

FILED AND FILED  
COMMONWEALTH COURT  
OF PENNSYLVANIA

2011 JAN 12 P 2:39

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

ROBERT L. PRATTER,  
Acting 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 General Security  
National Insurance Company, as successor-in-interest by merger to  
Commercial Risk Re-Insurance Company and Commercial Risk  
Reinsurance Company, Ltd.*

**ORDER**

AND NOW, this \_\_\_ day of \_\_\_\_\_ 2011, 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 General Security National Insurance Company, as successor-in-interest by merger to

Commercial Risk Re-Insurance Company and Commercial Risk Reinsurance Company, Ltd. ("Reinsurer") 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 \$5,800,000;

**Further**, the Court accepts the Liquidator's representations that the Settlement Agreement is a fair and reasonable settlement of the Reinsurer's 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 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

ROBERT L. PRATTER,  
Acting 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

2011 JAN 12 P 2:39

FILED AND FILED  
COMMONWEALTH COURT  
OF PA (PHILA)

IN RE: *Commutation, Settlement Agreement and Release between  
Reliance Insurance Company (In Liquidation) and General Security  
National Insurance Company, as successor-in-interest by merger to  
Commercial Risk Re-Insurance Company and Commercial Risk  
Reinsurance Company, Ltd.*

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

Petitioner Robert L. Pratter, Acting 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 General Security National Insurance Company, as successor-in-interest by merger to Commercial Risk Re-Insurance Company and Commercial Risk Reinsurance Company, Ltd. (the "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 corridors<sup>1</sup> 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 Chief Actuary and the Executive Vice President for Reinsurance who, along with the Vice President for Commutations, review all commutation proposals. Any commutation in excess of \$1,000,000 must be approved by the Commutation Committee and the approval was provided in this case.

7. In addition, Reliance's independent consulting actuaries, PricewaterhouseCoopers, have reviewed Reliance's commutation approach both generally and

---

<sup>1</sup> 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.

with respect to certain individual transactions and have concluded that the process Reliance utilizes to estimate liabilities ceded to reinsurers and liabilities on assumed business, when applicable, is reasonable for commutation purposes.

8. Through this Settlement Agreement, Reliance's objective is to settle and finalize its relationship with the Reinsurer for the reinsurance agreements listed on Exhibit A of the Settlement Agreement ("Reinsurance Agreements"). Pursuant to the terms and conditions of the Reinsurance Agreements, the Reinsurer reinsured workers' compensation, general liability and automobile liability losses.

#### **Reinsurer's Participations in the Reinsurance Agreements**

9. Collectively, the Reinsurance Agreements cover claims arising under Workers' Compensation and General Liability policies with effective dates from 1995 through 2001.

10. As of March 31, 2010, all reported claims relevant to the Reinsurer's participations in the Reinsurance Agreements have been identified. As part of its due diligence for this Settlement Agreement, senior Reliance actuarial and claims personnel conducted a review of relevant claims under the Reinsurance Agreements in order both to verify the reasonableness of the case reserves and to project the timing of payments for each relevant claim. These case reserves are not discounted for the time value of money.

11. Reliance actuaries then conducted an in-depth analysis to determine appropriate commutation values. In order to develop the actuarial estimates, Reliance's actuaries used a variety of traditional and generally accepted actuarial methods. The resulting value is then discounted for the time value of money.

## Settlement Agreement

12. Reliance then negotiated with the Reinsurer to commute its obligations under the Reinsurance Agreements for an agreed amount of \$5,800,000, which is acceptable based upon the range of values established by the Reliance actuaries, and entered into the Settlement Agreement, subject to the approval of this Court. The Settlement Agreement settles with certainty the claims against the Reinsurer for losses under its share of the Reinsurance Agreements identified in Exhibit A to the Settlement Agreement.

13. Specifically, the Settlement Agreement provides that the Reinsurer shall pay Reliance \$5,800,000 (“Commutation Amount”) to commute its obligations under the Reinsurance Agreements within 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”). 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 order to allow Reliance to begin earning investment income, the Reinsurer agreed that Reliance could fully draw down on two Letters of Credit in the amount of \$4,276,160.95 and \$1,523,839.05 (totaling \$5,800,000) which Reliance did and the entire Commutation Amount

was paid on December 29, 2010. 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 continue to hold the \$5,800,000 as cash collateral and will apply it to losses as they become due and owing from 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 \$5,800,000 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 or will earn any contingent fee or extra remuneration of any type as a direct result of the 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 Agreements;
- (c) Finding the payment contemplated by the Settlement Agreement constitutes fair and reasonable value to the Estate; and
- (d) Approving the terms of the Settlement Agreement attached as Exhibit A.

