

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

RECEIVED AND FILED
COMMONWEALTH COURT
OF PA (PHIL A)
2009 AUG 11 A 10:37

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

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 Continental Casualty Company ("Reinsurer") 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 \$9,000,000;

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 Petition for Approval is hereby **GRANTED** and the Commutation, Settlement Agreement and Release attached hereto and marked as Exhibit A is hereby **APPROVED**.

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,
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Plaintiff,

v.

RELIANCE INSURANCE COMPANY,

Defendant.

No. 269 M.D. 2001

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RECEIVED AND FILED
COMMONWEALTH COURT
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*IN RE: Commutation, Settlement Agreement and Release between
Reliance Insurance Company (In Liquidation) and
Continental Casualty Company*

**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 Continental Casualty Company ("Reinsurer"). This Petition is unrelated to the petition approved by this Court on July 2, 2009 regarding the commutation between Reliance and Continental Casualty Company and The Continental Insurance Company as successor in interest to Continental 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 the 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 Agreements

8. This commutation concerns the participation of the Reinsurer with Reliance in the 64 different reinsurance agreements listed on Exhibit "A" to the Settlement Agreement, which were effective from 1994 through 2000 ("Reinsurance Agreements"). The Reinsurance Agreements provided coverage for property catastrophes, casualty catastrophes, workers' compensation and employers' liability, ocean marine business, health care professional liability business, international directors & officers and professional errors & omissions ("D&O/E&O") liability business, municipal liability business, umbrella liability business as well as other specialty liability programs for various target markets. Also among the Reinsurance Agreements are retrocessions (reinsurance of reinsurance) of reinsurance assumed from Sable Insurance Company. The Reinsurer participated in varying percentages or amounts with regard to each of the Reinsurance Agreements identified in the Settlement Agreement. The basic parameters of the Reinsurance Agreements are described in the paragraphs that follow.

9. The main Umbrella liability treaties include treaty numbers 528FAA, 676HAA, 727MAA, and 830WAA. Under these treaties, reinsurers cover 80% of up to \$10 million of each occurrence and variable percentages for occurrences greater than \$10 million up to \$25 million for each occurrence for losses arising under policies with inception dates from November 1, 1995 through November 1, 2000. In addition, under treaty 831WAA, reinsurers cover 98% to 100% of \$25 million for each occurrence in excess of \$25 million of each occurrence for losses arising under policies with inception dates from November 1, 1998 to November 1, 2000. The

Reinsurer's participation in reinsurers' liability is 6%, 3%, 3%, 8% and 8% of these treaties, respectively.

10. Treaty numbers 415DAA, 541GAA and 683HAA provide reinsurance coverage for losses arising under Umbrella policies written through Delaware Valley Underwriting Agency, a former agent of Reliance. Under these treaties, reinsurers cover up to \$5 million of each occurrence plus allocated loss adjustment expense for policies with inception dates from November 1, 1994 to November 1, 1997. The Reinsurer participation in reinsurers' liability is 28.3% of these treaties.

11. Treaty numbers 640GAA and 721KAA are automatic facultative agreements that operate much like a treaty and hence are referred to as such. These treaties provide reinsurance coverage for losses arising under Umbrella policies written through Business Risk Services, a former agent of Reliance. Under these treaties, reinsurers cover up to \$1 million of each occurrence plus allocated loss adjustment expense for policies with inception dates from February 1, 1996 to December 31, 1998. The Reinsurer participation in reinsurers' liability is 60% of these treaties.

12. Treaty numbers 571FAA, 606IAA, 884WAA and 94B9AA provide reinsurance coverage for Workers Compensation catastrophe losses. These treaties cover accidents with a date of loss from December 31, 1995 through December 30, 2000. Under Treaties 571FAA and 606IAA, reinsurers cover Reliance's share of multiple person accidents of up to \$10 million for each accident in excess of \$10.5 million for each accident; and under Treaties 884WAA and 94B9AA, reinsurers cover Reliance's share of multiple person accidents of up to \$15 million for each accident in excess of \$10 million for each accident. The Reinsurer's participation in reinsurers' liability is 4%, 4%, 15%, and 4.33% of these treaties, respectively.

