Court File No. 01-CL-4313

ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST

IN THE MATTER OF
RELIANCE INSURANCE COMPANY

AND IN THE MATTER OF THE
***INSURANCE COMPANIES ACT*, S.C. 1991, C.47, AS AMENDED**

AND IN THE MATTER OF THE
***WINDING-UP AND RESTRUCTURING ACT*, R.S.C. 1985, C.W-11, AS AMENDED**

B E T W E E N:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – CANADIAN BRANCH

(Motion for Directions in Respect of Reinsurance)

Court File No. 01-CL-4313

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RELIANCE INSURANCE COMPANY

Respondent

REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – CANADIAN BRANCH

May 23, 2007

I. THE MOTION

1. This Report is respectfully filed in support of a motion by KPMG Inc., the provisional liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company, for an Order (the "Directions Order") in the draft form attached to the Notice of Motion herein. In particular, the Liquidator respectfully seeks:

- a declaration and directions that the reinsurance proceeds set out in the Directions Order are payable to and shall be paid to the Liquidator by the respective respondents (the "Respondents") as set out therein, without any deduction or

reduction on account of set-off or otherwise, and that these are to be taken into the custody and control of the Liquidator pursuant to section 33 of the *Winding-up and Restructuring Act*;

- directions and authorizations to take all necessary steps to enforce the respective obligations of the Respondents, including enforcement and/or recognition proceedings in the United Kingdom or any other place where it appears the Respondents may have exigible assets;
- the issuance of a Letter of Request to the High Court of Justice in England, to aid in the collection of the reinsurance proceeds; and
- ancillary relief.

II. BACKGROUND

The Reliance Canada Branch

2. Reliance Insurance Company is a property and casualty insurer incorporated in or about 1820 in Pennsylvania, United States of America.

3. About March 1918, Reliance Insurance Company established a branch in the City of Toronto, Province of Ontario, to carry on specific insurance business in Canada ("Reliance Canada"). Reliance Canada then carried on business in Canada as a branch of foreign insurance company under the *Insurance Companies Act,* S.C. 1991, c. 47 and its predecessor legislation.

4. To insure risks in Canada, Reliance Canada requires an order of the Superintendent of Financial Institutions (the "Superintendent") under Part XIII of the *Insurance Companies Act*. The predecessor legislation had a similar requirement. Attached at Tab "2(B)" to Volume II of this Report (described in paragraph 11 below) is a copy of the

Superintendent's most recent order in respect of Reliance Canada, which authorizes specific insurance business to be conducted in Canada.

5. Pursuant to Part XIII of the *Insurance Companies Act*, a Canadian branch such as Reliance Canada is required, among other things, to:

- establish a chief agent in Canada;
- maintain an adequate margin of assets in Canada over liabilities in Canada;
- vest in trust, in Canada, assets of a prescribed value;
- maintain accounting records respecting its insurance business in Canada;
- maintain records for each customer in Canada, or claimant under a policy in Canada, the amount owing to the insurer and the nature of its liabilities to the customer or claimant;
- prepare and file an annual return of the condition and affairs in respect of the insurance business in Canada.

6. Reliance Canada's chief agent and office have always been located in Toronto. Reliance Canada's business has always been run by a separate employee force in Toronto.

7. Reliance Canada's assets were held in Canada, to back its liabilities under its insurance policies, as required under the *Insurance Companies Act*, and Reliance Canada maintained its own records in respect of its policyholders.

Reinsurance of Liabilities of the Canadian Branch

8. Property and casualty insurers generally reinsure some portion of their policy risk by way of reinsurance contracts (or 'treaties') with reinsurers. This was also the case with Reliance Canada.

9. Reliance Canada reported the reinsurance in respect of the branch's insurance liabilities in its filings of assets and liabilities in Canada with the Superintendent (known as "P&C2" returns). By way of example, an excerpt from Reliance Canada's P&C2 Annual Return for 2000, attached as Schedule "A", shows the reinsurance assets for Reliance Canada as of December 31, 2000. (As can be seen from the excerpt, the Superintendent requires both registered and unregistered reinsurance to be reported separately in the P&C2 returns. Registered reinsurance refers to reinsurance from Canadian-regulated companies, authorized branches or separately capitalized subsidiaries of foreign companies licensed in Canada. Unregistered reinsurance refers to reinsurance from reinsurers, such as the Respondents in this case, who are not regulated in Canada. The Superintendent requires federally-regulated branches of foreign property and casualty insurance companies to calculate a risk-based capital adequacy test called the Branch Asset Adequacy Test. To the extent that amounts recoverable from unregistered reinsurers, as reported on the balance sheet, are not covered by deposits held as security from the unregistered reinsurers, Canadian-regulated foreign branches must deduct their unregistered reinsurance when calculating their capital adequacy test.)

10. Some of the reinsurance for Reliance Canada was placed by Reliance Insurance Company under treaties that reinsured not only Reliance Canada liabilities but also liabilities of Reliance Insurance Company and numerous affiliates. This was the case for the reinsurance from the Respondents in this case. In each such case, only the portion of the reinsurance that was in respect of the Reliance Canada business is reported on the P&C2 returns as an asset of Reliance Canada.

Superintendent Takes Control of the Assets of Reliance Canada/ The Liquidations of Reliance Insurance Company and Reliance Canada

11. Volume II of this Report (being Schedule "B" to this Report) is a copy of the Application Record filed in this proceeding in respect of the motion for a winding-up order for Reliance Canada. This Application Record sets out the background for the request that a winding-up order be issued, and it contains the following:

Tab "1"	Notice of Application	
Tab "2"	Affidavit of François Gilbert sworn November 8, 2001	
	Tab "A"	Letter dated October 20, 2001 from Chief Agent to OSFI
	Tab "B"	Amended Order to Insure in Canada Risks effective April 1, 2001
	Tab "C"	Petition for Liquidation of Reliance Insurance Company in Pennsylvania dated October 3, 2001
	Tab "D"	Pennsylvania Order of Liquidation dated October 3, 2001
	Tab "E"	Letter dated October 5, 2001 from OSFI to Chief Agent
	Tab "F"	Letter dated October 11, 2001 from OSFI to Chief Agent
	Tab "G"	Letter dated October 17, 2001 from Blaney McMurtry to OSFI enclosing written submissions of the U.S. Liquidator
	Tab "H"	Letter dated October 19, 2001 from OSFI to Chief Agent
	Tab "I"	Letter dated November 7, 2001 from the U.S. Liquidator to OSFI
	Tab "J"	Letter dated November 7, 2001 from KPMG Inc. to OSFI
Tab "3"	Consent of KPMG Inc. dated November 8, 2001	

12. As described in these materials in Volume II, by October 2000 Reliance Canada had stopped issuing new policies and had begun "running off" (winding-down) its existing business.

13. In the Fall of 2001, the Insurance Commissioner for the Commonwealth of Pennsylvania, having determined that Reliance Insurance Company was insolvent, sought an order for the liquidation of Reliance Insurance Company.

14. Reliance Insurance Company was ordered liquidated by the Commonwealth Court of Pennsylvania on October 3, 2001, under the Pennsylvania *Insurance Department Act of 1921*. M. Diane Koken, the then Insurance Commissioner, was appointed Liquidator (the "U.S. Liquidator"). A copy of this Order is attached at Tab "2(D)" of Volume II of this Report.

15. On October 5, 2001, pursuant to the *Insurance Companies Act*, the Superintendent took control of "the assets in Canada of Reliance Insurance Company together with its other assets held in Canada under the control of its chief agent ..." (Tab "2(E)" of Volume II of this Report). These assets expressly included "all amounts received or receivable in respect of" the insurance business in Canada.

16. By Notice of Application dated November 8, 2001 (Tab 1 of Volume II of this Report), on the Superintendent's recommendation, an order for the winding-up of Reliance Canada was sought from this Court.

17. OSFI's evidence in support of the application for winding-up included the following in respect of Reliance Canada's reinsurance assets:

> "20. In addition to Assets in Canada, Reliance Canada reports reinsurance recoverables of approximately (Cdn.) $82 million as at June 30, 2001. Reinsurance treaties entered into through Reliance's U.S. offices represent approximately 10% to 15% of Reliance Canada's reinsurance recoverables, which amounts to approximately (Cdn.) $8 million to (Cdn.) $12 million. Reliance Canada has been experiencing significant difficulties and delays in collecting reinsurance proceeds under such treaties.
>
> 21. The reinsurance contracts between Reliance or Reliance Canada, on the one hand, and the reinsurers, on the other hand, contain insolvency and offsetting clauses. Some reinsurers have claimed set-off for amounts owing to Reliance Canada against amounts they claim are owed to them by Reliance. OSFI [the Office of the Superintendent of Financial Institutions] is concerned that other reinsurers may attempt to assert set-off, that the amounts may be material, and that the collection of reinsurance may be affected. OSFI is also concerned that the timing of collection will be prejudiced. As indicated in the Petition, the timing of collection of reinsurance proceeds has been a serious problem. The reinsurance treaties at issue, from Reliance Canada's point of view, include those that cover Reliance Canada's most volatile books of business (i.e. Director and Officer, Errors and Omissions, and Environmental Liability)."
>
> (Tab 2 of Volume II of this Report, paragraphs 20-21. The reference above to "Assets in Canada" is to assets vested in trust under the *Insurance Companies Act*.)

18. By Orders of this Court made December 3, 2001, (i) the insurance business of Reliance Canada was ordered to be wound-up pursuant to the provisions of the *Winding-up and Restructuring Act,* and (ii) the Liquidator was appointed provisional liquidator of Reliance Canada. A copy of the Order for the winding-up of Reliance Canada is attached as Schedule "C" to this Report. A copy of the appointment order ("the Appointment Order") made December 3, 2001 is attached as Schedule "D" to this Report.

19. Among other things, the Appointment Order provides:

> "2. THIS COURT ORDERS that KPMG Inc. be and is hereby appointed as provisional Liquidator (the "Liquidator") of the insurance business in Canada of the Respondent, including the assets in Canada of the Respondent, together with its other assets held in

Canada under the control of its chief agent, including, without limitation, all amounts received or receivable in respect of its insurance business in Canada ("Reliance (Canada)")."

"3. THIS COURT ORDERS that the amount recoverable from, due or owed by any reinsurer to Reliance (Canada) shall be paid to the Liquidator and shall not be reduced as a result of this Order or the winding-up order, notwithstanding any terms or contractual agreement to the contrary, and that any payment made directly by a reinsurer to an insured or other creditor or claimant of Reliance (Canada) or Reliance Insurance Company shall not diminish or reduce or affect such reinsurer's obligation to Reliance (Canada)."

"26. THIS COURT ORDERS that, without limiting the generality of the foregoing, and except upon further order of this Court having been obtained on at least 7 days' notice to the Liquidator:...

(e) all Claimants are restrained from exercising any extra judicial remedies against Reliance (Canada), including, without limitation, the registration or re-registration of any securities owned by Reliance (Canada) into the name of such persons, firms, corporations or entities or their nominees, the exercise of any voting rights attaching to such securities, the retention of any payments or other distributions made in respect of such securities, any right of distress, repossession, or consolidation of accounts in relation to amounts due or accruing due in respect of or arising from any indebtedness or obligation of Reliance (Canada) as of the date hereof."

20. Pursuant to these Orders at Schedules "C" and "D" hereto, and the *Winding-up and Restructuring Act*, the assets of Reliance Canada are held by the Liquidator for the benefit of claimants of Reliance Canada, separate and apart from the assets of Reliance Insurance Company.

The Respondent Reinsurers

21. Attached as Schedule "E" hereto is a chart (the "Reinsurance Chart"), setting out various reinsurers (the "Respondents") under reinsurance treaties placed by Reliance Insurance Company on behalf of itself, numerous affiliates and Reliance Canada.

22. Copies of the respective relevant reinsurance treaties of the Respondents are attached hereto as Schedules, as indicated correspondingly in the Reinsurance Chart attached as Schedule "E" hereto.

23. The Reinsurance Chart at Schedule "E" also sets out the respective amounts currently due from each Respondent, under its respective reinsurance treaty, for policy losses incurred by Reliance Canada (in Canadian dollars, unless United States ("U.S.") currency is specified).

24. In each case, the amount set out in the Reinsurance Chart is due in respect of, and only in respect of, the Reliance Canada insurance business. Where in certain cases reinstatement premium is owed by Reliance Canada to one of the Respondents, this has been credited to the appropriate Respondent, to arrive at the applicable net amount set out in the Reinsurance Chart.

25. The amounts set out in the Reinsurance Chart at Schedule "E" all became due under the respective reinsurance treaties only after the Superintendent's taking of control of the assets of Reliance Canada and after the subsequent commencement of the winding-up of Reliance Canada.

26. In the case of HIH Casualty & General Insurance Limited ("HIH"), HIH was placed under a scheme of arrangement in England in 2005, and so its scheme administrators are named herein as Respondents, with the relief sought against them being appropriately qualified to recognize that amounts payable by the Scheme Administrators of HIH are payable by way of distributions under the scheme of arrangement.

The Liquidator's Attempts to Collect the Reinsurance

27. Section 33 of the *Winding-up and Restructuring Act* provides:

> A liquidator, on his appointment, shall take into his custody or under his control all the property, effects and choses in action to which the company is or appears to be entitled, and shall perform such duties with reference to winding-up the business of the company as are imposed by the court or by this Act.

28. Section 161 of the *Winding-up and Restructuring Act*, in the Liquidator's view, contemplates that all receivables in respect of the insurance business in Canada are included in the "property, effects and choses in action" to be taken in.

29. The Liquidator is accordingly of the view that the *Winding-up and Restructuring Act* and the Appointment Order require that all amounts receivable in respect of Reliance Canada's insurance business, including receivables under reinsurance that are in respect of Reliance Canada's insurance business, are to form part of the assets of the Reliance Canada estate and are to be taken in by the Liquidator and made available to pay claims in respect of Reliance Canada's business. The amounts set out in Schedule "E", in the Liquidator's respectful view, properly lie within the estate of Reliance Canada.

30. The Liquidator understands that the respective Respondents do not dispute the relevant amounts, as set out in the Reinsurance Chart at Schedule "E", as being due in respect of losses under insurance liabilities of Reliance Canada that were reinsured under the respective reinsurance. However, each of the Respondents has refused to make payment of its respective obligation, either claiming that it is entitled to set off amounts that are or

might be owing to it under unrelated reinsurance issued by Reliance Insurance Company in favour of the Respondent, or for unstated reasons.

31. The Liquidator does not have sufficient information to know whether each of the Respondents is in fact owed any amounts by Reliance Insurance Company as a reinsurer itself. However, it is clear that none of the Respondents held any reinsurance issued or written by Reliance Canada, since Reliance Canada did not underwrite any reinsurance in favour of the Respondents, and none of the Respondents paid any premium to or for the account of Reliance Canada in respect of any reinsurance that may have been underwritten by Reliance Insurance Company. Thus, in the Liquidator's view, no amounts that are in any way connected to the business of Reliance Canada are owed to any of the Respondents.

32. The U.S. Liquidator does not assert any entitlement or claim to the reinsurance proceeds set out in the Reinsurance Chart at Schedule "E", and agrees that these proceeds belong to the estate of Reliance Canada without set-off on account of any amounts that might be due by Reliance Insurance Company as reinsurer of any of the Respondents.

33. Further, the U.S. Liquidator and the Liquidator of Reliance Canada agree that the amounts owed as set out in the Reinsurance Chart at Schedule "E" are in respect only of policy liabilities of Reliance Canada, and should be paid to the Liquidator of Reliance Canada without set-off or reduction. The U.S. Liquidator has undertaken that he will not seek any duplicate payment from the Respondents for amounts paid to the Liquidator of Reliance Canada as sought herein.

34. The inspectors appointed by this Court in this winding-up have confirmed their agreement with the position taken by the Liquidator in this motion.

III. REQUIREMENT FOR DIRECTIONS

35. The Liquidator is of the view that the position taken by the Respondents is prejudicial to the estate of Reliance Canada and its stakeholders, and that the practical effect of their position is to allow to the Respondents claims in the estate of Reliance Canada as if they were reinsureds of Reliance Canada, when they are not in fact claimants or policyholders with any admissible claims in the winding-up of Reliance Canada.

36. The Liquidator is respectfully of the view that the position taken by the Respondents, and their refusal to pay their obligations to Reliance Canada, frustrates the ability of the Liquidator to take into custody or control all the property, effects and choses in action to which Reliance Canada appears to be entitled, as required by the *Winding-up and Restructuring Act*, and frustrates the ability of the Liquidator to maximize recovery to the policyholders of Reliance Canada and to do so in an expeditious manner.

37. The Respondents, to the best of the Liquidator's knowledge, carry on business and have assets in the United Kingdom (and possibly other non-Canadian jurisdictions), and not in Canada. The Liquidator is advised by English counsel that pursuant to sections 234 and 426 of the *Insolvency Act, 1986* of Great Britain, the assistance of the High Court of Justice in England, Chancery Division may be sought to give recognition and effect to the Directions Order, and therefore the Liquidator respectfully seeks the issuance of a Letter

of Request as set out in the draft Directions Order sought herein. A copy of sections 234 and 426 of the *Insolvency Act, 1986* of Great Britain is attached as Schedule "M".

38. The Liquidator is of the view that it is important to the interests of all stakeholders in the winding-up of Reliance Canada to obtain the directions of this Honourable Court as to the correctness or incorrectness of the position of the Respondents and as to whether they are required to pay the amounts that they owe without any deduction or reduction for set-off or otherwise.

Lloyd's Entities

39. The Liquidator notes that many of the Respondents are the individual and corporate members of Lloyd's Syndicates (each identified in these materials by its individual syndicate number and its respective year of account). Each Lloyd's Syndicate is a group of corporate entities and/or individuals that join together to participate in insuring and/or reinsuring risks.

40. The subject Lloyd's Syndicates together involve thousands of individual and/or corporate members. It would be impractical and very expensive, and result in major delay, to attempt to identify, locate and serve every member of these Lloyd's Syndicates.

41. According to its website, the Lloyd's organization maintains an office in Montreal for its "Attorney in Fact in Canada." A link on Lloyd's website identifies this Attorney in Fact in Canada to be:

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Nicholas Smith
1155, rue Metcalfe
Suite 1540
Montréal, Québec
H3B 2V6
Canada

42. This website also states that the main "functions and activities" of Lloyd's Canadian office. The first such function and activity listed is:

> "Service of suit — Accept service when served; ensure Lloyd's correspondent has arranged representation."

Attached as Schedule "N" is a printout of the relevant pages of the website.

43. Accordingly, the Liquidator believes, and respectfully submits, that service of the materials herein on the Attorney in Fact for Canada on behalf of the Lloyd's Syndicate members is a practical, effective and fair method of service on them and is very likely to come to the attention of their relevant representatives, and that appointing the Attorney in Fact in Canada as representative of the members of these Lloyd's Syndicates is appropriate. The Liquidator is advised by English counsel that the practice in England is in fact to name and serve a representative of a Lloyd's Syndicate, rather than each member of a Lloyd's Syndicate, when proceedings are commenced there.

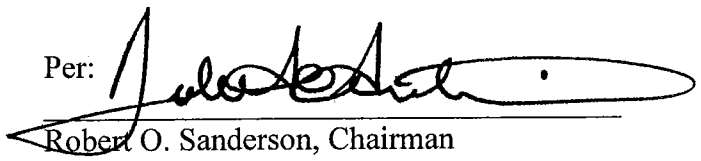
IV. RELIEF SOUGHT

44. The Liquidator therefore respectfully seeks this Court's directions and related relief as requested in the within motion.

DATED the 23rd day of May, 2007

ALL OF WHICH IS RESPECTFULLY SUBMITTED,

KPMG INC., LIQUIDATOR OF THE INSURANCE BUSINESS IN CANADA OF RELIANCE INSURANCE COMPANY

Per: 

Robert O. Sanderson, Chairman

THE ATTORNEY GENERAL OF CANADA
Applicant

and

RELIANCE INSURANCE COMPANY
Respondent

Commercial List Court File No: 01-CL-4313

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at TORONTO

REPORT OF THE LIQUIDATOR

GOODMANS LLP
Barristers & Solicitors
250 Yonge Street, Suite 2400
Toronto, Canada M5B 2M6

Graham D. Smith LSUC#: 26377D
Tel: 416.597.4161
Fax: 416.979.1234

Solicitors for KPMG Inc., Liquidator
Reliance Canada

GOODMANS\\5418711.15
File No. 01.6699

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SCHEDULE "A"

TO THE REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – MAY 23, 2007

RELIANCE INSURANCE COMPANY — Insurer

2000 — Year

REINSURANCE CEDED TO REGISTERED INSURERS
(including Marine)
($'000)

Name of assuming insurer (01)		Premiums written (02)	Claims incurred (03)
Non-Affiliated			
AXA PACIFIC INSURANCE		8,788	2,231
CNA REINSURANCE COMPANY		381	4,707
EVEREST REINSURANCE COMPANY		317	3,676
LLOYDS UNDERSWRITERS		844	17,404
NAC REINSURANCE COMPANY		204	6,899
SWISS REINSURANCE COMPANY		1,108	9,007
ALL OTHERS		4,550	24,418
Total Non-Affiliated	69	16,192	68,342
Total	89	16,192	68,342

SUMMARY OF REINSURANCE CEDED
(including Marine)
($'000)

		Premiums written (03)	Claims incurred (04)
To unregistered insurers	97	2,363	(1,125)
To registered insurers	98	16,192	68,342
Total	99	18,555	67,217

RELIANCE INSURANCE COMPANY — Insurer

2000 — Year

REINSURANCE CEDED TO REGISTERED INSURERS
(excluding Marine)
($'000)

Name of assuming insurer (01)		Premiums written (02)	Claims incurred (03)
Affiliated			
		0	0
Total Affiliated	49	0	0

RELIANCE INSURANCE COMPANY — Insurer

2000 — Year

REINSURANCE CEDED TO REGISTERED INSURERS
(excluding Marine)
($'000)

Name of assuming insurer (01)		Premiums written (02)	Claims incurred (03)
Non-Affiliated			
AXA PACIFIC INSURANCE		8,788	2,231
CNA REINSURANCE COMPANY		381	4,707
EVEREST REINSURANCE COMPANY		317	3,676
LLOYDS UNDERSWRITERS		786	17,404
NAC REINSURANCE COMPANY		204	6,899
SWISS REINSURANCE COMPANY		1,108	9,007
ALL OTHERS		4,540	24,228
Total Non-Affiliated	69	16,124	68,152
Total	89	16,124	68,152

SUMMARY OF REINSURANCE CEDED
(excluding Marine)
($'000)

		Premiums written (03)	Claims incurred (04)
To unregistered insurers	97	1,947	(1,616)
To registered insurers	98	16,124	68,152
Total	99	18,071	66,536

RELIANCE INSURANCE COMPANY
Insurer

2000
Year

REINSURANCE CEDED TO UNREGISTERED INSURERS (including Marine)

($'000)

Name of assuming insurer (01)	Premiums ceded to assuming insurer (02)	Claims and adjustment expenses incurred by assuming an insurer (03)	Unearned Premiums and additional policy provisions (04)	Outstanding losses recoverable from assuming insurer (05)	15% margin on unearned premiums and outstanding losses recoverable (06)	Receivable from assuming insurer (07)	Payable to assuming insurer (08)	Non-owned deposits held as security from assuming insurer (12)	Letters of credit held as security from assuming insurer (13)	"Excess" letters of credit (13-06) where positive (14)	Reserve Required (04+05+07-08-12-13) where positive (15)	Required coverage excluding "excess" LOC's (04+05+06+07-08-12-13) where positive (16)	Required coverage including "excess" LOC's (04+05+06+07+14-08-12-13) where positive (17)
Affiliated													
RELIANCE NATIONAL INDEMNITY		(152)		663	99					0	663	762	762
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
Total Affiliated............................49	0	(152)	0	663	99	0	0	0	0	0	663	762	762

(Next page is 70.35B)

RELIANCE INSURANCE COMPANY
Insurer

2000
Year

REINSURANCE CEDED TO UNREGISTERED INSURERS (including Marine)

($'000)

Name of assuming insurer	Premiums ceded to assuming insurer	Claims and adjustment expenses incurred by assuming an insurer	Unearned Premiums and additional policy provisions	Outstanding losses recoverable from assuming insurer	15% margin on unearned premiums and outstanding losses recoverable	Receivable from assuming insurer	Payable to assuming insurer	Non-owned deposits held as security from assuming insurer	Letters of credit held as security from assuming insurer	Excess* letters of credit (13-06) where positive	Reserve Required (04+05+07-08-12-13) where positive	Required coverage	
												excluding "excess" LOC's (04+05+06+07-08-12-13) where positive	including "excess" LOC's (04+05+06+07+14-08-12-13) where positive
(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(12)	(13)	(14)	(15)	(16)	(17)
Non-affiliated													
ACE INA INSURANCE				4	1					0	4	5	5
AMERICAN REINSURANCE	126	(1,377)	72	814	133	57				0	943	1,076	1,076
APOLLO INSURANCE				2	0					0	2	2	2
ASSICURAZIONI GENERALI SPA		(3)		2	0					0	2	2	2
AUTO OWNERS INSURANCE CO	1				0					0	0	0	0
AXA RE UK PLC	(6)	(111)		14	2	5				0	19	21	21
AXA REINSURANCE COMPANY		(7)		17	3					0	17	20	20
BALTIC SKANDINAVIA RE				6	1					0	6	7	7
BAYERISCHE RUCKVERICHERUI	(19)	(76)	6	44	8	21				0	71	79	79
BRITISH & EURO REINSURANCE		(1)			0					0	0	0	0
C.E. HEATH CASUALTY & GENERAL		1			0					0	0	0	0
CANADIAN INDUSTRIAL RISK INSURERS		(1)			0					0	0	0	0
CANADIAN AIRCRAFT INSURANCE				13	2					0	13	15	15
CENTRE REINSURANCE LTD		(2)			0					0	0	0	0
CHARTWELL REINSURANCE		(1)		2	0					0	2	2	2
CHATHAM REINSURANCE CORP				1	0					0	1	1	1
CHIYODA FIRE & MARINE				3	0					0	3	3	3
CITY INTERNATIONAL INSURANCE				1	0					0	1	1	1
CNA INTERNATIONAL REINSURA	(23)	(324)	34	255	43	4				0	293	336	336
COLOGNE REINSURANCE				2	0					0	2	2	2
COMMERCIAL RISK BERMUDA		(147)		148	22					0	148	170	170
COMMERCIAL RISK VERMONT	919	122	2	1,088	164	317				0	1,407	1,571	1,571
CONSTITUTION REINSURANCE CORP		0	1	5	1					0	6	7	7

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RELIANCE INSURANCE COMPANY
Insurer

