of Continental Casualty Co.*

RECEIVED AND FILED  
CLERK OF COURT  
DECEMBER 11 AM  
2007 10-5-12-112

Memorandum and Order

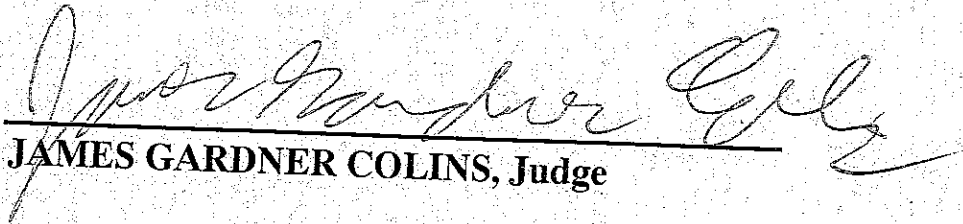
AND NOW, this 5<sup>th</sup> day December 2007, upon consideration of the Liquidator's petition for approval of the Commutation, Settlement Agreement, and Release (Settlement Agreement) between Reliance Insurance Company (in Liquidation) and Castlewood (US) Inc. for and on behalf of Continental Casualty Co. (Reinsurer) submitted by the Liquidator for Reliance Insurance Company (in Liquidation):

The Court **ACCEPTS** the Liquidator's representations that the Settlement Agreement is in the best interest of the Reliance Estate, as the Settlement Agreement allows the Liquidator to terminate and commute the "1997 Agreement and the 2000 Agreement" and the Reliance Estate will receive an economic benefit amounting to \$8,273,665;

Further, the Court accepts the Liquidator's representations that the economic benefit is a fair and reasonable commutation of the Reinsurer's obligations to the Reliance Estate under its Reinsurance Agreement;

Accordingly, the Court accepts the Liquidator's representations and based thereon approves Commutation, Settlement Agreement and Release attached hereto and marked as Exhibit A.

Further, counsel for the Liquidator is directed to serve a copy of this order upon those listed on the Master Service List and an affidavit that service has been effectuated with the Court.

  
**JAMES GARDNER COLINS, Judge**

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COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE

THIS COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE ("Agreement"), made effective and entered into this 16<sup>th</sup> day of August, 2007, by and between Castlewood (US) Inc., for and on behalf of Continental Casualty Company (hereinafter known as the "Reinsurer") and Joel S. Ario, Acting Insurance Commissioner of the Commonwealth of Pennsylvania, in his capacity as Statutory Liquidator of Reliance Insurance Company (In Liquidation) (hereinafter known as the "Cedant"). David S. Brietling, Chief Liquidation Officer, is acting on behalf of Joel S. Ario, who is acting on behalf of the Cedant pursuant to the powers granted to him under Title 40, Purdon's Statutes, Section 221.20, et seq. and other applicable statutes, regulations and laws.

RECITALS

- A. The Reinsurer and the Cedant entered into contracts of reinsurance wherein the Reinsurer obligated itself to accept from the Cedant the cession of a certain percentage of liabilities with respect to risks written or assumed by the Cedant and/or agents of the Cedant, and;
- B. The reinsurance agreements referred to in Recital A above are set out on Exhibit A attached hereto and are herein collectively referred to as "the Contracts", and;
- C. Pursuant to the Contracts, there are loss developments, the total amount of which are not fully known or not yet capable of determination, representing liabilities which are or may come due from the Reinsurer to the Cedant, and;
- D. The parties hereto recognize and understand that, based upon current economic projections, a substantial portion of the Reinsurer's obligations to the Cedant may become payable in the future rather than at present; that the Reinsurer's future liabilities and obligations to the Cedant pursuant to the Contracts have been evaluated, but cannot be determined in an

" EXHIBIT A "

amount certain at this time; and that a settlement and commutation of the Reinsurer's obligations to the Cedant based upon present calculations of outstanding losses, including incurred but not reported losses, will eliminate the uncertainty of contingent liabilities for presently unresolved or unasserted claims, and;

E. The Reinsurer and the Cedant agree that it is in each of their best interests and in the best interests of their respective policyholders and creditors to adjust and settle their differences and to enter into this Agreement.

