

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.

A handwritten signature in black ink, reading "James G. Colins". The signature is written in a cursive style with a large initial "J".

JAMES GARDNER COLINS, Senior Judge

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

JOEL S. ARIO
Acting Insurance Commissioner of the
Commonwealth of Pennsylvania,

Plaintiff

v.

RELIANCE INSURANCE COMPANY,

Defendant

CIVIL ACTION

NO. 269 M.D. 2001

IN RE: *Commutation, Settlement Agreement and Release between
Reliance Insurance Company (In Liquidation) and SCOR Reinsurance
Company*

**LIQUIDATOR'S PETITION FOR APPROVAL OF
COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE**

Petitioner Joel S. Ario, Acting Insurance Commissioner of the
Commonwealth of Pennsylvania, in his capacity as Statutory Liquidator ("Liquidator") of
Reliance Insurance Company ("Reliance" or "Estate"), respectfully requests that this
Court enter an Order approving the Commutation, Settlement Agreement and Release
("Settlement Agreement"), attached hereto as Exhibit A, between Reliance and SCOR
Reinsurance Company ("Reinsurer").

In support of this petition, the Liquidator avers the following:

1. On October 3, 2001, this Court found Reliance insolvent and
appointed the Commissioner as Liquidator of Reliance pursuant to Article V of the
Insurance Department Act of 1921, 40 P.S. §221.1 et seq. ("Act"). The Act confers
broad powers on the Liquidator to marshal the assets of Reliance in order to maximize

" EXHIBIT A "

the value of the insolvent insurer's estate for eventual distribution to its policyholders and creditors.

2. The Act authorizes the Liquidator to take such actions as deemed "necessary or expedient to . . . conserve or protect [the insolvent insurer's] assets or property[.]" including the power to "compromise" claims involving assets of the insolvent insurer in order to accomplish or aid in achieving the purposes of liquidation. See 40 P.S. §221.23(6, 9, and 23).

3. One way in which the Liquidator "compromises" claims and "conserves" assets is through commutation. A commutation is a settlement agreement reached between a reinsured and its reinsurer by which the reinsurance obligation is terminated through an agreement by the reinsurer to pay funds that are both due and not yet due under the reinsurance agreement.

4. Prior to entering into a commutation, Reliance takes several steps, including the following, to ensure that the commutation is fair and reasonable to the Reliance Estate and in the best interests of its policyholders, claimants and the general public:

- (a) Reliance develops a complete list of reinsurance agreements to be included in the commutation;
- (b) Reinsurance accounting specialists for Reliance verify balances and reconcile differences with the reinsurer;
- (c) Reliance's claims department reviews ceded case reserves;
- (d) Actuaries for Reliance determine the projected ultimate loss, discounted and undiscounted, taking into consideration specific contract features

such as reinstatement premiums, sliding scale rates, commission adjustments and/or loss corridors¹ as well as the impact of other applicable reinsurance and off-sets;

(e) Reliance and the reinsurer exchange commutation proposals and discuss justifications;

(f) Reliance evaluates the commutation proposal based on nominal results, the discounted results, the volatility and trends of the business, disputed issues and any administrative savings; and

(g) Reliance and the reinsurer secure any required approvals.

5. The Liquidator also has established a Commutation Working Group which performs accounting and data reconciliations, actuarial analyses, and claims reviews and analyses. The Commutation Working Group is largely comprised of several key senior management employees each of whom have over 20 years of insurance and reinsurance experience.

6. In addition, the Liquidator has established a Commutation Committee, consisting of the Chief Liquidation Officer, President, and Chief Actuary, who, along with the Vice-President for Commutations and the Executive Vice-President for Reinsurance, review all commutation proposals. Any commutation in excess of \$1,000,000 must be approved by the Commutation Committee.

7. Reliance and the Reinsurer entered into the “Cybercomp Workers Compensation Excess of Loss Reinsurance Agreement (\$.5M excess of \$.5M)”

¹ A loss corridor is a mechanism contained in certain reinsurance agreements that requires the ceding insurer to be responsible for a certain amount of the ultimate net loss that is above the company’s designated retention and below the designated limit; and which would otherwise be reimbursed under the reinsurance agreement. A loss corridor is usually expressed as a loss ratio percentage of the reinsurer’s earned premium, or a combined ratio if the reinsurance agreement provides for a ceding commission to the company. Loss corridors are employed to mitigate the volatility of reinsurance agreements.

("Reinsurance Agreement") which was effective March 1, 200 to February 28, 2002.

An excess of loss reinsurance agreement is one in which the reinsurer promises to pay individual losses once payments by the reinsured exceed a certain amount. The reinsurer may be liable in full or in part for losses in excess of the trigger amount. The business covered under the Reinsurance Agreement was workers compensation insurance written by Reliance's Cybercomp unit. Initiated in 1996, Cybercomp was an innovative facility which allowed insurance agents to bind workers compensation insurance for their small business customers over the internet using Cybercomp's proprietary "Point, Click and Bind" web technology. By the time this facility was sold to Employers Reinsurance Company in 2001, it had written in excess of 25,000 policies.