2000
Year

REINSURANCE CEDED TO UNREGISTERED INSURERS (including Marine)

($'000)

Name of assuming insurer	Premiums ceded to assuming insurer	Claims and adjustment expenses incurred by assuming an insurer	Unearned Premiums and additional policy provisions	Outstanding losses recoverable from assuming insurer	15% margin on unearned premiums and outstanding losses recoverable	Receivable from assuming insurer	Payable to assuming insurer	Non-owned deposits held as security from assuming insurer	Letters of credit held as security from assuming insurer	Excess* letters of credit (13-06) where positive	Reserve Required (04+05+07-08-12-13) where positive	Required coverage	
												excluding "excess" LOC's (04+05+06+07-08-12-13) where positive	including "excess" LOC's (04+05+06+07+14-08-12-13) where positive
(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(12)	(13)	(14)	(15)	(16)	(17)
Non-affiliated													
CONSTITUTION STATE MGMT		(6)			0					0	0	0	0
CONTINENTAL CASUALTY CO	(8)	17	19	111	20	72				0	202	222	222
CORNHILL INSURANCE PLC	8	(4)		14	2					0	14	16	16
CSX INSURANCE COMPANY	(389)	(121)		233	35	435				0	668	703	703
DORINCO REINSURANCE	(435)	(796)		1,757	264		32			0	1,725	1,989	1,989
EAGLE STAR INSURANCE CO	(18)	(106)	1	24	4	9				0	34	38	38
ECHELON GENERAL INSURANCE				3	0					0	3	3	3
ECS REINSURANCE CO	(51)	860	382	2,158	381	146				0	2,686	3,067	3,067
ELWOOD INSURANCE		(358)		548	82					0	548	630	630
EMPLOYERS MUTUAL CASUALTY				1	0					0	1	1	1
EMPLOYERS REINSURANCE	(46)	(163)	48	217	40	111				0	376	416	416
EQUINOX	7	1	2	3	1					0	5	6	6
ERC FRANKONA REINS CO LTD	179	509	4	814	123	10				0	828	951	951
ERIEVIEW RE		(15)		10	2					0	10	12	12
EUROPEAN REINS COMP OF ZURICH		(1,205)		967	145	431				0	1,398	1,543	1,543
EVEREST REINSURANCE CORP	(162)	(250)	13	150	24	128				0	291	315	315
FIRST EXCESS & REINSURANCE	113	15	27	41	10					0	68	78	78
FOLKSAM INTERNATIONAL INS		(1)		3	0					0	3	3	3
FOLKSAMERICA REINSURANCE	(2)	(40)	5	26	5	2				0	33	38	38
GE REINSURANCE CORP	95	(654)	48	398	67	121				0	567	634	634
GENERAL REINSURANCE CORP	(23)	(139)	36	158	29	28				0	222	251	251
GERLING GLOBAL REINSURANC	16	15	10	32	6		8			0	34	40	40
GIO INSURANCE LTD.	(38)	(359)	13	113	19	34				0	160	179	179
HANNOVER RUCKVERSICHERUN	127	1	16	191	31	25				0	232	263	263

(Next page is 70.37A)

RELIANCE INSURANCE COMPANY
Insurer

2000
Year

REINSURANCE CEDED TO UNREGISTERED INSURERS (including Marine)

($'000)

Name of assuming insurer	Premiums ceded to assuming insurer	Claims and adjustment expenses incurred by assuming an insurer	Unearned Premiums and additional policy provisions	Outstanding losses recoverable from assuming insurer	15% margin on unearned premiums and outstanding losses recoverable	Receivable from assuming insurer	Payable to assuming insurer	Non-owned deposits held as security from assuming insurer	Letters of credit held as security from assuming insurer	Excess* letters of credit (13-06) where positive	Reserve Required (04+05+07-08-12-13) where positive	Required coverage	
												excluding "excess" LOC's (04+05+06+07-08-12-13) where positive	including "excess" LOC's (04+05+06+07+14-08-12-13) where positive
(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(12)	(13)	(14)	(15)	(16)	(17)
Non-affiliated													
HARTFORD FIRE INSURANCE	(1)	(7)	10	22	5	6				0	38	43	43
HIGHLANDS INSURANCE COMPANY				1	0					0	1	1	1
HIH CASUALTY & GENERAL	3	3	8	23	5	11				0	42	47	47
HOESCHT INSURANCE CORP	157	4,971		398	60		36			0	362	422	422
INDUSTRIAL RISK INSURERS		6		4	1					0	4	5	5
INSURANCE COMPANY OF HANNOVER				2	0					0	2	2	2
INTERNATIONAL OIL INSURERS				7	1					0	7	8	8
J. LINEMAN				1	0					0	1	1	1
LA LICORNE CORP DE REASSURANCE				2	0					0	2	2	2
LIBERTY MUTUAL INS. UK	14	(5)		11	2					0	11	13	13
LLOYDS UNDERWRITERS	324	(813)	91	451	81	111				0	653	734	734
MID OCEAN REINSURANCE CO	1				0					0	0	0	0
MOTOR INSURANCE COMPANY	1	(4)		1	0					0	1	1	1
MUNICH REINSURANCE COMPANY				38	6					0	38	44	44
MUTUELLE CENTRALE DE REASSURANCE				1	0					0	1	1	1
NAC REINSURANCE CORP	(3)	(83)	7	62	10	24				0	93	103	103
NATIONWIDE MUTUAL INS CO	2	15		9	1	7				0	16	17	17
NEW CAP RE CORPORATION	4				0					0	0	0	0
NISSAN FIRE & MARINE INS	14			3	0					0	3	3	3
NORTHLAND REINSURANCE		(14)		14	2					0	14	16	16
NORTHSTAR REINSURANCE CORP		1		4	1					0	4	5	5
NORWICH WINTERTHUR REINSURANCE				2	0					0	2	2	2
NRG NEDERLANDSE REASSURANCE		(10)			0					0	0	0	0
ODYSSEY REINSURANCE CORP	(13)	28	6	77	12	45				0	128	140	140

RELIANCE INSURANCE COMPANY
Insurer

2000
Year

REINSURANCE CEDED TO UNREGISTERED INSURERS (including Marine)

($'000)

Name of assuming insurer	Premiums ceded to assuming insurer	Claims and adjustment expenses incurred by assuming an insurer	Unearned Premiums and additional policy provisions	Outstanding losses recoverable from assuming insurer	15% margin on unearned premiums and outstanding losses recoverable	Receivable from assuming insurer	Payable to assuming insurer	Non-owned deposits held as security from assuming insurer	Letters of credit held as security from assuming insurer	Excess" letters of credit (13-06) where positive	Reserve Required (04+05+07-08-12-13) where positive	Required coverage	
												excluding "excess" LOC's (04+05+06+07-08-12-13) where positive	including "excess" LOC's (04+05+06+07+14-08-12-13) where positive
(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(12)	(13)	(14)	(15)	(16)	(17)
Non-affiliated													
PATRIA REINSURANCE CO LTD				7	1					0	7	8	8
PHOENIX REINSURANCE CO				9	1					0	9	10	10
PMA REINSURANCE CORP	6	(90)	9	37	7	3				0	49	56	56
QBE INTERNATIONAL INS LTD	21	4		5	1					0	5	6	6
REINS AUSTRALIA CORP		(20)		5	1					0	5	6	6
RHINE REINSURANCE CO				2	0					0	2	2	2
RISK CAPITAL REINSURANCE CO	(19)	(76)	6	44	8	21				0	71	79	79
RIVER THAMES INS CO				1	0					0	1	1	1
ROYALE BELGE S.A.				3	0					0	3	3	3
SAFR PARTNER REINSURANCE	1				0		1			0	0	0	0
SCOR REINSURANCE CO	15	(4)	1	29	5	5				0	35	40	40
SECURITY INS CO OF HARTFORD		(2)		3	0					0	3	3	3
SIGNET STAR REINSURANCE	323	108	15	323	51	4				0	342	393	393
SIRIUS INS CO - SWEDEN				2	0					0	2	2	2
SOREMA NORTH AMERICA	17	(11)		30	5		12			0	18	23	23
SOREMA STE DE REASSURANCE				2	0					0	2	2	2
SPHERE DRAKE INS CO		(3)		2	0					0	2	2	2
ST PAUL FIRE & MARINE INS	8	4		6	1					0	6	7	7
ST PAUL REINSURANCE	82	(23)	8	62	11	1				0	71	82	82
STAR INSURANCE COMPANY				1	0					0	1	1	1
STOCKHOLM RE INS CO				2	0					0	2	2	2
SWISS REINSURANCE COMPANY	- 1,562	777	36	1,251	193		265			0	1,022	1,215	1,215
SYDNEY RE	(2)	(31)		68	10	16				0	84	94	94
TERRA NOVA INSURANCE	(1)		10	26	5	5				0	41	46	46

(Next page is 70.37A)

RELIANCE INSURANCE COMPANY
Insurer

2000
Year

REINSURANCE CEDED TO UNREGISTERED INSURERS (including Marine)

($'000)

Name of assuming insurer	Premiums ceded to assuming insurer	Claims and adjustment expenses incurred by assuming an insurer	Unearned Premiums and additional policy provisions	Outstanding losses recoverable from assuming insurer	15% margin on unearned premiums and outstanding losses recoverable	Receivable from assuming insurer	Payable to assuming insurer	Non-owned deposits held as security from assuming insurer	Letters of credit held as security from assuming insurer	Excess" letters of credit (13-06) where positive	Reserve Required (04+05+07-08-12-13) where positive	Required coverage excluding "excess" LOC's (04+05+06+07-08-12-13) where positive	Required coverage including "excess" LOC's (04+05+06+07+14-08-12-13) where positive
(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(12)	(13)	(14)	(15)	(16)	(17)
Non-affiliated													
TOA RE INS CO OF AMERICA		7		11	2					0	11	13	13
TRANSATLANTIC REINSURANCE	27	(250)	17	222	36	33				0	272	308	308
TRAVEL UNDERWRITERS INTL		(11)		3	0		23			0	0	0	0
TRENWICK AMERICA REINS		(2)		1	0					0	1	1	1
UNDERWRITERS REINSURANCE	(569)	(201)	28	153	27	41				0	222	249	249
UNIONAMERICA INS CO	(1)	(15)	4	15	3	2				0	21	24	24
USF REINSURANCE COMPANY		(3)		6	1					0	6	7	7
WESTBRIDGE INS CO	142	34		197	30	19				0	216	246	246
WESTEL INSURANCE		19		20	3					0	20	23	23
ZURICH RE LTD UK	(47)	(318)	19	163	27	49				0	231	258	258
ZURICH REINSURANCE CO	(76)	(228)	47	223	41	42				0	312	353	353
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
Total Non-affiliated 69	2,363	(973)	1,061	14,460	2,327	2,401	377	0	0	0	17,566	19,893	19,893
TOTAL..... 89	2,363	(1,125)	1,061	15,123	2,426	2,401	377	0	0	0	18,229	20,655	20,655
Amount of letters of credit that exceeds the maximum allowed to reduce amounts in columns 15 and 16 (LOC's used to reduce line 89 minus 70.35.89.06, where positive).....95											0	0	
Provision for claims incurred but not reported included in line 89 column 05.....99				12,382									

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RELIANCE INSURANCE COMPANY
Insurer

2000
Year

REINSURANCE CEDED TO UNREGISTERED INSURERS (excluding Marine)

($'000)

Name of assuming insurer (01)	Premiums ceded to assuming insurer (02)	Claims and adjustment expenses incurred by assuming an insurer (03)	Unearned Premiums and additional policy provisions (04)	Outstanding losses recoverable from assuming insurer (05)	15% margin on unearned premiums and outstanding losses recoverable (06)	(07)	Payable to assuming insurer (08)	Non-owned deposits held as security from assuming insurer (vested in trust) (12)	Letters of credit held as security from assuming insurer (vested in trust) (13)	Excess" letters of credit (13-06) where positive (14)	Reserve Required (04+05-08-12-13) where positive (15)	Required coverage excluding "excess" LOC's (04+05+ 06 -08-12-13) where positive (16)	Required coverage including "excess" LOC's (04+05+06 +14-08-12-13) where positive (17)
Affiliated													
RELIANCE NATIONAL INDEMNITY		(152)		663	99					0	663	762	762
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
Total Affiliated..............................49	0	(152)	0	663	99		0	0	0	0	663	762	762

RELIANCE INSURANCE COMPANY
Insurer

2000
Year

REINSURANCE CEDED TO UNREGISTERED INSURERS (excluding Marine)

($'000)

Name of assuming insurer	Premiums ceded to assuming insurer	Claims and adjustment expenses incurred by assuming an insurer	Unearned Premiums and additional policy provisions	Outstanding losses recoverable from assuming insurer	15% margin on unearned premiums and outstanding losses recoverable		Payable to assuming insurer	Non-owned deposits held as security from assuming insurer (vested in trust)	Letters of credit held as security from assuming insurer (vested in trust)	"Excess" letters of credit (13-06) where positive	Reserve Required (04+05-08-12-13) where positive	Required coverage	
												excluding "excess" LOC's (04+05+06-08-12-13) where positive	including "excess" LOC's (04+05+06+14-08-12-13) where positive
(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(12)	(13)	(14)	(15)	(16)	(17)
Non-affiliated													
ACE INA INSURANCE				4	1					0	4	5	5
AMERICAN REINSURANCE	77	(1,446)	71	764	125					0	835	960	960
APOLLO INSURANCE				2	0					0	2	2	2
ASSICURAZIONI GENERALI SPA		(3)		2	0					0	2	2	2
AUTO OWNERS INSURANCE CO.	1				0					0	0	0	0
AXA RE UK PLC	(6)	(111)		14	2					0	14	16	16
AXA REINSURANCE COMPANY		(7)		17	3					0	17	20	20
BALTIC SKANDINAVIA RE				6	1					0	6	7	7
BAYERISCHE RUCKVERICHERUNG	(19)	(76)	6	44	8					0	50	58	58
BRITISH & EURO REINSURANCE		(1)			0					0	0	0	0
C.E. HEATH CASUALTY & GENERAL		1			0					0	0	0	0
CANADIAN INDUSTRIAL RISK INSU		(1)			0					0	0	0	0
CANADIAN AIRCRAFT INSURANCE				13	2					0	13	15	15
CENTRE REINSURANCE LTD		(2)			0					0	0	0	0
CHARTWELL REINSURANCE				1	0					0	1	1	1
CHATHAM REINSURANCE CORP				1	0					0	1	1	1
CHIYODA FIRE & MARINE				3	0					0	3	3	3
CITY INTERNATIONAL INSURANCE				1	0					0	1	1	1
CNA INTERNATIONAL REINSURANC	(23)	(324)	34	255	43					0	289	332	332
COLOGNE REINSURANCE				2	0					0	2	2	2
COMMERCIAL RISK BERMUDA		(147)		148	22					0	148	170	170
COMMERCIAL RISK VERMONT	919	122	2	1,088	164					0	1,090	1,254	1,254
CONSTITUTION REINSURANCE CO			1	5	1					0	6	7	7

RELIANCE INSURANCE COMPANY
Insurer

2000
Year

REINSURANCE CEDED TO UNREGISTERED INSURERS (excluding Marine)

($'000)

Name of assuming insurer	Premiums ceded to assuming insurer	Claims and adjustment expenses incurred by assuming an insurer	Unearned Premiums and additional policy provisions	Outstanding losses recoverable from assuming insurer	15% margin on unearned premiums and outstanding losses recoverable		Payable to assuming insurer	Non-owned deposits held as security from assuming insurer (vested in trust)	Letters of credit held as security from assuming insurer (vested in trust)	"Excess" letters of credit (13-06) where positive	Reserve Required (04+05-08-12-13) where positive	Required coverage	
												excluding "excess" LOC's (04+05+ 06 -08-12-13) where positive	including "excess" LOC's (04+05+06 +14-08-12-13) where positive
(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(12)	(13)	(14)	(15)	(16)	(17)
Non-affiliated													
CONSTITUTION STATE MGMT		(6)			0					0	0	0	0
CONTINENTAL CASUALTY CO	(19)	(42)	19	76	14					0	95	109	109
CORNHILL INSURANCE PLC	0	0	0	0	0					0	0	0	0
CSX INSURANCE COMPANY	(389)	(121)		233	35					0	233	268	268
DORINCO REINSURANCE	(435)	(796)		1,757	264		32			0	1,725	1,989	1,989
EAGLE STAR INSURANCE CO	(18)	(106)	1	24	4					0	25	29	29
ECHELON GENERAL INSURANCE				3	0					0	3	3	3
ECS REINSURANCE CO	(51)	860	382	2,158	381					0	2,540	2,921	2,921
ELWOOD INSURANCE		(358)		548	82					0	548	630	630
EMPLOYERS MUTUAL CASUALTY				1	0					0	1	1	1
EMPLOYERS REINSURANCE	(60)	(170)	48	210	39					0	258	297	297
EQUINOX	7	1	2	3	1					0	5	6	6
ERC FRANKONA REINS CO LTD	163	500	4	804	121					0	808	929	929
ERIEVIEW RE		(14)		10	2					0	10	12	12
EUROPEAN REINS COMP OF ZURIC		(1,205)		966	145					0	966	1,111	1,111
EVEREST REINSURANCE CORP	(165)	(269)	13	138	23					0	151	174	174
FIRST EXCESS & REINSURANCE	113	15	27	41	10					0	68	78	78
FOLKSAM INTERNATIONAL INS		(1)		3	0					0	3	3	3
FOLKSAMERICA REINSURANCE	(3)	(40)	5	26	5					0	31	36	36
GE REINSURANCE CORP	(35)	(760)	47	335	57					0	382	439	439
GENERAL REINSURANCE CORP	(23)	(139)	36	158	29					0	194	223	223
GERLING GLOBAL REINSURANCE	16	15	9	32	6		8			0	33	39	39
GIO INSURANCE LTD.	(38)	(359)	13	113	19					0	126	145	145
HANNOVER RUCKVERSICHERUNG	124	(18)	16	223	36					0	239	275	275

(Next page is 70.40A)

RELIANCE INSURANCE COMPANY
Insurer

2000
Year

REINSURANCE CEDED TO UNREGISTERED INSURERS (excluding Marine)

($'000)

Name of assuming insurer	Premiums ceded to assuming insurer	Claims and adjustment expenses incurred by assuming an insurer	Unearned Premiums and additional policy provisions	Outstanding losses recoverable from assuming insurer	15% margin on unearned premiums and outstanding losses recoverable		Payable to assuming insurer	Non-owned deposits held as security from assuming insurer (vested in trust)	Letters of credit held as security from assuming insurer (vested in trust)	"Excess" letters of credit (13-06) where positive	Reserve Required (04+05-08-12-13) where positive	Required coverage excluding "excess" LOC's (04+05+ 06 -08-12-13) where positive	Required coverage including "excess" LOC's (04+05+06 +14-08-12-13) where positive
(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(12)	(13)	(14)	(15)	(16)	(17)
Non-affiliated													
HARTFORD FIRE INSURANCE	(1)	(7)	10	22	5					0	32	37	37
HIGHLANDS INSURANCE COMPANY				1	0					0	1	1	1
HIH CASUALTY & GENERAL	2	2	8	23	5					0	31	36	36
HOESCHT INSURANCE CORP	157	4,971		398	60		36			0	362	422	422
INDUSTRIAL RISK INSURERS		6		4	1					0	4	5	5
INSURANCE COMPANY OF HANNO				2	0					0	2	2	2
INTERNATIONAL OIL INSURERS				7	1					0	7	8	8
J. LINEMAN				1	0					0	1	1	1
LA LICORNE CORP DE REASSURAN				2	0					0	2	2	2
LIBERTY MUTUAL INS. UK	3	(11)		5	1					0	5	6	6
LLOYDS UNDERWRITERS	227	(861)	91	371	69					0	462	531	531
MID OCEAN REINSURANCE CO					0					0	0	0	0
MOTOR INSURANCE COMPANY	1	(4)		1	0					0	1	1	1
MUNICH REINSURANCE COMPANY				38	6					0	38	44	44
MUTUELLE CENTRALE DE REASSU				1	0					0	1	1	1
NAC REINSURANCE CORP	(13)	(89)	7	56	9					0	63	72	72
NATIONWIDE MUTUAL INS CO					0					0	0	0	0
NEW CAP RE CORPORATION	4				0					0	0	0	0
NISSAN FIRE & MARINE INS	14			3	0					0	3	3	3
NORTHLAND REINSURANCE		(14)		14	2					0	14	16	16
NORTHSTAR REINSURANCE CORP		1		4	1					0	4	5	5
NORWICH WINTERTHUR REINSUR				2	0					0	2	2	2
NRG NEDERLANDSE REASSURANC		(10)			0					0	0	0	0
ODYSSEY REINSURANCE CORP	(38)	(20)	6	43	7					0	49	56	56

(Next page is 70.40A)

RELIANCE INSURANCE COMPANY
Insurer

2000
Year

REINSURANCE CEDED TO UNREGISTERED INSURERS (excluding Marine)

($'000)

Name of assuming insurer	Premiums ceded to assuming insurer	Claims and adjustment expenses incurred by assuming an insurer	Unearned Premiums and additional policy provisions	Outstanding losses recoverable from assuming insurer	15% margin on unearned premiums and outstanding losses recoverable		Payable to assuming insurer	Non-owned deposits held as security from assuming insurer (vested in trust)	Letters of credit held as security from assuming insurer (vested in trust)	"Excess" letters of credit (13-06) where positive	Reserve Required (04+05-08-12-13) where positive	Required coverage	
												excluding "excess" LOC's (04+05+ 06 -08-12-13) where positive	including "excess" LOC's (04+05+06 +14-08-12-13) where positive
(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(12)	(13)	(14)	(15)	(16)	(17)
Non-affiliated													
PATRIA REINSURANCE CO LTD				7	1					0	7	8	8
PHOENIX REINSURANCE CO				9	1					0	9	10	10
PMA REINSURANCE CORP	6	(90)	9	37	7					0	46	53	53
QBE INTERNATIONAL INS LTD	21	4		5	1					0	5	6	6
REINS AUSTRALIA CORP		(16)		0	0					0	0	0	0
RHINE REINSURANCE CO				2	0					0	2	2	2
RISK CAPITAL REINSURANCE CO	(19)	(76)	6	44	8					0	50	58	58
RIVER THAMES INS CO				1	0					0	1	1	1
ROYALE BELGE S.A.				3	0					0	3	3	3
SAFR PARTNER REINSURANCE CO	1				0		1			0	0	0	0
SCOR REINSURANCE CO	15	(4)	1	29	5					0	30	35	35
SECURITY INS CO OF HARTFORD		(2)		3	0					0	3	3	3
SIGNET STAR REINSURANCE	323	108	15	323	51					0	338	389	389
SIRIUS INS CO - SWEDEN				2	0					0	2	2	2
SOREMA NORTH AMERICA	16	(11)		30	5		12			0	18	23	23
SOREMA STE DE REASSURANCE				2	0					0	2	2	2
SPHERE DRAKE INS CO		(3)		2	0					0	2	2	2
ST PAUL FIRE & MARINE INS	1	0		2	0					0	2	2	2
ST PAUL REINSURANCE	82	(23)	8	62	11					0	70	81	81
STAR INSURANCE COMPANY				1	0					0	1	1	1
STOCKHOLM RE INS CO				2	0					0	2	2	2
SWISS REINSURANCE COMPANY	1,550	770	36	1,224	189		264			0	996	1,185	1,185
SYDNEY RE	(10)	(70)		44	7		1			0	43	50	50
TERRA NOVA INSURANCE	(1)		10	26	5					0	36	41	41

(Next page is 70.40A)

RELIANCE INSURANCE COMPANY
Insurer

2000
Year

REINSURANCE CEDED TO UNREGISTERED INSURERS (excluding Marine)

($'000)

Name of assuming insurer	Premiums ceded to assuming insurer	Claims and adjustment expenses incurred by assuming an insurer	Unearned Premiums and additional policy provisions	Outstanding losses recoverable from assuming insurer	15% margin on unearned premiums and outstanding losses recoverable		Payable to assuming insurer	Non-owned deposits held as security from assuming insurer (vested in trust)	Letters of credit held as security from assuming insurer (vested in trust)	"Excess" letters of credit (13-06) where positive	Reserve Required (04+05-08-12-13) where positive	Required coverage excluding "excess" LOC's (04+05+ 06 -08-12-13) where positive	Required coverage including "excess" LOC's (04+05+06 +14-08-12-13) where positive
(01)	(02)	(03)	(04)	(05)	(06)	(07)	(08)	(12)	(13)	(14)	(15)	(16)	(17)
Non-affiliated													
TOA RE INS CO OF AMERICA		7		11	2					0	11	13	13
TRANSATLANTIC REINSURANCE	21	(288)	17	199	32					0	216	248	248
TRAVEL UNDERWRITERS INTL		(11)		3	0		23			0	0	0	0
TRENWICK AMERICA REINS		(2)		1	0					0	1	1	1
UNDERWRITERS REINSURANCE C	(569)	(202)	28	153	27					0	181	208	208
UNIONAMERICA INS CO	(1)	(15)	4	15	3					0	19	22	22
USF REINSURANCE COMPANY		(3)		6	1					0	6	7	7
WESTBRIDGE INS CO	142	34		197	30					0	197	227	227
WESTEL INSURANCE		19		20	3					0	20	23	23
ZURICH RE LTD UK	(47)	(318)	19	163	27					0	182	209	209
ZURICH REINSURANCE CO	(76)	(228)	47	223	41					0	270	311	311
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
					0					0	0	0	0
Total Non-affiliated 69	1,947	(1,464)	1,058	14,081	2,269		377	0	0	0	14,783	17,052	17,052
TOTAL 89	1,947	(1,616)	1,058	14,744	2,368		377	0	0	0	15,446	17,814	17,814
Amount of letters of credit that exceeds the maximum allowed to reduce amounts in columns 15 and 16 (LOC's used to reduce line 89 minus 70.37.89.06, where positive)..... 95											0	0	
Provision for claims incurred but not reported included in line 89 column 05 99				12,166									

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SCHEDULE "B"

TO THE REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – MAY 23, 2007

- SEE VOLUME II -

Court File No. 372
01-CL-4213

PKT-1

ONTARIO
SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

BETWEEN:

ATTORNEY GENERAL OF CANADA

Applicant

and

RELIANCE INSURANCE COMPANY

Respondent

NOTICE OF APPLICATION

TO THE RESPONDENT

A LEGAL PROCEEDING HAS BEEN COMMENCED by the applicant. The claim made by the applicant appears on the following page.

THIS APPLICATION will come on for a hearing on Tuesday, the 13th day of November, 2001, at 10:00 a.m. at 393 University Ave., 10th Floor, Toronto, Ontario M5G 1E6.