13. Treaty numbers 799MAA, 701NAA, 702NAA, 703NAA, 846XAA and 847XAA provide reinsurance coverage for Health Care Professional Liability losses. Treaties 799MAA, 701NAA, 702NAA and 703NAA cover policies with inception dates from December 31, 1997 to December 31, 1998 and treaties 846XAA and 847XAA cover policies with inception dates from December 31, 1998 to December 31, 1999. Under these treaties, reinsurers cover 60% of up to the first \$2 million of each loss, \$3 million of each loss in excess of \$2 million of each loss, \$10 million of each loss in excess of \$5 million of each loss, 90% of \$10 million of each loss in excess of \$15 million of each loss, \$8 million of each loss in excess of \$2 million of each loss and \$15 million of each loss in excess of \$10 million of each loss, respectively. All of these treaties cover allocated loss adjustment expenses in addition to the treaty limit. The Reinsurer's participation in reinsurers' liability is 5%, 3%, 2%, 2%, 8% and 7.5% of these treaties, respectively.

14. Treaty numbers 750LAA through 756LAA provide reinsurance coverage of up to \$2 million of each loss for Nonstandard Directors & Officers Liability, Miscellaneous Professional Liability, Small Account Directors & Officers Liability, Lawyers Professional Liability written through Kirke-Van Orsdel Inc (a former Reliance agent), Lawyers Professional Liability written through Professional Coverage Managers (a former Reliance agent), Lawyers Professional Liability written through Pro Texn (a former Reliance agent) and Employment Practices Liability, respectively, for policies with inception dates from July 1, 1997 to June 30, 1998. All of these treaties cover allocated loss adjustment expenses in addition to the treaty limit. The Reinsurer's participation in reinsurers' liability is 4% of these treaties.

15. Treaty numbers 831VAA, 832VAA and 837VAA provide reinsurance coverage of up to \$2 million of each loss on Nonstandard Directors & Officers Liability, Miscellaneous Professional Liability and Employment Practices Liability, respectively, for policies with inception dates from July 1, 1998 to June 30, 2000. All of these treaties cover allocated loss adjustment expenses in addition to the treaty limit. The Reinsurer's participation in reinsurers' liability is 9% of these treaties.

16. Treaty numbers 889SAA and 979ZAA provide reinsurance coverage for Municipal Liability policies written through Public Access Underwriting Services, a former agent of Reliance and Sable Insurance Company. Under these treaties, reinsurers covered 93.33% of up to \$15 million for each loss arising under policies with inception dates from May 1, 1998 through May 1, 2000. The Reinsurer's participation in reinsurers' liability is 10.7146% of these treaties.

17. Treaty numbers 623JAA, 724NAA, 849WAA, 853VAA, 860WAA, 91A9AA and 92A1AA provide reinsurance coverage for Ocean Marine losses. Under treaties 623JAA, 724NAA and 849WAA, reinsurers cover 50% of up to \$10 million of each loss arising under Blue and Brown Water Marine Hull and Machinery (including related Protection and Indemnity) policies with inception dates from December 31, 1996 through December 31, 2000 and the Reinsurer's participation in reinsurers' liability is 11%, 15% and 15% of these treaties, respectively. Under treaty 853VAA, reinsurers cover 50% of up to \$50 million of each loss arising under Offshore Energy policies with inception dates from July 1, 1998 to June 30, 2000 and the Reinsurer's participation in reinsurers' liability is 4% of this treaty. Under Treaty 860WAA, reinsurers cover \$4 million of each loss in excess of \$1 million of each loss arising under Excess Marine Liability policies with inception dates from December 31, 1998 to June 30,

1999 and the Reinsurer's participation in reinsurers' liability is 6% of this treaty. Under treaties 91A9AA and 92A1AA, reinsurers cover \$4.5 million of each loss in excess of \$500,000 of each loss and \$5 million of each loss in excess of \$5 million of each loss, respectively, for covered Ocean Marine losses with a date of loss between July 1, 1999 and June 30, 2001 and the Reinsurer's participation in reinsurers' liability is 7.5% of these treaties.