Respectfully submitted,



---

PRESTON BUCKMAN (I.D. #57570)  
Special Funds Counsel  
Pennsylvania Insurance Department  
Capitol Associates Building  
Office of Chief Counsel  
901 North 7<sup>th</sup> Street  
Harrisburg, PA 17102  
(717) 787-6009

Attorney for Plaintiff, Robert L. Pratter, Acting  
Insurance Commissioner of the Commonwealth of  
Pennsylvania, in his official capacity as Liquidator  
of Reliance Insurance Company

Dated: January 12, 2011

**VERIFICATION**

I, David S. Brietling, Chief Liquidation Officer for Reliance Insurance Company, in liquidation, am authorized by Robert L. Pratter, Acting 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 January 12, 2011

  
\_\_\_\_\_  
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](http://www.reliancedocuments.com).

Dated: January 12, 2011

*Claire Rocco*  
\_\_\_\_\_  
CLAIRE ROCCO

## Master Service List

Robert L. Pratter, Acting 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 7<sup>th</sup> Street  
Harrisburg, PA 17102  
Phone: (717) 787-6009  
Fax: (717) 772 4543  
E-mail: [pbuckman@state.pa.us](mailto:pbuckman@state.pa.us)  
(Attorneys for the Pennsylvania  
Insurance Department)

Marilyn K. Kincaid, Esquire, (215) 864-4205  
Reliance Insurance Company  
(in Liquidation)  
Three Parkway  
5<sup>th</sup> Floor  
Philadelphia, PA 19102  
Phone: (215) 864-4205  
Fax: (215) 864-4105  
E-mail: [marilyn.kincaid@relianceinsurance.com](mailto: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: [धारबाugh@morganlewis.com](mailto:धारबाugh@morganlewis.com)  
[rmcmenamin@morganlewis.com](mailto: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](mailto:esklocek@morganlewis.com)  
[rmcmenamin@morganlewis.com](mailto:rmcmenamin@morganlewis.com)  
(Attorneys for Milliken & Company)

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

Jayson R. Wolfgang, Esquire, (717) 237-4852  
Buchanan Ingersoll  
One South Market Square  
213 Market Street, 3<sup>rd</sup> Floor  
Harrisburg, PA 17101  
Phone: (717) 237-4852  
Fax: (717) 233-0852  
E-mail: [jayson.wolfgang@bipc.com](mailto:jayson.wolfgang@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](mailto:rsnider@lockelord.com)  
[swhitmer@lockelord.com](mailto:swhitmer@lockelord.com)  
[jyoung@lockelord.com](mailto:jyoung@lockelord.com)  
(Attorneys for Illinois Insurance Guaranty Fund)

Daryn E. Rush, Esquire, (215) 446-6220  
Gibbons PC  
1700 Two Logan Square  
18<sup>th</sup> & Arch Streets  
Philadelphia, PA 19103-2769  
Phone: (215) 446-6220  
Fax: (215) 446-6336  
E-mail: [drush@gibbonslaw.com](mailto: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](mailto: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](mailto:tlaw@reedsmith.com)  
[mrosso@reedsmith.com](mailto:mrosso@reedsmith.com)  
[trehder@reedsmith.com](mailto: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  
10<sup>th</sup> Floor  
Santa Ana, CA 92705  
Phone: (714) 918-7000  
Fax: (714) 918-6996  
E-mail: [sdanskin@greenhall.com](mailto: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](mailto:hsneath@psmn.com)  
[bgillespie@psmn.com](mailto: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  
29<sup>th</sup> Floor  
Philadelphia, PA 19103  
Phone: (267) 675-4600  
Fax: 267-675-4601  
e-mail: [saloney@hhlaw.com](mailto: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](mailto:fpd@pbh.com)  
[cneely@pbh.com](mailto:cneely@pbh.com)  
(Counsel for Republic Western Insurance Company)

