

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

CAMILLE LaMANNA and, EILEEN
STUTZBACH, as Representatives of
the Reliance Insurance Company
Savings Incentive Plan and its
Participants and Beneficiaries,

PLAINTIFFS,

v.

SAUL P. STEINBERG, ROBERT M.
STEINBERG, LOWELL C.
FREIBERG, GEORGE E. BELLO,
JAMES E. YACOBUCCI, JOEL H.
ROTHWAX, BRUCE L. SOKOLOFF
LESLIE FISHKIN and
ANN E. COLLERAN,
and JOHN DOE(S) 1 through 10,

CIVIL ACTION

NO. 01-CV-3571

NOTICE OF CLASS ACTION SETTLEMENT

NOTICE OF CLASS ACTION SETTLEMENT

TO ALL MEMBERS OF THE FOLLOWING CLASS

All persons who were participants or beneficiaries of the Reliance Savings Incentive Plan (referred to herein as the “Plan”) and had Reliance Group Holdings, Inc. common stock (“Reliance Stock”) purchased or held for your benefit in your account, whether by virtue of vested matching contributions or participant-directed purchases, at any time from January 1, 1999, to December 24, 2003. There are approximately 5,000 participants in the class. Excluded from the Class are participants or beneficiaries who are defendants, their heirs, beneficiaries, successors and assigns, as well as those receiving a release from liability, and their heirs, beneficiaries, successors and assigns, who are insured by the Insurers funding the Settlement.

**PLEASE READ THIS NOTICE CAREFULLY.
A FEDERAL COURT AUTHORIZED THIS NOTICE.
THIS IS NOT A SOLICITATION.**

This Notice advises you of a proposed class action settlement (the “Settlement”). The Settlement will provide \$5,000,000 (less attorneys’ fees, incentive payments to the Named Plaintiffs, administrative costs, taxes and any other costs; as so adjusted, the “Net Settlement Amount”) to pay claims to participants or beneficiaries who had Reliance Stock purchased or held for their benefit in their Plan account, whether by virtue of vested matching contributions or participant-directed purchases, at any time from January 1, 1999, to December 24, 2003. The Settlement resolves a lawsuit over whether alleged fiduciaries of the Plan breached their fiduciary duties by violating the Employee Retirement Income Security Act of 1974 (“ERISA”), 29 U.S.C. §§ 1001, et seq. ERISA stands for the Employee Retirement Income Security Act, a federal law enacted in 1974 to protect employees’ retirement and welfare plans by setting minimum standards for those plans. In part, ERISA imposes certain fiduciary duties upon those who manage and control plan assets and gives participants the right to sue for benefits and breaches of fiduciary duty.

You should read the entire Notice carefully because your legal rights are affected whether you act or not.

YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT:

YOU CAN DO NOTHING. NO ACTION IS NECESSARY TO RECEIVE YOUR SHARE OF THE SETTLEMENT PROCEEDS.

You do not need to do anything to receive a share, if any, of the Net Settlement Amount. Under the Settlement, the Plan Administrator will calculate the portion, if any, of the Net Settlement Amount you are entitled to receive pursuant to a Plan of Allocation for the Net Settlement Amount to be approved by the Court. If you are a Current Plan Participant (that is, you currently have a Plan account balance) (a “Current Plan Participant Claimant”) and are authorized to receive a share of the Net Settlement Amount, the Plan Administrator will deposit your share into your Plan account and invest it in the same manner as your 401(k) contributions. If you are a Class Member and no longer participate in the Plan (having received a complete distribution from the Plan) (a “Former Plan Participant Claimant”), your share of the Net

Settlement Amount, if any, will be deposited into the Managed Income Portfolio (or an equivalent investment option) in the Plan pending further instructions from you. Amounts to be distributed from the Plan may be treated as qualified Plan distributions and should be eligible to be “rolled over” on a tax-free basis to another qualified retirement plan.

YOU CAN OBJECT.

