

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

JOEL S. ARIO,
Insurance Commissioner of the
Commonwealth of Pennsylvania,
in his official capacity as Liquidator
of Reliance Insurance Company,

Plaintiff,

v.

RELIANCE INSURANCE COMPANY,

Defendant.

No. 269 M.D. 2001

2009 APR -9 A 11:17

NOTED AND FILED
COMMONWEALTH COURT
OF PENNSYLVANIA

IN RE: *Commutation, Settlement Agreement and Release between
Reliance Insurance Company (In Liquidation) and Novae Syndicates Limited
on behalf of Lloyd's Syndicates 1007, 1212, 1213 and 1241.*

ORDER

AND NOW, this ___ day of _____ 2009, upon consideration of the Liquidator's Petition for Approval of the Commutation, Settlement Agreement and Release ("Settlement Agreement") between Reliance Insurance Company ("Reliance" or "Estate") and Novae Syndicates Limited on behalf of Lloyd's Syndicates 1007, 1212, 1213 and 1241 ("Reinsurers") submitted by the Liquidator of Reliance Insurance Company ("Liquidator") regarding certain reinsurance agreements specifically identified in the Settlement Agreement ("Reinsurance Agreements"):

The Court ACCEPTS the Liquidator's representations that the Settlement Agreement is in the best interest of the Estate, as the Settlement Agreement allows the Liquidator to terminate and commute the Reinsurance Agreements and the Estate will receive an economic benefit amounting to \$13,250,000;

Further, the Court accepts the Liquidator's representations that the Settlement Agreement is a fair and reasonable settlement of the Reinsurers' obligations to the Estate under the Reinsurance Agreements, and that the payment contemplated under the Settlement Agreement constitutes fair and reasonable value to the Estate;

Accordingly, the Court accepts the Liquidator's representations and based thereon approves the 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 file with the Court an affidavit that service has been effectuated.

BONNIE BRIGANCE LEADBETTER
President Judge

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

JOEL S. ARIO,
Insurance Commissioner of the
Commonwealth of Pennsylvania,
in his official capacity as Liquidator
of Reliance Insurance Company,

Plaintiff,

v.

RELIANCE INSURANCE COMPANY,

Defendant.

No. 269 M.D. 2001

2009 APR -9 A 10:40

RECEIVED
COMMONWEALTH COURT
OF PENNSYLVANIA

IN RE: *Commutation, Settlement Agreement and Release between
Reliance Insurance Company (In Liquidation) and Novae Syndicates Limited
on behalf of Lloyd's Syndicates 1007, 1212, 1213 and 1241.*

**Liquidator's Petition For Approval Of
Commutation, Settlement Agreement And Release**

Petitioner Joel S. Ario, Insurance Commissioner for 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 Novae Syndicates Limited on behalf of Lloyd’s Syndicates 1007, 1212, 1213 and 1241 (“Reinsurers”).

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 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 staff take several steps, including the following, to ensure that the commutation is fair and reasonable to the Estate and in the best interests of its policyholders, claimants and the general public:

(a) Reliance staff 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) The Reliance claims staff 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 staff and the reinsurer exchange commutation proposals and discuss justifications;
- (f) Reliance staff evaluate 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 staff 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 has 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-

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.

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. In addition, Reliance's independent consulting actuaries, PricewaterhouseCoopers ("PwC"), have reviewed Reliance's commutation approach both generally and with respect to individual transactions and have concluded that the process Reliance utilizes to estimate liabilities ceded to reinsurers is reasonable for commutation purposes.

8. The commutation memorialized in the Settlement Agreement with the four Reinsurers concerns 46 different reinsurance agreements involving directors & officers and professional errors & omissions ("D&O/E&O") liability business, as well as property, surety and environmental liability insurance produced through a Reliance agent, Environmental Compliance Services ("ECS") (collectively "Reinsurance Agreements"). The Reinsurers participated in varying portions or amounts with regard to each of the Reinsurance Agreements specifically identified in the Settlement Agreement.