IF YOU WISH TO OPPOSE THIS APPLICATION, to receive notice of any step in the application or to be served with any documents in the application, you or an Ontario lawyer acting for you must forthwith prepare a notice of appearance in Form 38A prescribed by the Rules of Civil Procedure, serve it on the applicant's lawyer or, where the applicant does not have a lawyer, serve it on the applicant and file it, with proof of service, in this court office, and you or your lawyer must appear at the hearing.

IF YOU WISH TO PRESENT AFFIDAVIT OR OTHER DOCUMENTARY EVIDENCE TO THE COURT OR TO EXAMINE OR CROSS-EXAMINE WITNESSES ON THE APPLICATION, you or your lawyer must, in addition to serving your notice of appearance, serve a copy of the evidence on the applicant lawyer or, where the applicant do not have a lawyer, serve it on the applicant, and file it, with proof of service, in the court office where the application is to be heard as soon as possible, but not later than 2 p.m. on the day before the hearing.

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IF YOU FAIL TO APPEAR AT THE HEARING, JUDGMENT MAY BE GIVEN IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO OPPOSE THIS APPLICATION BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

Date: November 8th, 2001 Issued by _____
Local registrar

Address of court office:
393 University Avenue
10th Floor
Toronto, Ontario
M5G 1E6

TO: Reliance Insurance Company
200 King Street West
Suite 1906
Toronto, Ontario
M5H 3T4

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APPLICATION

THE APPLICANT MAKES APPLICATION FOR AN ORDER:

1. Declaring that the Respondent's insurance business in Canada ("Canadian Branch") is liable to be wound up by this Court pursuant to the provisions of the *Winding-up and Restructuring Act*, ("*Act*"),

2. That the Respondent's Canadian Branch be wound up pursuant to the provisions of the *Act*;

3. Appointing KPMG Inc. provisionally and as Permanent Liquidator of the undertakings, property and assets of the Respondent's Canadian Branch, pursuant to Section 23 of the *Act*;

4. Authorizing the provisionally appointed Liquidator and the Permanent Liquidator pursuant to the provisions of Section 39 of the *Act*, in terms of the draft Order annexed hereto, to exercise any of the powers conferred by the *Act*, without any sanction or intervention by the Court;

5. To restrain further proceedings, in any action, suit or proceeding against the Respondent, pursuant to Section 17 of the *Act*;

6. In the alternative, pursuant to the provisions of Section 28 of the *Act* , appointing KPMP Inc., until the final disposition of this application or other Order of this Court, Provisional Liquidator of the undertaking, property and assets of the Respondent's Canadian Branch.

THE GROUNDS FOR THE APPLICATION ARE:

1. Section 10.1 and paragraph 11(d) of the *Winding-Up and Restructuring Act*, R.S.C. 1985, c.w.-11 as amended;

2. Sections 679 (1.2) and 684.1 of the *Insurance Companies Act*, S.C. 1991, c.47 as amended;

3. Rule 14.05(2) of the Rules of Civil Procedure;

4. Having regard for all of the circumstances, which will be set out in the Affidavit of François Gilbert, the Superintendent of Financial Institutions formed the opinion that:

   a) the Respondents will not be able to pay its liabilities as they become due and payable, in respect of its insurance business in Canada;

   b) a practice or state of affairs exists in respect of the Respondents that may be materially prejudicial to the interest of its policyholders or creditors in Canada;

   c) the Respondents' assets in Canada are not sufficient to give adequate protection to its policyholders and creditors in Canada.

THE FOLLOWING DOCUMENTARY EVIDENCE WILL BE USED AT THE HEARING OF THE APPLICATION:

1. The Affidavit of François Gilbert, sworn November 8, 2001.

2. The Consent of KPMG Inc. dated November 8, 2001.

November 8, 2001

Paul J. Evraire, Q.C.
Department of Justice
Ontario Regional Office
The Exchange Tower
130 King Street West
Suite 3400, Box 36
Toronto, Ontario
M5X 1K6

Per: Peter A. Vita, Q.C. (LSUC#11740Q)
Tel: (416) 973-3451
Fax: (416) 973-0809

Solicitor for the Applicant

Court File No. ●

ONTARIO
SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

THE HONOURABLE	)	DAY, THE ● DAY
	)	
JUSTICE	)	OF ●, 2001

IN THE MATTER OF
RELIANCE INSURANCE COMPANY

AND IN THE MATTER OF THE
***INSURANCE COMPANIES ACT*, S.C. 1991, C.47, AS AMENDED**

AND IN THE MATTER OF THE
***WINDING-UP AND RESTRUCTURING ACT*, R.S.C. 1985, C.W-11, AS AMENDED**

BETWEEN:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

ORDER

THIS APPLICATION made by the Applicant was heard this day without a jury at Toronto, in the presence of counsel for the Applicant, for the Respondent, for KPMG Inc., for the Property and Casualty Insurance Compensation Corporation ("PACICC"), and for ●.

ON READING the Notice of Application and the evidence filed by the parties, and on hearing submissions of counsel for the parties:

1. THIS COURT ORDERS that the service of the Notice of Application and the materials herein be and it is hereby good and sufficient notice thereof and that any further service of the Notice of Application and materials herein be and it is hereby dispensed with.

2. THIS COURT ORDERS that KPMG Inc. be and is hereby appointed as provisional liquidator (the "Liquidator") of the insurance business in Canada of the Respondent, including the assets in Canada of the Respondent, together with its other assets held in Canada under the control of its chief agent, including, without limitation, all amounts received or receivable in respect of its insurance business in Canada ("Reliance (Canada)").

3. THIS COURT ORDERS that the giving of security by the Liquidator upon its appointment as liquidator be dispensed with.

4. THIS COURT ORDERS that all moneys belonging to Reliance (Canada) received by or on behalf of the Liquidator and its agents shall be paid into a chartered bank to the account of the Liquidator immediately after the receipt thereof and an account or accounts shall be opened immediately, provided, however, that the Liquidator shall have the discretion to deposit funds to and use the bank accounts currently in the name of or operated by Reliance (Canada).

5. THIS COURT ORDERS that any cheques or drafts in respect of policies, issued by Reliance (Canada) prior to the making of the winding-up order herein and which are presented for payment thereafter, may be paid out of the estate and effects of Reliance (Canada).

6. THIS COURT ORDERS that the amount recoverable from, due or owed by any reinsurer shall not be reduced as a result of this Order or the winding-up order, notwithstanding any terms or contractual agreement to the contrary, and that any payment made directly by a reinsurer to an insured or other creditor or claimant of Reliance (Canada) or Reliance Insurance Company shall not diminish or reduce or affect such reinsurer's obligation to Reliance (Canada).

7. THIS COURT ORDERS that the Liquidator is authorized to cure such defaults and effect such arrangements as may be required to reinstate such reinsurance affecting the operations of Reliance (Canada), as the Liquidator deems to be in the interest and for the protection of policyholders, creditors and claimants of Reliance (Canada).

8. THIS COURT ORDERS that the Liquidator may pay all valid policyholder claims, including claims to unearned premium, to the amount of $25,000 or the amount, if any, of the voluntary compensation payment of PACICC which may be paid under the terms of its Memorandum of Operations (the "PACICC Voluntary Compensation Payment") until April 30, 2002 or such later date as this Court may order, subject to paragraph 9 hereof, and such payments shall be deemed for all purposes to have been payments made on account of claims in the course of the liquidation of Reliance (Canada).

9. THIS COURT ORDERS that the Liquidator may pay all valid claims including claims to unearned premium under the Meridian and other warranty and surety programs to the amount of $5,000 or the amount, if any, of the PACICC Voluntary Compensation Payment until January 31, 2002 or such later date as this Court may order, and such payments shall be deemed for all purposes to have been payments made on account of claims in the course of the liquidation of Reliance (Canada).

10. THIS COURT ORDERS that the Liquidator may make such other payments as the Liquidator in the Liquidator's discretion deems advisable in the circumstances in respect of policies of Reliance (Canada) and such payments shall be deemed for all purposes to have been payments made on account of claims in the course of the liquidation of Reliance (Canada).

11. THIS COURT ORDERS that, until April 30, 2002 or such later date as this Court may order, the Liquidator may pay and continue to pay all reasonable legal and other costs, incurred to and including April 30, 2002, which Reliance (Canada) is obligated to pay for defending any insureds against losses under Reliance (Canada)'s policies in accordance with the applicable policy ("Defence Costs"), subject to the applicable terms and limits of such policies. For greater certainty, all payments of Defence Costs shall be deemed for all purposes to have been payments made in the course of the liquidation of Reliance (Canada) and to form part of the expenses of the liquidation as a first charge on the assets of the estate. However, if the applicable policy so provides, such payments shall be taken into account in determining the amount which would otherwise be distributed to the respective policyholders and claimants, or otherwise paid on account of Defence Costs, as the case may be, at such time as any further distributions or similar arrangements are made in respect of their policies.

12. THIS COURT ORDERS that any payments made by the Liquidator pursuant to paragraphs 5, 8, 9, 10 and 11 hereof, other than payments made pursuant to clerical errors (the "Payments"):

(a) shall be deemed to be payments made on account of claims in the liquidation of Reliance (Canada) and shall be deducted from the amount which would otherwise be distributed at such time as further distributions or similar arrangements are made in respect of such claims;

(b) shall be deemed to have been made in accordance with this Order;

(c) in respect of any policy shall not obligate the Liquidator to make further payments in respect thereof; and

(d) which may have exceeded the ultimate amount which the Liquidator determines is available for distribution to the respective policyholders and claimants, or available for payment of Defence Costs, as the case may be, (collectively, the "Overpayments") shall be deemed not to be preferences and shall not be repayable by the recipients or policyholders.

Neither the Liquidator nor the Liquidator's agents, advisers or employees shall be liable to any person in respect of the Overpayments.

13. THIS COURT ORDERS that PACICC, which shall designate from time to time one or more persons as its representative, is appointed Inspector to assist and advise the Liquidator in the winding-up of Reliance (Canada).

14. THIS COURT ORDERS that the Inspector may apply to this Court on motion for directions concerning any matter relating to the liquidation of Reliance (Canada).

15. THIS COURT ORDERS that each claim in respect of which PACICC makes a PACICC Voluntary Compensation Payment (a "Compensated Claim") shall be deemed to be and shall hereby be assigned in its entirety to PACICC without specific assignment or further steps required. PACICC shall be entitled to assert each Compensated Claim in the Liquidation. Reliance (Canada) is hereby deemed to have acquiesced to the assignment of Compensated Claims provided for herein and to have received a copy of the deed of assignment. PACICC and

the Liquidator shall be deemed to be and shall hereby be released and forever discharged from any and all claims, actions, losses and liabilities which any person has or may have at present or in the future with respect to each Compensated Claim.

16. THIS COURT ORDERS that, notwithstanding the provisions of paragraph 15, the Liquidator may make funds in the estate available to PACICC from time to time to be used by PACICC to make PACICC Voluntary Compensation Payments pursuant to the terms and conditions of the loan agreement made effective as of the date hereof between the Liquidator and PACICC, which is hereby approved.

17. THIS COURT ORDERS that the Liquidator is authorised and empowered to act as administrator of insurance coverage on behalf of third parties who assume all or part of the insurance risk, and to be paid the fees earned by Reliance (Canada), pursuant to the terms of the contracts between Reliance (Canada) and such third parties.

18. THIS COURT ORDERS that the Liquidator is entitled forthwith to possession of all of Reliance (Canada)'s books, accounts, securities, documents, papers, computer programs and data, registers and records of any kind ("Books and Records") and that Reliance (Canada), its present and former shareholders, directors, officers, employees, salespeople and agents, accountants, auditors, solicitors, trustees, and every person having knowledge of this Order and having possession or control of such Books and Records, do forthwith deliver over to the Liquidator or to the Liquidator's agent all such Books and Records.

19. THIS COURT ORDERS that all persons, including, without limitation, employees, brokers, legal counsel, insurance agents, third party administrators, or salespeople having access to or knowledge of the affairs of Reliance (Canada) do co-operate with the Liquidator in

providing information or documents necessary or incidental to the liquidation of Reliance (Canada).

20. THIS COURT ORDERS that any entity which has custody or control of any data processing information and records (including but not limited to source documents, all types of electronically stored information, master tapes or any other recorded information) relating to Reliance (Canada), shall transfer custody and control of such records in a form readable by the Liquidator to the Liquidator as of the date of this Order, unless instructed to the contrary by the Liquidator.

21. THIS COURT ORDERS that any entity furnishing claims processing or data processing services to Reliance (Canada) shall maintain such services and transfer any such accounts to the Liquidator as of the date of this Order, unless instructed to the contrary by the Liquidator.

22. THIS COURT ORDERS that Reliance (Canada) and its Chief Agent, officers, trustees, employees, consultants, agents, and legal counsel shall: surrender peacefully to the Liquidator the premises where Reliance (Canada) conducts its business; deliver all keys or access codes thereto and to any safe deposit boxes; advise the Liquidator of the combinations or access codes of any safe or safekeeping devices of Reliance (Canada) or any password or authorization code or access code required for access to data processing equipment; and shall deliver and surrender peacefully to the Liquidator all of the assets, books, records, files, credit cards, and other property of Reliance (Canada) in their possession or control, wherever located, and otherwise advise and cooperate with the Liquidator in identifying and locating any of the foregoing.

23. THIS COURT ORDERS that all persons, firms, corporations and other entities having agreements, whether written or oral, with Reliance (Canada) for the supply of goods or services,

be and they are hereby enjoined from terminating, accelerating, suspending, modifying, determining or cancelling such agreements without the written consent of the Liquidator or leave of this Court, and that all such parties shall continue to comply with their obligations under such agreements or otherwise on terms currently provided so long as the Liquidator pays the normal prices or charges for such goods or services incurred after the date of this Order in accordance with usual payment terms or as may hereafter be negotiated by the Liquidator from time to time.

24. THIS COURT ORDERS that all persons, firms, corporations and other entities be and they are hereby enjoined from disturbing or interfering with the occupation, possession or use by the Liquidator of any premises occupied or leased by Reliance (Canada) as at [●] except upon further Order of this Court. From [●] and for the period of time that the Liquidator occupies any leased premises, the Liquidator shall pay occupation rent to each lessor based upon the regular monthly base rent that was previously paid by Reliance (Canada) in respect of the premises so occupied or as may hereafter be negotiated by the Liquidator from time to time.

25. THIS COURT ORDERS that all persons, firms, corporations and other entities be and they are hereby enjoined from disturbing or interfering with computer software, hardware, support and data services or with utility services, including, but not limited to, the furnishing of oil, gas, heat, electricity, water, telephone service (including at present telephone numbers used by Reliance (Canada)) or any other utilities of like kind furnished to Reliance (Canada) and they are hereby enjoined from discontinuing or altering any such utilities or services to the Liquidator except upon further order of this Court, so long as the Liquidator pays the normal prices or charges for such goods and services incurred after [●] as the same become due in accordance with usual payment terms or as may hereafter be negotiated by the Liquidator from time to time.

26. THIS COURT ORDERS that, without limiting the generality of the foregoing, and except upon further order of this Court having been obtained on at least 7 days' notice to the Liquidator:

(a) all persons, firms, corporations and other entities be and they are hereby restrained from terminating, cancelling or otherwise withdrawing any licences, permits, approvals or consents with respect to or in connection with Reliance (Canada) as they were on [●];

(b) any and all proceedings or steps taken or that may be taken, wheresoever taken, by any person, firm, corporation or entity, including, without limitation, any of the policyholders or creditors of Reliance (Canada), suppliers, co-insurers, reinsurers, contracting parties, depositors, lessors, tenants, co-venturers or partners (hereinafter, in this paragraph "Claimants") against or in respect of Reliance (Canada) shall be and hereby are stayed and suspended;

(c) the right of any Claimant to make demands for payment on or in respect of any guarantee or similar obligation or to make demand or draw down under any letters of credit, bonds or instruments of similar effect, issued by or on behalf of Reliance (Canada), to take possession of, to foreclose upon or to otherwise deal with any property, wheresoever located, of Reliance (Canada) whether held directly or indirectly, as principal or nominee, beneficially or otherwise, or to continue any actions or proceedings in respect of the foregoing, is hereby restrained;

(d) the right of any Claimant to assert, enforce or exercise any right (including, without limitation, any right of dilution, buy-out, divestiture, forced sale,

acceleration, termination, suspension, modification or cancellation or right to revoke any qualification or registration), option or remedy available to it including a right, option or remedy arising under or in respect of any agreement (including, without limitation, any contract, debt instrument, guarantee, option, co-ownership agreement or any agreement of purchase of sale but not including any eligible financial contract, as defined in the *Winding-up and Restructuring Act*) to which Reliance (Canada) is a party, arising out of, relating to or triggered by the occurrence of any default or non-performance by Reliance (Canada) or the making or filing of these proceedings, or any allegation contained in these proceedings, is hereby restrained; and

(e) all Claimants are restrained from exercising any extra judicial remedies against Reliance (Canada), including, without limitation, the registration or re-registration of any securities owned by Reliance (Canada) into the name of such persons, firms, corporations or entities or their nominees, the exercise of any voting rights attaching to such securities, the retention of any payments or other distributions made in respect of such securities, any right of distress, repossession, or consolidation of accounts in relation to amounts due or accruing due in respect of or arising from any indebtedness or obligation of Reliance (Canada) as of the date hereof.

27. THIS COURT ORDERS that no action lies against the Liquidator, any of its affiliates (the "Affiliates") any director, officer, agent, representative or employee of the Liquidator or of the Affiliates, any entity or person (or director, officer, agent, representative or employee of any such entity or person) acting under the direction of the Liquidator, or the Inspector or any

director, officer, agent, representative or employee thereof, for anything done or omitted to be done in good faith in the administration of the liquidation of Reliance (Canada) or in the exercise of the Liquidator's powers under this Order or otherwise.

28. THIS COURT ORDERS that no suit, action or other proceeding shall be proceeded with or commenced against the Liquidator, the Affiliates, any director, officer, agent, representative or employee of the Liquidator, or of the Affiliates, any entity or person (or director, officer agent, representative or employee of any such person) acting under the direction of the Liquidator, or the Inspector or any director, officer, agent, representative or employee thereof, except with leave of this Court and subject to such terms as this Court may impose.

29. THIS COURT ORDERS that the Liquidator may, without the approval, sanction or intervention of this Court and without previous notice to the policyholders or creditors of Reliance (Canada) or any other person,

(a) take control of the estate and effects of Reliance (Canada) or such part thereof as the Liquidator shall determine.

(b) bring or defend any action, suit or prosecution or other legal proceeding, civil or criminal, in the Liquidator's own name as liquidator or in the name or on behalf of Reliance (Canada), as the case may be;

(c) carry on the business of Reliance (Canada) so far as it is necessary or incidental to the winding-up of Reliance (Canada);

(d) lease or mortgage or otherwise realize upon the undertaking, property and assets of Reliance (Canada) or any part or parts thereof;

(e) sell the real and personal property, effects, intangibles and choses in action of Reliance (Canada), including all or any portion of Reliance (Canada)'s contracts and products and related assets, including, without limitation, Reliance (Canada)'s lists of policyholders and customers, by public auction or private contract, and transfer the whole thereof to any person or company, or sell them in parcels;

(f) do all acts and execute, in the name of and on behalf of Reliance (Canada), all deeds, receipts, and other documents, and for that purpose use, when necessary, the seal of Reliance (Canada), and file any elections (tax or otherwise), objections or registrations, and file any notices, all as may be necessary or desirable in the opinion of the Liquidator for the better liquidation of Reliance (Canada);

(g) prove, rank, claim and draw dividends in the matter of the bankruptcy, insolvency or sequestration of any contributory, for any sum due to Reliance (Canada) from the contributory, and take and receive dividends in respect of the bankruptcy, insolvency or sequestration, as a separate debt due from that contributory and rateably with the other separate creditors;

(h) draw, accept, make and endorse any bill of exchange or promissory note in the name of and on behalf of Reliance (Canada);

(i) give discharges of mortgages and other securities, partial discharges of mortgages and other securities, and pay property taxes and insurance premiums on mortgages and other securities taken in favour of Reliance (Canada);

(j) pay such debts of Reliance (Canada) as may be necessary to be paid in order to properly preserve and maintain the undertaking, property and assets of Reliance (Canada) or to carry on the business of Reliance (Canada);

(k) surrender possession of any premises occupied by Reliance (Canada) and disclaim any leases entered into by Reliance (Canada);

(l) apply for any permits, licences, approvals or permissions as may be required by any governmental or regulatory authority;

(m) re-direct Reliance (Canada)'s mail;

(n) enter into any eligible financial contracts, as defined in the *Winding-up and Restructuring Act*;

(o) take possession and control of all securities in which Reliance (Canada) has an interest (directly or indirectly) and exercise all rights that may be enjoyed by a holder of such securities including, without limitation, rights (i) that may arise by virtue of the holder being a party to a shareholder or similar agreement that may, by way of example, restrict the powers of the directors to manage or supervise the management of the business and affairs of the corporation, (ii) to receive information, (iii) to attend at and cause to be held meetings of holders of such securities, (iv) to vote such securities for the removal or election of directors and approval of significant transactions (such as the sale or disposition of all or substantially all of the assets of such company or the winding-up, liquidation, rehabilitation, bankruptcy, receivership, restructuring or amalgamation of such company), and (v) to sell or otherwise dispose of such securities;

(p) compromise all calls and liabilities to calls, debts and liabilities capable of resulting in debts, and all claims, demands and matters in dispute in any way relating to or affecting the assets of Reliance (Canada) or the winding-up of Reliance (Canada), on the receipt of such sums, payable at such times, and generally on such terms as are agreed on by the Liquidator;

(q) make such compromise or other arrangements with creditors or persons claiming to be creditors of Reliance (Canada) as the Liquidator deems expedient; and

(r) do and execute all such other things as are necessary for, or incidental to the winding-up of the affairs of Reliance (Canada), including without limitation entering into agreements incurring obligations.

30. THIS COURT FURTHER ORDERS that the Liquidator may, with the approval of this Court and on such notice as the Court may direct, arrange for the transfer or reinsurance of all or a portion of the policies of Reliance (Canada).

31. THIS COURT ORDERS that the Liquidator and any of the Liquidator's agents, officers, directors, representatives or employees shall be deemed not to be an employer or a successor employer of the employees of Reliance (Canada) within the meaning of the *Pension Benefits Act* (Ontario), *Employment Standards Act* (Ontario), the *Labour Relations Act* (Ontario) or any other Federal, Provincial or Municipal legislation governing employment or labour standards or any other statute, regulation or rule of law or equity for any purpose whatsoever and, further, that the Liquidator and any of the Liquidator's agents, directors, officers, representatives or employees shall not be and shall be deemed not to be, in possession, charge or control of the property or business or affairs of Reliance (Canada) pursuant to any Federal, Provincial or Municipal

legislation, statute, regulation or rule of law or equity which imposes liability on the basis of such status including, without limitation, the *Environmental Protection Act* (Ontario), the *Canadian Environmental Protection Act*, or the *Ontario Water Resources Act*, and this shall be binding on all tribunals and administrative bodies.

32. THIS COURT ORDERS that the Liquidator may retain, employ or engage such actuaries, accountants, financial advisors, investment dealers, solicitors, attorneys, valuers or other expert or professional persons as the Liquidator deems necessary or desirable to assist the Liquidator in fulfilling the Liquidator's duties, and all reasonable and proper expenses which the Liquidator may incur in so doing shall be costs of liquidation of Reliance (Canada).

33. THIS COURT ORDERS that the Liquidator may act on the advice or information obtained from any actuary, accountant, financial advisor, investment dealer, solicitor, attorney, valuer or other expert or professional person, and the Liquidator shall not be responsible for any loss, depreciation or damage occasioned by acting in good faith in reliance thereon.

34. THIS COURT ORDERS that the Liquidator shall be paid such remuneration as the Court Orders.

35. THIS COURT ORDERS that the Liquidator shall be at liberty to apply reasonable amounts against its remuneration, expenses and disbursements on a monthly basis and that such amounts shall constitute advances against its remuneration and expenses on, but subject to, the passing of its accounts.

36. THIS COURT ORDERS that this Order and any other orders in these proceedings shall have full force and effect in all Provinces and Territories in Canada.

37. THIS COURT SEEKS AND REQUESTS the aid and recognition of any Court or administrative body in any Province or Territory of Canada and any Canadian Federal Court or

administrative body and any Federal or State Court or administrative body in the United States of America and any Court or administrative body in the United Kingdom or elsewhere to act in aid of and to be complementary to this Court in carrying out the terms of this Order.

38. THIS COURT ORDERS that the costs of this application shall be costs of liquidation of Reliance (Canada).

39. THIS COURT ORDERS that interested parties may apply to the Court for advice and directions on reasonable notice to the Liquidator and the Inspector, and that the Liquidator may at any time apply to this Court for advice and directions.

THE ATTORNEY GENERAL OF CANADA
Applicant
and
RELIANCE INSURANCE COMPANY
Respondent

Court File No: ●

Double Click on mouse to Add space for Third Party

Double Click on mouse to Add more space to parties line

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

ORDER

Paul J. Evraire, Q.C.
Department of Justice
Ontario Regional Office
The Exchange Tower,
130 King Street West
Suite 3400, Box 36
Toronto, Ontario
M5X 1K6

Peter A. Vita, Q.C. (LSUC #)
Tel: (416) 973-3451
Fax: (416) 973-0809

Solicitors for the Applicant

FILE NO.: 016699

G25\SMITHG\462267.6

392

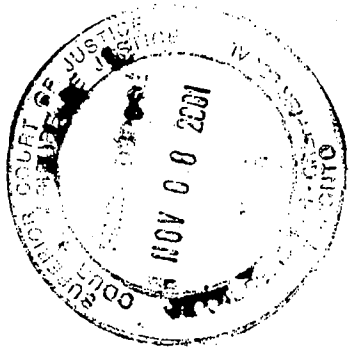
FORM 4C – BACKSHEET (Rule 4.02(3))

ATTORNEY GENERAL OF CANADA	AND	RELIANCE INSURANCE COMPANY	Court File No. 01CL-431
Applicant			Respondents

(Short title of proceeding)

"Service accepted on behalf of the Respondent and hereby undertakes to appear. per: Blaney McMurtry"

this 8th day of November, 2001



ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding Commenced at
Toronto

NOTICE OF APPLICATION

Paul J. Evraire, Q.C
Department of Justice
Ontario Regional Office
The Exchange Tower
130 King Street West
Suite 3400, Box 36
Toronto, Ontario
M5X 1K6

Peter A. Vita, Q.C. [LSUC #11740Q
Tel: (416) 973-3451
Fax: (416) 973-0809

Solicitor for the Applicant

393

Court File No. 01-CL-4313

ONTARIO
SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

IN THE MATTER OF
RELIANCE INSURANCE COMPANY

AND IN THE MATTER OF THE
INSURANCE COMPANIES ACT, S.C. 1991, C.47, AS AMENDED

AND IN THE MATTER OF THE
WINDING-UP AND RESTRUCTURING ACT, R.S.C. 1985, C.W-11, AS AMENDED

B E T W E E N:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

AFFIDAVIT OF FRANÇOIS GILBERT
(Sworn November 8, 2001)

I, **FRANÇOIS GILBERT**, of the City of Gatineau in the Province of Quebec, MAKE OATH AND SAY:

1. I am a certified general accountant, chartered insolvency practitioner and licensed trustee in bankruptcy. I am employed as a Senior Supervisor, Financial Institutions Group, Insurance, of the Office of the Superintendent of Financial Institutions ("OSFI"). In that capacity I am the primary supervisor of Reliance Insurance Company's Canadian branch (referred to herein as "Reliance (Canada)"), and as such have knowledge of the matters hereinafter deposed to.

