

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 OCT - 1 P 2:40

RECEIVED AND FILED
COMMONWEALTH COURT
OF PENNSYLVANIA

IN RE: *Commutation, Settlement Agreement and Release between
Reliance Insurance Company (In Liquidation) and
Zurich Specialties London Limited*

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 Zurich Specialties London Limited. ("Reinsurers") submitted by the Liquidator of
Reliance Insurance Company ("Liquidator"):

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 \$10,445,000;

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

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*IN RE: Commutation, Settlement Agreement and Release between
Reliance Insurance Company (In Liquidation) and
Zurich Specialties London Limited*

**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 Zurich Specialties London Limited ("Reinsurer"). In support of this Petition, the Liquidator avers the following:

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

marshal the assets of Reliance in order to maximize 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;

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

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

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.

8. This commutation concerns Reinsurer's participations in various Directors & Officers and Professional Errors & Omissions Liability ("D&O/E&O") reinsurance agreements.

D&O/E&O Reinsurance Agreements

9. The Reinsurer assumed varying shares in 18 of the D&O/E&O reinsurance agreements (collectively "Reinsurance Agreements"). These 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 1990 to 1994, the Reinsurer had varying shares on the Reinsurance Agreements providing coverage for \$5 million occurrence in excess of \$5 million each occurrence. From 1994 to 1995, the Reinsurer had varying shares on the Reinsurance Agreements providing coverage for \$14 each million occurrence excess of \$1 million each occurrence. From 1995 to 1998, the Reinsurer had varying shares on the Reinsurance Agreements providing coverage for \$19 million each occurrence in excess of \$1 million each occurrence. The policies covered by the Reinsurance Agreements were written on both a primary and excess basis and in both instances were primarily claims made policies. The E&O policies provided coverage for various classes of professional risks, including small and large law firms, architects and engineers, and insurance agents. Some of the claims made policies were written with extended reporting period endorsements.

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 Reinsurer's share of paid losses and loss adjustment expenses and also established case reserves

for the Reinsurer's portion. Case 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 Reinsurer's portion of the claims ceded under the 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.

Settlement Agreement

12. Reliance then negotiated with the Reinsurer to commute its obligations under the Reinsurance Agreements for an agreed amount of \$10,550,000, which is acceptable based upon the range of values established by the Reliance actuaries, and entered into the Settlement Agreement effective January 6, 2009, subject to the approval of this Court. The Settlement Agreement settles with certainty the claims against the Reinsurer for losses under the Reinsurance Agreements identified in Exhibit "A" to the Settlement Agreement.

13. Specifically, the Settlement Agreement provides that the Reinsurer shall pay Reliance \$10,550,000 ("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).

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 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.

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 a net payment \$10,445,000² which can be invested until it is distributed.

² The Commutation Amount is subject to a one percent fee payable to a third-party vendor for services provided in conjunction with this commutation, pursuant to an agreement between Reliance and the vendor

(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.

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;
- (b) appropriate notice to the Reinsurer of Court approval, and
- (c) payment by the Reinsurer of \$10,550,000.

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,

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 Statutory
Liquidator of Reliance Insurance Company

Dated: October 1, 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 October 1, 2009



DAVID S. BRIETLING

CERTIFICATE OF SERVICE

I, Claire Rocco, 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: October 1, 2009



CLAIRE ROCCO

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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(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 6th day of January, 2009, by and between Zurich Specialties London Limited 3 Minster Court, Mincing Lane, London EC3R 7DD, England (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 9 (c) and 10 below, and in further consideration of the release contained in Article 2 herein the Cedant hereby irrevocably releases the Reinsurer, its predecessors, successors, assigns, shareholders, officers, directors, agents, sub-agents, brokers and sub-brokers from One Hundred Percent (100%) of all adjustments, obligations, liabilities, offsets, actions, causes of action, proofs of claim, suits, debts, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, conversions, costs, agreements, promises, damages, expenses, judgment claims, and demands whatsoever, whether known or unknown, suspected or unsuspected, by either or both parties, fixed or contingent, arising out of, or in connection with the Reinsurer's participations on the Contracts, whether or not any of such contracts are void or voidable. The releases contained herein are only made on behalf of Reliance Insurance Company in its own right and as successor in interest by merger to its former subsidiaries shown on the attached Exhibit C and, without limiting the generality of the forgoing, specifically do not apply to claims arising from business written by the Canadian Branch of Reliance Insurance Company, Reliance National Insurance Co. (Europe) Limited, Reliance National Asia RE PTE, Ltd. or any other

former non-domestic subsidiary that is not part of Reliance Insurance Company as a result of 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 Ten Million Five Hundred Fifty Thousand (US\$10,550,000) (“the Consideration”). Said payment shall be made no later than ten (10) business 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 15 herein (“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

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.