D&O/E&O Reinsurance Agreements

9. The Reinsurers assumed varying shares in 10 D&O/E&O reinsurance agreements. These D&O/E&O reinsurance agreements were all excess of loss reinsurance agreements. 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. From 1994 to 1996 the Reinsurers assumed varying shares of reinsurance providing \$15 million of coverage in excess of \$5 million for each occurrence. From 1996 to 1998 the Reinsurers assumed varying shares of reinsurance providing \$18 million of coverage in excess of \$2 million for each occurrence; and from 1999 to 2000 the Reinsurers assumed varying shares of reinsurance providing \$48 million

of coverage in excess of \$2 million for each occurrence. The policies covered by the D&O/E&O reinsurance agreements were written on both a primary and excess basis and in both instances were primarily claims made policies. Some of the claims made policies were written with extended reporting endorsements. The E&O policies were written to provide coverage for various classes of professional risks, including small and large law firms, architects and engineers, and insurance agents

10. As part of its due diligence for this Settlement Agreement, senior Reliance actuarial and experienced claims personnel conducted a review of relevant D&O/E&O claims under the Reinsurance Agreements in order to both verify the accuracy of the reserves and to project the timing of payments for each relevant claim. During this review, they determined the Reinsurers' share of paid losses and loss adjustment expenses and also established reserves for the Reinsurers' portion. Reserves are estimates of amounts to be paid in the future on known losses.

11. With this information and employing generally accepted actuarial models, the actuaries at Reliance were able to develop a range of net present value estimates for the Reinsurers' portion of the claims ceded under the D&O/E&O reinsurance agreements. This work was reviewed by PwC in connection with their review of the entire portfolio of D&O/E&O reinsurance agreements, and PwC agrees with the ranges developed by Reliance. Reliance then negotiated with the Reinsurers to commute their obligations under the D&O/E&O reinsurance agreements for an agreed amount of \$12,910,000 which falls within the range of values established by the Reliance actuaries.

ECS Reinsurance Agreements

12. The Reinsurers assumed varying shares of 36 of the ECS reinsurance agreements from 1993 to 1999 including property and environmental business throughout the entire period, and surety business from 1994 to 1999. The reinsurance agreements covering the surety and environmental business were all excess of loss reinsurance agreements. The reinsurance agreements covering the property business were quota share reinsurance agreements, whereby a reinsurer promises to pay a fixed percentage of all losses covered by the agreement.

13. Claims under property insurance policies tend to settle relatively fast and little to no new claim activity is expected under the reinsurance agreements covering the property business. The surety contracts, and the reinsurance agreements applicable to them, included a provision limiting the coverage to losses discovered during the policy period and the losses incurred through 1999 are now all settled. With the exception of the final year of the period, the reinsurance agreements only applied to claims made during the treaty year, thus limiting the amount of loss activity. Furthermore, in the last year of the surety and environmental reinsurance agreements, the Reinsurers only participated at higher excess levels, thus avoiding losses. As a result, the Reinsurers' share of the entire ECS portfolio is less than 1%.

14. Reliance's claim and actuarial professionals have identified and reviewed all reinsured claims under the applicable ECS reinsurance agreements. During this review, they have determined the Reinsurers' share of paid losses and loss adjustment expenses and also established reserves for the Reinsurers portion.

15. With this information and employing generally accepted actuarial models, the Reliance actuaries were able to develop a range of net present value estimates for the Reinsurers' shares of the claims ceded under the ECS reinsurance agreements. This work was reviewed by PwC in connection with their review of the entire portfolio of ECS reinsurance agreements, and

PwC agrees with the ranges established by Reliance. Reliance then negotiated with the Reinsurers to commute their obligations under the applicable ECS reinsurance agreements for an agreed amount of \$340,000 which falls within the range of values established by the Reliance actuaries.

Settlement Agreement

16. Reliance negotiated a combined settlement of \$13,250,000 for the remaining exposure under the relevant D&O/E&O reinsurance agreements and ECS reinsurance agreements and entered into the Settlement Agreement effective December 18, 2008, subject to the approval of this Court. The Settlement Agreement settles with certainty the claims against the Reinsurers for losses under the Reinsurance Agreements specifically identified in the Settlement Agreement.