18. Treaty numbers 607KAA, 732NAA, 733NAA, 859XAA, 860XAA, 865XAA and 960ZAA provide reinsurance coverage for International D&O/E&O losses. Under treaty 607KAA, reinsurers cover \$5 million of each loss in excess of \$20 million of each loss arising under policies with inception dates from December 31, 1996 to December 31, 1997 and the Reinsurer's participation in reinsurers' liability is 10% of this treaty. Under treaties 732NAA and 733NAA, reinsurers cover \$18 million of each loss in excess of \$2 million of each loss and \$5 million of each loss in excess of \$20 million of each loss, respectively, arising under policies with inception dates from December 31, 1997 to December 31, 1998 and the Reinsurer's participation in reinsurers' liability is 5% and 10% of these treaties, respectively. Under treaties 859XAA, 860XAA and 865XAA, reinsurers cover \$1 million of each loss in excess of \$1 million of each loss, \$18 million of each loss in excess of \$2 million of each loss and \$5 million of each loss in excess of \$20 million of each loss, respectively, arising under policies with inception dates from December 31, 1998 to December 30, 2000 and the Reinsurer's participation in reinsurers' liability is 8%, 6%, and 10% of these treaties, respectively. Under treaty 960ZAA, reinsurers cover 97% of \$30 million of each loss in excess of \$20 million of each loss arising under policies with inception dates from April 1, 1999 to June 30, 2000 and the Reinsurer's participation in reinsurers' liability is 8.3% of this treaty.

19. Treaty 855VAA provides reinsurance coverage for Network Computer Liability losses. Under this treaty, reinsurers cover variable percentages (50% - 90%) of up to \$10 million of each loss arising under policies with inception dates from September 1, 1998 to September 1, 1999. The Reinsurer's participation in reinsurers' liability is 6.7% of this treaty.

20. Treaty 877XAA provides reinsurance coverage for policies underwritten by Reliance's Integrated Risk Department. This department wrote a broad spectrum of property, automobile, marine, directors and officers liability, professional liability, general liability and workers compensation coverages for large accounts utilizing a holistic underwriting approach. Under this treaty, reinsurers cover 90% of up to \$25 million of each loss arising under policies with inception dates from December 1, 1998 through December 31, 1999. The Reinsurer's participation in reinsurers' liability is 8% of this treaty.

21. Treaty 908ZAA provides reinsurance coverage for losses arising under specialized policies insuring Representation and Warranty and Contingent Tax Liability related to mergers and acquisitions. Under this treaty, reinsurers provide coverage of up to \$25 million of each loss arising under policies with inception dates from February 1, 1999 to March 20, 2000. The Reinsurer's participation in reinsurers' liability is 6% of this treaty.

22. Treaty 95A8AA provides reinsurance coverage for Loss Assessment insurance written within D&O/E&O policies. Under this treaty, reinsurers cover a variable percentage (75% - 90%) of up to \$25 million of each loss arising under policies with inception dates from May 1, 1999 to May 1, 2000. The Reinsurer's participation in reinsurers' liability is 4.4% of this treaty.

23. Treaty numbers 857UAA and 03B5AA are Property Catastrophe treaties and treaty numbers 583EAA, 608KAA, 647HAA, 648HAA and 756MAA are Casualty Catastrophe

treaties. The Casualty Catastrophe treaties only covered losses reported within 90 days after the close of the term, and no losses were reported under these treaties. The Property Catastrophe treaties only covered losses reported prior to January 1, 2006, and no losses were reported under these treaties. Thus, these treaties have no commutation value.