Reliance Insurance Company and the Canada Branch

2. Reliance Insurance Company ("Reliance") is a long-standing property and casualty insurer in the United States of America, domiciled in the Commonwealth of Pennsylvania. Reliance carries on business in Canada as a "foreign company" within the meaning of the *Insurance Companies Act* through its branch, Reliance (Canada), since 1918.

3. Foreign insurance companies can operate within Canada on a branch basis, with the approval of the Superintendent of Financial Institutions (the "Superintendent"), insuring risks that the Superintendent specifically approves. The establishment of a branch requires approval of the Minister of Finance, who must be satisfied that the insurer is capable of making a contribution to the financial system in Canada. The conditions for the Superintendent's approval include the vesting in trust with the Superintendent of assets which have a prescribed value.

4. Prior to March, 2001, Reliance (Canada) was authorized to transact several classes of insurance:

- property
- accident and sickness
- aircraft
- automobile
- boiler and machinery
- fidelity
- liability
- surety

5. I am informed by Robert O. Sanderson, president of KPMG Inc., one of the OSFI Designated Representatives (referred to below), and verily believe that under the classes of liability insurance, Reliance (Canada) specialized in providing coverage for, among other things:

(a) professional liability, such as for lawyers, engineers, architects, and dentists and for hospital program and the health care industry;

(b) directors and officers liability, for which Reliance was a significant source in Canada;

(c) pollution and environmental liability; and

(d) product liability.

Although it was only authorized to transact Canadian insurance business, there are a number of claims against Canadian policyholders which arose in the United States, where there are outstanding actions.

6. In October, 2000, the chief agent for Reliance (Canada), Denis Morin (the "Chief Agent"), wrote to OSFI advising that Reliance (Canada) would commence voluntary "run off" of its insurance business. The "run off" of an insurance business means that there are no new policies being written and that the company's activities are restricted to dealing with claims on existing and terminated policies, and collecting receivables. Effectively, the company is winding down its business. The Chief Agent reported that:

(a) the parent company of Reliance was experiencing financial difficulties and the rating agency, A.M. Best, had begun a series of downgrades of Reliance's rating, which created negative impact in the marketplace in both Canada and the United States;

(b) attempts were undertaken to sell Reliance (Canada) but were unsuccessful and large blocks of business, across all insurance lines, were being targeted by competing insurers, resulting in escalating cancellations of policies; and

(c) in recognition of Reliance (Canada)'s inability to stem the flow of business, and after consultation with management in the United States, professional advisors and the internal Branch management team, the decision was made to run off the business in Canada.

Attached as Exhibit "A" is a copy of the letter dated October 20, 2000 from the Chief Agent in this regard.

7. OSFI took a number of actions in response to Reliance's financial difficulties including:

(a) It froze the vested assets (the "Assets in Canada"), meaning that Reliance (Canada) could not get access to the Assets in Canada without OSFI approval;

(b) It requested the Chief Agent not to send assets under his control to Reliance without OSFI approval; and

(c) It restricted Reliance (Canada) to servicing existing policies, without writing new business. Attached hereto as Exhibit "B" is a copy of the Amended Order to Insure in Canada Risks under the *Insurance Companies Act* with respect to Reliance (Canada).

8. Reliance (Canada) now employs 16 people, including its Chief Agent. Excluding the "Meridian Program", referred to below, there are 16 policies still in force with all other policies having expired or having been cancelled, and in excess of 1,400 outstanding claims. In addition, insurance companies also have to take into account "incurred but not reported" claims for which the insurer will ultimately be put on notice and to which it will have to respond. Reliance (Canada) also operated a program known as the "Meridian Program", still in force. This program provides extended warranty coverage to automobile, motorcycle and

other vehicle purchasers through their respective dealers. There are approximately 20,000 warranty certificate holders located in provinces across the country.

U.S. Liquidation Proceedings

9. On October 3, 2001, the Insurance Commissioner for the Commonwealth of Pennsylvania filed a Petition for Liquidation of Reliance, of which she was already the court-appointed Rehabilitator. A copy of the Petition for Liquidation, dated October 3, 2001, (the "Petition") is attached as Exhibit "C" hereto.

10. The Petition indicates in the paragraphs referred to, among other things, that:

- Because of its financial condition, Reliance was put into formal supervision by the Insurance Commissioner on January 29, 2001. Reliance consented to being put under supervision. (paragraph 5)
- On May 29, 2001, the Commonwealth Court of Pennsylvania issued an Order of Rehabilitation in respect of Reliance. Reliance's Board of Directors consented to the entry of the Order of Rehabilitation. (paragraph 6)
- After diligent efforts, the Insurance Commissioner determined that:
  - (a) the continued rehabilitation of Reliance would substantially increase the risk of loss to policyholders and creditors and would be futile; and
  - (b) Reliance is insolvent. (paragraph 8)
- Specifically, there will be insufficient assets to pay all policyholders in full. (paragraph 9)
- Reliance's financial statements as of September 30, 2000 showed a surplus in the company of (U.S.)$624 million. On April 4, 2001 Reliance reported that as of December 31, 2000 Reliance had a negative "surplus" of (U.S.)$220 million. (paragraphs 10 and 12)
- In August 2001, Reliance provided unaudited financial statements showing the negative surplus as of December 31, 2000 to be (U.S.)$730 million. (paragraph 14)

- On September 28, 2001, Reliance completed financial statements disclosing that the negative surplus as of March 31, 2001 was in fact (U.S.)$1,053,700,000. (paragraph 15)

- The negative surplus figure likely underestimates the present financial condition of Reliance. (paragraph 16)

- Reliance is experiencing seriously deteriorating reinsurance collections since the terrorist attacks of September 11, 2001. Reliance is heavily exposed to reinsurance: Reliance's total assets, stated at (U.S.)$8.8 billion, include approximately (U.S.)$5.1 billion of reinsurance collectibles from over 1,000 reinsurers. Reinsurance receivables are Reliance's main source of cash to pay claims. (paragraphs 18 and 19)

- Most of Reliance's non-reinsurance assets are not readily marketable. (paragraph 20)

- The delays in collection of reinsurance proceeds will result, in the very near future, in Reliance being unable to pay claims as they become due. (paragraph 20)

- Reliance has insufficient cash resources to meet its present financial obligations, without certain asset sales, commutations and borrowings, which are "projected but uncertain". (paragraph 22)

- Reliance's weekly cash needs for claims and expenses average between US$35 and $40 million. (paragraph 21)

- Reliance had a cash deficit of over (U.S.)$31 million in September, 2001. Cash flow projections for October, November and December, 2001 show "ever larger cash deficits ....". (paragraph 23)

- Reliance deposited monies in trust with insurance regulators in various states pursuant to the statutory requirements of those states. The deposits exceeded (U.S.)$400 million. Despite efforts of the Insurance Commissioner, as Rehabilitator, to obtain agreements to allow her to access the statutory deposits, many states refused to release them, contributing to Reliance's serious cash flow deficiencies. (paragraph 26)

- Reliance will run out of all available cash early in the fourth quarter of 2001. (paragraph 25)

11. The Insurance Commissioner, in the Petition, concluded that:

> "Reliance is insolvent, and the entry of an Order of Liquidation is necessary for the equitable protection of policyholders." (paragraph 36)

12. The Commonwealth Court of Pennsylvania granted the Petition and ordered Reliance to be liquidated. A copy of the Liquidation Order is attached as Exhibit "D" hereto.

13. The Liquidation Order finds and declares Reliance to be insolvent under the Pennsylvania statute and claims to vest the Insurance Commissioner (sometimes referred to herein as the "U.S. Liquidator") "with title to all property, assets, contracts and rights of action" of Reliance, "of whatever nature and wherever located ..." (emphasis added). (paragraphs 1 and 5)

14. The Liquidation Order further provides, among other things:

> All assets of Reliance are hereby found to be in custodia legis of this Court; and this Court specifically asserts, to the fullest extent of its authority, (a) in rem jurisdiction over all assets of the Company wherever they may be located and regardless of whether they are held in the name of the Company or any other name; (b) exclusive jurisdiction over all determinations of the validity and amount of claims against Reliance; and (c) exclusive jurisdiction over the determination of the distribution priority of all claims against Reliance. (emphasis added) (paragraph 5)

15. The Liquidation Order also provides:

> **CONTINUATION AND CANCELLATION OF COVERAGE**
>
> 17. All policies and contracts of insurance, whether issued within this Commonwealth or elsewhere, in effect on the date of this Order shall continue in force only with respect to risks in effect at that time, for the lesser of the following: (a) thirty days from the date of this Order; (b) until the normal expiration of the policy or contract providing insurance coverage; (c) until the insured has replaced the insurance coverage with equivalent insurance with another insurer or otherwise terminated the policy; or (d) until the Liquidator has effected a transfer of the policy obligation pursuant Section 221.23(8). All policies or contracts of insurance issued by Reliance are hereby cancelled and terminated for all purposes effective thirty days from the date of this Order. (emphasis added) (paragraph 17)

16. The Insurance Commissioner's "consolidated domestic statements of the assets and liabilities of Reliance", included in the Petition (Exhibit "A" to the Petition), states that it does not include the assets and liabilities of Reliance (Canada).

17. Other than the exclusion referred to in the statement of assets and liability, the Petition and the Liquidation Order do not expressly address issues relating to Reliance (Canada) or its assets or liabilities. They do not distinguish Reliance (Canada) from Reliance as a whole, or recognize any separate need for protection or consideration of policyholders or claimants of Reliance (Canada).

18. On October 4, 2001 the Superintendent learned that the Liquidation Order had been made.

The Superintendent's Exercise of Control Under the Insurance Companies Act

Assets in Canada not Sufficient

19. The Superintendent, in reaching his opinion referred to in paragraph 22 below, considered the following facts:

(a) The most current financial information received from Reliance (Canada) discloses that, as at June 30, 2001, the Assets in Canada totalled approximately (Cdn.) $171 million, compared to total gross liabilities of (Cdn.) $167 million. Accordingly, the Assets in Canada are insufficient to cover any material increase in gross liabilities;

(b) As reported on page 60.40 of Reliance (Canada)'s P&C-2 annual return for December 31, 2000, Reliance (Canada)'s net claims and adjustment expenses have historically been underestimated by 20% to 40%. This indicates that the gross liabilities may well be underestimated by (Cdn.) $28 million to (Cdn.) $57 million; and

(c) OSFI's review of the liabilities of Reliance (Canada) also indicated that the bulk of Reliance (Canada)'s underwriting was of a nature that generates a low frequency of claims with potential of high severity and an inherently high degree of volatility and uncertainty. This, combined with the experience of Reliance in the U.S. described in the Petition, gave OSFI concern that the liabilities of Reliance (Canada) may have been understated.

Reinsurance

20. In addition to Assets in Canada, Reliance (Canada) reports reinsurance recoverables of approximately (Cdn.) $82 million as at June 30, 2001. Reinsurance treaties entered into through Reliance's U.S. offices represent approximately 10% to 15% of Reliance (Canada)'s reinsurance recoverables, which amounts to approximately (Cdn.) $8 million to (Cdn.) $12 million. Reliance (Canada) has been experiencing significant difficulties and delays in collecting reinsurance proceeds under such treaties.

21. The reinsurance contracts between Reliance or Reliance (Canada), on the one hand, and the reinsurers, on the other hand, contain insolvency and offsetting clauses. Some reinsurers have claimed set-off for amounts owing to Reliance (Canada) against amounts they claim are owed to them by Reliance. OSFI is concerned that other reinsurers may attempt to assert set-off, that the amounts may be material, and that the collection of reinsurance may be affected. OSFI is also concerned that the timing of collection will be prejudiced. As indicated in the Petition, the timing of collection of reinsurance proceeds has been a serious problem. The reinsurance treaties at issue, from Reliance (Canada)'s point of view, include those that cover Reliance (Canada)'s most volatile books of business (i.e., Director and Officer, Errors and Omissions, and Environmental Liability).

Taking Control

22. On October 5, 2001, the Superintendent, having formed the opinion that:

(a) in respect of its insurance business in Canada, Reliance (Canada) will not be able to pay its liabilities as they become due and payable;

(b) a practice or state of affairs exist in respect of Reliance (Canada) that may be materially prejudicial to the interests of policyholders or creditors in Canada; and

(c) Reliance's Assets in Canada are not sufficient to give adequate protection to its policyholders and creditors in Canada,

took control of the Assets in Canada together with its other assets held in Canada under the control of its chief agent, including all amounts received or receivable in respect of its insurance business in Canada (the "Assets") for a period not exceeding 16 days pursuant to section 679(1)(a) of the *Insurance Companies Act* and notified the Chief Agent by letter dated October 5, 2001, a copy of which is attached as Exhibit "E".

23. Further, on October 5, 2001, pursuant to the *Insurance Companies Act*, the Superintendent designated myself, Karen Badgerow-Croteau and the firm of KPMG Inc. to act as his representatives in this regard (the "Designated Representatives").

24. By letter of October 11, 2001, the Superintendent advised the Chief Agent and the U.S. Liquidator that, subject to written representations to be received on or before October 17, 2001, and unless the Secretary of State (International Financial Institutions) advised him that it is not in the public interest to do so, he intended to continue control of the Assets beyond 16 days and to request the Attorney General of Canada to apply to the Court for a winding-up order in respect of the insurance business of Reliance in Canada. Attached as Exhibit "F" is a copy of the Superintendent's letter of October 11, 2001.

25. On October 17, 2001, the U.S. Liquidator, through its Canadian solicitor, submitted written representations. Attached as Exhibit "G" is a copy of these representations. The blackened portion contains confidential information concerning a policyholder.

26. These written representations did not alter the Superintendent's opinion that, for the benefit of the Canadian policyholders and creditors, he should continue control of the Assets beyond 16 days and request the Attorney General of Canada to apply to the Court for a winding-up order.

27. On October 18, 2001, the Superintendent informed the Secretary of State (International Financial Institutions) of his intention to continue control of the Assets beyond 16 days and to request the Attorney General of Canada to apply to court for a winding-up order.

28. The Secretary of State, through his counsel, advised that he was not of the opinion that it was not in the public interest to continue control of the Assets beyond 16 days.

29. By letter of October 19, 2001, the Superintendent advised the Chief Agent and the U.S. Liquidator that, after due consideration of the representations submitted by the U.S. Liquidator, the Superintendent remained of the opinion that in respect of the insurance business in Canada:

- Reliance (Canada) will not be able to pay its liabilities as they come due and payable;
- a practice or state of affairs exist in respect of Reliance (Canada) that may be materially prejudicial to the interests of its policyholders or creditors in Canada;
- the Assets in Canada are not sufficient to give adequate protection to its policyholders and creditors in Canada.

The Superintendent further advised that he was continuing control of the Assets beyond 16 days and confirmed the authority of the Designated Representatives. Attached as Exhibit "H" is a copy of this letter.

30. By letter of October 19, 2001, the Superintendent asked the Attorney General of Canada to apply to the Ontario Superior Court of Justice, pursuant to Section 684.1 of the *Insurance Companies Act*, for a winding-up order of the insurance business of Reliance (Canada).

Protection of Canadian Policyholders and Creditors

31. Since the taking of control I have been advised by KPMG Inc. and verily believe that the assumptions made in the October 20, 2000 report referred to in Exhibit "A" as to claims and claims adjustment expenses in running-off Reliance (Canada)'s business appear to have been overly optimistic. The projected amount for claims and claims adjustment expenses for the six month period ended June 30, 2001 was less than $1 million. In fact, Reliance (Canada) suffered claims and claims adjustment expenses of (Cdn.) $9.9 million for the period. Despite lower than projected operating costs, Reliance (Canada) incurred a loss of (Cdn.) $3.9 million for the six month period ended June 30, 2001. This further supports that opinion that the Assets are inadequate.

32. The liquidation of Reliance in the U.S. has a material impact on Reliance (Canada). Reliance is insolvent. Reliance (Canada) cannot look to Reliance for financial support. Reliance (Canada) has depended on Reliance for certain administrative, information technology and processing functions. The liquidation of Reliance may further negatively affect the extent, timing and quality of these services being provided to Reliance (Canada)

given the many competing priorities and issues faced by the U.S. Liquidator. Already, during the Rehabilitation period, there was great uncertainty concerning the future direction of Reliance (Canada), the position of the employees and the accessibility to decision-makers.

33. OSFI also believes that serious prejudice would result to policyholders of Reliance (Canada), by reason of there being no stay of proceedings and claims in respect of Reliance (Canada). Without the protection of such a stay, the assets available for claims of policyholders of Reliance (Canada) are exposed to the risk of claims by Reliance claimants generally being asserted in Canada.

34. Since the taking of control, policyholder claims and the costs of defending claims against policyholders have been paid. However, in the event of a protracted control period with mounting costs, the Superintendent may have to reconsider such payments to ensure there is no prejudice to policyholders in the future.

35. Attached as Exhibit "I" is a copy of a letter dated November 7, 2001, from the U.S. Liquidator to the Superintendent. The U.S. Liquidator refers to an October 17, 2001 letter which is attached hereto as Exhibit "G". She states that in her view, it is not unreasonable to delay the winding-up of Reliance (Canada) for 2 months, to give her time to explore the marketplace to determine if a transaction covering the Canadian liabilities can be consummated. She goes on to state:

> "we do not believe that the time requested will cause undo [*sic*] harm to the Canadian policyholders."

36. The Superintendent took into account the U.S. Liquidator's concerns in continuing his control of the assets and in bringing on this application. Among the things he considered, which have been referred to herein, was the fact that Reliance's efforts to market Reliance

(Canada) were unsuccessful as of October 20, 2000. I am not aware of any formal marketing efforts by Reliance since October 20, 2000 or during the Rehabilitation.

37. The Superintendent recommends that KPMG Inc. be appointed liquidator of Reliance (Canada). Attached as Exhibit "J" is a copy of KPMG Inc.'s letter to OSFI dated November 8, 2001. KPMG Inc. confirms that, in the event of a liquidation of Reliance (Canada), the best interests of its policyholders, creditors and other interested parties would be served if, in the initial phases, the liquidator "explored the possibility of the arranging for transfer or reinsurance of all or a portion of the policies of Reliance (Canada)". Indeed, KPMG Inc. provides specific recommendations for provisions in an order precisely to enhance the value of the estate.

38. I therefore believe that the interest of the U.S. Liquidator in preserving the opportunity of a transaction maximizing the value of Reliance (Canada) is not undermined by a winding-up of Reliance (Canada). To the contrary, I believe the exercise of the powers of winding-up will preserve and enhance its value. A liquidator of Reliance (Canada) will in fact be in the best position to accomplish this, and to seek a potential sale of Reliance (Canada), while at the same time having the ability in the meantime to protect the interests of the policyholders and claimants of Reliance (Canada).

39. Therefore, while OSFI appreciates the U.S. Liquidator's obligation to U.S. policyholders, the Superintendent remains concerned that the Assets in Canada are not sufficient to protect the Canadian policyholders and believes that the best interest of all parties will be served by bringing certainty to Reliance (Canada) on as timely a basis as possible.

40. In summary:

(a) the Superintendent has taken control of the Assets of Reliance (Canada), being a branch of a foreign insurance company, under subparagraphs 679(1)(b)(i) and (ii) of the *Insurance Companies Act*;

(b) the control of Reliance (Canada)'s Assets was taken, *inter alia*, on the grounds referred to in paragraphs 679(1.2)(a) and (c) of the *Insurance Companies Act*; and

(c) it is vital, to ensure protection of the policyholders of Reliance (Canada), that clarity, certainty and informed management be brought to Reliance (Canada). The financial information that is available shows an ongoing financial deterioration, in a context where even the apparent very narrow surplus of vested assets for Reliance (Canada) is suspect as having underestimated the risk and claims exposure of Reliance (Canada).

41. For the reasons cited throughout this affidavit, policyholders and creditors of Reliance (Canada) are not adequately protected. The control, powers and supervision of a winding-up proceeding, will be in the best interests of the policyholders and creditors of Reliance (Canada).

SWORN before me at the City of Toronto, in the Province of Ontario, on November 8, 2001.

A Commissioner for taking affidavits, etc.

FRANÇOIS GILBERT

Reliance Insurance Company
Reliance National Risk Specialists

This is Exhibit "A" referred to in the affidavit of Francois Gilbert sworn before me, this 8th day of November, 2001

A COMMISSIONER FOR TAKING AFFIDAVITS

October 20, 2000

Mr. Francois Gilbert, CGA, CIP
Senior Supervisor
Financial Institutions Group, Insurance
Office of the Superintendent of Financial Institutions Canada
255 Albert Street
Ottawa, Ontario
K1A 0H2

Dear Francois,

Enclosed are three draft copies of the report for the voluntary and orderly runoff of Reliance Insurance Company, Canadian Branch.

This report was written in collaboration with, and input from, our external accountants, actuaries, and legal counsel along with input from our Parent in the United States, and, of course, our own management team here in Toronto.

The report has been written from a high level perspective with emphasis on our obligation to respond fully to policyholders and all the stakeholders. I believe you will concur that we have met that objective.

Francois, we believe that we have anticipated many of the questions you would ask. However, we remain available to respond to any information contained in the draft or otherwise. As stated, it is a draft and we welcome your comments. Timing is such that October estimates will soon be 'actuals' and we will revise the exhibits during early November and forward copies of same to you.

With the exception of the week of November 6th, my calendar is free for the purpose of being available to you to answer questions and to take this draft report to the next level.

Thank you for your consideration in this matter.

Regards,

A Denis J. Morin
Chief Agent

ADJM/sl
Encs.

Copy to: Mr. Terry Van Gilder, President & Chief Executive Officer
Reliance Insurance Company, New York.

Office of the Superintendent of Financial Institutions
Bureau du surintendant des institutions financières

Amended Order to Insure in Canada Risks

Insurance Companies Act

Pursuant to subsection 586(1) of the *Insurance Companies Act*, this Order is made amending the Order to Insure in Canada Risks by

Reliance Insurance Company

The foreign company is authorized to insure in Canada risks falling within the following classes of insurance:

property insurance
accident and sickness insurance
aircraft insurance
automobile insurance
boiler and machinery insurance
fidelity insurance
liability insurance
and
surety insurance

limited to the servicing of existing policies

This Order is effective April 1, 2001 and replaces all previous Orders to Insure in Canada Risks issued to the foreign company.

Ordonnance révisée portant garantie des risques au Canada

Loi sur les sociétés d'assurances

En vertu du paragraphe 586(1) de la *Loi sur les sociétés d'assurances*, la présente ordonnance modifie l'ordonnance portant garantie des risques au Canada de

Reliance Insurance Company

La société étrangère est autorisée à garantir des risques au Canada correspondant aux branches d'assurance suivantes :

biens
accidents et maladie
aériennes
automobile
chaudières et machines
détournements
responsabilité
et
caution

limitée à l'écoulement des polices existantes.

La présente ordonnance entre en vigueur le 1 avril 2001 et remplace toutes les ordonnances portant garantie des risques au Canada qui ont été accordées à la société étrangère antérieurement.

"B"
This is Exhibit ..... *referred to in the affidavit of* Francois Gilbert
sworn before me, this 8th
day of November, 2001

A COMMISSIONER FOR TAKING AFFIDAVITS

John Palmer
Superintendent/Surintendant

Canada

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

This is Exhibit "C" referred to in the affidavit of Francois Gilbert sworn before me, this 8th day of November, 2001

A COMMISSIONER FOR TAKING AFFIDAVITS

M. DIANE KOKEN Insurance Commissioner of the Commonwealth of Pennsylvania, Plaintiff, v. RELIANCE INSURANCE COMPANY, Defendant.	DOCKET NO. 269 MD 2001

PETITION FOR LIQUIDATION

Petitioner M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania (the "Commissioner"), in her capacity as Rehabilitator of Reliance Insurance Company (the "Rehabilitator"), hereby seeks an order of liquidation of the business and affairs of Reliance Insurance Company (in Rehabilitation) ("Reliance" or the "Company"), effective immediately, pursuant to Article V of the Insurance Department Act of 1921 (the "Act"), 40 P.S. §§221.14, 221.18(a), 221.19, and 221.20.

INTRODUCTION

The serious financial difficulties faced by Reliance, which were worse than known by the Commissioner on May 29, 2001 when the Order of Rehabilitation was entered, were exacerbated recently by the ramifications of the terrorist attack on the World Trade Center. Specifically, Reliance's main source of cash to pay claims, reinsurance receivables, has slowed seriously since the attack from already unacceptable levels. This obviously unanticipated development occurred in the context of the Commissioner's receipt, during the last week, of

financial statements as of March 31, 2001 showing a negative surplus of $1.05 billion (a much more negative level than was known on May 29), and financial modeling results that indicate that Reliance will run out of cash as early as the current quarter of 2001 (assuming no extraordinary sources of cash). The coalescing of these three factors, any one of which renders impossible a successful rehabilitation where all policyholder claims are paid in full, has forced the difficult conclusion that Reliance should be placed in liquidation immediately.

Accordingly, the Commissioner, after extensive and diligent effort, has determined that there is no alternative to the liquidation of Reliance, for the following reasons, as explained more fully herein: the Commissioner has determined, pursuant to §221.18(a) of the Act, that due to a variety of circumstances, any further attempts to rehabilitate Reliance would substantially increase the risk of loss to creditors, policyholders and the public, and would be futile. Specifically, among other things, it has been determined that the assets of Reliance will be insufficient to pay all policyholder claims in full, and accordingly, that the equitable pro-rata distribution of assets in liquidation is in the public interest. The Commissioner has further determined, pursuant to §221.14(1) of the Act, that Reliance is insolvent, and that absent the possibility of a viable rehabilitation plan, the further transaction of business would be hazardous, financially, to its policyholders, creditors and the public. In addition, §221.19 of the Act provides that all grounds for rehabilitation under §221.14, including consent of the insurer, are grounds for liquidation. Reliance, through the Rehabilitator, acting pursuant to her authority under 40 P.S. §221.16(b), has consented to the entry of the proposed Order of Liquidation due to the futility of further efforts at rehabilitation and the Company's insolvent and financially hazardous condition.