17. Specifically, the Settlement Agreement provides that the Reinsurers shall pay Reliance \$12,910,000 to commute their obligations under the D&O/E&O reinsurance agreements and \$340,000 to commute their obligations under the ECS reinsurance agreements for a total sum of \$13,250,000 (“Commutation Amount”) to commute all of the Reinsurance Agreements. The Commutation Amount is due within 10 calendar days of when the Reinsurers receive notice that the Settlement Agreement was approved by this Court. In the event that this Court does not approve the Settlement Agreement, it will become null and void. The Commutation Amount was negotiated with the Reinsurers, 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 Estate and in the best interests of its policyholders, claimants and the general public. See 40 P.S. §§221.1(c), 221.23(9).

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

19. 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.

20. 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. See 40 P.S. §221.1(c).

(a) First, the Settlement Agreement converts future reinsurance obligations into immediate cash for the Estate. Specifically, the Estate receives \$13,250,000 which can be invested until it is distributed.

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

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

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

21. Under the terms of the Settlement Agreement, the Commutation 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 Reinsurers;

(c) approval of the transaction by this Court; and

(d) appropriate notice to the Reinsurers of Court approval.

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

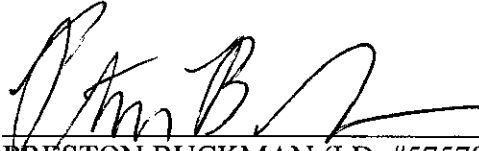
(a) Finding that the Settlement Agreement and Commutation Amount are in the best interest of the Estate;

(b) Finding that the Settlement Agreement is a fair and reasonable settlement of the Reinsurers' obligations under the Reinsurance Agreements;

(c) Finding the payment contemplated by the Settlement Agreement constitutes fair and reasonable value to the Estate; and

(d) Approving the terms of the Settlement Agreement attached as Exhibit A.

Respectfully submitted,



PRESTON BUCKMAN (I.D. #57570)

Special Funds Counsel

Pennsylvania Insurance Department

Capitol Associates Building

Office of Chief Counsel

901 North 7th Street

Harrisburg, PA 17102

(717) 787-6009

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

Dated: April 9, 2009

VERIFICATION

I, David S. Brietling, Chief Liquidation Officer for Reliance Insurance Company, in liquidation, am authorized by Joel S. Ario, Insurance Commissioner of the Commonwealth of Pennsylvania, pursuant to 40 P.S. §221.23, to act on his behalf in his capacity as the Statutory Liquidator of Reliance Insurance Company. I hereby verify that the facts set forth in the foregoing pleading are true and correct to the best of my knowledge, information and belief.

I understand that this Verification is made subject to the penalties of 18 P.S. §4904 relating to unsworn falsification to authorities.

Executed on April 9, 2009



DAVID S. BRIETLING

CERTIFICATE OF SERVICE

I, Marilyn K. Kincaid, hereby certify that on or about this day, pursuant to the Court's Order of December 12, 2008, service of the foregoing 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 at www.reliancedocuments.com.

Dated: April _____, 2009



MARILYN K. KINCAID

Master Service List

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

v.

Reliance Insurance Company

No. 269 M.D. 2001 (Commonwealth Court of Pennsylvania)

Preston M. Buckman, Esquire, (717) 787-6009
Department Counsel for Insurance
Governor's Office of General Counsel
Commonwealth of Pennsylvania
Insurance Department
Office of the Chief Counsel
Capitol Associates Building
901 North 7th Street
Harrisburg, PA 17102
Phone: (717) 787-6009
Fax: (717) 772 4543
E-mail: pbuckman@state.pa.us
(Attorneys for the Pennsylvania
Insurance Department)

Marilyn K. Kincaid, Esquire, (215) 864-4205
Reliance Insurance Company
(in Liquidation)
Three Parkway
5th Floor
Philadelphia, PA 19102
Phone: (215) 864-4205
Fax: (215) 864-4105
E-mail: marilyn.kincaid@relianceinsurance.com
(Attorney for Reliance Insurance
Company (in Liquidation))

Andrew A. Chirls, (215) 977-2472
Wolf Block LLP
1650 Arch Street
22nd Floor
Philadelphia, PA 19103-2097
Phone: (215) 977-2472
Fax: (215) 405-2572
E-mail: achirls@wolfblock.com
(Attorneys for Joel S. Ario,
Insurance Commissioner of the
Commonwealth of Pennsylvania)