24. Treaty 972ZAA provides retrocessional coverage for business assumed from Sable Insurance Company. It specifically covers losses arising under Workers Compensation and Employers Liability policies written through Superior Access, a former agent of Sable Insurance Company. Under this treaty, reinsurers cover Reliance's share of losses of up to \$4 million for each accident in excess of \$1 million for each accident on Sable Insurance Company policies with inception dates from March 1, 2000 to March 1, 2001. Since Reliance assumes 90% of the amount of each loss from Sable Insurance company, the retrocessional coverage for Reliance is \$3.6 million for each accident in excess of \$900,000 for each accident. The Reinsurer's participation in reinsurers' liability is 10% of this treaty.

25. Treaty numbers 953ZAA, 954ZAA, 955ZAA and 956ZAA provide retrocessional coverage for property reinsurance assumed from Sable Insurance Company. Under these treaties, reinsurers cover Reliance's share of original losses of up to \$2,250,000 of each loss in excess of \$250,000 of each loss, \$2.5 million of each loss in excess of \$2.5 million of each loss, \$5 million of each loss in excess of \$5 million of each loss and \$15 million of each loss in excess of \$10 million of each loss, respectively, arising under Sable Insurance Company property policies with inception dates from February 1, 1999 to December 31, 1999. Since Reliance assumes 90% of the amount of each loss from Sable, the combined retrocessional coverage for Reliance is \$22,275,000 of each loss in excess of \$225,000 of each loss. The Reinsurer's participation in reinsurers' liability is 12.5% of these treaties.

26. As of September 30, 2008, all reported claims relevant to the Reinsurer's participation in the Reinsurance Agreements have been identified. As part of its due diligence for this Settlement Agreement, senior Reliance actuarial and experienced claims personnel conducted a review of the relevant claims under the Reinsurance Agreements in order to both verify the reasonableness of the reserves² and to project the timing of payments for each relevant claim. During this review, they determined the Reinsurer's share of paid losses and loss adjustment expenses and also established reserves for the Reinsurer's portion.

27. With this information Reliance's actuaries conducted an in-depth analysis to determine appropriate commutation values. For the Workers' Compensation excess of loss reinsurance agreements, Reliance's actuaries have taken the general approach for those claims identified as "lifetime" claims (claims which will continue until the death of the claimant) of valuing these claims using several assumptions relating to future medical expenses, the affects of medical inflation and where appropriate, discounting the claims for mortality. Then the specifications of the treaty are applied to the resulting claim values. For all of the other reinsurance agreements and the non-lifetime claims under the Workers' Compensation excess of loss reinsurance agreements, Reliance's actuarial model used a variety of traditional and generally accepted actuarial methods.

Settlement Agreement

28. Reliance then negotiated with the Reinsurer to commute its obligations under the Reinsurance Agreements for an agreed amount of \$9,000,000, which is acceptable based upon the range of values established by the Reliance actuaries, and entered into the Settlement Agreement effective June 24, 2009, subject to the approval of this Court. The Settlement

² Reserves are estimates of amounts to be paid in the future on known and expected losses.

Agreement settles with certainty the claims against the Reinsurer for losses under the Reinsurance Agreements identified in Exhibit "A" to the Settlement Agreement.

29. Specifically, the Settlement Agreement provides that the Reinsurer shall pay Reliance \$9,000,000 ("Commutation Amount") to commute its obligations under the Reinsurance Agreements within 10 calendar days from when the Reinsurer is notified that this Court has approved the Settlement 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).

30. 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 Reinsurer is a fair and reasonable commutation of the Reinsurer's obligations to Reliance under the Reinsurance Agreements. In the event the Court does not grant the approval sought in the Petition, the Settlement Agreement will become null and void.