NOW THEREFORE, in consideration of the mutual benefits to be received by the parties hereto and the mutual covenants and agreements herein contained, the parties hereto hereby agree as follows:

#### **Commutation of Reinsurance Agreements**

1. Subject to the receipt by the Cedant of the Consideration as set out in Article 4 herein, together with any collection expenses and accrued interest due as is more particularly described in Article 8 (c) and 9 below, and in further consideration of the release contained in Article 2 herein the Cedant hereby irrevocably releases the Reinsurer, its predecessors, successors, assigns, shareholders, officers, directors, agents, sub-agents, brokers and sub-brokers from One Hundred Percent (100%) of all adjustments, obligations, liabilities, offsets, actions, causes of action, proofs of claim, suits, debts, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, conversions, costs, agreements, promises, damages, expenses, judgment claims, and demands whatsoever, whether known or unknown, suspected or unsuspected, fixed or contingent, arising out of, or in connection with the Reinsurer's participations on the Contracts, whether or not any of such contracts are void or voidable.

#### **Release of the Cedant**

2. In consideration of the release set out in Article 1 herein, the Reinsurer hereby irrevocably releases the Cedant, its predecessors, successors, assigns, shareholders, officers,

directors, receivers, liquidators, administrators, agents, sub-agents, brokers and sub-brokers from One Hundred Percent (100%) of all adjustments, obligations, liabilities, offsets, actions, causes of action, proofs of claim, suits, debts, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, conversions, costs, agreements, promises, damages, expenses, judgment claims, and demands whatsoever, whether known or unknown, suspected or unsuspected, fixed or contingent, arising out of, or in connection with the participation of the Cedant on the Contracts, whether or not any of such contracts are void or voidable.

### Warranties

3. To the best information and belief of each of the parties to this Agreement, the following express warranties apply:

a. There are no pending agreements, transactions, negotiations, regulatory actions or lawsuits in which any of the parties are involved nor are there any threatened regulatory actions or lawsuits of which any of the parties are aware that would render this Agreement or any part thereof void, avoidable, or unenforceable;

b. No party hereto has transferred, assigned, or contracted to transfer or assign to any person, corporation, company or entity any of its rights, title, benefit or obligations directly arising out of or in connection with the Contracts, including without limitation any balances, accounts, costs, claims, counterclaims or demands which are within the contemplation of this Agreement;

c. The Reinsurer has not commuted or otherwise settled with or contracted to commute or settle with any person, corporation, company or entity any of their respective rights, title, benefit or obligations directly arising out of or in connection with the Contracts, including without limitation any balances, accounts, costs, claims, counterclaims or demands which are within the contemplation of this Agreement;

Consideration

4. The Reinsurer agrees to pay the Cedant the total sum of Eight Million Two Hundred Seventy Three Thousand Six Hundred and Sixty-Five United States Dollars (US\$8,273,665) ("the Consideration"). Said payment shall be made on or before September 14, 2007 ("the Completion Date"). Reinsurer shall transfer the Consideration to the following account:

Name of Bank:	Mellon Bank Pittsburgh, PA
ABA Number:	043000261
Credit:	Reliance Insurance Company
CHIPS No.:	044840
Account Number:	079-7806
S.W.I.F.T.:	MELN US 3P
Ref:	Kathy Lee

Upon receipt of the Consideration Cedant will deposit it pending receipt of the approval of the Commonwealth Court per Article 16 herein and the Consideration will accrue investment income at the same rate as Cedant receives on its other invested assets.

The parties also agree that any claim recoveries including but not limited to salvage and subrogation, any escrow funds with third party claim administrators and any unremitted cash with intermediaries that relate to the Contracts is the property of the Cedant.

Successors and Assigns

5. This Agreement shall inure to the benefit of and bind the Reinsurer and its successors and assigns and the Cedant and their respective successors and assigns.

#### Independent Investigation

6. Each of the parties acknowledges that it has entered into this Agreement in reliance upon its own independent investigation and analysis of the Contracts and its respective rights and obligations thereunder, and not on the basis of any representation made or not made by the other party hereto. Each of the parties further acknowledges that it has read this Agreement, that it has had the opportunity to discuss it with legal counsel, and that it fully understands all of the terms herein.

#### Integration and Waiver

7. This Agreement shall constitute the entire agreement between the parties pertaining to the subject matter hereof, and supersedes any and all prior or contemporaneous understandings or agreements. No supplement, modification, waiver or termination hereof shall be binding or enforceable unless executed in writing by the parties to be bound thereby. No delay, omission or forbearance on the part of any party to this Agreement in exercising or enforcing any right, power or remedy under this Agreement shall impair such right, power or remedy or operate as a waiver thereof. The single or partial exercise or enforcement of such right, power or remedy shall not preclude any other or further exercise or enforcement thereof or of any other right, power or remedy. The rights, powers and remedies provided in this Agreement are cumulative and not exclusive of any rights, powers and remedies provided by law.