Richard F. McMenamin, Esquire, (215) 963-5751
David L. Harbaugh, Esquire
Morgan, Lewis & Bockius LLP
1701 Market Street
Philadelphia, PA 19103-2921
Phone: (215) 963-5751
Fax: (215) 963-5001
E-mail: dharbaugh@morganlewis.com
rmcmenamin@morganlewis.com
(Attorneys for Fuji Bank)

Richard F. McMenamin, Esquire, (215) 963-5596
Erica Smith Klocek, Esquire
Morgan, Lewis & Bockius LLP
1701 Market Street
Philadelphia, PA 19103-2921
Phone: (215) 963-5596
Fax: (215) 963-5001
E-mail: esklocek@morganlewis.com
rmcmenamin@morganlewis.com
(Attorneys for Milliken & Company)

Richard F. McMenamin, Esquire, (215) 963-5596
Marc A. Shapp, Esquire
Morgan, Lewis & Bockius LLP
1701 Market Street
Philadelphia, PA 19103-2921
Phone: (215) 963-5596
Fax: (215) 963-5001
E-mail: mshapp@morganlewis.com
rmcmenamin@morganlewis.com
(Attorneys for The Bank of New York Mellon
(Formerly Mellon Bank, N.A.))

P. Kevin Brobson, Esquire, (717) 237-4845
Buchanan Ingersoll
One South Market Square
213 Market Street, 3rd Floor
Harrisburg, PA 17101
Phone: (717) 237-4845
Fax: (717) 233-0852
E-mail: Kevin.brobson@bipc.com
(Attorneys for Federal Insurance Company)

Rowe W. Snider, Esquire, (312) 443-0700
Steven T. Whitmer, Esquire
Julie L. Young, Esquire
Locke Lord Bissell & Liddell LLP
111 S. Wacker Drive
Chicago, Illinois 60606
Phone: (312) 443-0700
Fax: (312) 443-0336
E-mail: rsnider@lockelord.com
swhitmer@lockelord.com
jyoung@lockelord.com
(Attorneys for Illinois Insurance Guaranty Fund)

Daryn E. Rush, Esquire, (215) 446-6220
Gibbons PC
1700 Two Logan Square
18th & Arch Streets
Philadelphia, PA 19103-2769
Phone: (215) 446-6220
Fax: (215) 446-6336
E-mail: drush@gibbonslaw.com
(Attorney for Baptist Health South Florida, Inc.,
Palm Springs General Hospital, and Travelers
Casualty and Surety Co.)

Amy Daubert, (717) 787-2567
Chief Counsel
Pennsylvania Insurance Department
Office of Chief Counsel
1341 Strawberry Square
Harrisburg, PA 17120
Phone: (717) 787-2567
Fax: (717) 772-1969
E-mail: adaubert@state.pa.us
(Counsel for Joel S. Ario,
Insurance Commissioner of the Commonwealth of
Pennsylvania)

Timothy P. Law, (215) 851-8100
Matthew D. Rosso
Toki Rehder
Reed Smith LLP
2500 One Liberty Place
1650 Market Street
Philadelphia, PA 19103
Phone: (215) 851-8100
Fax: (215) 851-1420
E-mail: tlaw@reedsmith.com
mrosso@reedsmith.com
trehder@reedsmith.com
(Counsel for Unisys Corporation and Tribune
Company, Lincoln National Corporation, Warrantech
et. al)

Samuel M. Danskin, (714) 918-7000
Green & Hall, APC
1851 E. First Street
10th Floor
Santa Ana, CA 92705
Phone: (714) 918-7000
Fax: (714) 918-6996
E-mail: sdanskin@greenhall.com
(Counsel for Brian and Sarah Chisick)

Henry M. Sneath, (412) 288-4000
Bridget M. Gillespie, (412) 288-4017
Picadio Sneath Miller & Norton, P.C.
4710 US Steel Tower
600 Grant Street
Pittsburgh, PA 15219-2702
Phone: (412) 288-4000
(412) 288-4017
Fax: (412) 288-2405
E-mail: hsneath@psmn.com
bgillespie@psmn.com
(Counsel for Washington Mutual Bank ("WAMU"),
as successor to Hawthorne Financial Corp. and
Hawthorne Saving, F.S.B.)