JURISDICTION

1. Jurisdiction is founded upon 42 Pa. C.S. §761(a) and 40 P.S. §221.4(d).

PARTIES

2. Plaintiff is M. Diane Koken, acting in her official capacity as Insurance Commissioner of the Commonwealth of Pennsylvania and as Rehabilitator of Reliance. The Commissioner maintains her principal office at 1326 Strawberry Square, Harristown State Office Building No. 1, Harrisburg, Pennsylvania 17120.

3. Under the Act, the Commissioner is vested with the authority and charged with the duty to execute the insurance laws of the Commonwealth of Pennsylvania for the protection of policyholders, creditors and the public, generally. 40 P.S. §221.1 et seq.; see 40 P.S. §§41-42.

4. Reliance is primarily a property and casualty insurer organized and existing under the laws of the Commonwealth of Pennsylvania. Reliance is domiciled in Pennsylvania and maintains principal places of business at Three Parkway, Philadelphia, Pennsylvania, 19103, and 5 Hanover Street, 17th Floor, New York, New York, 10004.

BACKGROUND

5. Based upon its financial condition reported on November 16, 2000, the Commissioner, with Reliance's consent, placed Reliance under the formal supervision of the Department on January 29, 2001. See 40 P.S. § 221.11.

6. On May 29, 2001, this Court, with the consent of Reliance, issued an Order of Rehabilitation, appointing the Commissioner as statutory Rehabilitator of Reliance pursuant

to the Act. See 40 P.S. §221.15. The Commissioner now brings this Petition for Liquidation pursuant to the authority conferred on her by 40 P.S. §§ 221.18(a), 221.19 and 221.20.

7. At the inception of the rehabilitation on May 29, 2001, more than halfway through the second quarter of 2001, Reliance had not completed or delivered to the Department its year-end December 31, 2000 financial statement. Reliance's failure to deliver timely financial information to the Department prevented the Commissioner from accurately evaluating the Company's financial condition until well after the Commissioner took control of the Company in rehabilitation. Only after May 29, when the Commissioner and the Rehabilitation Team moved into Reliance's offices and had unfettered access, for the first time, to Reliance's books, records and employees (as were still available and cooperative), did the Rehabilitator have the opportunity to assess objectively Reliance's claims exposure, Reliance's claims reserve adequacy, and Reliance's reinsurance assets.

8. The Commissioner, as Rehabilitator, estimated that up to six months would be needed to evaluate the financial condition of Reliance in sufficient detail to make a reasonable assessment of the feasibility of a Plan of Rehabilitation for Reliance or whether liquidation was necessary. After four months of diligent efforts, the Commissioner has determined (a) that the continued rehabilitation of Reliance would substantially increase the risk of loss to policyholders, creditors and the public, and would be futile; and (b) that the Company is insolvent as that term is defined in the Act. See 40 P.S. §§ 221.3, 221.18(a). These conclusions are supported by: (a) the just-completed first quarter (3/31/01) financial statements of Reliance, which show a significantly worse financial position than was known to the Rehabilitator as of May 29, 2001; (b) the ongoing shortfall in cash receipts (especially

reinsurance) needed to pay Reliance policyholder claims and administrative expenses; and (c) output from the long-term financial model prepared by Ernst & Young which shows, as of September 29, 2001 and considering the recent rate of reinsurance collections, that Reliance will be unable to pay policyholder claims as early as this fourth quarter of 2001.

GROUNDS FOR LIQUIDATION

A. Further Attempts to Rehabilitate Reliance Would Be Futile

9. Section 221.18(a) of the Act provides:

> Whenever [s]he has reasonable cause to believe that further attempts to rehabilitate an insurer would substantially increase the risk of loss to creditors, policy and certificate holders, or the public, or would be futile, the rehabilitator may petition the Commonwealth Court for an order of liquidation. . . .

40 P.S. §221.18(a). The Commissioner, as Rehabilitator of Reliance, has determined that further attempts to rehabilitate Reliance would substantially increase the risk of loss to the policyholders, claimants and creditors of Reliance and would be futile. Specifically, there will be insufficient assets to pay all policyholder claims in full.

1. First Quarter Financial Statements Disclosed A Financial Condition Worse Than Previously Known

10. On November 16, 2000, Reliance provided the Department with a copy of its 2000 third quarter financial statements showing that as of September 30, 2000, the Company had a surplus of approximately $624 million. Because the reported surplus had decreased dramatically, the Department informed Reliance that supervision under the Act would be required, and the Department and the Company began negotiating the terms of a supervisory order. On January 29, 2001, with the agreement of the Company, the Commissioner entered an order placing Reliance under statutory supervision.

11. In February, 2001, the Company notified the Department that its December 31, 2000 year-end audited financial statements were not complete and would not be provided. In response, the Department demanded additional information from Reliance's officers, directors and managers regarding whether and how much the Company's financial condition had deteriorated as compared with the 2000 third quarter financial statements.

12. In April 2001, the Department placed a representative at Reliance to monitor the Company while a consent to formal rehabilitation proceedings was negotiated between the Department and the directors of Reliance. Reliance reported to the Department on April 4, 2001 that the 2000 year-end financial statements remained incomplete and further confirmed that, as of December 31, 2000, the Company's surplus was negative $220 million. The Department immediately took steps to finalize Reliance's consent to rehabilitation (which was believed desirable to avoid a potentially lengthy contested proceeding) and place Reliance in rehabilitation.

13. On May 29, 2001, the Company's board of directors consented to the entry of an Order of Rehabilitation. The Commissioner, as Rehabilitator, then took control of the Company.

14. Shortly after the commencement of rehabilitation, when it became apparent that Deloitte & Touche could not predict when the audited December 31 financials would be completed, the Rehabilitator discharged the auditors and directed the Company to immediately complete the 2000 year-end financial statements. In mid-August, 2001, the Company provided the Rehabilitator with unaudited financial statements showing that, as of

December 31, 2000, Reliance's surplus was actually negative $730 million -- not the negative $220 million reported by the Company in April, 2001.

15. The Rehabilitator directed the Company to prepare the 2001 first quarter financial statements for the period ending March 31, 2001. On September 28, 2001, Reliance completed the financial statements, which showed that as of March 31, 2001, the total admitted assets of Reliance were $8.8 billion. The total liabilities of the Company, as of that same date, were approximately $9.9 billion, **leaving a negative surplus of $1,053,700,000**. See Attachment "A", First Quarter 2001 Balance Sheet.

16. Since March 31, 2001, the financial condition of Reliance has continued to deteriorate. Consequently, the negative surplus reflected on the March 31 balance sheet likely underestimates the present financial condition of the Company. Reliance's total assets of $8.8 billion assumes that all reinsurance recoverables (approximately $5.1 billion) are collectible from the Company's over 1000 reinsurers. The delays Reliance is experiencing in collection have increased since the World Trade Center tragedy on September 11, 2001, which has caused significant uncertainty in the insurance industry. Other assets have also declined in value.

17. Given that Reliance's liabilities exceeded its assets by well over $1 billion as of March 31, 2001, combined with the deteriorating reinsurance collections, the continued rehabilitation of Reliance would likely increase the risk of loss to the Company's insureds, creditors and the general public and would be futile. See 40 P.S. §221.18(a).

2. Crippling Delays in Receipt of Reinsurance Proceeds

18. Reinsurance receivables and recoverables comprise Reliance's largest pool of assets and account for over 65% of Reliance's cash receipts. Reliance's ability to meet its daily policyholder claims and expense obligations depends on timely and continuing receipt of reinsurance proceeds. Since the beginning of 2001, and throughout the period of the rehabilitation, Reliance has been experiencing greater delays in receipt of reinsurance proceeds from its reinsurers than it had experienced as a matter of course over the years. The Rehabilitator made concerted efforts to expedite the payment of reinsurance proceeds upon taking over Reliance, but has not seen improvement.

19. Recent events have made timely collections even more difficult. The World Trade Center complex housed several of Reliance's reinsurers and reinsurance intermediaries, and the destruction of those buildings and the loss of life on September 11 exacerbated the delay in receipt of reinsurance proceeds. Reinsurance receipts in September were lower than projected, and lower than the receipts in July and August.

20. Although Reliance holds some non-reinsurance assets, most of these assets are not readily marketable and considerable time will be required to accomplish sales of these assets at commercially reasonable prices. The delays in collection of reinsurance proceeds will result, in the very near future, in Reliance being unable to pay claims as they become due, threatening to increase the risk of loss to Company policyholders, absent the orderly liquidation process set forth in the Act.

3. Claims Payment Requirement in Coming Months Cannot Be Met

21. Reliance's current weekly cash needs for claims and expenses average between $35 and $40 million. This figure increased from the last status report due to the expiration of stays and the increase in litigation activity after the end of the summer slow-down. Projections reflect that reinsurance receipts are expected to average only between $12 and $18 million per week in the near future. Reliance's residual premium income is projected to shrink from approximately $17 million in the month of September to only $5 million in December 2001.

22. Cash flow projections show that Reliance will lack available cash from all ordinary sources to meet its obligations as they come due over the course of the next three months. Indeed, without the projected but uncertain asset sales, commutations and borrowings, Reliance has insufficient cash resources to meet its present financial obligations.

23. The most currently available information shows that for the month of September, 2001, Reliance's paid losses, payroll and operating expenses totaled over $111 million. Reliance's cash receipts in the month of September, including the proceeds from the sale of certain pieces of real estate and business operations, totaled only approximately $80 million, resulting in a cash deficit of over $31 million. Reliance was forced to cover September's deficit with, inter alia, borrowings from two if its wholly-owned subsidiaries and utilizing most of its remaining available cash.

24. Cash flow projections for the months of October, November and December, 2001 reveal ever larger cash deficits resulting from anticipated delays in reinsurance receipts and an increase in claims payments. The expected increase in claims payments results as

previously stayed suits against insureds proceed to trial, result in verdicts or settle prior to trial. Over 170 cases pending against Reliance insureds are scheduled for trial in the next sixty days. Payment of these claims in the next few months, either by settlement or after judgment, assuming coverage, will deplete Reliance's limited cash resources even further.

25. Reliance's cash requirements are also expected to rise in the future due to the release from stays of the backlog of large-dollar cases in litigation. Reliance will run out of all available cash early in the fourth quarter of 2001.

4. Inability to Access Statutory Deposits Held in Other States

26. Despite efforts of the Rehabilitator to obtain the types of agreements approved by this Court's August 2, 2001 Order regarding statutory deposits, many states, including those holding the most significant deposits, have refused to release Reliance's statutory deposits (amounting to over $400 million) to the Rehabilitator to pay appropriate claims. The inability of the Rehabilitator to obtain access to these statutory deposits has contributed to Reliance's serious cash flow deficiencies and supports the conclusion that further efforts to rehabilitate Reliance would be futile.

5. Decline in Value of Symbol Technology Common Stock

27. The most substantial, readily marketable asset of Reliance consists of its holdings of approximately 11.2 million shares of Symbol Technologies Inc. common stock. By May 2001, just prior to the filing of the Petition for Rehabilitation, the stock was trading at $26 a share. Since May 2001, Symbol Technologies' stock price has declined, trading at approximately $10 a share on September 28, 2001.

6. Reliance Group Continues to Hold $95 Million in Reliance Assets

28. The Rehabilitator's efforts, in both this Court and federal bankruptcy court, to obtain $95 million in Reliance assets held by RGH have been vigorously resisted by RGH and its attorneys. The inability to obtain these funds has also contributed to Reliance's liquidity crisis.

7. The Financial Model Shows Rehabilitation Is Not Feasible

29. After the entry of the May 29 Order, the Rehabilitator hired the accounting and consulting firm of Ernst & Young to develop a financial model (the "model") that would project the ability of Reliance to meet its policyholder obligations over a period of years under continued rehabilitation by the Commissioner. The model prepared by Ernst & Young, based on data and assumptions provided by Reliance and the Rehabilitation staff, was delivered within the last week to the Rehabilitator. It shows that Reliance will have insufficient cash assets to fund claims payments on a monthly basis as early as the current quarter of 2001. The model also shows, with less precision due to the inherent unpredictability of future claims activity and potential loss exposure, that Reliance's assets will be insufficient to meet its projected policyholder claims, in the aggregate.

30. Given the financial condition of Reliance as of March 31, 2001, adverse developments in Reliance's reinsurance collections, the refusal of key states to release the Company's statutory deposits to the Rehabilitator for the payment of appropriate claims, the decline in value of the primary marketable asset of Reliance, the inability to obtain the $95 million held by RGH, and the projections set forth in the model, the continued rehabilitation

of Reliance is futile and not in the best interest of the Company's policyholders, claimants and creditors.

B. Reliance Is Insolvent

31. Section 221.19 of the Act provides that "[a]ny ground on which an order of rehabilitation may be based, as specified in section [221.14], whether or not there has been a prior order of rehabilitation of the insurer, shall be grounds for liquidation." See 40 P.S. §221.19. Section 221.14 provides that an appropriate ground for liquidation is the insolvency of the insurer. See 40 P.S. §221.14(1). The section states, "An order of [liquidation] may be based on . . . the following ground[:] . . . the insurer is insolvent, or in such condition that the further transaction of business would be hazardous, financially, to its policyholders, creditors or the public." Id.; see 40 P.S. §221.19.

32. For an insurer such as Reliance, the Act defines insolvency as:

> [t]he inability to pay its obligations when they are due, or whose admitted assets do not exceed its liability plus the greater of (i) any capital and surplus required by law for its organization, or (ii) its authorized and issued capital stock.

See 40 P.S. §221.3

33. Reliance's total liabilities exceed its total assets by approximately $1,053,700,000. (This deficit does not take into account the statutorily determined minimum level of capital and surplus Reliance is required to maintain for the purpose of ensuring sufficient assets to protect the interests of the Company's insureds, creditors and the public. See 40 P.S. §221.3; see also 40 P.S. §§221.1-A et seq. If the required capital and surplus were considered, the deficit would be considerably more than $1.1 billion).

34. Based on the output of the Ernst & Young financial model, the sale of Reliance's non-cash assets will not improve the financial position of the Company to the point where Reliance would be able to meet its policyholder liabilities at 100% while maintaining the required minimum level of statutory capital and surplus.

35. In addition, Reliance presently has insufficient cash assets to pay its obligations as they come due. See 40 P.S. §221.3.

36. Under 40 P.S. §§221.3 and 221.14(1), Reliance is insolvent, and the entry of an Order of Liquidation is necessary for the equitable protection of policyholders.

C. Reliance Consents To Liquidation

37. Sections 221.14 and 221.19 provide that an Order of Liquidation may be entered where "[t]he board of directors . . . request or consent to [liquidation] under this article." 40 P.S. §221.14(12).

38. The Commissioner, as Rehabilitator, is vested with "all the powers of the directors, officers and managers, whose authority shall be suspended, except as they are redelegated by the rehabilitator." See 40 P.S. §221.16(b). Pursuant to her authority under 40 P.S. §221.16(b), the Rehabilitator of Reliance consents to the entry of an Order of Liquidation in accordance with 40 P.S. §§221.14(12) and 221.16(b), as reflected in the executed Consent to Entry of Order Liquidation and Waiver of Notice and Hearing.

39. The consent provides independent and sufficient grounds for the entry of an Order of Liquidation.

WORKERS COMPENSATION AND PERSONAL INJURY PROTECTION CLAIMS

40. Upon entry of the proposed order of liquidation, relevant state guaranty association statutes are triggered and guaranty associations become obligated, to the extent of their statutory coverage, for payment of the claims of Reliance insureds and claimants under policies of insurance.

41. Upon entry of an order placing Reliance in liquidation, delays of sixty to ninety days or more may be experienced before the guaranty associations in the states and territories of the United States are able to administer, process and begin paying the covered claims of Reliance's policyholders.

42. To maintain continued confidence in the insurance system, the Commissioner seeks the approval of the Court to continue timely to pay workers compensation and personal injury protection ("PIP") claims of claimants. The Commissioner's request to pay these claims would be subject to the conditions that (1) sufficient funds exist to make the payments; (2) the guaranty associations would endeavor to assume the payment obligations expeditiously; and (3) the Commissioner would have the discretion to pay for a period up to 90 days and the discretion to cease payments at any time.

43. Workers compensation and PIP claimants are particularly prejudiced by delay in the processing of claims payments. These individuals rely upon benefits payments to cover medical and living expenses. A delay of sixty to ninety days could create significant hardship for these claimants, as they may not have sufficient resources to meet these expenses.

44. Under all guaranty association statutes in every state, claims for workers compensation are covered 100% without limit. Effectively all PIP claims are also covered. Due to the inability to give the associations any significant advance warning as to the filing of this petition for liquidation, there is a need for the Liquidator to cooperate with guaranty associations in transitioning covered claims.

45. There also exist for the benefit of workers compensation claimants certain statutory deposits in certain states that may be available to pay workers compensation claims.

46. The petitioner seeks authority to make the facilities, computer systems, books, records and arrangements with third party administrators of Reliance available for the processing and payment of such claims, for a period not to exceed 90 days, if she determines, in her discretion, that to do so is in the best interests of the policyholders and the public interest.

47. To avoid the potential creation of preferences, as well as the possibility of double recovery by some claimants, the Commissioner further requests that the Order of Liquidation provide that the Liquidator is authorized in exercising her discretion to enter into agreements with guaranty associations to have the guaranty associations fund the payments of such workers compensation and PIP claims, but to use the systems, facilities, third party administrators and books and records of Reliance to effectuate payment, for a period not to exceed 90 days. The Commissioner anticipates that some guaranty associations may not have funds available on an immediate or short-term basis. In such instances, the Liquidator should be authorized to exercise her discretion, if she chooses to do so, to advance such funds from the estate, if the advancement is treated as an early

access payment as described in 40 P.S. §221.36. The Liquidator will eventually require written agreements memorializing the commitment by the guaranty associations to treat advancement of moneys as early access.

STAY OF LITIGATION

48. Section 221.26 of the Act provides that upon entry of an Order appointing the Commissioner liquidator of a domestic insurer, all existing actions brought against the insurer are prohibited from continuing. The Section states: "Upon issuance of an order appointing the liquidator of a domestic insurer[,] . . . no action at law or equity shall be brought by or against the insurer, whether in this Commonwealth or elsewhere, nor shall any such existing actions be continued after issuance of such order." 40 P.S. §221.26(a).

49. Pursuant to 40 P.S. §221.26, the Commissioner requests that the Order of Liquidation provide that all actions pending against Reliance, in the Commonwealth of Pennsylvania or elsewhere, be stayed indefinitely.

50. Upon entry of an order declaring an insurer insolvent, 40 P.S. §991.1819(a) provides that actions pending in the Commonwealth of Pennsylvania against the company's insureds are stayed for ninety days "to permit proper defense by the [guaranty] association of all pending causes of action." 40 P.S. §991.1819(a). Given the size of Reliance and the fact that Reliance has over 75,000 policyholders, many with claims that may be covered by the Pennsylvania Property and Casualty Insurance Guaranty Association ("PPCIGA"), and many with actions pending against them in this Commonwealth, the Commissioner reserves the right to petition the Court for an extension of this ninety day stay under Section 991.1819 as needed to protect the interests of insureds, the PPCIGA, the estate of the

insurer, or the public. Other state guaranty association acts contain similar stay provisions and the Liquidator requests the authority to cooperate with such associations in seeking the implementation of such stays in other states. With respect to suits and other proceedings outside the Commonwealth of Pennsylvania and in federal courts of the United States, the Commissioner requests that the Order of Liquidation include a request by this Court for comity in the imposition of a 90-day stay by such courts or tribunals, and that those courts afford this order deference by reason of this Court's responsibility for and supervisory authority over the rehabilitation of Reliance as vested in this Court by the Pennsylvania Legislature.

EFFECTIVE DATE OF LIQUIDATION

51. The Commissioner requests that the liquidation of Reliance be effective immediately.

WHEREFORE, Plaintiff respectfully requests that this Court grant the Petition, enter an Order of Liquidation in the form attached hereto, and order such other relief as this Court deems necessary and appropriate.

BLANK ROME COMISKY & MCCAULEY LLP

By: _____

JEROME R. RICHTER
ANN B. LAUPHEIMER
ANTHONY VIDOVICH
One Logan Square
Philadelphia, PA 19103-6998
(215) 569-5500

Attorneys for Plaintiff
M. Diane Koken, Insurance Commissioner
of the Commonwealth of Pennsylvania, as
Rehabilitator for Reliance Insurance Company

OF COUNSEL:
David F. Simon
Chief Counsel
The Pennsylvania Insurance Department
1341 Strawberry Square
Harrisburg, PA 17120
(717) 787-6009

Dated: October 3, 2001

CERTIFICATE OF SERVICE

I, Anthony Vidovich, hereby certify that this day a true and correct copy of the foregoing Petition for Liquidation was served on all persons listed on the attached Master Service List by facsimile and U.S. Mail, postage prepaid.

Dated: October 3, 2001

Anthony Vidovich

Master Service List

M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania
v.
Reliance Insurance Company
No. 269 M.D. 2001 (Commonwealth Court of Pennsylvania)

Jerome R. Richter
Ann B. Laupheimer
Blank Rome Comisky & McCauley LLP
One Logan Square
Philadelphia, PA 19103
(215) 569-5500

David F. Simon
Chief Counsel
Pennsylvania Insurance Department
1341 Strawberry Square
Harrisburg, PA 17120
(717) 787-6009

Marilyn K. Kincaid
Reliance Insurance Company in Rehabilitation
5 Hanover Street
New York, NY 10005
(212) 858-6500

Hillary C. Steinberg
James Michael Matour
Hangley Aronchick Segal & Pudlin, P.C.
One Logan Square
Philadelphia, PA 19103
(215) 568-6200

Jeffrey B. Rotwitt
Obermayer Rebmann Maxwell & Hippel
1 Penn Center, 19th Floor
Philadelphia, PA 19103-1895
(215) 665-3000

Edward A. Perell
Debevoise & Plimpton
875 Third Avenue
New York, NY 10005
(212) 909-6000

William Charles Bensley
George Whittaker Howard
Edward M. Nass
Howard Brenner & Nass, P.C.
1608 Walnut Street, Suite 1700
Philadelphia, PA 19103
(215) 546-8200

Brad S. Karp
Paul, Weiss, Rifkind, Wharton & Garrison
1285 Avenue of the Americas
New York, NY 10019
(212) 373-3000

Robert H. Levin
Adelman Lavine Gold & Levin, P. C.
1900 Two Penn Center Plaza
Philadelphia, PA 19102
(215) 568-7515

Richard E. Poole
Potter Anderson & Corroon LLP
1313 North Market Street
P.O. Box 951
Wilmington, DE 19899-0951
(302) 984-6006

Richard P. Coe
Weir & Partners, LLP
1339 Chestnut Street, Suite 500
Philadelphia, PA 19107
(215) 665-8181

Theodore E. Huenke
Huenke & Rodriguez
One Huntington Quadrangle, Suite 2S02
Melville, NY 11747
(631) 756-2024

Andrew K. Stutzman
David Carl Franceski
Stradley, Ronon, Stevens & Young, LLP
2600 One Commerce Square
Philadelphia, PA 19103-7098
(215) 564-8008

Roy S. Cohen, Esquire
Nicole L. Herman, Esquire
Cohen, Segalis, Pallas & Greenhall, P.C.
1515 Market Street, 11th Floor
Philadelphia, PA 19102
(215)564-1700

Richard D. Batchelder, Jr., Esquire
Ropes & Gray
One International Place
Boston, MA 02110-2624
(617) 951-7000

Adam B. Kutinsky, Esquire
Hertz, Schram & Saretsky
1760 S. Telegraph Road, Suite 300
Bloomfield Hills, MI 48302
(248) 335-5000

Frank F. McGinn, Esquire
Bartlett Hackett Feinberg, P.C.
Suite 920
10 High Street
Boston, MA 02110
(617) 422-0200

VERIFICATION

I, William S. Taylor, Deputy Insurance Commissioner of the Pennsylvania Insurance Department, Office of Liquidations, Rehabilitations and Special Funds, am authorized by M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, pursuant to 40 P.S. § 221.16(a), to act on her behalf in her capacity as the Rehabilitator of Reliance Insurance Company. I hereby verify that the facts set forth in the foregoing Petition for Liquidation are true and correct to the best of my knowledge, information and belief.

I understand that the facts stated in the Petition are made subject to the penalties of 18 P.S. § 4904 relating to unsworn falsification to authorities.

Date: October 2, 2001

William S. Taylor

William S. Taylor
Deputy Insurance Commissioner for
Liquidations, Rehabilitations and
Special Funds

EXHIBIT A

RELIANCE INSURANCE COMPANY
CONSOLIDATED DOMESTIC STATEMENT OF ASSETS AND LIABILITIES (EXCLUDING CANADA)
MARCH 31, 2001 - UNAUDITED

(In Millions)

	Domestic Consolidated - Gross Basis
ASSETS	
Cash and bank deposits	$ 50.5
Bonds and ST Investments	1,154.1
Preferred stocks	122.8
Symbol Technologies C/S	285.3
LandAmerica	13.7
Other common stocks and options	22.8
Real estate related investments	135.2
Other invested assets	17.1
Invested assets excluding affiliates	1,801.4
Reliance Life	11.0
Garnet - at market	46.0
Reliance Consulting Group	81.6
Foreign Insurance Affiliates	248.6
Non Consolidated Affiliates	26.6
Investments in affiliates	413.9
Total invested assets	2,215.3
Premium balances	142.2
Accrued retrospective premiums	165.3
Accrued interest and dividends	30.9
Reinsurance recoverables - paid losses/LAE	852.9
Reinsurance recoverables - Direct	4,673.8
Reinsurance recoverables - Assumed	385.8
Other assets	345.0
Total admitted assets	$ 8,811.2
LIABILITIES & SURPLUS	
Losses and loss adjustment expenses - Direct	$ 7,219.3
Losses and loss adjustment expenses - Assumed	1,293.5
Unearned premiums	327.1
Unauthorized reinsurance	201.1
Reinsurance funds held	553.0
Other liabilities	270.9
Total liabilities	9,864.9
Total policyholders' surplus	(1,053.7)
Total liabilities and surplus	$ 8,811.2

For internal use only. This data should not be used without fully understanding Reliance's financial situation and accounting basis.