Craig Tractenberg, (212) 940-3722  
NIXON PEABODY LLP  
Two Penn Center  
1500 JFK Blvd  
Suite 200  
Philadelphia, PA 19102  
Phone: (212) 940-3722  
Fax: (866) 852-3722  
E-Mail: [ctractenberg@nixonpeabody.com](mailto:ctractenberg@nixonpeabody.com)  
(Counsel for Massachusetts Insurers Insolvency  
Fund)

Nicholas E. Chimicles, Esquire, (610) 642-8500

Anthony A. Geyelin, Esquire

Chimicles & Tikellis LLP

361 W. Lancaster Avenue

Haverford, PA 19041

Phone: (610) 642-8500

Fax: (610) 649-3633

Email: [Nick@Chimicles.com](mailto:Nick@Chimicles.com)

[TonyGeyelin@Chimicles.com](mailto:TonyGeyelin@Chimicles.com)

*(Counsel for Petitioner, the Certified Class in the In re Phoenix Leasing Limited Partnership Litigation)*

# Exhibit A



## COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE

THIS COMMUTATION, SETTLEMENT AGREEMENT AND RELEASE (“Agreement”), made effective and entered into this 13 day of December, 2010, by and between General Security National Insurance Company, as successor-in-interest by merger to Commercial Risk Re-Insurance Company, South Burlington, Vermont and Commercial Risk Reinsurance Company, Ltd, Hamilton, Bermuda, (hereinafter known as the “Reinsurer”) and Robert L. Pratter, Acting Insurance Commissioner of the Commonwealth of Pennsylvania, in his capacity as Statutory Liquidator of Reliance Insurance Company (In Liquidation) (hereinafter known as the “Cedant”). David S. Brietling, Chief Liquidation Officer, is acting on behalf of Robert L. Pratter, 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 the Contracts**

1. Subject to the receipt by the Cedant of the Consideration as set out in Article 5 herein, together with any collection expenses and accrued interest due as is more particularly described in Article 12 (c) and 13 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.

#### **Release under Guaranty**

3. Subject to receipt by the Cedant of the Consideration, SCOR (as defined below), and its affiliates, shareholders, successors and assigns and its respective directors, officers, employees and agents are hereby released and forever discharged from any and all liabilities, obligations, offsets, actions, causes of actions, suits, debts, sums of money, accounts reckonings, bonds, bills, covenants, contracts, controversies, agreements, promises, damages, judgments, claims and demands whatsoever, all whether known or unknown, that Cedant, its successors and assigns and their respective directors, officers, employees and agents had, have or shall have against SCOR arising out of or in connection with any Guarantee Agreement (as defined below).

As used in the above paragraph, the following terms shall mean as defined:

“SCOR” shall mean SCOR, S.E. (formerly SCOR S.A.), including any current or former affiliate

of SCOR, S.E. "Guarantee Agreement" shall mean any guarantee of payment provided by SCOR and issued for the benefit of Reinsurer, but solely as they relate to the Contracts.

#### **Warranties**

4. 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, voidable, 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; and

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**

5. The Reinsurer agrees to pay the Cedant the total sum of Five Million Eight Hundred Thousand United States Dollars (US\$5,800,000.00) (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"). Payment shall be made by Cedant fully drawing down on the following two Letters of

Credit:

- a) Deutsche Bank AG (the "Bank"), Ref 839BGC0600725 in the amount of \$4,276,160.95
- b) Deutsche Bank AG, Ref 839BGC0700036 in the amount of \$1,523,839.05 (hereinafter collectively the "LOCs")

**Failure by Bank to Honor Cedant's Draw**

6. In the event the Bank fails to honor Cedant's draw within ten (10) calendar days of the Bank's receipt thereof, Reinsurer shall, no later than ten (10) calendar days following its receipt of notice from the Cedant of the Bank's dishonor (the "Completion Date"), transfer the Consideration to the following account:

***REDACTED***

**Release of LOCs**

7. In the event payment of the Consideration is effected via the wire transfer procedure set forth in the preceding Article 6, Cedant shall within ten (10) business days of such receipt of the Consideration, issue a notice to the bank to release the LOCs to the Reinsurer.

### **Property of Cedant**

8. 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 are the property of the Cedant.