Stephen A. Loney, Jr.
Hogan & Hartson LLP
1835 Market Street
29th Floor
Philadelphia, PA 19103
Phone: 267-675-4600
Fax: 267-675-4601
e-mail: saloney@hhlaw.com
(Counsel for Genworth Life Insurance Company and
Genworth Life and Annuity Insurance Company
(formerly General Electric Capital Assurance
Company, First Colony Life Insurance Life Insurance
Company, Federal Home Life Insurance Company,
and GE Life and Annuity Assurance Company) and
National Structured Settlements Trade Association)

EXHIBIT A

THIS COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE ("Agreement"), made effective and entered into this 18th day of December, 2008, by and between Novae Syndicates Limited, of 71 Fenchurch Street, London EC3M 4HH, England on behalf of Lloyd's Syndicates 1007, 1212, 1213 and 1241 (hereinafter known as the "Reinsurer") and Joel S. Ario, Insurance Commissioner of the Commonwealth of Pennsylvania, in his capacity as Statutory Liquidator of Reliance Insurance Company (In Liquidation), of 75 Broad Street, New York, New York 10004, USA (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. (The Reinsurer and Cedant are sometimes referred to in this Agreement collectively as the "Parties" or Individually as a "Party").

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 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, 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 a 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.

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 Thirteen Million Two Hundred Fifty Thousand (US\$13,250,000) ("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 14 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 11 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

10. 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

11. 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

12. 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

13. Except as disclosed in Article 14, each signatory to this Agreement represents that it is authorized to enter into this Agreement and the transactions contemplated herein.

14. 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.

15. Except as disclosed in Article 14, 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. 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. Bretley*
Title: Chief Liquidation Officer
Date: *December 18, 2008*

NOVAE SYNDICATES LIMITED

By: Jeremy Adams *J. Adams*
Title: Chief Executive – Novae Syndicates Limited
Date: 18th December 2008