#### Remedies

8. In the event that the Reinsurer fails to pay the Consideration to the Cedant by the Completion Date, the Cedant shall have all rights and remedies available at law or in equity. In addition, the Cedant shall have the express right to

a. deem the entire Agreement null and void by notice in writing to the Reinsurer per Article 12 herein and to seek recovery of all sums due or to become due under the

Contracts, or;

b. bring suit on the Agreement including interest on the agreed-upon but unpaid amount as set out in Article 8(c).

c. Without prejudice to the Cedant's rights to rescind this Agreement pursuant to Article 8(a) above, if Reinsurer does not pay all of the Consideration recited herein to the Cedant by the Completion Date, the Reinsurer shall pay interest on any unpaid sums at a rate which is equal to one percentage point (1.00%) over the Prime Rate (the base rate on corporate loans at large U.S. money center commercial banks) as published in *The Wall Street Journal*, but in no event shall said interest be calculated at less than six percent (6%) per annum.

#### Expenses of Collection

9. Subject to the provisions of Article 8(c) herein, if the Reinsurer fails to pay the Consideration to the Cedant by the Completion Date, Reinsurer agrees to reimburse the Cedant for all reasonable expenses including, without limitation, attorney fees which are incurred by the Cedant in the enforcement of this Agreement and collection of the consideration together with any interest accrued upon such reasonable expenses from the date of payment of such expenses at the rate set out in Article 8(c) above.

#### Choice of Laws

11. The performance and interpretation of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania with respect to any dispute arising under this Agreement between the Reinsurer and the Cedant;

#### Notices

12. All notices required under this Agreement shall be as follows:  
a. Any notice or other communication under or in connection with this Agreement shall be in writing and shall be delivered personally or sent by first class post/mail (or

by air mail if overseas) or by overnight courier service, to the addresses of the parties as set out in Exhibit B attached hereto or to such other person or address as any party may specify by notice in writing to the others.

b. In the absence of evidence of earlier receipt, any notice or other communication shall be deemed to have been duly served if (i) sent by first class post on the second business day after posting; (ii) sent by overnight courier on the next business day after mailing (iii) sent by air mail, six (6) days after posting, and; (iv) if delivered personally, when left during normal business hours at the address set out in Exhibit B or any alternative address specified by the receiving party.

#### Interpretation

13. The language of this Agreement is the result of negotiation between all parties hereto, and any ambiguities in said language shall not be presumptively construed against or in favor of any party or parties hereto.

#### Execution and Approval

14. Each party to this Agreement represents that it is authorized to enter into this Agreement and the transactions contemplated herein.

15. Each signatory to this Agreement represents that said signatory is authorized and empowered to execute this Agreement and the transactions contemplated herein and that any and all required corporate approval on behalf of the Reinsurer has been properly executed and that the Agreement is entered into voluntarily.

16. With respect to the Cedant, this Agreement is subject to final approval by the Commonwealth Court of Pennsylvania (the "Court"), which has jurisdiction over the liquidation of Cedant. Upon execution by all parties hereto, the Liquidator of Cedant shall promptly make application to the Court to secure said approval. In the event the Court does not approve this Agreement, then upon such notice of disapproval, the Liquidator of Cedant shall notify the

Reinsurer and this Agreement will become null and void and have no further force or effect as between the Reinsurer and the Cedant excepting that Cedant will thereupon promptly return the Consideration to the Reinsurer together with the investment income earned thereupon per the preceding Article 4.

17. This Agreement may be signed and exchanged in counterpart by facsimile and this Agreement as so signed and exchanged will constitute the binding Agreement of the parties.

IN WITNESS WHEREOF, the parties have hereunto set their hands as of the dates set forth.

**RELIANCE INSURANCE COMPANY (In Liquidation)**

By: *David S. Bruttig*  
Title: *Chief Liquidation Officer*  
Date: *August 13, 2007*

**CASTLEWOOD (US) INC. for and on behalf of CONTINENTAL CASUALTY COMPANY**

By: *John Aragon*  
Title: *Executive Vice President*  
Date: *8/16/07*

EXHIBIT A

Reinsurer	Reliance Ref.	Castlewood Ref.	Treaty	Eff. Dates	Participation
Continental Casualty Company	01U	2198	WC Underlying XOL	12/31/96-12/30/97	100%
Continental Casualty Company	74B	2198	WC Underlying XOL	12/31/99-12/30/00	100%

**EXHIBIT B**

For Reliance/The Liquidator

Keith Kaplan  
Reliance Insurance Company (In Liquidation)  
3 Parkway  
Philadelphia, PA 19102  
Tel. 215-864-4250  
Fax 215-864-1077

For Reinsurer

Castlewood (US) Inc.  
7901 4th Street North, Suite 203  
St. Petersburg, FL 33702  
Attn: James Grajewski, EVP  
Tel: 727-576-1632, Ext. 203  
Fax: 727-576-3627