

2009 JUL 16 P 12:42
RECEIVED
CLERK OF COURT
MONTGOMERY COUNTY
PENNSYLVANIA

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

*IN RE: Commutation, Settlement Agreement and Release between
Reliance Insurance Company (In Liquidation) and
XL Reinsurance America, Inc.*

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 XL Reinsurance America, Inc. ("Reinsurer") submitted by the Liquidator of Reliance

Insurance Company ("Liquidator") regarding a certain reinsurance agreement specifically identified in the Settlement Agreement ("Reinsurance Agreement"):

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 Agreement and the Estate will receive an economic benefit amounting to \$6,325,000;

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 Agreement, 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 JUL 16 P 12:42

CLERK OF COURT
JUDICIAL CENTER
PHILADELPHIA, PA

*IN RE: Commutation, Settlement Agreement and Release between
Reliance Insurance Company (In Liquidation) and
XL Reinsurance America, Inc.*

**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 XL Reinsurance America, Inc. ("Reinsurer"). This Petition is unrelated to the petition approved by this Court on July 2, 2009 regarding the commutation between Reliance and XL Reinsurance America, Inc., as successor in interest to NAC Reinsurance Corporation. 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 takes 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, the Liquidation Team Reinsurance Manager 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. In addition, Reliance's independent consulting actuaries, PricewaterhouseCoopers ("PwC"), have reviewed Reliance's commutation approach both generally and with respect to

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.

certain individual transactions and have concluded that the process Reliance utilizes to estimate liabilities ceded to reinsurers is reasonable for commutation purposes.

Reinsurance Agreement

8. This commutation concerns the Reinsurer's participation in a single reinsurance agreement, Treaty #9C3CAA ("XL Contract"), which is identified in Exhibit A to the Settlement Agreement. The XL Contract is one of numerous reinsurance agreements relating to business produced through Environmental Compliance Services ("ECS") (collectively the "ECS Reinsurance Agreements"), an agent of Reliance. The XL Contract covered policies with effective dates from January 1, 1994 to May 31, 1999 that were in-force on October 1, 1999. It provided coverage on a pro rata basis for all ECS related losses first reported on October 1, 1999 or later.

9. The ECS Reinsurance Agreements, including the XL Contract, provided coverage for the following lines of business: general liability, pollution liability (legal, clean up, and errors & omissions), auto liability, auto physical damage, property and surety. This business, written by Reliance, included first dollar business, excess of self-insured retention, and umbrella liability; the policies were mostly claims made policies.

10. As of August 31, 2008, all reported claims relevant to the Reinsurer's participation in the XL Contract have been identified. As part of the due diligence for this Settlement Agreement, senior Reliance actuarial and claims professionals have identified and reviewed all reinsured claims under the XL Contract in order to verify the reasonableness of the reserves and to project the timing of payments for each relevant claim. During this review, they have determined the Reinsurer's share of paid losses and loss adjustment expenses and also

established reserves for the Reinsurer's portion. Reserves are estimates of amounts to be paid in the future on known and expected losses.

11. 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 Reinsurer's share of the claims ceded under the XL Contract. 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 for the entire ECS portfolio.

Settlement Agreement

12. Reliance then negotiated with the Reinsurer to commute its obligations under the XL Contract for an agreed amount of \$6,325,000, which is acceptable based upon the range of values established by the Reliance actuaries, and entered into the Settlement Agreement effective April 22, 2009, subject to the approval of this Court. The Settlement Agreement settles with certainty the claims against the Reinsurer for losses under the XL Contract identified in the exhibit to the Settlement Agreement.

13. Specifically, the Settlement Agreement provides that the Reinsurer shall pay Reliance \$6,325,000 ("Commutation Amount") to commute its obligations under the XL 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 Estate and in the best interests of its policyholders, claimants and the general public. See 40 P.S. §§221.1(c), 221.23(9).