8. Under the Reinsurance Agreement, the Reinsurer assumed \$500,000 of that portion of any individual workers compensation loss that initially exceeded \$500,000. Pursuant to the terms of the Reinsurance Agreement, the maximum amount that Reliance can recover for any one loss is \$500,000 and the maximum amount that Reliance can recover for all losses is unlimited. As of this date, Reliance has established \$20,276,795 in case reserves under the Reinsurance Agreement. Reliance actuaries have calculated additional development of those reserves in the future and project an ultimate payout of \$29,339,088 over the several remaining decades before the claims are all paid in full.

9. With the benefit of such due diligence, Reliance was able to negotiate a settlement for the remaining exposure under the Reinsurance Agreement and, on November 4, 2007, entered into the Settlement Agreement. The Settlement Agreement settles with certainty the claims against the Reinsurer under the Reinsurance Agreement.

10. Specifically, the Settlement Agreement provides that the Reinsurer shall pay Reliance the sum of \$20,550,000 (“Commutation Amount”) to commute the Reinsurance Agreement. The Commutation Amount was negotiated with the Reinsurer, and the Liquidator has taken the necessary steps to determine, and has concluded, that the terms of the Settlement Agreement are fair and reasonable to the Reliance Estate and in the best interests of its policyholders, claimants and the general public. See 40 P.S. §§221.1(c), 221.23(9).

11. Based on the analysis of the terms of the Settlement Agreement, and the evaluation of the transaction as a whole by the Liquidator, his staff and Reliance staff members familiar with the business dealings under the Reinsurance Agreement, the Liquidator has determined that payment of the Commutation Amount by the Reinsurer is a fair and reasonable commutation of the Reinsurer’s obligations to Reliance under the Reinsurance Agreement.

12. Keith Kaplan, Executive Vice President for Reinsurance at Reliance, is responsible for all facets of ceded and assumed reinsurance at Reliance including accounting, billing, claims, commutations, coverage analysis, and dispute management. He has specific knowledge regarding the risks to the Estate of attempting to collect reinsurance through billing, negotiation or the dispute resolution process. As set forth in his Confidential Affidavit (attached as “Sealed Exhibit B”), Mr. Kaplan has identified several specific advantages to the Estate arising from the consummation of the transaction memorialized in the Settlement Agreement.

13. The Settlement Agreement will further achievement of the liquidation objectives under the Act. The commutation transaction will assist the Liquidator in

marshalling and maximizing Reliance's immediately available assets while minimizing any unavoidable loss to policyholders, claimants and creditors resulting from the Reliance insolvency and hazardous financial condition. See 40 P.S. §221.1(c).

14. First, the Settlement Agreement converts future reinsurance obligations into immediate cash for the Estate. Specifically, the Reliance Estate receives \$20,550,000 which is invested until it is distributed.

15. Second, the Settlement Agreement eliminates both the internal and external administrative costs associated with continued reporting and collection efforts, including legal fees.

16. Third, this commutation eliminates any potential future credit risk associated with collection of the reinsurance proceeds in the event that the reinsurer becomes insolvent.

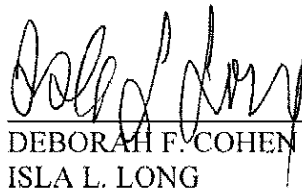
17. Fourth, no person or firm has or will earn any contingent fee or extra remuneration of any type as a result of this transaction.

18. Under the terms of the Settlement Agreement, the Commutation Amount will be fully consummated upon satisfaction of the following conditions: (a) execution of the Settlement Agreement by an authorized representative of the Liquidator; (b) execution of the Settlement Agreement by an authorized representative of the Reinsurer; (c) approval of the transaction by this Court; and (d) appropriate notice to the Reinsurer of Court approval. Payment of the Commutation Amount will be made no later than ten (10) calendar days following notice to the Reinsurer of the approval of the Settlement Agreement by the Commonwealth Court of Pennsylvania.

WHEREFORE, the Liquidator respectfully requests that this Court enter an Order in the form attached hereto:

- (a) Finding that the Settlement Agreement and Commutation Amount are in the best interest of the Reliance Estate;
- (b) Finding that the Settlement Agreement is a fair and reasonable settlement of the Reinsurer's obligations under the Reinsurance Agreement;
- (c) Finding the payment contemplated by the Settlement Agreement constitutes fair and reasonable value to the Reliance Estate; and
- (d) Approving the terms of the Settlement Agreement attached as Exhibit A and authorizing the Liquidator to take such actions as are necessary to consummate the Settlement Agreement as approved.