Confidentiality

7. The Reinsurer acknowledges that this Agreement will be submitted to the Commonwealth Court of Pennsylvania for approval and whether or not it is approved by the Commonwealth Court of Pennsylvania, as provided for in Article 15, it will become a matter of public record of that court and, in addition, will be published on the Cedant's website. Notwithstanding the public filing and publication of the Agreement, the parties agree that no disclosure of any information or supporting documentation exchanged by the parties during the negotiations leading to the parties entering into this Agreement shall be made unless

- a. required by the Commonwealth Court of Pennsylvania Commonwealth in order to give approval or otherwise, or
- b. as a result of formal discovery in a legal process, or;

- c. ordered by a court of competent jurisdiction, arbitration tribunal or regulatory body;
- d. to the Cedant's internal auditors;
- e. required by any party to collect any retrocessional claim, or;
- f. by written consent of all parties, which consent is at the sole discretion of each party, PROVIDED THAT nothing in this Article 7 shall be taken or construed as preventing the Liquidator of the Cedant from disclosing the details of the negotiation of this Agreement to any creditors committee, state guaranty fund or the equivalent from time to time, or;
- g. pursuant to any requests for receipt or access pursuant to any law of the Commonwealth of Pennsylvania, including the "Right to Know Law," 65 P.S. Sections 66.1-66.4.

Integration and Waiver

8. 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

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

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

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

c. Without prejudice to the Cedant's rights to rescind this Agreement pursuant to Article 9(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

10. Subject to the provisions of Article 9(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 9(c) above.

Choice of Laws

11. The performance and interpretation of this Agreement shall be governed by the

laws of the Commonwealth of Pennsylvania with respect to any dispute arising under this Agreement between the Reinsurer and the Cedant;

Notices

12. All notices required under this Agreement shall be as follows:

a. Any notice or other communication under or in connection with this Agreement shall be in writing and shall be delivered personally or sent by first class post/mail (or by air mail if overseas) or by overnight courier service, to the addresses of the parties as set out in Exhibit B attached hereto or to such other person or address as any party may specify by notice in writing to the others.

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

Interpretation

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

Execution and Approval

14. Except as disclosed in Article 15, each party to this Agreement represents that it is authorized to enter into this Agreement and the transactions contemplated herein.

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.

16. Except as disclosed in Article 15, each signatory to this Agreement represents that said signatory is authorized and empowered to execute this Agreement and the transactions contemplated herein and that any and all required corporate approval on behalf of the Reinsurer has been properly executed and that the Agreement is entered into voluntarily.

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

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

RELIANCE INSURANCE COMPANY (In Liquidation)

By: *David S. Smith*

Title: Chief Liquidation Officer

Date: *January 6, 2009*

ZURICH SPECIALTIES LONDON, LTD.

By: *[Signature]*

Title: DIRECTOR

Date: *6/1/2009*

Coake
DIRECTOR
JAN 6, 2009

EXHIBIT A

<u>RELIANCE REF.</u>	<u>REINSURER REF.</u>	<u>CONTRACT DESCRIPTION</u>	<u>EFFECTIVE DATE</u>
749LAA		D&O/E&O 95% 18M XS 2M	07/01/1997
748LAA		D&O/E&O 1ST XOL 1MX1M SPCL RVW	07/01/1997
632HAA		D&O/E&O 10M XS 10M	07/01/1996
631HAA		D&O/E&O 8M XS 2M	07/01/1996
630HAA		D&O/E&O 1ST XOL 1MX1M SPCL RVW	07/01/1996
580EAA		D&O/E&O 4TH 10M XS 10M	07/01/1995
579EAA		D&O/E&O 3RD 5M XS 5M	07/01/1995
578EAA		D&O/E&O 2ND 3M XS 2M	07/01/1995
570EAA		D&O/E&O 1ST XOL 1MX1M SPCL RVW	07/01/1995
454CAA		D&O/E&O 5M X 10M RECAP	07/01/1994
431CAA		D&O/E&O 5M XS 5M	07/01/1994
430CAA		D&O/E&O 3M XS 2M	07/01/1994
429CAA		D&O/E&O 1M XS 1M	07/01/1994
3X14AA		D&O/E&O 5M XS 5M	07/01/1993
327CAA		D&O SPECIAL ACCEPT XOL 5M X 5M	07/01/1993
2Z49AA		D&O/E&O 5M XS 5M	07/01/1992
1R32AA		D&O 5M XS 5M	07/01/1991
0422AA		D&O/E&O 5M XS 5M	07/01/1990

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 Zurich Specialties London Limited:

Patrick Tiernan
Zurich Specialties London Limited
London Underwriting Centre
3 Minster Court
Mincing Lane
London EC3R 7DD
Tel +44 207 648 3442
Fax +44 207 648 3477

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
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
Zurich Specialties London Limited***

**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.**