14. 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 XL Contract, 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 XL Contract. In order to allow Reliance to begin earning investment income, the Reinsurer advanced the entire Commutation Amount to Reliance on May 1, 2009. In the event the Court does not grant the approval sought in the Petition, the Settlement Agreement will become null and void and Reliance will be required to return the funds, plus any interest actually earned thereon, to the Reinsurer.

15. 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.

16. 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 \$6,325,000 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.

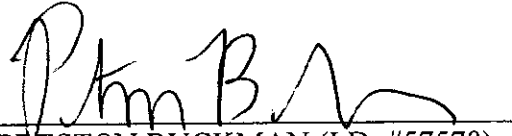
17. Under the terms of the Settlement Agreement, the Commutation will be fully consummated upon satisfaction of the following conditions:

- (a) approval of the transaction by this Court; and
- (b) appropriate notice to the Reinsurer 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 Reinsurer's obligations under the Reinsurance Agreement;
- (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,

A handwritten signature in black ink, appearing to read "Preston Buckman", written over a horizontal line.

PRESTON BUCKMAN (I.D. #57570)
Special Funds Counsel
Pennsylvania Insurance Department
Capitol Associates Building
Governor's Office of General 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: July 16, 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 July 16, 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: July 16, 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))

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., (267) 675-4600
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)

Frank P. DeGiulio, (215) 625-9900
Charles P. Neely
Palmer Biezup & Henderson LLP
956 Public Ledger Building
620 Chestnut Street
Philadelphia, PA 19106-3409
Phone: (215) 625-9900
Fax: (215) 625-0185
e-mail: fpd@pbh.com
cneely@pbh.com
(Counsel for Republic Western Insurance Company)

Exhibit A

COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE

THIS COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE (“Agreement”), made effective and entered into this 22 day of April, 2009, by and between XL Reinsurance America Inc. (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) (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 a contract of reinsurance wherein the Reinsurer obligated itself to accept from the Cedant the cession of a certain percentage of liabilities with respect to certain risks written or assumed by the Cedant and/or agents of the Cedant, and;

B. The reinsurance agreement referred to in Recital A above is set out on Exhibit A attached hereto and is herein referred to as “the Contract”, and;

C. Pursuant to the Contract, 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 Contract 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 Cedant's 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 any and 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 Contract, whether or not any of such contract is 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 any and 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 Contract, whether or not any of such Contract is 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 Contract, 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 Contract, 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 SIX MILLION THREE HUNDRED TWENTY FIVE THOUSAND United States Dollars and No Cents (US\$6,325,000) (“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 (“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 in a segregated account pending receipt of the approval of the Commonwealth Court per Article 15 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 that shall be made after the effective date of this Agreement 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 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 Contract, 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, 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. Each party to this Agreement represents that it is authorized to enter into this Agreement and the transactions contemplated herein.

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.

15. 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 except for the provisions of this Article and Cedant will thereupon promptly and unconditionally (and in no event later than thirty days from notice of disapproval) return the Consideration to the Reinsurer together with investment income earned thereupon per the preceding Article 4.

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. Brütling*
Title: Chief Liquidation Officer
Date: *4/21/09*

XL REINSURANCE AMERICA INC.

By: *David F. Hylton*
Title: *SUP Claims*
Date: *4/22/09*

EXHIBIT A

<u>RELIANCE REF.</u>	<u>REINSURER REF.</u>	<u>CONTRACT DESCRIPTION</u>	<u>EFFECTIVE DATE</u>
9C3CAA	80586	ECS 100% NET RETAINED LIABILITY	10/01/1999

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 XL Reinsurance America Inc.

Steven P. Agosta
General Counsel
XL Reinsurance America Inc.
Seaview House, 70 Seaview Avenue
Stamford, CT 06902

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
XL Reinsurance America, Inc.

**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
THEREOF TO BE DISPLAYED OR REVEALED EXCEPT BY OR UPON ORDER OF
THE COURT OR PURSUANT TO STIPULATION OF BOTH PARTIES TO THIS ACTION.**