31. 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.

32. 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 \$9,000,000 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.

33. 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;
- (b) appropriate notice to the Reinsurer of Court approval, and
- (c) payment by the Reinsurer of \$9,000,000.

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,



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

Dated: August 11, 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 August 11, 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: August 11, 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)

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Exhibit A

COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE

THIS COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE ("Agreement"), made effective and entered into this 24th day of June, 2009, by and between Continental Casualty Company (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 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 parents, affiliates, subsidiaries, predecessors, successors, assigns, shareholders, officers, directors, employees, 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, causes of action, judgments, suits, arbitrations, mediations, and demands whatsoever, whether known or unknown, foreseen or unforeseen, suspected or unsuspected, by either or both parties, fixed or contingent, claimed or unclaimed, matured or unmatured, at law or in equity, whether alleged to arise under contract or tort, or statutory, or common law, 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, including but not limited to any and all fraud, misrepresentation, and bad faith claims arising under or related to the Contracts. The releases by Cedant contained herein are specifically limited to the benefit of the Reinsurer and shall not apply to any obligations to Cedant by

Continental Insurance Company or Continental Reinsurance Corporation, in any capacity, arising out of or in connection with the Contracts, or otherwise. 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, it is the intent of the Cedant that this release operates as a full and final release and discharge of the Reinsurer from any and all duties, obligations, and liabilities arising under or relating to the Contracts and 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.

Each party acknowledges that statutory, regulatory or common law may limit the waiver or release of unknown or unsuspected claims. Without accepting that such statutory, regulatory, or common law applies to this Agreement, each party hereby waives and releases any and all rights it might have pursuant to such statutory, regulatory, or common law in connection with the subject matter of this Agreement. The releases, representations and warranties and other provisions contained in this Agreement shall not apply to any agreements between the parties other than the Contracts.

Release of the Cedant

2. In consideration of the release set out in Article 1 herein, the Reinsurer hereby irrevocably and unconditionally releases the Cedant, its parents, affiliates, subsidiaries, predecessors, successors, assigns, shareholders, officers, directors, employees, 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, causes of action, judgments, suits, arbitrations, mediations, and demands whatsoever, whether

known or unknown, foreseen or unforeseen, suspected or unsuspected, by either or both parties, fixed or contingent, claimed or unclaimed, matured or unmatured, at law or in equity, whether alleged to arise under contract or tort, or statutory, or common law, 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 including but not limited to any and all fraud, misrepresentation, and bad faith claims arising under or related to the Contracts. Without limiting the generalities of the foregoing, it is the intent of the Reinsurer that this release operates as a full and final release and discharge of the Cedant from any and all duties, obligations, and liabilities arising under or relating 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;

d. Except as disclosed in Article 16, no further action, consent, or approval of any person, entity, or arbitration panel is required for the execution, delivery, or performance of any promise, covenant, agreement, condition, payment, or consideration of or under this Agreement by such party;

e. No promise, covenant, agreement, condition, payment, or consideration of or under this Agreement by such party violates any law or conflicts with any order, writ, injunction, judgment, award, or decree of any court, arbitration panel, or governmental or regulatory body;

f. No promise, covenant, agreement, condition, payment, or consideration of or under this Agreement by such party violates any article of incorporation or by-law of such party;

g. It is not a party to any agreement, transaction, or negotiation that would render this Agreement, or any part thereof, void, voidable, or unenforceable;

h. It has not assigned, sold, or transferred any claim or right intended to be discharged or released by or under this Agreement;

i. It is not aware of any third party that has, or might assert, an independent interest, separate and apart from any further obligations intended to be fully discharged or released by or under this Agreement;

j. It has completely read, fully understands, and voluntarily accepts the terms and conditions of this Agreement;

Consideration

4. The Reinsurer agrees to pay the Cedant the total sum of Nine Million United States Dollars (US\$9,000,000) ("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 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.