EXHIBIT A

<u>RELIANCE REF.</u>	<u>REINSURER REF.</u>	<u>CONTRACT DESCRIPTION</u>	<u>EFFECTIVE DATE</u>	
3Q57AA	Synd. 1007	HC37293AA402	ECS GL/PL \$3M XS \$2M	01/01/1993
887VAA	Synd. 1007	HL44498AA402	ECS GL/POLLUTION XOL 5TH LAYER	07/01/1998
841WAA	Synd. 1007	GD17698AA7C2	ECS PROPERTY QS TO \$5M	10/01/1998
802XAA	Synd. 1007	HF15998AA540	ECS SURETY 2ND EXCESS OF LOSS	10/01/1998
778MAA	Synd. 1007	HF80497IA402	ECS CASUALTY PER RISK 4TH XOL	12/31/1997
777MAA	Synd. 1007	HG47296AA480	ECS CASUALTY PER RISK 3RD XOL	12/31/1997
726MAA	Synd. 1007	HF15997AA540	ECS-SURETY 2ND EXCESS OF LOSS	10/01/1997
701MAA	Synd. 1007	GD17697AA720	ECS PROPERTY QS	10/01/1997
674HAA	Synd. 1007	HF15996AA540	ECS SURETY XOL	10/01/1996
662HAA	Synd. 1007	GD17696AA02	ECS PROPERTY Q/S TO \$5M	10/01/1996
618JAA	Synd. 1007	HF80497AA402	ECS GL/PL XOL 17.5M XS 22.5M	12/31/1996
617JAA	Synd. 1007	HC72997AA402	ECS GL/PL XOL 10M XS 12.5M	12/31/1996
616JAA	Synd. 1007	GE28897AA402	ECS GL/PL XOL 7.5M XS 5M	12/31/1996
615JAA	Synd. 1007	HC37297AA402	ECS GL/PL XOL 3M XS 2M	12/31/1996
544FAA	Synd. 1007	HF80496AA02	ECS GL/PL \$17.5 XS \$20M	12/31/1995
543FAA	Synd. 1007	HC72996AA402	ECS GL/PL \$7.5M XS \$12.5M	12/31/1995
542FAA	Synd. 1007	GE28896AA402	ECS GL/PL \$7.5M XS \$5M	12/31/1995
541FAA	Synd. 1007	HC37296AA402	ECS GL/PL \$3M XS \$2M	12/31/1995
517FAA	Synd. 1007		ECS SURETY - 2ND 2M XS 3M	10/01/1995
509FAA	Synd. 1007	GD17695AA520	ECS PROPERTY Q/S TO \$5M	10/01/1995
484CAA	Synd. 1007	HF15995AA540	SURETY 2ND XS (2MM XS 3MM)	09/01/1994
483CAA	Synd. 1007	HF15894AA540	SURETY 1ST XOL 2.25M XS 750K	09/01/1994
481CAA	Synd. 1007	GD17694AA475	ECS PROPERTY QS TO 5MM	10/01/1994
421DAA	Synd. 1007	HF80495AA02	ECS GL/PL \$10M XS \$20M	12/31/1994
420DAA	Synd. 1007	HC72995AA402	ECS GL/PL \$7.5M XS \$12.5M	12/31/1994
419DAA	Synd. 1007	GE28895AA402	ECS GL/PL \$7.5M XS \$5M	12/31/1994
418DAA	Synd. 1007	HC37295AA402	ECS GL/PL \$3M XS \$2M	12/31/1994
3X75AA	Synd. 1007	GD17693AA475	ECS PROPERTY QS TO 10MM	10/01/1993
3Q71AA	Synd. 1007	HC72993AA402	ECS GL/PL \$5M XS \$10M	01/01/1993
3Q58AA	Synd. 1007	GE28893AA402	ECS GL/PL \$5M XS \$5M	01/01/1993
321AAA	Synd. 1007	HC72994AA402	ECS GL/PL \$7.5M XS \$12.5M	12/31/1993
320AAA	Synd. 1007	GE28894AA402	ECS GL/PL \$7.5M XS \$5M	12/31/1993
319AAA	Synd. 1007	HC37294AA402	ECS CAS LIAB/POLL 1ST XOL3MX2M	12/31/1993
887VAA	Synd. 1212	AN69698AKT01	ECS GL/POLLUTION XOL 5TH LAYER	07/01/1998
778MAA	Synd. 1212	A122697AKT01	ECS CASUALTY PER RISK 4TH XOL	12/31/1997
777MAA	Synd. 1212	A122597AKT01	ECS CASUALTY PER RISK 3RD XOL	12/31/1997
776MAA	Synd. 1212	A122497AKT01	ECS CASUALTY PER RISK 2ND XOL	12/31/1997
618JAA	Synd. 1212	A122696AKT01	ECS GL/PL XOL 17.5M XS 22.5M	12/31/1996
617JAA	Synd. 1212	A122596AKT01	ECS GL/PL XOL 10M XS 12.5M	12/31/1996
616JAA	Synd. 1212	A122496AKT01	ECS GL/PL XOL 7.5M XS 5M	12/31/1996
544FAA	Synd. 1212	A122695AKT01	ECS GL/PL \$17.5 XS \$20M	12/31/1995