Respectfully submitted,
PEPPER HAMILTON LLP



DEBORAH F. COHEN
ISLA L. LONG
3000 Two Logan Square
18th and Arch Streets
Philadelphia, PA 19103-2799
(215) 981-4000

Attorneys for Joel S. Ario, Acting Insurance
Commissioner of the Commonwealth of
Pennsylvania, in his official capacity as
Statutory Liquidator of Reliance Insurance
Company

Dated: December 12, 2007

CERTIFICATE OF SERVICE

I hereby certify that on December 12, 2007, true and correct copies of the foregoing was served upon the following:

Via Notice of Filing

Members of Reliance Master Service List

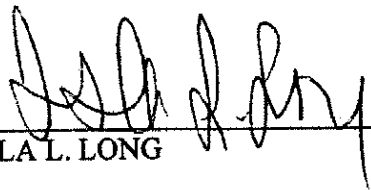

ISLA L. LONG

EXHIBIT A

COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE

THIS COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE (“Agreement”), made effective and entered into this 2nd day of November 2007, by and between SCOR Reinsurance Company, New York, New York (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 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 10 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, by either or both parties, 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. The releases contained herein are only made on behalf of Reliance Insurance Company in its own right and as successor in interest by merger to its former subsidiaries shown on the attached Exhibit C and, without limiting the generality of the forgoing, specifically do not apply to claims arising from business written by the Canadian Branch of Reliance Insurance Company, Reliance

National Insurance Co. (Europe) Limited, Reliance National Asia RE PTE, Ltd. or any other former non-domestic subsidiary that is not part of Reliance Insurance Company as a result of the merger.

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, by either or both parties, 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.

Release under Guaranty

Subject to receipt by the Cedant of the Consideration, SCOR, and its affiliates, shareholders, successors and assigns and its respective directors, officers, employees and agents are hereby released and forever discharged from any and all liabilities, obligations, offsets, actions, causes of actions, suits, debts, sums of money, accounts reckonings, bonds, bills, covenants, contracts, controversies, agreements, promises, damages, judgments, claims and demands whatsoever, all whether known or unknown, that Cedant, its successors and assign and their respective directors, officers, employees and agents had, have or shall have against SCOR, S.E. (formerly SCOR S.A, "SCOR") arising out of or in connection with any Guarantee Agreement provided by SCOR and issued for the benefit of Reinsurer, but solely as they relate to the Contracts;

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 Twenty Million Five Hundred and Fifty Thousand (US\$20,550,000.00) Dollars ("the Consideration"). Said payment shall be made no later than ten (10) calendar days following notice to the Reinsurer by facsimile of the execution of this Agreement by the Cedant or its assignee and the approval of the Agreement by the Commonwealth Court of Pennsylvania in accordance with Article 16 herein ("the Completion Date"). Notwithstanding the foregoing, if the ten (10) day period expires on a weekend or a holiday, then the transfer must be completed by the end of the next business day. 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

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), in a Court of competent jurisdiction

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.

Mistake of Law

9. The parties hereby agree that they will not seek to reopen or set aside this Agreement on the grounds that a party becomes aware, in the future, of a mistake of law (including any such mistake arising as a subsequent change in the law) or of a fact relating to this Agreement (or of any of the Contracts) which was a premise upon which this Agreement was entered into.

Expenses of Collection

10. 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. Except as disclosed in Article 16, each party to this Agreement represents that it is authorized to enter into this Agreement and the transactions contemplated herein.

15. Except as disclosed in Article 16, 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.

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. Brilling*
Title: *Chief Liquidation Officer*
Date: *11/2/2007*

SCOR REINSURANCE COMPANY

By: *Michel Blanc*
Title: *Senior Vice President*
Date: *11/1/2007*

EXHIBIT A

Cybercomp XOL : Reliance Ref # 05C5AA ; SCOR Re Ref # T005209 (2000).

EXHIBIT B

For Reliance/The Liquidator

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

For SCOR Reinsurance Company

Michel Blanc, Senior Vice President
SCOR Reinsurance Company
199 Water Street, 21st Floor
New York, NY 10038
Tel. 212 884-9634
Fax. 212 480-1329

EXHIBIT B

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

JOEL S. ARIO,
Acting Insurance Commissioner of the
Commonwealth of Pennsylvania

Plaintiff,

v.

RELIANCE INSURANCE COMPANY

Defendant.

DOCKET NO. 269 MD 2001

IN RE: *Commutation, Settlement Agreement and Release between
Reliance Insurance Company (In Liquidation) and SCOR Reinsurance Company*

EXHIBIT B TO THE LIQUIDATOR'S PETITION FOR APPROVAL
OF COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE

THIS ENVELOPE IS SEALED AND CONTAINS INFORMATION DESIGNATED
CONFIDENTIAL IN THIS CASE. IT IS NOT TO BE OPENED OR THE CONTENTS
THEREOF TO BE DISPLAYED OR REVEALED EXCEPT BY OR UPON ORDER OF THE
COURT OR PURSUANT TO STIPULATION OF BOTH PARTIES TO THIS ACTION.