The parties hereby agree that this Agreement is final and binding and cannot be voided or opened by either party for any reason, including but not limited to the discovery of the facts, circumstances, or legal decisions, subsequent or otherwise, different from or in addition to those now known or believed to be true regarding the subject matter of this Agreement.

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.

13. The parties acknowledge and agree that this Agreement reflects a compromise in settlement of disputed rights, duties, obligations, and liabilities arising under and relating to the Contracts, and neither the existence of this Agreement nor any of its provisions constitutes an admission or waiver by either party or a retraction of any position on the part of either party. The parties intend that this Agreement and its provisions be afforded the protections of Rule 408 of the Federal Rules of Evidence and any similar state rule or law that protects agreements of settlement or compromise from being used as evidence of admission, waiver, or retraction of any right or position on the part of either party. Furthermore, except only in connection with a proceeding to enforce any of its provisions as between the parties, neither this Agreement nor any of its terms shall be admissible in any other proceeding.

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 D. Britton*
Title: Chief Liquidation Officer
Date: *June 25, 2009*

CONTINENTAL CASUALTY COMPANY

By: *Michael Fitzell*
Title: *SENIOR VICE PRESIDENT*
Date: *24 JUNE 2009*
Attest: *[Signature]*

EXHIBIT A

<u>RELIANCE REF.</u>	<u>REINSURER REF.</u>	<u>CONTRACT DESCRIPTION</u>	<u>EFFECTIVE DATE</u>
03B5AA& 3B5	30436-00	PROPERTY 5TH CAT XOL	01/02/2000
583EAA	05810-95	CASUALTY 3RD CAT XOL 20M X 20M	07/01/1995
607KAA	06838-96	INT'L D&O/E&O SAF 5M XS 20M	12/31/1996
608KAA & 08K	06331-96	CASUALTY CAT XOL	12/31/1996
623JAA	06578-96	MARINE & HULL TO 10M QS	12/31/1996
640GAA	06598-96	PETROLEUM RISK MGRS 1M P/O 1M	02/01/1996
647HAA	06331-96	CASUALTY 2ND CAT XOL	07/01/1996
648HAA	05810-96	CASUALTY 3RD CAT XOL	07/01/1996
721KAA	06598-97&98	BUS RISK SVCS OIL & GAS 1M QS	01/01/1997
756MAA & 56M	06331-97	CASUALTY 2ND CAT XOL	12/31/1997
857UAA & 57U	30436-99	PROPERTY 5TH CAT XOL	12/31/1998
91A9AA	09749-99&00	MAR WHOLE ACC 4.5MX500K BCKUP	07/01/1999
92A1AA	09750-99&00	MARINE - 1ST WHOLE ACCT. 5MX5M	07/01/1999
953ZAA	09504-99	SABLE INS. \$2.25M XS 250K PROP	02/01/1999
954ZAA	09504-99	SABLE INS. \$2.5M XS 2.5M PROP	02/01/1999
955ZAA	09504-99	SABLE INC. \$5M XS \$5M PROP	02/01/1999
956ZAA	09504-99	SABLE INS. \$15M XS \$10M PROP	02/01/1999
415DAA	05588-94	DVUA UMBRELLA 90% OF 5M QS	11/01/1994
528FAA	06135-95	CASUALTY 80% OF 10M QS	11/01/1995
541GAA	05588-95	DVUA UMBRELLA 90% OF 5M QS	11/01/1995
676HAA & 76H	06135-96	UMBRELLA/XS CASUALTY Q/S	11/01/1996
683HAA	05588-96	DVUA UMBRELLA 90% OF 5M QS	11/01/1996
701NAA	08438-97	HEALTHCARE \$3M XS \$2M	12/31/1997
702NAA	08439-97	HEALTHCARE \$10M XS \$5M	12/31/1997
703NAA	08440-97	HEALTHCARE \$10M XS \$15M	12/31/1997
724NAA	06578-98	MARINE MULL Q.S. 50% OF \$10M	12/31/1997
727MAA & 27M	06135-97	CASUALTY 80% QS	11/01/1997
732NAA	006671-97	INT'L D&O/E&O \$18M XS 2M	12/31/1997
733NAA	006838-97	INT'L D&O/E&O SAF \$5M XS \$20M	12/31/1997
750LAA	007723-97	D&O/E&S 70% 2M QS SPL RV SEC A	07/01/1997
751LAA	007723.97	MISC E&O 50% 2M QS SP RV SEC B	07/01/1997
752LAA	007723-97	D&O SMALL ACCTS 50% 2M QS	07/01/1997
753LAA	007723-97	LAWYERS E&O KVI 50% 2M QS	07/01/1997
754LAA	007723-97	LAWYERS E&O PCM 50% 2M QS	07/01/1997
755LAA	007723-97	PRO TEX E&O 50% 2M QS SPCL RVW	07/01/1997
756LAA	007723-97	EMPLOYMENT PRAC 50% 2M QS	07/01/1997
799MAA	008437-97	HEALTHCARE 60% QS	12/31/1997
830WAA	006135-98&99	CASUALTY 80% QS	11/01/1998
831VAA	007723-98&99	D&O/E&S 70% 2M QS SPL RV SEC A	07/01/1998
831WAA	008683-98&99	UMBRELLA XOL 25K XS 25K	11/01/1998
832VAA	007723-98&99	MISC E&O 50% 2M QS SP RV SEC B	07/01/1998
833VAA	007723-98&99	D&O SMALL ACCTS 50% 2M QS	07/01/1998
837VAA	007723-98&99	EMPLOYMENT PRAC 65% 2M QS	07/01/1998
846XAA	008438-98&99	HEALTH CARE CASUALTY 8M XS 2M	12/31/1998
847XAA	008439-98&99	HEALTH CARE CASULTY 15M XS 10M	12/31/1998