EXHIBIT B

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

436

M. DIANE KOKEN Insurance Commissioner of the Commonwealth of Pennsylvania, Plaintiff, v. RELIANCE INSURANCE COMPANY, Defendant.	:	DOCKET NO. 269 MD 2001

CONSENT OF RELIANCE INSURANCE COMPANY
TO ENTRY OF ORDER OF LIQUIDATION
AND WAIVER OF NOTICE AND HEARING

Petitioner M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania (the "Commissioner"), in her capacity as Rehabilitator of Reliance Insurance Company (the "Rehabilitator"), through William S. Taylor, Deputy Insurance Commissioner, hereby consents to the entry upon petition of an order of liquidation for Reliance Insurance Company ("Reliance" or the "Company"), and waives notice and hearing thereon, as follows:

1. On May 29, 2001, the Commissioner petitioned the Commonwealth Court of Pennsylvania for an order placing Reliance in rehabilitation under the provisions of the Insurance Department Act of 1921 (the "Act"), 40 P.S. §§221.1 et seq. The Board of Directors of Reliance consented to the entry of said order. Immediately after consenting to the Order of Rehabilitation, all of Reliance's directors resigned. On that same day, the Court

issued an Order of Rehabilitation appointing the Commissioner statutory Rehabilitator of Reliance.

2. The Rehabilitator has "all of the powers of the directors, officers and managers" of Reliance in rehabilitation as well as the "full power to direct and manage . . . the property and business of . . ." Reliance. 40 P.S. §221.16(b).

3. Pursuant to the aforesaid authority of the Rehabilitator, Reliance hereby agrees and consents to the entry of the proposed Order of Liquidation attached to the Petition for Liquidation, filed October 2, 2001, including the declaration of insolvency contained therein, and waives its right to any hearing before the Commonwealth Court with respect to said Petition and the proposed Order for Liquidation (including the declaration of insolvency contained therein). See 40 P.S. § 221.20(b), (f).

4. I am duly authorized to execute this consent on behalf of the Rehabilitator.

Date: October 2, 2001

William S. Taylor

William S. Taylor
Deputy Insurance Commissioner for
Liquidations, Rehabilitations and
Special Funds

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

This is Exhibit "D" referred to in the affidavit of Francois Gilbert sworn before me, this 8th day of November, 2001

A COMMISSIONER FOR TAKING AFFIDAVITS

M. Diane Koken,
Insurance Commissioner of the
Commonwealth of Pennsylvania,
Plaintiff

v.

Reliance Insurance Company,
Defendant

: No. 269 M.D. 2001

ORDER OF LIQUIDATION

AND NOW, this 3rd day of October, 2001, upon consideration of the Petition of M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, in her capacity as Rehabilitator of Reliance Insurance Company for Liquidation in accordance with Article V of the Insurance Department Act of 1921, as amended, 40 P.S. §211, et seq. and the Consent thereto, it is hereby **ORDERED** and **DECREED** that said Petition is **GRANTED.**

It is further **ORDERED** and **DECREED** that:

1. The rehabilitation of Reliance Insurance Company ("Reliance" or the "Company") commenced under this Court's Order of May 29, 2001 is hereby **TERMINATED**.

2. Reliance is hereby found to be and is declared **INSOLVENT**, as that term is defined in 40 P.S. §§ 221.3, and as provided in 40 P.S. §§ 221.14(1) and 221.19.

3. Commissioner M. Diane Koken and her successors in office (the "Commissioner") are hereby **APPOINTED** Liquidator of Reliance and the Liquidator or her designees (the "Liquidator") are directed immediately to take possession of Reliance's property, business and affairs as Liquidator, and to liquidate Reliance in accordance with Article V of the Insurance Department Act of 1921, as amended (40 P.S. §§211 et seq.) (the "Act"), and to take such action as the interest of the policyholders, creditors or the public may require.

4. The Liquidator is hereby **VESTED** with all the powers, rights, and duties authorized under the Act and other applicable law.

ASSETS OF THE ESTATE

5. The Commissioner, as Liquidator, is vested with title to all property, assets, contracts and rights of action ("assets") of Reliance, of whatever nature and wherever located, whether held directly or indirectly, as of the date of the filing of the Petition for Liquidation. All assets of Reliance are hereby found to be in custodia legis of this Court; and this

Court specifically asserts, to the fullest extent of its authority, (a) in rem jurisdiction over all assets of the Company wherever they may be located and regardless of whether they are held in the name of the Company or any other name; (b) exclusive jurisdiction over all determinations of the validity and amount of claims against Reliance; and (c) exclusive jurisdiction over the determination of the distribution priority of all claims against Reliance.

6. The filing or recording of the Order with the clerk of the Commonwealth Court or with the recorder of deeds of the county in which the principal business of Reliance is conducted, or the county in which its principal office or place of business is located, shall impart the same notice as a deed, bill of sale or other evidence of title duly filed or recorded with that recorder of deeds would have imparted.

7. All banks, investment bankers, companies, other entities or other persons having in their possession assets which are, or may be, the property of Reliance, shall, unless otherwise instructed by the Liquidator, deliver the possession of the same immediately to the Liquidator, and shall not disburse, convey, transfer, pledge, assign, hypothecate, encumber or in any manner dispose of the same without the prior written consent of, or unless directed in writing by, the Liquidator.

8. All persons and entities are enjoined from disposing of or destroying any records pertaining to any transactions between Reliance and any party.

9. The amount recoverable by the Liquidator from any reinsurer shall not be reduced as a result of this Order of Liquidation,

regardless of any provision in a reinsurance contract or other agreement. Payment made directly by the reinsurer to an insured or other creditor of Reliance shall not diminish the reinsurer's obligation to Reliance, except to the extent provided by law.

10. All agents, brokers, and other persons having sold policies of insurance issued by Reliance shall account for and pay all unearned commissions and all premiums, collected and uncollected, for the benefit of Reliance directly to the Liquidator, within 30 days of notice of this Order. No agent, broker, reinsurance intermediary or other person shall disburse or use monies which come into their possession and are owed to, or are claimed by, Reliance for any purpose other than payment to the Liquidator.

11. If requested by the Liquidator, all attorneys employed or retained by Reliance or performing legal services for Reliance as of the date of this Order shall, within 30 days of such request, report to the Liquidator the name, company claim number (if applicable) and status of each matter they are handling on behalf of Reliance. Said report shall include the full caption, docket number and name and address of opposing counsel in each case and an accounting of any funds received from or on behalf of Reliance for any purpose and in any capacity.

12. Any entity furnishing telephone, water, electric, sewage, garbage, delivery, trash removal, or utility services to Reliance shall maintain such service and create a new account for the Liquidator as of the date of this Order upon instruction by the Liquidator.

13. Any entity (including any affiliate of Reliance) which has custody or control of any data processing information and records (including but not limited to source documents, all types of electronically stored information, master tapes or any other recorded information) relating to Reliance, shall transfer custody and control of such records in a form readable by the Liquidator to the Liquidator as of the date of this Order, unless instructed to the contrary by the Liquidator.

14. Any entity (including any affiliate of Reliance) furnishing claims processing or data processing services to Reliance shall maintain such services and transfer any such accounts to the Liquidator as of the date of this Order, unless instructed to the contrary by the Liquidator.

15. Reliance, its affiliates, and their officers, directors, trustees, employees, consultants, agents, and attorneys, shall: surrender peacefully to the Liquidator the premises where Reliance conducts its business; deliver all keys or access codes thereto and to any safe deposit boxes; advise the Liquidator of the combinations or access codes of any safe or safekeeping devices of Reliance or any password or authorization code or access code required for access to data processing equipment; and shall deliver and surrender peacefully to the Liquidator all of the assets, books, records, files, credit cards, and other property of Reliance in their possession or control, wherever located, and otherwise advise and cooperate with the Liquidator in identifying and locating any of the foregoing.

16. Except for contracts of insurance and for reinsurance, all executory contracts to which Reliance is a party as of the date of this Order

may be affirmed or disavowed by the Liquidator within 90 days of the date of this Order.

CONTINUATION AND CANCELLATION OF COVERAGE

17. All policies and contracts of insurance, whether issued within this Commonwealth or elsewhere, in effect on the date of this Order shall continue in force only with respect to risks in effect at that time, for the lesser of the following: (a) thirty days from the date of this Order; (b) until the normal expiration of the policy or contract providing insurance coverage; (c) until the insured has replaced the insurance coverage with equivalent insurance with another insurer or otherwise terminated the policy; or (d) until the Liquidator has effected a transfer of the policy obligation pursuant to Section 221.23(8). All policies or contracts of insurance issued by Reliance are hereby cancelled and terminated for all purposes effective thirty days from the date of this Order.

WORKERS COMPENSATION AND PERSONAL INJURY PROTECTION CLAIMS

18. For a period not to exceed 90 days from entry of this Order, the Liquidator is authorized but not obligated, in her sole discretion, to make arrangements for the continued payment in full of the claims under policies of workers compensation and under policies providing personal injury protection (PIP) by making the facilities, computer systems, books, records and arrangements with third party administrators (to the extent possible) of Reliance available for the processing and payment of such

claims, to any affected guaranty association (or other entity that is the functional equivalent) and to states and state officials holding statutory deposits for the benefit of such workers compensation and PIP claimants, provided, however, that such guaranty associations, states or state officials shall provide or make available the funds to make the actual payment of such claims. In circumstances where a guaranty association certifies in writing to the Liquidator that it does not have the immediate ability to fund the payment of workers compensation and PIP claims that are its obligation by law, the Liquidator is authorized to advance the funds, if available, from Reliance to pay such claims on a temporary basis for a period not to exceed 90 days, provided that the guaranty association enters into a written agreement that such advances shall be treated as a distribution pursuant to 40 P.S. §221.36. The Liquidator shall have the discretion to accept such interim assurances as she deems adequate in lieu of a formal agreement.

NOTICE AND PROCEDURES FOR FILING CLAIMS

19. The Liquidator shall give notice by first-class mail to all persons which or who may have claims against Reliance, contingent or otherwise, as disclosed by its books and records, and advising claimants to file with the Liquidator their claims together with proper proofs thereof on or before the date (which shall be no earlier than one year from the date of the notice) the Liquidator shall specify therein. The Liquidator shall also cause a notice to be published in newspapers of general circulation where Reliance has its principal places of business, as well as in the national edition of the Wall Street Journal, (a) specifying the last day for the filing of claims; (b) advising all persons of the procedure by which all persons may

present their claims to the Liquidator; (c) advising all persons of the Liquidator's office wherein they may present their claim; and (d) advising all persons of their right to present their claim or claims to the Liquidator. Any and all persons, firms, or corporations having or claiming to have any accounts, debts, claims or demands against Reliance, contingent or otherwise, or claiming any right, title, or interest in any funds or property in the possession of the Liquidator are required to file with the Liquidator at the location designated in the above-described notices, on or before the date specified by the Liquidator as the last date upon which to file a claim (which shall be no earlier than one year from the date of the notice), a properly completed proof of claim or be thereafter barred as claimants against any assets in the hands of the Liquidator, unless a late filing is permitted under 40 P.S. §221.37. No person shall participate in any distribution of the assets of Reliance unless such claims are filed and presented in accordance with and within the time limit established by the Liquidator, subject to the provisions for the late filing of claims in 40 P.S. §221.37.

EXPENSES, PAYMENTS AND LAWSUITS

20. Without filing a petition for distribution, the Liquidator shall have the discretion to pay as costs and expenses of administration, pursuant to 40 P.S. §221.44, the actual, reasonable and necessary costs of preserving or recovering assets of Reliance and the costs of goods or services provided to and approved by Reliance (In Rehabilitation) or this Court during the period of Rehabilitation and that are unpaid as of the date of this Order. The rights and liabilities of Reliance and of its creditors,

policyholders, trustees, shareholders, members, and all other persons interested in this estate shall be determined in accordance with the Act as of the date of the filing of the Petition for Liquidation.

21. Reliance, its affiliates, or their directors, officers, trustees, employees, attorneys, brokers, consultants, agents, insureds, creditors, and any other persons, wherever located, are enjoined from: (a) the transaction of further business; (b) transferring, selling, concealing, terminating, canceling, destroying, disbursing, disposing of or assigning any assets, funds or other property of any nature; (c) any interference, in any manner, with Commissioner M. Diane Koken or her successors, or any of her designees in liquidating Reliance's business and affairs; (d) any waste of Reliance's assets or property; (e) the dissipation and transfer of bank accounts and negotiable instruments; (f) the institution or further prosecution of any actions in law or equity on behalf of or against Reliance; (g) the obtaining of preferences, judgments, attachments, garnishments or liens against Reliance's assets, property and policyholders; (h) the levy of execution process against Reliance and its assets, property and policyholders; (i) the negotiation or execution of any agreement of sale or deed conveying personal or real property for nonpayment of taxes or assessments or for any other purpose; (j) withholding from the Liquidator or her designees or removing, concealing, transferring or destroying books, accounts, documents, policies or policy related documents or other records relating to Reliance's business; (k) making any assessments or indirectly collecting such assessments by setting them off against amounts otherwise payable to Reliance; (l) attempting to collect unpaid premiums, deductibles

or self insured retentions from Reliance's insureds; and (m) the taking of any other action which might lessen the value of Reliance's assets or property, prejudice the rights and interests of policyholders and creditors, or interfere in the administration of the proceeding.

22. Unless the Liquidator consents thereto in writing, no action at law or equity, or arbitration or mediation, shall be brought against Reliance or the Liquidator, whether in this Commonwealth or elsewhere, nor shall any such existing action be maintained or further prosecuted after the date of this Order. All actions, including arbitrations and mediations, currently pending against Reliance in the courts of the Commonwealth of Pennsylvania or elsewhere are hereby stayed. All actions, arbitrations and mediations, against Reliance or the Liquidator shall be submitted and considered as claims in the liquidation proceeding.

23. All proceedings in which Reliance is obligated to defend a party in any court of this Commonwealth are hereby stayed for ninety (90) days from the date this Order. The Liquidator, pursuant to 40 P.S. §221.5(a), her designees and/or the Pennsylvania Property and Casualty Insurance Guaranty Association may petition this Court for extensions as needed in the exercise of their respective discretion. With respect to suits and other proceedings in which Reliance is obligated to defend a party, pending outside the Commonwealth of Pennsylvania and in federal courts of the United States, this Order constitutes the request of this Court for comity in the imposition of a 90-day stay by such courts or tribunals, and that those courts afford this order deference by reason of this Court's responsibility for

and supervisory authority over the rehabilitation of Reliance, as vested in this Court by the Pennsylvania Legislature The Liquidator is authorized to cooperate in assisting any guaranty association in any jurisdiction to enforce any stay of any action provided for in any relevant law of another state. Any person that fails to honor a stay ordered by this Court or violates any provision of this Order, where such person has a claim against Reliance, shall have their claim subordinated to all other claims in the same class, with no payment being made with respect to such claim until all others in the same class have been paid in full, in addition to any other remedies available at law or in equity.

24. No judgment or order against Reliance or its insureds entered after the date of filing of the Petition for Liquidation, and no judgment or order against Reliance entered at any time by default or by collusion, need be considered as evidence of liability or quantum of damages by the Liquidator.

25. No action or proceeding in the nature of an attachment, garnishment, or execution shall be commenced or maintained in this Commonwealth or elsewhere against Reliance or the Liquidator, or their assets.

26. All secured creditors or parties, pledges, lienholders, collateral holders or other person claiming secured, priority or preferred interests in any property or assets of Reliance are hereby enjoined from taking any steps whatsoever to transfer, sell, assign, encumber, attach,

dispose of, or exercise, purported rights in or against any property or assets of Reliance except as provided in 40 P.S. §221.43.

27. All references to "Reliance" herein shall include the former subsidiaries which were previously merged into Reliance Insurance Company with approval of the Commissioner, including Reliance National Indemnity Company, Reliance National Insurance Company, United Pacific Insurance Company, Reliance Direct Company, Reliance Surety Company, Reliance Universal Insurance Company, United Pacific Insurance Company of New York and Reliance Insurance Company of Illinois.

28. This Order shall be effective on the date of entry specified above and supercedes this Court's Order of May 29, 2001.

29. Further, this Order supercedes any order entered by this Court prior to 12:00 noon, October 3, 2001.

The Rehabilitator, through its counsel, is hereby directed to forthwith, serve a copy of this order upon all parties listed on the master service list via fax and/or e-mail and U.S. mail, if necessary. The Rehabilitator, through its counsel, is directed to file with the court in the Office of the Prothonotary, 9th Floor the Widener Building, 1339 Chestnut Street, Philadelphia, PA 19107, by 1:00 p.m. October 9, 2001 an affidavit, that service, as outlined above, has been effectuated.

James Gardner Colins

JAMES GARDNER COLINS, Judge

Office of the Superintendent of Financial Institutions Canada
255 Albert Street
Ottawa, Canada
K1A 0H2

Bureau du surintendant des institutions financières Canada
255, rue Albert
Ottawa, Canada
K1A 0H2

PROTECTED

October 5, 2001

"E"
This is Exhibit.....referred to in the
affidavit of Francois Gilbert
sworn before me, this 8th
day of November, 2001

A COMMISSIONER FOR TAKING AFFIDAVITS

Mr Denis Morin
Chief Agent
Reliance Insurance Company
1906-200 King Street West
Toronto, Ontario
M5H 3T4

Dear Mr. Morin:

Subject: Reliance Insurance Company – Canadian P&C Branch

This letter is to inform you that, pursuant to paragraph 679(1)(a) of the *Insurance Companies Act* ("Act"), on October 5, 2001, I took control of the assets in Canada of Reliance Insurance Company together with its other assets held in Canada under the control of its chief agent, including all amounts received or receivable in respect of its insurance business in Canada. This authority allows me to take control of the assets and maintain control for a period not exceeding sixteen days.

The effect of taking control of the assets in accordance with the provisions of paragraph 679(1)(a) of the Act is set forth in subsection 679(3) of the Act. Paragraph 679(3)(a) stipulates that the company shall not make, acquire or transfer any loan or make any purchase, sale or exchange of securities or any disbursement or transfer of cash of any kind without my prior approval or a representative designated by me. Paragraph 679(3)(b) further stipulates that no director, officer or employee nor the chief agent of the company shall have access to any cash or securities held by the company unless he has with him a representative of me or unless such access have been previously authorized by me or my representative. A copy of subsection 679(3) is attached for your convenience.

I have designated KPMG Inc. and the following individuals as my representatives in this regard: François Gilbert and Karen Badgerow-Croteau. The authority of one of these representatives will be necessary, therefore in order to enable the company to deal in any way with its assets under my control.

Representatives of the Office of the Superintendent of Financial Institutions expect to meet with you on behalf of the company to work out operating procedures in the near future and they will be in touch with you concerning the arrangements.

Canada

Thank you for your co-operation and courtesy.

Yours truly,

Nicholas Le Pan
Superintendent

Encl.

cc: Ms. M. Diane Koken
Liquidator of Reliance Insurance Company

Powers of Superintendent

(3) Where the Superintendent has, pursuant to subsection (1), control of the assets of a company, society, provincial company or foreign company referred to in that subsection,

(*a*) the company, society, provincial company or foreign company shall not make, acquire or transfer any loan or make any purchase, sale or exchange of securities or any disbursement or transfer of cash of any kind without the prior approval of the Superintendent or a representative designated by the Superintendent; and

(*b*) no director, officer or employee of the company, society, provincial company or foreign company nor the chief agent of the foreign company shall have access to any cash or securities held by the company, society, provincial company or foreign company unless

(i) a representative of the Superintendent accompanies the director, officer or employee or the chief agent, or

(ii) the access is previously authorized by the Superintendent or the Superintendent's representative.

1991, c. 47, s. 679; 1996, c. 6, s. 96; 1997, c. 15, s. 326.

680. to 682. [Repealed, 1996, c. 6, s. 96]

Office of the Superintendent of Financial Institutions Canada
255 Albert Street
Ottawa, Canada
K1A 0H2

Bureau du surintendant des institutions financières Canada
255, rue Albert
Ottawa, Canada
K1A 0H2

PROTECTED

October 11, 2001

This is Exhibit "F" referred to in the affidavit of Francois Gilbert sworn before me, this 8th day of November, 2001

A COMMISSIONER FOR TAKING AFFIDAVITS

Mr. Denis Morin
Chief Agent
Reliance Insurance Company
1906-200 King Street West
TORONTO, ON M5H 3T4

Dear Mr. Morin:

Subject: Notice of Intent to Continue Control Beyond Sixteen Days of the Assets in Canada of Reliance Insurance Company

This is to notify you that, pursuant to subparagraph 679(1)(b)(ii) of the *Insurance Companies Act* (the "Act"), I intend to continue control beyond sixteen days of the assets in Canada of Reliance Insurance Company (the "Company") together with its other assets held in Canada under the control of its chief agent, including all amounts received or receivable in respect of its insurance business in Canada. Subsection 679(1) of that Act provides, in part, as follows:

1) Subject to this Act, where any of the circumstances described in subsection (1.2) exist in respect of a foreign company, the Superintendent may

a) take control, for a period not exceeding sixteen days, in the case of a foreign company, of its assets in Canada together with its other assets held in Canada under the control of its chief agent, including all amounts received or receivable in respect of its insurance business in Canada; or

b) unless the Minister[1] advises the Superintendent that the Minister is of the opinion that it is not in the public interest to do so,

i) take control, for a period exceeding sixteen days, in the case of a foreign company, of its assets in Canada together with its other assets held in Canada under the control of its chief agent, including all amounts received or receivable in respect of its insurance business in Canada,

ii) where control of assets has been taken under paragraph (a), continue the control beyond the sixteen days referred to in that paragraph.

[1] Please note that, pursuant to section 704 of the *Insurance Companies Act*, the powers, duties and functions of the Minister of Finance under that Act have been delegated to the Secretary of State (International Financial Institutions), the Honourable Jim Peterson.

Canada

I intend to continue control beyond sixteen days on the grounds set out in paragraphs 679(1.2)(a), (b) and (c) of the Act as I am of the opinion that

a) in respect of its insurance business in Canada, the Company will not be able to pay its liabilities as they become due and payable;

b) a practice or state of affairs exists in respect of the Company that may be materially prejudicial to the interest of its policyholders or creditors in Canada; and

c) the assets in Canada of the Company are not sufficient to give adequate protection to its policyholders and creditors in Canada.

In this respect, find attached a memorandum dated October 11, 2001 setting out the details supporting my action.

In accordance with subsection 679(1.3) of the Act, the Company has the right to make written representations on the proposed action. Such written representations must be made on or before Wednesday, October 17, 2001.

Also be advised that, if control of the assets is continued, pursuant to section 684.1 of the Act, I intend to request the Attorney General of Canada to apply to the Ontario Superior Court of Justice for a winding-up order under section 10.1 of the *Winding-up and Restructuring Act* in respect of the insurance business in Canada of the Company.

A copy of the relevant statutory provisions is attached for your convenience.

Should you require further information, you can contact Karen Badgerow-Croteau at (613) 990-7608.

Yours very truly,

Superintendent of Financial Institutions

c.c. Ms. M. Diane Koken
Liquidator of Reliance Insurance Company

Supervisory Intervention

Superintendent may take control

679. (1) Subject to this Act, where any of the circumstances described in subsection (1.1) exist in respect of a company, society or provincial company or any of the circumstances described in subsection (1.2) exist in respect of a foreign company, the Superintendent may

(*a*) take control, for a period not exceeding sixteen days, of the assets of the company, society or provincial company and the assets under its administration or, in the case of a foreign company, of its assets in Canada together with its other assets held in Canada under control of its chief agent, including all amounts received or receivable in respect of its insurance business in Canada; or

(*b*) unless the Minister advises the Superintendent that the Minister is of the opinion that it is not in the public interest to do so,

(i) take control, for a period exceeding sixteen days, of the assets of the company, society or provincial company and the assets under its administration or, in the case of a foreign company, of its assets in Canada together with its other assets held in Canada under the control of its chief agent, including all amounts received or receivable in respect of its insurance business in Canada,

(ii) where control of assets has been taken under paragraph (*a*), continue the control beyond the sixteen days referred to in that paragraph, or

(iii) take control of the company, society or provincial company.

Circumstances re other than foreign company

(1.1) Control by the Superintendent under subsection (1) may be taken in respect of a company, society or provincial company, other than a foreign company, where

(*a*) the company, society or provincial company has failed to pay its liabilities or, in the opinion of the Superintendent, will not be able to pay its liabilities as they become due and payable;

(*b*) in the opinion of the Superintendent, a practice or state of affairs exists in respect of the company, society or provincial company that may be materially prejudicial to the interests of its policyholders or creditors or the owners of any assets under the administration of the company, society or provincial company;

(*c*) the assets of the company, society or provincial company are not, in the opinion of the Superintendent, sufficient to give adequate protection to its policyholders and creditors;

(*d*) any asset appearing on the books or records of the company, society or provincial company or held under its administration is not, in the opinion of the Superintendent, satisfactorily accounted for;

(*e*) the regulatory capital of the company, society or provincial company has, in the opinion of the Superintendent, reached a level or is eroding in a manner that may detrimentally affect its policyholders or creditors; or

(*f*) the company, society or provincial company has failed to comply with an order of the Superintendent under paragraph 515(3)(*a*) or subsection 516(4).

Circumstances re foreign company

(1.2) Control by the Superintendent under subsection (1) may be taken in respect of a foreign company where

(*a*) in respect of its insurance business in Canada, it has failed to pay its liabilities or, in the opinion of the Superintendent, will not be able to pay its liabilities as they become due and payable;

(*b*) in the opinion of the Superintendent, a practice or state of affairs exists in respect of a foreign company that may be materially prejudicial to the interests of its policyholders or creditors in Canada;

(*c*) its assets in Canada are not, in the opinion of the Superintendent, sufficient to give adequate protection to its policyholders and creditors in Canada;

(*d*) any asset relating to its insurance business in Canada appearing on the books or records of the foreign company is not, in the opinion of the Superintendent, satisfactorily accounted for; or

(*e*) it has failed to comply with an order of the Superintendent under paragraph 608(3)(*a*) or subsection 609(2).

Notice of proposed action

(1.3) The Superintendent must notify a company, society, provincial company or foreign company of any action proposed to be taken in respect of it under paragraph (1)(*b*) and of its right to make written representations to the Superintendent within the time specified in the notice, not exceeding ten days after it receives the notice.

Objectives of Superintendent

(2) Where the Superintendent has, pursuant to subsection (1), control of the assets of a company, society, provincial company or foreign company referred to in that subsection, the Superintendent may do all things necessary or expedient to protect the rights and interests of the policyholders and creditors of the company, society or provincial company or the policyholders and creditors in Canada of the foreign company.

Powers of Superintendent

(3) Where the Superintendent has, pursuant to subsection (1), control of the assets of a company, society, provincial company or foreign company referred to in that subsection,

(*a*) the company, society, provincial company or foreign company shall not make, acquire or transfer any loan or make any purchase, sale or exchange of securities or any disbursement or transfer of cash of any kind without the prior approval of the Superintendent or a representative designated by the Superintendent; and

(*b*) no director, officer or employee of the company, society, provincial company or foreign company nor the chief agent of the foreign company shall have access to any cash or securities held by the company, society, provincial company or foreign company unless

(i) a representative of the Superintendent accompanies the director, officer or employee or the chief agent, or

(ii) the access is previously authorized by the Superintendent or the Superintendent's representative.