543FAA	Synd. 1212	AI22595AKT01	ECS GL/PL \$7.5M XS \$12.5M	12/31/1995
542FAA	Synd. 1212	AI22495AKT01	ECS GL/PL \$7.5M XS \$5M	12/31/1995
839VAAR	Synd. 1007	HE72799AA403	D&O/E&O 18M XS 2M RECAP	07/01/1999
749LAA	Synd. 1007	HE72797AA403	D&O/E&O 95% 18M XS 2M	07/01/1997
840VAA	Synd. 1007	HL47298AA403	D&O 25M N/T LM AT<25MXOL5MX20M	07/01/1998
839VAA	Synd. 1007	HE72799AA403	D&O/E&O 18M XS 2M RECAP	07/01/1999
839VAA	Synd. 1007	HE72798AA403	D&O/E&O 18M XS 2M RECAP	07/01/1998
632HAA	Synd. 1007	HE72796AA403	D&O/E&O 10M XS 10M	07/01/1996
631HAA	Synd. 1007	HE72698AA403	D&O/E&O 8M XS 2M	07/01/1998
580EAA	Synd. 1007	HE72795AA403	D&O/E&O 4TH 10M XS 10M	07/01/1995
579EAA	Synd. 1007	HE72695AA403	D&O/E&O 3RD 5M XS 5M	07/01/1995
454CAA	Synd. 1007	HE72794AA403	D&O/E&O 5M X 10M RECAP	07/01/1994
431CAA	Synd. 1007	HE72694AA403	D&O/E&O 5M XS 5M	07/01/1994
839VAAR	Synd. 1212	AD49597AKT40	D&O/E&O 18M XS 2M RECAP	07/01/1998
		AD49597BKW80		
		AD49597AKT40		
749LAA	Synd. 1212	AD49597BKW80	D&O/E&O 95% 18M XS 2M	07/01/1997
	Synd. 1212	AN67898AKT40		
840VAA	Synd. 1212	AN67898BKW80	D&O 25M N/T LM AT<25MXOL5MX20M	07/01/1998
		AD49598AKT40		
839VAA	Synd. 1212	AD49598BKW80	D&O/E&O 18M XS 2M RECAP	07/01/1998
		AD49596AKW20		
632HAA	Synd. 1212	AD49596AKT20	D&O/E&O 10M XS 10M	07/01/1996
580EAA	Synd. 1212	AD49595AKT20	D&O/E&O 4TH 10M XS 10M	07/01/1995
454CAA	Synd. 1212	AD49594AKT20	D&O/E&O 5M X 10M RECAP	07/01/1994
580EAA	Synd. 1213	AD49595BKT20	D&O/E&O 4TH 10M XS 10M	07/01/1995
454CAA	Synd. 1213	AD49594BKT20	D&O/E&O 5M X 10M RECAP	07/01/1994
839VAAR	Synd. 1241	AB12699APT48	D&O/E&O 18M XS 2M RECAP	07/01/1999
		AD49598BKT40		
839VAA	Synd. 1241	AD49599AKT40	D&O/E&O 18M XS 2M RECAP	07/01/1999
		HN01798AA406		
960ZAA	Synd. 1007	AA90499BPT20	D&O/E&O 30M XS 20M 21MN/T LIM	04/01/1999
		AN67899AKT40		
960ZAA	Synd. 1212	AN67899AKT4F	D&O/E&O 30M XS 20M 21MN/T LIM	04/01/1999
		AA90499APT20		
960ZAA	Synd. 1241	AA90499BPT20	D&O/E&O 30M XS 20M 21MN/T LIM	04/01/1999
854XAA	Synd. 1007	HC72998AA402	ECS GL/POLL XOL 10M XS 12.5M	12/31/1998
855XAA	Synd. 1007	HF80498AA402	ECS GL/PL XOL 17.5M XS 22.5M	12/31/1998
854XAA	Synd. 1212	AI22598AKT01	ECS GL/POLL XOL 10M XS 12.5M	12/31/1998
855XAA	Synd. 1212	AI22698AKT01	ECS GL/PL XOL 17.5M XS 22.5M	12/31/1998

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 the Reinsurer:

Steve Hennessey
Novae Syndicates Limited
71 Fenchurch Street
London
EC3M 4HH

EXHIBIT C

Mergers of the former Reliance Insurance Group of companies into Reliance Insurance Company

Company	State of Domicile	Date of Merger
Reliance Insurance Company of Illinois	Illinois	January 1, 2001
Reliance National Indemnity Company	Wisconsin	February 13, 2001
United Pacific Insurance Company	Pennsylvania	February 13, 2001
Reliance Direct Insurance Company	Pennsylvania	February 13, 2001
Reliance Universal Insurance Company	California	February 13, 2001
United Pacific Insurance Company of New York	New York	February 16, 2001
Reliance National Insurance Company	Delaware	March 6, 2001
Reliance Surety Company	Delaware	March 6, 2001
Reliance Lloyds	Texas	April 6, 2001 (Dissolved)

EXHIBIT B

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

Joel 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 Novae Syndicates Limited
on behalf of Lloyd's Syndicates 1007, 1212, 1213 and 1241.***

SEALED EXHIBIT B TO THE PETITION FOR APPROVAL OF
COMMUTATION, SETTLEMENT AND RELEASE AGREEMENT

THIS ENVELOPE IS SEALED AND CONTAINS INFORMATION DESIGNATED
CONFIDENTIAL IN THIS CASE. IT IS NOT TO BE OPENED OR THE CONTENTS
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THE COURT OR PURSUANT TO STIPULATION OF BOTH PARTIES TO THIS ACTION.