You can write to the Court about why you don’t like the Settlement and why the Court should not approve it.

YOU CAN GO TO A HEARING.

You can ask to speak in Court about the fairness of the Settlement.

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BASIC INFORMATION

A. WHY DID I GET THIS NOTICE PACKAGE?

You or someone in your family may have had Reliance Stock purchased or held for their benefit in their Reliance Savings Incentive Plan account, whether by virtue of vested matching contributions or participant-directed purchases, at any time from January 1, 1999 to December 24, 2003.

You were sent this Notice because you have a right to know about a proposed Settlement of a class action lawsuit, and about all of your options, before the Court decides whether to approve the Settlement. If the Court approves the Settlement, and after all objections and appeals, if any, are resolved, the Plan Administrator will administer the Settlement and allocate the funds to the accounts of Class Members in accordance with the Plan of Allocation.

This package explains the lawsuit, the Settlement, your legal rights, what benefits are available, who is eligible for them, and how to get them.

The Court in charge of the case is the United States District Court for the Eastern District of Pennsylvania, and the case is known as *LaManna v. Steinberg, et al., Case No. 01-3571*. The people who sued are called Plaintiffs, and the people they sued are called the Defendants.

B. HOW DO I GET MORE INFORMATION?

You can call (415) 489-7760 plus you may log on to www.401k.com. Please do not contact the Court, Reliance, the Pennsylvania Insurance Commissioner or the Plan's record-keeper. They will not be able to answer your questions.

C. WHAT IS THIS LAWSUIT ABOUT?

In the Class Action Complaint filed on July 17, 2001 and amended on February 14, 2002, Plaintiffs allege that the Defendants breached their fiduciary duties and otherwise violated ERISA with respect to the Plan's and Plan participants' investment in Reliance Stock. The Complaint seeks to recover, from Defendants, losses to the Plan and, indirectly, to its participants and beneficiaries caused by Defendants' alleged conduct. The lawsuit seeks the recovery of losses, in addition to attorney fees and expenses.

The Defendants have denied and continue to deny any and all liability with respect to the Plaintiffs' claims. Defendants specifically deny that they have violated any law or regulation, deny that they have committed any wrongdoing, and deny all liability to the Named Plaintiffs, to the Plan or to the members of the Class. Defendants believe that there are valid and meritorious defenses as a matter of fact and law to Plaintiffs' claims. The Court has made no findings that the Defendants or any Plan fiduciary engaged in any wrongdoing or in any wrongful conduct or have otherwise acted improperly or in violation of any law or regulation in any respect.

D. WHY IS THIS A CLASS ACTION?

In a class action, one or more persons called Class Representatives sue on behalf of people who have similar claims. All of these people who have similar claims make up the Class and are Class members. One court resolves the issues for all Class members. Because the wrongful conduct alleged by Plaintiffs in this case affected a large group of people in a similar way, Plaintiffs filed this case as a class action. Plaintiffs have also brought this action derivatively on behalf of the Plan, which invested in Reliance Stock on behalf of Plan participants and their beneficiaries. The members of the Class are thus protected individually and as Plan participants by the Settlement.

E. WHY IS THERE A SETTLEMENT?

The Court has not decided in favor of Plaintiffs or Defendants. Instead, both sides agreed to a Settlement. By agreeing to a Settlement, all of the parties avoid the costs and risk of a trial, and the Class will get compensation. The Class Representatives and their attorneys believe that the Settlement is best for all Class members.

F. HOW DO I KNOW IF I AM PART OF THE SETTLEMENT?

The Court has conditionally certified this case as a class action, in which everyone who fits the following description is a Class member:

All persons who were participants or beneficiaries of the Reliance Savings Incentive Plan during the Class Period (January 1, 1999 to December 24, 2003) on whose accounts or in whose interests the Plan purchased and/or held Reliance Stock at any time between January 1, 1999 and December 24, 2003, excluding the Defendants, their heirs, beneficiaries, successors and assigns, and all other Assureds who are Releasees as those terms are defined under the Agreement.