1991, c. 47, s. 679; 1996, c. 6, s. 96; 1997, c. 15, s. 326.

680. to **682.** [Repealed, 1996, c. 6, s. 96]

Powers of directors and officers suspended

683. (1) Where the Superintendent takes control of a company, society or provincial company pursuant to subparagraph 679(1)(*b*)(iii), the powers, duties, functions, rights and privileges of the directors of the company, society or provincial company and of the officers of the company, society or provincial company responsible for its management are suspended.

Superintendent to manage company

(2) Where the Superintendent takes control of a company, society or provincial company pursuant to subparagraph 679(1)(*b*)(iii), the Superintendent shall manage the business and affairs of the company, society or provincial company and in so doing the Superintendent

(*a*) may perform any of the duties and functions that the persons referred to in subsection (1) were performing prior to the taking of control; and

(*b*) has and may exercise any power, right or privilege that any such person had or could have exercised prior to the taking of control.

Persons to assist

(3) Where the Superintendent takes control of a company, society or provincial company pursuant to subparagraph 679(1)(*b*)(iii), or of the assets of a foreign company pursuant to subparagraph 679(1)(*b*)(i) or (ii), the Superintendent may appoint one or more persons to assist in the management of the company, society or provincial company or of the insurance business in Canada of the foreign company.

1991, c. 47, s. 683; 1996, c. 6, s. 97.

Expiration of control

684. Control by the Superintendent under subsection 679(1) of a company, society or provincial company or of the assets of a company, society or provincial company or of the assets in Canada of a foreign company together with its other assets held in Canada under the control of its chief agent including all amounts received or receivable in respect of its insurance business in Canada expires on the day on which a notice by the Superintendent is sent to

(*a*) the directors and officers who conducted the business and affairs of the company, society or provincial company, or

(*b*) the chief agent in Canada of the foreign company,

stating that the Superintendent is of the opinion that the circumstances leading to the taking of control by the Superintendent have been substantially rectified and that the company, society or provincial company or the foreign company, as the case may be, can resume control of its business and affairs, assets or its insurance business in Canada, as the case may be.

1991, c. 47, s. 684; 1996, c. 6, s. 97.

Superintendent may request winding-up

684.1 The Superintendent may, at any time before the receipt of a request under section 685 to relinquish control of a company, society or provincial company or of the assets of a company, society or provincial company or of the assets in Canada of a foreign company together with its other assets held in Canada under the control of its chief agent including all amounts received or receivable in respect of its insurance business in Canada, request the Attorney General of Canada to apply for a winding-up order under section 10.1 of the *Winding-up and Restructuring Act* in respect of

(*a*) the company, society or provincial company, where the assets of the company, society or provincial company are under the control of the Superintendent pursuant to subparagraph 679(1)(*b*)(i) or (ii);

(*b*) the insurance business in Canada of the foreign company, where the assets in Canada of the foreign company together with its other assets referred to in subparagraph 679(1)(*b*)(i) or (ii) are under the control of the Superintendent pursuant to that subparagraph; or

(*c*) the company, society or provincial company, where it is under the control of the Superintendent pursuant to subparagraph 679(1)(*b*)(iii).

1996, c. 6, s. 97.

Requirement to relinquish control

685. Where no action has been taken by the Superintendent under section 684.1 and, after thirty days following the taking of control by the Superintendent under subsection 679(1) of a company, society or provincial company or of the assets of a company, society or provincial company or of the assets in Canada of a foreign company together with its other assets held in Canada under the control of its chief agent including all amounts received or receivable in respect of its insurance business in Canada, the Superintendent receives from the board of directors of the company, society or provincial company or, in case of a foreign company, its chief agent, a notice in writing requesting the Superintendent to relinquish control, the Superintendent must, not later than twelve days after receipt of the notice,

(*a*) comply with the request; or

(*b*) request the Attorney General of Canada to apply for a winding-up order under section 10.1 of the *Winding-up and Restructuring Act* in respect of the company, society or provincial company or the insurance business in Canada of the foreign company.

1991, c. 47, s. 685; 1996, c. 6, s. 97.

459 (I) 6 pages

Blaney McMurtry
BARRISTERS & SOLICITORS LLP

EXPECT THE BEST

COPY

20 Queen Street West
Suite 1400
Toronto, Canada M5H 3V2
416.593.1221 TEL
416.593 5437 FAX
www.blaney.com

Crawford W. Spratt

416.593.3965
cspratt@blaney.com

October 17, 2001

DELIVERED BY HAND

"G"
This is Exhibit.....referred to in the
affidavit of Francois Gilbert
sworn before me, this 8th
day of November, 2001
A COMMISSIONER FOR TAKING AFFIDAVITS

Mr. Nicholas Le Pan
Superintendent of Financial Institutions
Office of the Superintendent of
Financial Institutions, Canada
121 King Street West, 23rd Floor
Toronto, Ontario M5H 3T9

Dear Mr. Le Pan:

Re: Reliance Insurance Company

We are solicitors for Reliance Insurance Company in Liquidation ("Reliance") which has provided us with a copy of your letter of October 11, 2001 to Mr. Denis Morin Chief Agent for Reliance (the "October 11th, 2001 Letter") in which you advise that you intend to continue control beyond sixteen days of the assets in Canada of Reliance and that, if such control is continued, you intend to request the Attorney General of Canada to apply for a winding-up order in respect of Reliance's insurance business in Canada.

In the October 11th, 2001 Letter, you advised that Reliance had the right to make written representations on the proposed actions on or before October 17, 2001.

In this regard, and as discussed with Ms. Karen Badgerow-Croteau of your Office, please find enclosed the representations which Reliance wishes to make with respect to your proposed actions and which we have today received from Reliance by facsimile transmission. Original copies of these representations will be delivered to you upon our receipt of them from Reliance.

We would advise that the writer and the appropriate officers at Reliance are available at your convenience to discuss Reliance's representations with you or any member of your staff at your convenience.

As noted above, you have advised Reliance that that if control of the assets in Canada of Reliance is continued by you, you intend to request the Attorney General of Canada to apply to the Ontario Supreme Court for a winding-up order under section 10.1 of the *Winding-up and Restructuring Act* in respect of the insurance business in Canada of Reliance.

In the event that such a winding-up order is sought by you or in the event any application for any other order, direction or relief with respect to Reliance's insurance business in Canada is sought by you, we would advise that we have been authorised to accept service of the application materials or any other materials with respect to same on behalf of Reliance.

Yours very truly,

Blaney McMurtry LLP

Crawford W. Spratt
encl.
CWS/cws

cc: Karen Badgerow-Croteau (delivered)
Brian Corbett (by fax)
Kevin McLean (by fax, letter only)
Art Mullin (by fax, letter only)

COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT
STRAWBERRY SQUARE
HARRISBURG, PA. 17120

EXECUTIVE OFFICES

October 17, 2001

DELIVERED BY HAND

Mr. Nicholas Le Pan
Superintendent of Financial Institutions
Office of the Superintendent of
Financial Institutions, Canada
121 King Street West, 23rd Floor
Toronto, Ontario M5H 3T9

Dear Mr. Le Pan:

Re: Reliance Insurance Company

We are in receipt of your "Notice of Intent to Continue Control.. " letter of October 11, 2001

Pursuant to subsection 679(1.3) of the Insurance Companies Act of Canada (the "Act") we make the following representations regarding your proposed actions.

Before responding to the specific concerns raised in Mr. Doran's memo to you, we would like to suggest a number of facts which we believe may differentiate the Canadian Branch's situation from that of "Reliance (U.S.)". First and foremost it does not appear to us that you have completed a thorough analysis of the Canadian Branch's future claims requirements and evaluated the Canadian Branch's ability to fund these claims through its investment assets and considerable reinsurance receivables. We believe this should be undertaken before any action to put the Canadian Branch into liquidation proceeds.

Second, the Canadian Branch is not facing the severe liquidity crisis that Reliance (U.S.) was confronting when the decision was made to place Reliance (U.S.) into liquidation. According to a conservative analysis, the Canadian Branch is and will be able in the future able to pay all liabilities as they come due.

Third, Reliance (U.S.) assets were significantly less than its liabilities whereas we believe the Canadian Branch's assets (when evaluated and conservatively discounted as appropriate) exceed the liabilities (as currently known) by a significant margin.

Lastly, Reliance (U.S.) parent had correctly concluded that the value of Reliance was of little value to its creditors, whereas Reliance (U.S.) believes that the net realizable asset value of the Canadian Branch will add to the proceeds to be distributed to the Reliance (U.S.) policyholders, after providing for the payment in full of Canadian policyholders.

The following represent our responses to the statements in Part 3 of Mr. Doran's memo to you of October 11, 2001.

a) Reliance (U.S) operations now being in liquidation will strengthen its liquidity position as the Guarantee Funds pay claims and Reliance (U.S.) collects from its reinsurers (we are experiencing temporary delays but expect to ultimately collect a very high percentage of these receivables). This will likely not result in additional financial support for Canada, but will result in our continuing ability to provide administrative services support for the indefinite future.

b) With respect to the 6/30/01 financials, the comparison of "vested" assets to gross liabilities is unfair given the lack of consideration for our reinsurance programs. This is a significant point because of the strength of the participants on these reinsurance programs as confirmed by a study prepared by the staff of the Canadian Branch and independently confirmed by Deloitte & Touche that was submitted to OSFI on 6th of July, 2001. The report indicated, that the Canadian Branch was solvent and the reinsurance receivables were still a viable asset. Stress tests were performed on the reinsurance coverages in place and the solvency result remained very positive, regardless of future amounts collected from Reliance (U S.)'s master programs. These master treaties that the Canadian Branch participates in comprise no more than 20% of the total reinsurance coverage and should not materially alter the overall solvency of the Canadian Branch. That said, Reliance (U.S.) feels confident that the reinsurance participants under these master programs will honor their responsibility to continue to pay claims.

A reference was made as to "set-offs" and the collection of reinsurance proceeds being a serious problem as commented by Diane Koken within the petition seeking the Order of Liquidation. We acknowledge the difficult task at hand of reinsurance collections in the future, however, this does not constitute a concession that every effort and resource will not be utilized to collect every dollar that is owed to Reliance (U.S.). In fact, additional resources are being deployed to these areas to continue to pursue reinsurance collections. Set-offs as a percentage of total Reinsurance proceeds for Reliance (U.S.) are less than 10%. Since the Canadian Branch did not underwrite any significant assumption business, offsets should have a minimal impact on the Canadian Branch's collections

We understand the concern raised on the historical deficiency of gross reserves in the past and have taken appropriate underwriting actions over the past 24 months, prior to any orders or notices, to discontinue writing these lines and or programs. We believe the corrective actions and reserve strengthening we have taken should arrest this trend. Therefore, to properly understand the current position of IBNR we suggest an independent actuarial analysis be performed quickly to determine an accurate depiction of where the operation stands. To only look at historical trends is misleading in the face of the corrective actions taken by the Canadian Branch.

[redacted]

[redacted]

Also it is important to note, that all of the runoff models that have been submitted to date, which considered many, if not all, of the above named issues, have shown a consistent forecast of positive surplus at the conclusion of a voluntary run-off.

We acknowledge that Reliance (U S.) has collected reinsurance proceeds that should have previously been remitted to the Canadian Branch. We will determine such amounts in the next two weeks and remit same to the Canadian branch. We will continue doing so in the future.

We respectfully request that you immediately request KPMG to conduct an actuarial review of the Canadian branch and withhold placing it into Liquidation until such review is completed and you then determine if such action is still warranted. We will work with you in such manner as you deem appropriate in the interim to make sure no asset diminution greater than what will occur if you place it in liquidation occurs We would be happy to meet with you, your staff and KPMG to immediately work on achieving an appropriate conveyance of the Canadian Branch's assets and liabilities to an insurance company satisfactory to you.

Should these representations not prove persuasive and you decide to move ahead with placing the company into a liquidation, we will still cooperate with you in moving the Canadian Branch to a third party, while reserving our right to challenge such a liquidation proceeding. We believe the Reliance (U.S.) estate will suffer a diminution in realized proceeds from any transaction, if the Canadian Branch is placed into a liquidation in Canada, and that such a diminution may be viewed as our failing to fulfil our duty to maximize the value of the U.S. estate for the benefit of U.S. policyholders. We truly believe the Canadian policyholders are adequately protected by the excess assets of the Canadian Branch.

I am available, as needed, to meet with you or to discuss this letter in detail, but please feel free to contact my onsite representative David Brierling at (212) 858-8818.

Sincerely yours,

William S. Taylor

William S. Taylor
Liquidator Designee
Reliance Insurance Company
(In Liquidation)

COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT
HARRISBURG

THE COMMISSIONER

October 5, 2001

William S. Taylor
Deputy Insurance Commissioner
Pennsylvania Insurance Department
Office of Liquidations, Rehabilitations
and Special Funds
Capital Associates Building
901 North 7th Street
Harrisburg, PA 17102

RE: Reliance Insurance Company (In Liquidation)

Dear Mr. Taylor:

On October 3, 2001, the Commonwealth Court of Pennsylvania entered its Order placing Reliance Insurance Company in liquidation and appointed me, Insurance Commissioner of the Commonwealth of Pennsylvania, and my successors in office, Liquidator of Reliance Insurance Company ("Reliance"). I am directed, in accordance with Article V of the Insurance Department Act of 1921, Act of May 17, 1921, P.L. 789, as amended, 40 P.S. §§221.1-221.63, and paragraphs 3 and 5 of the Liquidation Order, to take immediate possession of Reliance's property, business and affairs and take such action as the nature of this case and the interests of the policyholders, creditors, or the public may require. Further, I am specifically directed to take possession of the assets of Reliance of whatever nature and wherever located, whether held directly or indirectly.

This letter will confirm that you, as my employee and agent, are authorized, on my behalf as Liquidator of Reliance, to: transfer, receive, sell and disperse the property and assets of Reliance, and to otherwise exercise my authority as Liquidator as vested in the law and in the Order of the Court, that you, in your judgment, deem necessary to conduct the liquidation of Reliance. You may present this letter to all persons or entities including any banks, investment bankers, companies, entities and other persons having in their possession assets which are, or may be, the property of Reliance as evidence of your authority to act on my behalf with respect to the property, assets and business of Reliance in Liquidation.

Sincerely,

Diane Koken

M. Diane Koken
Insurance Commissioner of the Commonwealth of Pennsylvania as Liquidator of Reliance Insurance Company

Office of the Superintendent of Financial Institutions Canada
255 Albert Street
Ottawa, Canada
K1A 0H2

Bureau du surintendant des institutions financières Canada
255, rue Albert
Ottawa, Canada
K1A 0H2

PROTECTED

October 19, 2001

This is Exhibit "H" referred to in the affidavit of Francois Gilbert sworn before me, this 8th day of November, 2001

A COMMISSIONER FOR TAKING AFFIDAVITS

Mr. Denis Morin
Chief Agent
Reliance Insurance Company
1906-200 King Street West
Toronto, Ontario
M5H 3T4

Dear Mr. Morin:

Subject: Continuing Control Beyond Sixteen Days of the Assets in Canada of Reliance Insurance Company

This is to notify you that, pursuant to subparagraph 679(1)(b)(ii) of the *Insurance Companies Act* (the "Act"), I am continuing control beyond October 20, 2001 of the assets in Canada of Reliance Insurance Company together with its other assets held in Canada under the control of its chief agent, including all amounts received or receivable in respect of its insurance business in Canada (the "Assets").

I have carefully considered the written representations submitted on behalf of the Company. I remain of the opinion that:

(a) in respect of its insurance business in Canada, the company will not be able to pay its liabilities as they come due and payable;

(b) a practice or state of affairs exists in respect of the company that may be materially prejudicial to the interests of its policyholders or creditors in Canada; and

(c) the assets in Canada of the company are not sufficient to give adequate protection to the company's policyholders and creditors in Canada.

Accordingly, I believe that immediate action is necessary to protect the rights and interests of the company's policyholders and creditors in Canada.

Canada

The effect of taking control of the Assets in accordance with the provisions of paragraph 679(1)(b)(ii) of the Act is set forth in subsection 679(3) of the Act. Paragraph 679(3)(a) stipulates that the company shall not make, acquire or transfer any loan or make any purchase, sale or exchange of securities or any disbursement or transfer of cash of any kind without my prior approval or the prior approval of a representative designated by me. Paragraph 679(3)(b) further stipulates that no director, officer or employee nor the chief agent of the company shall have access to any cash or securities held by the company unless he has with him a representative of me or unless such access has been previously authorized by me or my representative.

I have designated KPMG Inc. and the following individuals as my representatives in this regard: François Gilbert and Karen Badgerow-Croteau. The authority of one of these representatives will be necessary, therefore, in order to enable the company to deal in any way with the Assets.

Representatives of the Office of the Superintendent of Financial Institutions expect to meet with officials on behalf of the company to work out operating procedures in the near future and they will be in touch with you concerning the arrangements.

Thank you for your co-operation and courtesy.

Yours sincerely,

Nicholas Le Pan
Superintendent

cc: Ms. M. Diane Koken
Liquidator of Reliance Insurance Company

Crawford W. Spratt
Canadian Counsel of Reliance Insurance Company

Robert Sanderson
KPMG Inc.

"I"
This is Exhibit.....referred to in the
affidavit of Francois Gilbert
sworn before me, this 8th
day of November, 2001
A COMMISSIONER FOR TAKING AFFIDAVITS

COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT
HARRISBURG

THE COMMISSIONER

November 7, 2001

Mr. Nicholas Le Pan
Superintendent of Financial Institutions
Office of the Superintendent of
Financial Institutions, Canada
121 King Street, 23rd Floor
Toronto, Ontario M5H3T9

Re: Reliance Insurance Company-Canadian Branch

Dear Mr. Le Pan:

I wanted to take this opportunity to contact you regarding your potential action to place RIC-Canada into Liquidation. I fully support the position that William Taylor, Deputy Insurance Commissioner, and his Liquidation Team have taken in the October 17 letter, as well as the video conference held with your office on November 6. As a fellow regulator, I am acutely aware of your obligation to do what is in the best interests of RIC-Canadian policyholders. As a fellow receiver, I also have an obligation to RIC's U.S. policyholders to maximize the value of RIC-U.S. assets, including the equity value of the Canadian branch. I do not think it is unreasonable for you to allow the RIC-U.S. Liquidator a short time period of two months to explore the marketplace to determine if a transaction covering the Canadian liabilities can be consummated. We do not believe that the time requested will cause undo harm to the Canadian policyholders.

It is my understanding that your office is concerned about possible litigation that might result in RIC-Canada assets being attached. I do not believe that this potential litigation risk is justification for me as Liquidator of RIC-U.S. to consent to placing RIC-Canada into Liquidation. We are willing to work with you to find solutions to protect you from the risks you perceive a delay could cause. All I can request is that you reconsider the issues raised in Mr. Taylor's October 17 letter and the November 6 video conference. Please rest assured that whatever the outcome, we will work together with you to protect the interests of the RIC-Canada policyholders.

Sincerely,

Diane Koken

M. Diane Koken
Insurance Commissioner
Liquidator of Reliance Insurance Company

KPMG Inc.

Suite 3300 Commerce Court West
PO Box 31 Stn Commerce Court
Toronto Ontario M5L 1B2

Telephone (416) 777-8500
Telefax (416) 777-3364
Telefax (416) 777-8818
http://www.kpmg.ca

November 8, 2001

"J"
This is Exhibit.....referred to in the
affidavit of Francois Gilbert
sworn before me, this 8th
day of November, 2001
A COMMISSIONER FOR TAKING AFFIDAVITS

Office of the Superintendent of Financial Institutions Canada
255 Albert Street
Ottawa, Canada
K1A 0H2

Attention: François Gilbert

Dear Sir:

Re: Reliance Insurance Company - Canadian Branch ("Reliance (Canada)")

The Superintendent has designated KPMG Inc. as one of his representatives in connection with his taking of control of the assets in Canada of Reliance (Canada). He has also requested that the Attorney General of Canada apply to the Ontario Superior Court of Justice for an order (the "Order") winding up Reliance (Canada) under the *Winding-up and Restructuring Act*. He is recommending that KPMG Inc. be appointed as liquidator of Reliance (Canada) (the "Liquidator").

In our capacity as the Superintendent's representative, we have become familiar with the business of Reliance (Canada). Based on our work thus far and on our experience in the liquidations of both property and casualty insurance companies and branches and life insurance companies, we consider that, if Reliance (Canada) is liquidated, the best interests of policyholders, creditors and other parties interested in Reliance (Canada) would be best served if, in the initial phases of the liquidation, the Liquidator explored the possibility of arranging for transfer or reinsurance of all or a portion of the policies of Reliance (Canada). In order to enhance the value of the estate as much as possible to any potential transferee or reinsurer, the Liquidator should be specifically empowered in the Order to pay certain liabilities relating to the policies, including:

(a) the reasonable legal and other costs which Reliance (Canada) is obligated to pay for defending insureds against losses under their policies in accordance with the policies;

(b) all valid policyholder claims, except as described in paragraph (c) below, up to $25,000 or the amount, if any, of the voluntary compensation payment ("PACICC Voluntary Payment") of the Property and Casualty Insurance Compensation Corporation ("PACICC"), discussed more fully below;

(c) all valid claims under certain warranty and surety programs of Reliance (Canada) up to $5,000 or the amount, if any, of the PACICC Voluntary Payment; and

(d) any other payments in respect of the policies that the Liquidator in its discretion deems advisable.

The Liquidator should also be empowered to pay cheques or drafts issued by Reliance (Canada) prior to the making of the Order but presented for payment thereafter and to enter into arrangements with PACICC.

In our view, making these payments will enhance the value of the business, maximizing any potential opportunity for its sale or transfer. It will also minimize the potential disruption or hardship to policyholders and creditors.

With respect to the payment of liabilities relating to policies:

(a) the payment of defence costs will maintain the standards of claims adjudication, ensuring that claims are properly handled and easing possible concerns of reinsurers; and

(b) the payment levels recommended are based on our review of the claims profiles, which indicate that the vast majority of the claims are under $25,000, other than claims under the warranty and insurance programs referred to above, the vast majority of which are under $5,000.

We recommend that the above provisions with respect to payments on policies be in place until April 30, 2002. By that time, the Liquidator will have had an opportunity to further consider the status of the business and the potential for its transfer, and to further report to the Court and seek directions if necessary.

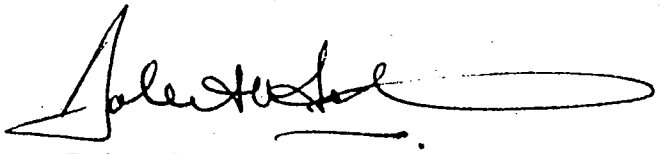
PACICC was established by property and casualty insurers to compensate policyholders and third party claimants in respect of insolvent property and casualty insurers by making voluntary payments. We considered it prudent to contact PACICC and explore ways in which PACICC and the Liquidator could cooperate, to ensure both the least disruption to policyholders and third party claimants and the most expeditious and efficient handling of claims and processing of PACICC payments. We attach a draft loan agreement reached with PACICC which we would propose be executed by the Liquidator and PACICC if the Order is issued. The loan agreement provides that the Liquidator will advance payments up to PACCIC limits from the assets of Reliance (Canada) in respect of policyholder claims covered under PACICC. PACICC will pay the Liquidator the difference between amounts so advanced and the ultimate percentage recovery which the estate would pay, with interest from the date each payment is made to policyholders and claimants.

We have reviewed all outstanding cheques or drafts issued prior to October 5, 2001, and approved them for payment. Any cheques or drafts issued after October 5, 2001 have been drawn with the authority of the representatives.

We respectfully request that the Attorney General include provisions in the Order being requested which would, if the Order is made, empower the Liquidator to make the payments described in this letter and enter into the loan agreement with PACICC.

Yours very truly,

KPMG INC.



Robert O. Sanderson
President

Attachment

LOAN AND SERVICES AGREEMENT

THIS AGREEMENT dated the _____ day of ●, 2001

B E T W E E N:

PROPERTY AND CASUALTY INSURANCE COMPENSATION CORPORATION

(hereafter referred to as "PACICC")

OF THE FIRST PART,

- and –

KPMG INC., solely in its capacity as court appointed Liquidator of the insurance business in Canada of **RELIANCE INSURANCE COMPANY** ("Reliance"), and not in its personal capacity

(hereafter referred to as the "Liquidator")

OF THE SECOND PART.

WHEREAS:

A. By order of the Commonwealth Court of Pennsylvania dated the 3rd day of October, 2001, the Insurance Commissioner of the Commonwealth of Pennsylvania and her successors in office was appointed Liquidator of Reliance and directed to liquidate Reliance;

B. By order of the Ontario Court of Justice (General Division) dated the _____ day of , 2001, the insurance business in Canada of Reliance was ordered wound-up pursuant to the provisions of the *Winding-up and Restructuring Act*;

C. By subsequent order of the Ontario Court of Justice (General Division) dated the ____ day of ●, 2001, KPMG Inc. was appointed the provisional liquidator of the insurance business in Canada of Reliance;

D. PACICC was established by property and casualty insurers to provide a reasonable level of compensation, through the making of voluntary payments to Policyholders and Third Party Claimants in respect of insolvent property and casualty insurers;

E. The Liquidator and PACICC are in agreement that the interests of the claimants of Reliance would best be served by co-operation between the Liquidator and PACICC to ensure the most expeditious and efficient handling of claims and processing of PACICC payments; and

F. To achieve these goals, the Liquidator and PACICC have agreed that the Liquidator shall make payments to Policyholders and Third Party Claimants on behalf of PACICC in accordance with the Memorandum of Operation, and that payments so made by the Liquidator on PACICC's behalf shall constitute indebtedness of PACICC to the Liquidator in accordance with the terms hereof, and they have further agreed that the Liquidator shall provide certain services to PACICC on the terms and conditions set forth herein.

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NOW THEREFORE THIS AGREEMENT WITNESSETH that:

ARTICLE I

DEFINITIONS AND INTERPRETATION

1.1 Memorandum of Operation

Capitalized terms used in this Agreement and not defined in Section 1.2 below or elsewhere in this Agreement shall have the meanings attributed to such terms in the Memorandum of Operation.