### **Successors and Assigns**

9. This Agreement shall inure to the benefit of and bind the Reinsurer and its successors and assigns and the Cedant and its respective successors and assigns.

### **Independent Investigation**

10. Each of the parties acknowledges that it has entered into this Agreement in reliance upon its own independent investigation and analysis of the Contracts and its respective rights and obligations thereunder, and not on the basis of any representation made or not made by the other party hereto. Each of the parties further acknowledges that it has read this Agreement, that it has had the opportunity to discuss it with legal counsel, and that it fully understands all of the terms herein.

### **Integration and Waiver**

11. 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

12. 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 15 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 12(c).

c. Without prejudice to the Cedant's rights to rescind this Agreement pursuant to Article 12 (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

13. Subject to the provisions of Article 12(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 12(c) above.

### **Choice of Laws**

14. The performance and interpretation of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania, without regard to conflicts of law, with respect to any dispute arising under this Agreement between the Reinsurer and the Cedant.

### **Notices**

15. 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**

16. 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**

17. Each party to this Agreement represents that it is authorized to enter into this Agreement and the transactions contemplated herein.



18. 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.

19. 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 that the Court does not approve this Agreement, then upon such notice of disapproval, the Liquidator of Cedant shall notify the Reinsurer and this Agreement shall 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 return the Consideration to the Reinsurer.

20. 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.

#### **Mistakes of Law or Fact**

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

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

**RELIANCE INSURANCE COMPANY (In Liquidation)**

By: *David S. Bruttling*

Title: Chief Liquidation Officer

Date: *December 14, 2010*

**GENERAL SECURITY NATIONAL INSURANCE COMPANY, as  
successor-in-interest by merger to COMMERCIAL RISK RE-INSURANCE  
COMPANY and COMMERCIAL RISK REINSURANCE COMPANY,  
LTD**

By: *Mary D. McCaffrey*

Title: Vice President

Date: December 13, 2010

**EXHIBIT A**

Account Name	CS Acct No.	Eff. Date	Aggregate	Bermuda %	Vermont %
Johnson Controls	72897	10/1/95	\$5,000,000	90%	10%
Johnson Controls	72897	10/1/96	\$4,800,000	90%	10%
Johnson Controls	72897	10/1/97	\$4,650,000	90%	10%
Johnson Controls	72897	10/1/98	\$3,300,000	90%	10%
Johnson Controls	72897	10/1/99-6/30/00	\$3,150,000	90%	10%
Labor Ready	72163	1/1/99	\$7,357,115	100%	0%
Labor Ready	72163	1/1/00	\$8,506,063	100%	0%
Marsh Supermarkets	72633	4/1/99	\$2,300,000	0%	100%
NC Burger King	70049	6/1/99	\$1,200,000	0%	100%
North Carolina Selective Fund	74202	11/1/94-12/31/98	\$6,686,219	0%	100%
NHP Limited	72915	1/1/96	\$3,016,000	80%	20%
NHP Limited	72915	1/1/96	\$2,500,000	80%	20%
Port Authority 99&100	72773	1/1/97	\$5,500,000	80%	20%
Port Authority 99&100	72773	1/1/98	\$8,750,000	80%	20%
Port Authority 99&100	72773	1/1/99	\$9,123,744	80%	20%
Port Authority 99&100	72773	1/1/00-8/15/00	Incl. Above	80%	20%
Port Authority Project A47	72773	8/1/99-8/15/00	\$1,925,000	80%	20%
JFK Light Rail Project #904	72773	5/4/98-8/15/00	\$4,514,773	80%	20%
SF French Bread	72219	7/1/80-3/31/97	\$9,000,000	80%	20%
Sisters of Mercy	73987	5/29/98-01	\$3,564,000	90%	10%

Unless specifically identified, the above does not include pools and associations (whether voluntary or involuntary), self-insurance, risk retention groups or underwriting groups.

**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 Reinsurer:

Maxine Verne, Senior Vice President  
c/o SCOR Reinsurance Company  
199 Water Street, 21<sup>st</sup> Floor  
New York, NY 10038  
Tel. 212-884-9003  
Fax: 212-480-1329

### 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

Robert L. Pratter,  
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 General Security National Insurance Company, as successor-in-interest by merger to Commercial Risk Re-Insurance Company and Commercial Risk Reinsurance Company, Ltd***

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.