G. I'M STILL NOT SURE IF I'M INCLUDED.

If you are still not sure if you are included, you can ask for free help. Please call (415) 489-7760.

H. CAN I EXCLUDE MYSELF FROM THE SETTLEMENT?

No. In some class actions, class members have the opportunity to exclude themselves from a settlement. This is sometimes referred to as "opting out" of the Settlement. You do not have the right to exclude yourself from the Settlement in this case. The case was conditionally certified under Fed. R. Civ. P. 23(b)(1) and (b)(2) as a "non opt-out" class action because of the way ERISA operates. Breach of fiduciary duty claims must be brought by Participants on behalf of the Plan and any judgment or resolution necessarily applies to all Plan Participants and beneficiaries. As such, it is not possible for any participants or beneficiaries to exclude themselves from the benefits of the Settlement. Therefore, you will be bound by any judgments or orders that are entered in this lawsuit, and, if the Settlement is approved, you will be deemed to have released all the Defendants and other individuals and entities set forth in the Agreement from any and all claims that were or could have been asserted in this case on your

behalf or on behalf of the Plan or otherwise included in the release in the Settlement, other than your right to obtain the relief provided to you, if any, by the Settlement.

Although you cannot opt-out of the Settlement, you can object to the Settlement and ask the Court not to approve the Settlement. See question P.

THE SETTLEMENT BENEFITS - WHAT YOU GET

I. WHAT ARE THE SETTLEMENT'S TERMS?

Defendants have agreed to pay \$5,000,000 to resolve Plaintiffs' claims against them. The payment is called the Settlement Amount. Certain fees, costs and expenses that are approved by the Court, including those incurred by Plaintiffs' Counsel and an incentive payment to the Named Plaintiffs, will be deducted from the Settlement Amount. The remaining amount is called the Net Settlement Amount. Assuming the court awards Plaintiffs' counsel approximately one-third of the Settlement Amount plus approximately \$300,000 in costs associated with the lawsuit, and assuming that the costs associated with this Settlement are not more than \$60,000 and that each named plaintiff receives a \$5,000 incentive fee, it is estimated that the Net Settlement Amount will be approximately \$3,000,000.

Please note that the claims resolved and released by the terms of the Settlement may overlap with claims brought in connection with another lawsuit, *In re Reliance Group Holdings, Inc. Securities Litigation, Master File No. 00-CV-4653* (S.D.N.Y.) (the "Securities Action"), and may preclude you from pursuing certain claims in the Securities Action. As part of the Settlement, the Court has made no findings with respect to whether any such overlap in the claims brought in the Securities Action and released by this Settlement exists. Defendants do not believe that the Plaintiffs possess any claims in the Securities Action. Nothing in the Agreement or this Notice shall be deemed as creating any presumption, concession, or admission with respect to whether the Class members possess any claims in the Securities Action.

J. HOW MUCH WILL MY SHARE OF THE SETTLEMENT PROCEEDS BE?

Your share of the Net Settlement Amount, if any, will depend on the number of vested shares of Reliance Stock purchased or held in your Plan account during the Class Period and the amount that you lost as a result of this holding. The formula will take into account purchases or sales of Reliance Stock in your Plan account. The more you lost, the larger your share of the Net Settlement Amount will be. Your share of the Net Settlement Amount, however, will be less than your actual losses. You are not responsible for calculating the amount you may be entitled to receive under the Settlement - this will be done by the Plan Administrator.

Your settlement amount (subject to the *de minimis* provision) will be calculated in three steps as follows:

1. Net Loss Calculation

If you have records reflecting all purchases or sales of Stock in your Plan account during the Class Period, you can estimate what is called your Net Loss by performing the following calculation: value of shares of Stock in your Plan account at the beginning of the Class Period (January 1, 1999) – the value of the shares of Stock in your Plan account you sold before the end of the Class Period (December 24, 2003) + the value of shares of Stock in your Plan account you bought before the end of the Class Period – the value of shares of Stock in your Plan account at the end of the Class Period.