849WAA	006578-99	MARINE HULL 50% 10M QS	12/31/1998
853VAA	008865-98	MARINE ENERGY QUOTA SHARE	07/01/1998
855VAA	008879-98	NETWORK COMPUTER LIABILITY INS	09/01/1998
859XAA	009389-98&99	INT'L D&O/E&O 1ST XOL 1MX1M	12/31/1998
860WAA	009382-99	MARINE EXCESS \$4M XS \$1M	12/31/1998
860XAA	006671-98&99	INT'L D&O/E&O 18M XS 2M	12/31/1998
865XAA	006838-98	INT'L D&O/E&O 1X20; EXP ABOVE	12/31/1998
877XAA	009522-98	INTEGRATED RISK 90% Q.S.	12/01/1998
889SAA	008887-98	PAUSE PROGRAM CASUALTY Q/S	05/01/1998
908ZAA	009664-99	REPRESENTATION & WARRANTY Q/S	02/01/1999
95A8AA	009821-99	LOSS ASSESSMENT VARIABLE Q/S	05/01/1999
960ZAA	009689-99	INT'L DPO/EPO 30M X 20M	04/01/1999
972ZAA	009666-99	SABLE CA SMALL EMPL. WK COMP.	03/01/1999
979ZAA	008887-99	PAUSE PROGRAM CAS Q.S. TO 15M	05/01/1999
571FAA	006071-95	W/C 3RD XOL 10M XS 10.5M	12/31/1995
606IAA	006071-96	WC 3RD XOL 10M XS 10.5M	12/31/1996
884WAA	009127-99	WC 3RD XS 15M XS 10M	12/31/1998
94B9AA	009127-99	WC 3RD EXCESS LOSS 15M XS 10M	12/31/1999
801XAA	009381-98	ECS SURETY 1ST XOL 2MX1M SP RV	10/01/1998

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

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 Continental Casualty Company

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.