2. Net Loss Percentage Calculation

Your Net Loss Percentage will be determined by dividing your Net Loss by the total Net Loss of all Class Members. The entire Net Settlement Amount will be allocated to Class Members.

3. Your Share of the Net Settlement Amount

Your Net Loss Percentage will determine your share, if any, of the Net Settlement Amount, by multiplying your Net Loss Percentage by the Net Settlement Amount.

Even if you are a Class member, there are two circumstances under which you will not receive any share of the Net Settlement Amount: (i) if you cannot be located by the Plan Administrator (“Unreachable Claimants”); or (ii) if the share you would receive is less than \$10.00 (“De Minimis Claimants”). While the Plan Administrator will use all reasonable efforts to contact all Class Members, those for whom the efforts prove unsuccessful will not receive any share of the Net Settlement Amount. Not more than fifteen (15) business days prior to the expected allocation date, the Plan Administrator will reallocate the portion of the Net Settlement Amount of Unreachable Claimants and then reallocate the portion of the Net Settlement Amount of De Minimis Claimants to all other Class Members. This will likely result in a slight increase in the Net Settlement Amount for all other Class members.

Do not worry if you don’t have records that show your Plan activity with respect to Reliance Stock. The Plan Administrator will make all calculations for you and if you are entitled to a share of the Net Settlement Amount, will provide you with a statement showing the amount of your share. If you have questions regarding the Settlement or the share of the Net Settlement Amount you may receive, please do not contact Reliance. Instead, please call (415) 489-7760.

HOW YOU GET A PAYMENT

K. HOW CAN I GET MY SHARE OF THE NET SETTLEMENT AMOUNT?

If you are a Class member and still participate in the Plan, your share of the Net Settlement Amount will be deposited in your Plan account and invested in the same manner as your 401(k) contributions. You may then redirect it to any desired fund option in accordance with the Plan. If you are a Class member and no longer participate in the Plan, your share of the Net Settlement Amount will be deposited into the Managed Income Portfolio (or an equivalent

investment option) pending instructions from you. Amounts distributed by the Plan may be treated as qualified Plan distributions and should be eligible to be “rolled over” on a tax-free basis to another qualified retirement plan.

L. WHEN WILL I GET MY SHARE OF THE NET SETTLEMENT AMOUNT?

The court will hold a hearing on September 30, 2004 at 10:30 a.m. to decide whether to approve the Settlement. If the Court approves the Settlement, appeals may follow. It is always uncertain whether these appeals can be resolved, and resolving them can take time, perhaps more than a year. Please be patient.

THE LAWYERS REPRESENTING YOU

M. DO I HAVE A LAWYER IN THIS CASE?

The law firms of Liner Yankelevitz Sunshine & Regenstreif LLP, The Ross Law Firm, and Steiker, Fischer, Edwards & Greenapple, P.C. represent you and other Class members. These lawyers are called Class Counsel. You will not be charged for these lawyers. These lawyers will be paid from the Settlement Amount. If you want to be represented by your own lawyer, you may hire one at your own expense.

N. HOW WILL THE LAWYERS BE PAID?

Class Counsel will ask the Court for attorney fees of up to one-third of the Settlement Amount and their expenses for the lawsuit. The Court may award less than these amounts.

OBJECTING TO THE SETTLEMENT

You can tell the Court that you do not agree with the Settlement or some part of it.

O. WHAT DOES IT MEAN TO OBJECT?

Objecting is simply telling the Court that you do not like something about the Settlement. It will not have any bearing on your right to Settlement proceeds if the Settlement is approved.

P. HOW DO I TELL THE COURT THAT I DON'T LIKE THE SETTLEMENT?

You can object to the Settlement if you dislike any part of it. You can give reasons why you think the Court should not approve it. The Court will consider your views. To object, you must send a letter saying that you object to the Settlement in *LaManna v. Steinberg, et al.* Be sure to include your name, address, telephone number, your signature and the reasons you object to the Settlement. Mail the objection to each of the addresses listed below, postmarked no later than September 10, 2004. You must mail your objections by this date. If you fail to do so, the Court will not consider your objections.

Class Counsel

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Philadelphia, PA 19102

Counsel for Reliance Insurance Company in Liquidation

Jerome R. Richter, Esq.
Blank Rome LLP
One Logan Square
18th & Cherry Streets
Philadelphia, PA 19103-6998

Court

Office of the Clerk
United States District Court
Eastern District of Pennsylvania
U.S. Courthouse
601 Market Street, Room 2609
Philadelphia, PA 19106-1797

**ALL PAPERS SUBMITTED MUST INCLUDE
THE CASE NUMBER [01-CV-3571] ON THE FIRST PAGE.**

THE COURT'S FAIRNESS HEARING

The court will hold a hearing to decide whether to approve the Settlement. You may attend and you may ask to speak, but you are not required to do so.

Q. WHEN AND WHERE WILL THE COURT DECIDE WHETHER TO APPROVE THE SETTLEMENT?

The Court will hold a Fairness Hearing at 10:30 a.m. on Thursday, September 30, 2004, at the United States District Court for the Eastern District of Pennsylvania, 601 Market Street, Philadelphia, Pennsylvania, in Courtroom 7613. At this hearing, the Court will consider whether the Settlement is fair, reasonable and adequate. If there are objections, the Court will consider them. The Honorable Anita Brody will listen to people who have asked to speak at the hearing. The Court will also decide what amount of Class Counsel fees and expenses and incentive payments to the Class Representatives will be paid from the Settlement Amount. The

Settlement may be approved even if the Court decides to change the Plan of Allocation, or to give either Class Counsel or the Class Representatives less than what they have requested from the Settlement Amount. After the hearing, the Court will decide whether to approve the Settlement. We do not know how long these decisions will take.

R. DO I HAVE TO GO TO THE FAIRNESS HEARING?

No. Plaintiffs' Counsel will answer questions that Judge Brody may have. You are, however, welcome to attend, at your own expense. If you send an objection, you do not have to go to court to talk about it. As long as your objection is postmarked by September 10, 2004 the Court will consider it. You may also pay your own lawyer to attend.

S. MAY I SPEAK AT THE HEARING?

You may ask the Court for permission to speak at the Fairness Hearing. To do so, you must send a letter saying that it is your "Notice of Intention to Appear in the *LaManna v. Steinberg, et al.* litigation". Be sure to include your name, address, telephone number and your signature. Your Notice of Intention to Appear must be postmarked no later than September 10, 2004, and sent to the Clerk of the Court, Class Counsel and Defense Counsel, at all of the addresses indicated above in the answer to question P.

IF YOU DO NOTHING

T. WHAT HAPPENS IF I DO NOTHING AT ALL?

The Settlement does not require you to do anything and there is no penalty for doing nothing at all. If you are entitled to a share of the Net Settlement Amount, you will receive an allocation as discussed in the answers to questions J and K.

GETTING MORE INFORMATION

U. ARE THERE MORE DETAILS ABOUT THE SETTLEMENT?

This notice summarized the proposed Settlement. More details are in the parties' Stipulation and Agreement of Settlement. You can get a copy of the Agreement by contacting Ronald S. Kravitz at Liner Yankelevitz Sunshine & Regenstreif LLP at the address listed earlier in this notice, or by going to [www.401\(K\).com](http://www.401(K).com) and entering your social security number and PIN code or number.

Remember, please do not contact the Court, Reliance, the Pennsylvania Insurance Commissioner or the Plan's record-keeper or any of the Defendants. They cannot help you with additional information.

Date: May 14, 2004.

Questions? Call (415) 489-7760.