1.2 Definitions

Where used in this Agreement, the following terms shall have the following meanings:

(a) "Agreement", "hereof", "herein", "hereunder" and similar expressions refer to this Agreement taken as a whole, including the Schedules attached hereto;

(b) "Amount Outstanding" has the meaning attributed to such term in Section 2.3;

(c) "Business Day" means any day of the year, other than a Saturday, Sunday or any other day that is a statutory holiday in Toronto, Ontario;

(d) "Canadian Estate" means the assets and operations of Reliance under the control of the Liquidator pursuant to the orders of the Ontario Court of Justice (General Division) referred to in Recitals B and C above;

(e) "Demand" has the meaning attributed to such term in Section 2.3;

(f) "Eligible Amounts" are the amounts paid by the Liquidator to Policyholders or Third Party Claimants on behalf of PACICC;

(g) "Estimated Realization Percentage" means the Liquidator's reasonable estimate of the recovery percentage available to policyholders from time to time;

(h) "Final Realization Percentage" means the final recovery percentage determined by the Liquidator;

(i) "Full Recovery Date" means the date on which the Liquidator publicly announces that the assets and funds in the Canadian Estate are sufficient to yield a 100% recovery (excluding interest) to claimants of Reliance;

(j) "Memorandum of Operation" means the English language version of the Memorandum of Operation of PACICC, a copy of which is attached hereto as Schedule "A";

(k) "Prime Rate" means, for any particular day, the per annum rate of interest which the principal office of the Royal Bank of Canada in Toronto, Ontario quotes, publishes and refers to as its "prime rate" and which is its reference rate of interest for loans made in Canadian dollars to Canadian borrowers.

1.3 Interpretation

Unless the context otherwise requires:

(a) where the word "including" or "includes" is used in this Agreement it means including (or includes), without limitation;

(b) words importing the singular number or masculine gender only shall include the plural number or the feminine gender, and vice-versa;

(c) all references to "Articles", "Sections" and "Schedules" are references to Articles or Sections of, and Schedules to and forming part of this Agreement;

(d) all references herein to an act, statute or regulation shall, unless otherwise stated, be deemed to be a reference to that act, statute or regulation as supplemented, amended, revised, substituted for or renumbered from time to time;

(e) the division of this Agreement into Articles, Sections, paragraphs and other subdivisions and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement;

(f) all references to this Agreement to "Dollars" or "$" are to lawful money of Canada unless otherwise indicated;

(g) all references in this Agreement to time are to the time in effect in Toronto, Ontario on the applicable date; and

(h) where in this Agreement a term is defined, a derivative of that term shall have a corresponding meaning.

1.4 Governing Law

This Agreement shall be governed by and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated as an Ontario contract. The parties irrevocably attorn to the non-exclusive jurisdiction of the courts of the Province of Ontario.

1.5 Invalidity

Any provision of this Agreement, which is prohibited or unenforceable shall be ineffective only to the extent of that prohibition or unenforceability, without invalidating the remaining provisions of this Agreement.

1.6 Time

Time is of the essence of this Agreement.

1.7 Date For Any Action

If any action, including any payment, is required or allowed to be taken or made under this Agreement by any of the parties on or by a date that is not a Business Day, that action may be taken on the next Business Day. In the case of payments, that extension of time shall be included in computing any applicable interest.

1.8 Conflict

If there is any conflict between the provisions of this Agreement and any document or agreement delivered in accordance with this Agreement, the provisions of this Agreement shall govern.

ARTICLE II

COMPENSATION PAYMENTS AND LOAN ARRANGEMENTS

2.1 Determination of Validity and Amount of Covered Claims and Unearned Premiums

The Liquidator will have sole authority and responsibility to determine the validity and amount of all Claims in the Canadian Estate, including all Covered Claims and Unearned Premiums, provided that the Liquidator shall not determine the validity and amount of any Covered Claim in excess of twenty-five thousand dollars ($25,000.00), or any Claim for Unearned Premiums, without first consulting, and obtaining the approval of, PACICC. In accordance with paragraph 4 of the Memorandum of Operation, the amount determined by the Liquidator in accordance with the foregoing in respect of a Covered Claim shall be deemed to be the "Amount of the Covered Claim" and the amount determined by the Liquidator in accordance with the foregoing in respect of Unearned Premium shall be deemed to be the "Amount of the Unearned Premium", and for so long as the payment procedures prescribed for this Agreement are in effect, PACICC will not dispute the Liquidator's determination of the validity and dollar amount of Covered Claims or Unearned Premium or attempt to verify same pursuant to Section 5 of the Memorandum of Operation.

2.2 Estimated Realization Percentage

The Liquidator will have sole authority to establish the Estimated Realization Percentage and will give PACICC seven (7) days notice before any change. It is acknowledged that the Estimated Realization Percentage as of the date hereof is one-hundred percent (100%).

2.3 Payments

Once the Liquidator has determined the Amount of a Covered Claim pursuant to Section 2.1, the Liquidator may make, on behalf of PACICC, a payment or payments (including on an interim basis) to a Policyholder in respect of that Covered Claim in an aggregate amount equal to the lesser of (i) the amount of the Covered Claim, and (ii) the Ceiling Amount. Similarly, once the Amount of the Unearned Premium has been determined pursuant to Section 2.1, the Liquidator may make a payment to a Policyholder in respect thereof on behalf of PACICC in an amount equal to the lesser of (i) seventy percent (70%) of the Amount of Unearned Premium and (ii) the Unearned Premium Limit. Notwithstanding the foregoing:

(a) where the Liquidator is of the view that all or any portion of a Compensation Payment should be made to one or more Third Party Claimants instead of to the Policyholder, the Liquidator may refuse to make a Compensation Payment to the Policyholder on behalf of the PACICC and may pay all or a portion of the Compensation Payment on behalf of PACICC to one or more Third Party Claimants;

(b) the Liquidator shall not make any payment hereunder on behalf of PACICC to any Person whom the Liquidator believes in good faith would likely be designated an Ineligible Person by PACICC's board of directors without first consulting with PACICC and obtaining its approval (provided that the Liquidator shall have no liability for Compensation Payments made by it in good faith to a Person whom it subsequently learns has been designated as an Ineligible Person by PACICC's board of directors); and

(c) the Liquidator will not be required to make hardship payments on behalf of PACICC pursuant to paragraph 30 of the Memorandum of Operation unless the Liquidator is satisfied that the making of such payment is in the overall best interest of the Canadian Estate.

2.4 Loan

The difference between all Eligible Amounts and the amount which is the result of multiplying Eligible Amounts by the Estimated Realization Percentage shall be deemed to have been loaned by the Liquidator to PACICC, and the aggregate of such amounts outstanding from time to time is referred to herein as the "Amount Outstanding". The Amount Outstanding shall include any amount which would have been advanced on behalf of PACICC if the Estimated Realization Percentage had been the Final Realization Percentage from the date of each payment on a Covered Claim or Unearned Premium. From and after the date hereof, interest shall accrue on the Amount Outstanding from time to time at a rate per annum equal to the Prime Rate until such time as the Amount Outstanding has been repaid in full. Interest will be calculated and will

compound semi-annually. The Liquidator may at any time, by written notice to PACICC, demand repayment of the Amount Outstanding and all interest accrued thereon (a "Demand") whereupon the obligation of the Liquidator to make further payments to Policyholders and Third Party Claimants on behalf of PACICC hereunder will immediately terminate and PACICC will be required to repay to the Liquidator within the ninety (90) days of the issuance of the Demand, without any right of set-off or deduction whatsoever (except as expressly contemplated by Section 4.1), the principal amount of the Amount Outstanding and all interest accrued hereunder, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by PACICC.

2.5 Ability to Repay

To ensure that PACICC is able to repay the Amount Outstanding to the Liquidator, PACICC hereby covenants and agrees that the aggregate of:

(a) the amount currently available for use by PACICC in its Compensation Fund; and

(b) the total draws which PACICC is permitted to levy from its Contributing Members pursuant to section 20(1) of its Memorandum of Operation for the remainder of the calendar year,

will at all times exceed Cdn.$50,000,000. PACICC further covenants and agrees it will undertake no commitments and incur no obligations which would impair its abilities to meet its obligations hereunder. PACICC shall provide evidence satisfactory to the Liquidator of its

compliance herewith at the Liquidator's request, failing which the Liquidator may terminate this agreement forthwith on written notice to PACICC.

ARTICLE III

ADDITIONAL SERVICES

3.1 Services

In addition to making Compensation Payments on behalf of PACICC pursuant to Article II, the Liquidator shall provide such services as PACICC may reasonably require including, without limitation:

(a) liasing with Policyholders and Third Party Claimants, including answering their questions during regular business hours regarding PACICC's role with respect to their particular claims or relating to any documents contemplated by Section 2.2(b) above;

(b) calculating the amount of the Compensation Payment to be made to each Policyholder or Third Party Claimant, and keeping appropriate records for PACICC as to how such amounts were calculated;

(c) sending, notices, brochures, pamphlets, booklets or other items to Policyholders and Third Party Claimants, which PACICC shall provide, as and when PACICC may reasonably request; and

(d) advising PACICC of any claim which the Liquidator believes, acting reasonably and in good faith, may involve an Ineligible Person, or might reasonably be

considered to be a hardship case contemplated by paragraph 30 of the Memorandum of Operation.

3.2 Fees and Expenses

For its services hereunder, PACICC will pay the Liquidator its reasonable fees calculated on the same basis as the fees charged the estate for any incremental costs, plus goods and services tax. In addition, PACICC will pay the Liquidator's reasonable out-of-pocket expenses in connection with the provision of services hereunder within thirty (30) days of the receipt of proper invoices therefor.

3.3 Indemnities

PACICC agrees to indemnify the Liquidator against any and all losses, liabilities, costs, claims, actions or demands (collectively "Indemnified Claims") which the Liquidator may incur or which may be made against the Liquidator as a result of, or in connection with the Liquidator's services and activities hereunder, other than any Indemnified Claims which arise as a result of the Liquidator's negligence or wilful misconduct.

The Liquidator agrees to indemnify PACICC against any and all Indemnified Claims which PACICC may incur or which may be made against PACICC which arise as a result of the Liquidator's negligence or wilful misconduct in the carrying out of the Liquidator's activities and the provision of the Liquidator's services hereunder.

3.4 Standard of Care

In providing its services hereunder, the Liquidator will act diligently, honestly and in good faith and will exercise that degree of care that a prudent professional would exercise in similar circumstances.

3.5 Voluntary Nature of Payments

The Liquidator acknowledges that the compensation arrangements administered by PACICC are voluntary and will conduct itself and carry out its obligations and duties hereunder accordingly.

3.6 Representations and Warranties of PACICC

PACICC hereby represents and warrants that its obligations hereunder are legal, valid and binding obligations, enforceable in accordance with the terms hereof.

ARTICLE IV

TERM AND TERMINATION

4.1 Term

This Agreement will commence on the date hereof and continue until the earlier of:

(a) the Full Recovery Date;

(b) the issuance of a Demand; and

(c) termination pursuant to Section 2.5 above or Section 4.2 below.

No termination of this Agreement will prejudice or impair the Liquidator's right to demand repayment of the Amount Outstanding and all interest accrued thereon. The amount of interest payable to PACICC hereunder will be adjusted by the parties forthwith after the final Realization Percentage is determined.

4.2 Termination

Either party may terminate this Agreement by giving thirty (30) days written notice of termination to the other party.

ARTICLE V

GENERAL PROVISIONS

5.1 Public Disclosure

The parties shall consult with each other before making any public disclosure or announcement of the subject matter of this Agreement. Any such disclosure or announcement will be mutually satisfactory to the parties, acting reasonably. The foregoing shall not, however, apply if a party is advised by its counsel that certain disclosures or announcements, which the other party after reasonable notice will not consent to, are required to be made by applicable laws, rules or policies of regulatory authorities having jurisdiction.

5.2 Notices

All notices and other communications required or permitted to be provided under this Agreement shall be in writing and deemed to have been properly given or delivered when delivered personally or sent by telecopy addressed as follows:

(a) If to the Liquidator: KPMG Inc.

Commerce Court West, Suite 3300
Toronto, Ontario
M5L 1B2
Attention: Robert O. Sanderson

Facsimile: (416) 777-3683

with a copy to: Goodmans LLP

250 Yonge Street, Suite 2400
Toronto, Ontario
M5B 2M6
Attention: Gale Rubenstein

Facsimile: (416) 979-1234

(b) If to PACICC: Property and Casualty Insurance Compensation Corporation

20 Richmond St. East, Suite 210
Toronto, Ontario
M5C 2R9
Attention: Alex Kennedy

Facsimile: (416) 364-5889

with a copy to: Torys

Suite 3000, Maritime Life Tower
79 Wellington Street West
Box 270, TD Centre
Toronto, Ontario
M5K 1N2
Attention: Peter B. Birkness

Facsimile: (416) 865-7380

Any notice that is delivered shall be deemed to have been received on the Business Day that it is delivered, or if it is delivered on a day that is not a Business Day, the immediately following Business Day. Any notice sent by telecopy shall be deemed to have been received at the beginning of the next Business Day following the day of transmission. Either party may change its address for service by notice served on the other party in accordance with the provisions of this Section 5.2.

5.3 Assignment

This Agreement, and the parties' rights and obligations under this Agreement, are not assignable in whole or in part without the prior written consent of the other party, which consent may be withheld in the discretion of the party. Notwithstanding the foregoing, in the event of the appointment of a person replacing KPMG Inc. as liquidator of the Canadian Estate, such party shall automatically and without further formality succeed to the rights and obligations of the Liquidator hereunder.

5.4 Enurement

This Agreement shall enure to the benefit of, and be binding on the parties and their respective successors and permitted assigns.

5.5 Waiver

No waiver by a party of any breach of any of the covenants, conditions and provisos contained in this Agreement shall be effective or binding on that party unless that waiver is expressed in writing.

5.6 Amendments

No amendments to this Agreement shall be effective unless in writing and executed by each of the parties.

5.7 Counterparts

This Agreement may be executed in counterparts, and if executed in that manner, shall have the same effect as if the parties had executed the same document.

5.8 No Personal Liability

KPMG Inc. is executing this Agreement solely in its capacity as liquidator of the Canadian Estate and shall have no personal liability under or by virtue of this Agreement, whether in tort, contract or under any other legal or equitable theory, except as a result of its gross negligence or wilful misconduct. PACICC's recourse under or by virtue of this Agreement shall be limited to the assets of the Canadian Estate.

IN WITNESS WHEREOF the parties have duly executed this Agreement as of the date and year first written above.

KPMG INC. solely in its capacity as Liquidator of the insurance business in Canada of Reliance Insurance Company, and not in its personal capacity

Per: _____

PROPERTY AND CASUALTY INSURANCE COMPENSATION CORPORATION

Per: _____

CONSOLIDATED COPY

Property and Casualty Insurance Compensation Corporation/
Société d'Indemnisation en Matière d'Assurances IARD

MEMORANDUM OF OPERATION

June 2001

TABLE OF CONTENTS

MEMORANDUM OF OPERATION

Enacted by the Board of Directors

I. DEFINITIONS

1. (1) In this Memorandum of Operation and any of the rules and regulations prescribed by the board of directors pursuant to paragraph 32 hereof, unless the context otherwise specifies or requires:

(a) "board of directors" means the board of directors of the Corporation duly elected by Members through Designated Representatives at any annual general meeting of Members, or, prior to the Corporation's first annual general meeting, the Provisional Board of Directors;

(b) "By-Law No. 1" means By-Law No. 1 of the Corporation;

(c) "Claim" means any unpaid claim which arises in consequence of an incident which involves a risk or peril insured against by a Covered Policy provided that the Corporation shall have discretion not to make a Compensation Payment in respect of any amount due to any reinsurer, insurer, insurance pool or underwriting association in each case that is not a Member, as subrogation recoveries or otherwise. For greater certainty, an unpaid claim is a Claim if it arises under a Covered Policy, whether or not the risk or peril involved is one described in Schedule A, so that, for example, a claim for damage to a small pleasure boat under a homeowner's policy may be a Claim notwithstanding that marine insurance is included in Schedule A;

(d) "Claimant" means a Policyholder or a Third Party Claimant;

(e) "Compensation Payment" means a voluntary payment made by the Corporation contemplated by paragraphs 6 or 8;

(f) "Controlled Insurer" means a General Insurer over which an Insurance Regulatory Authority (including, for the purposes hereof, the Superintendent of Financial Institutions for Canada), acting under statutory authority or court order, has taken control of the assets of the General Insurer, and, for greater certainty, a General Insurer that is a Controlled Insurer by virtue of the Insurance Regulatory Authority of one Jurisdiction (or the Superintendent of Financial Institutions for Canada) having taken such control shall still be considered to be a Controlled Insurer as regards another Jurisdiction, notwithstanding that the Insurance Regulatory Authority of the latter mentioned Jurisdiction did not take such control;

(g) "Corporation" means the Property and Casualty Insurance Compensation Corporation/Société d'indemnisation en matière d'assurances IARD;

(h) "Covered Claim" is a Claim under the coverage in a Covered Policy and arising either prior to the date a Winding Up Order is made as to the Member which becomes an Insolvent Insurer that issued the Covered Policy or within 45 days thereafter, and

(i) all Covered Claims attributable to a single incident and arising under a Covered Policy or Covered Policies with the same named insured shall be considered to constitute a single Covered Claim;

(ii) a Covered Claim shall be considered to be for an amount equal to the lesser of the amount of the Covered Claim and the amount that could be recovered with respect thereto under the terms of the particular Covered Policy after deducting any applicable deductibles thereunder; and

(iii) for greater certainty, Unearned Premiums do not constitute a Covered Claim;

(i) "Covered Policy" means a contract or policy of insurance made, or under applicable insurance legislation deemed to be made, in a Participating Jurisdiction (other than a contract or policy of a Member made, or under applicable insurance legislation deemed to be made, in a Jurisdiction which is no longer a Participating Jurisdiction pursuant to action taken under sub-paragraphs 6(1) or 6(2) of By-Law No. 1 where that Member becomes an Insolvent Insurer after the Termination Date or Jurisdiction Withdrawal Date, as the case may be) and issued by a Member other than:

(i) the kinds of insurance contracts or policies listed and defined in Schedule A annexed hereto;

(ii) any contract or policy of automobile insurance made, or under applicable insurance legislation deemed to be made, in the province of British Columbia;

(iii) any contract or policy, written or provided by or on behalf of the "Insurer" within the meaning of the Automobile Accident Insurance Act (the "Insurer"), which constitutes "insurance" within the meaning of such Act or similar policies written, or under applicable insurance legislation deemed to be written in the province of Saskatchewan, by General Insurers which, had they been written or provided by the Insurer would constitute "insurance" within the meaning of such Act;

(iv) any contract or policy, written or provided by or on behalf of the "Corporation" within the meaning of the Manitoba Public Insurance

Corporation Act (the "Corporation") which constitutes "universal compulsory automobile insurance" within the meaning of such Act or similar policies written, or under applicable insurance legislation deemed to be written in the province of Manitoba, by General Insurers which, had they been written or provided by the Corporation would constitute "universal compulsory automobile insurance" within the meaning of such Act;

(v) any contract or policy, whether written or provided by the Corporation, the Insurer or a General Insurer, which increase or extend the coverage or insurance described in paragraphs (iii) and (iv); or

(vi) any contract or policy of automobile insurance made, or under applicable insurance legislation deemed to be made, in any Jurisdiction by a Government Owned Insurer.

(j) "Designated Representative" has the meaning attributed thereto in paragraph 19 of By-Law No. 1;

(k) "General Insurer" means an insurer licensed by a Jurisdiction to provide any of the kinds of insurance which would be provided in a Covered Policy but does not include a Government Owned Insurer, an insurer which has been excluded from membership in the Corporation by an Insurance Regulatory Authority pursuant to paragraph 15 of By-Law No. 1, a reciprocal or inter-insurance exchange or an insurer whose business is limited to that of reinsurance;

(l) "Government Owned Automobile Insurer" means a Government Owned Insurer which provides automobile insurance and no other kinds of insurance;

(m) "Government Owned Insurer" means any corporation or entity in which the government of a Jurisdiction has a controlling interest (including by way of the direct or indirect control of a corporation and by way of a right to appoint a majority of the directors (however designated) of a corporation) which provides the kinds of insurance which would be provided in a Covered Policy;

(n) "Insolvent Insurer" means a Member against which a Winding Up Order has been made and "Insolvent" and "Insolvency" have corresponding meanings;

(o) "Insurance Regulatory Authority" means, in the case of the Province of Quebec, the Inspector General of Financial Institutions, and in the case of any other Jurisdiction, the Superintendent of Insurance or similar insurance regulatory authority of a Jurisdiction;

(p) "Jurisdiction" means a province or territory of Canada;

(q) "Jurisdiction Withdrawal Date" has the meaning ascribed thereto in sub-paragraph 6(2) of By-Law No. 1;

(r) "Liquidation" means the winding up of an Insolvent Insurer pursuant to the Winding Up Act R.S.C. 1970, c.W-10, as amended;

(s) "Liquidator" means the liquidator of the assets of the Insolvent Insurer appointed under the Winding Up Act R.S.C. 1970, c. W-10, as amended;

(t) "Member" has the meaning attributed thereto in paragraph 16 of By-Law No. 1;

(u)

(v) "Participating Jurisdiction" has the meaning attributed thereto in sub-paragraph 5(3) of By-Law No. 1;

(w) "Person" means any individual, corporation, partnership, association, or voluntary organization;

(x) "Policyholder" means a Person, other than an Ineligible Person contemplated by paragraph 28, who is a named insured in a Covered Policy or that Person's successors, assigns, personal representative or executor, as the case may be;

(x.1) "Premium" means the consideration for a Covered Policy.

(y) "Provisional Board of Directors" has the meaning attributed thereto in By-Law No. 1;

(z) "Prudential Criteria" means the requirements, rules, tests, criteria or standards designed to promote the financial health of General Insurers, adopted by a Jurisdiction in consultation with the Insurance Bureau of Canada (prior to the incorporation of the Corporation) or with the Corporation (after its incorporation) and imposed by that Jurisdiction as a requirement that must be met by the General Insurers licensed by it;

(aa) "reciprocal or inter-insurance exchange" means a group of subscribers exchanging reciprocal contracts of indemnity or inter-insurance with each other through the same attorney and includes, in the province of Quebec, an insurance fund (as defined in an Act respecting insurance R.S.Q., ch. A-32, as amended);

(bb) "Termination Date" has the meaning ascribed thereto in sub-paragraph 6(1) of By-Law No. 1;

(cc) "Third Party Claimant" means a Person, other than an Ineligible Person (as defined in paragraph 28), who has a claim against a Policyholder arising in respect of a Covered Claim or who, by operation of law, has a direct cause of action against an Insolvent Insurer in respect of a Covered Claim or that Person's successors, assigns, personal representative or executor, as the case may be;

(dd) "Third Party" means a Person against whom a Policyholder has a right to make a claim for recovery of damages in respect of an occurrence contemplated by a Covered Policy or that Person's successors, assigns, personal representative or executor, as the case may be;

(dd.1) "Unearned Premium" means that portion of the total Premium paid under a Covered Policy issued by a Member that represents the unexpired portion of the risk covered by the Covered Policy at the date of the Winding-Up Order affecting that Member.

(ee) "Winding Up Order" means an order made by a court of competent jurisdiction under the Winding Up Act, R.S.C. 1970, c. W-10 as amended.

(2) Any capitalized terms not defined herein shall have the meaning ascribed or attributed thereto in By-Law No. 1.

(3) For the purposes of determining when an act or occurrence has taken place in relation to the making of a Winding Up Order, and when a Winding Up Order is made, a Winding Up Order against which all rights of appeal have been exhausted shall be deemed to have been made when initially granted by a court of competent jurisdiction under the Winding Up Act. For the purpose of determining when a General Insurer is a Controlled Insurer, an Insurance Regulatory Authority shall be deemed to have taken control of the assets of such insurer on the day he takes possession of such assets.

II. STATEMENT OF PURPOSE

2. The purpose of this Memorandum of Operation is to establish guidelines and procedures whereby the Corporation can make voluntary Compensation Payments in respect of Covered Claims and Unearned Premiums in order to provide a reasonable level of compensation to certain Claimants who have suffered losses in circumstances where a Member has become an Insolvent Insurer. The guidelines and procedures set forth herein are to be given a generous and liberal interpretation in accordance with the spirit of the Corporation's objects.

III. PROCEDURES WITH THE LIQUIDATOR

Procedures to Establish Amount of Covered Claims and Unearned Premiums

3. As soon as is practicable after the Insolvency of a Member the Corporation shall consult with the

Liquidator or proposed Liquidator to ascertain what procedure he intends to follow in determining the validity and amount of Covered Claims and Unearned Premiums and to request that he adopt a procedure which will facilitate the making of prompt Compensation Payments by the Corporation and the recovery by the Corporation of amounts paid as contemplated by paragraph 9.

Reliance by Corporation on Liquidator's Settlements

4. Where the procedure established by the Liquidator after the consultations referred to in paragraph 3 is acceptable to the Corporation, the Corporation may rely on the Liquidator's assessment of the dollar amount of the Covered Claim and the Unearned Premium he is prepared to accept in the Liquidation and where the Corporation so relies, for the purposes of paragraph 6, the Liquidator's amount in respect of the Covered Claim shall be deemed to be "the Amount of the Covered Claim" and the Liquidator's amount in respect of the Unearned Premium shall be deemed to be the "Amount of the Unearned Premium".

Verification by Corporation

5. Where the procedure adopted by the Liquidator to determine the validity and dollar amount of the Covered Claim or the Unearned Premium is unacceptable to the Corporation, or if the procedure is acceptable but the Corporation wishes to verify any Covered Claim or Unearned Premium, the Corporation may adopt or employ any procedures to make such verifications, in which case, notwithstanding paragraph 4, the "Amount of the Covered Claim" and "Amount of the Unearned Premium" for the purposes of paragraph 6 shall be deemed to be the amount determined by the Corporation and not the Liquidator.

IV. PAYMENTS TO CLAIMANTS

Payments to Policyholders

6. (1) Subject to paragraph 7, once the Amount of a Covered Claim has been determined in accordance with paragraphs 4 or 5, as the case may be, the Corporation may make a voluntary payment or payments (including on an interim basis) to a Policyholder in respect of that Covered Claim in an aggregate amount equal to the lesser of (i) the Amount of the Covered Claim and (ii) the Ceiling Amount.

(2) The board of directors shall, from time to time, review the appropriateness of the Ceiling Amount and may adjust it upwards. Until such time as the board of directors acts in this regard, the Ceiling Amount shall be $200,000.

(3) Notwithstanding anything else contained herein, where a Policyholder is a resident or deemed resident of the province of Quebec and where a Covered Claim arises under a contract of insurance issued by or made with a Member which provides an indemnity for bodily injury arising out of an automobile accident, whether the accident occurred within or outside of the Province of Quebec, the Ceiling Amount, and the amount of the Covered Claim shall each be reduced, for the purposes of paragraph 6, by the amount of

compensation the resident or deemed resident is entitled to receive in respect of the accident from the Regie de l'assurance automobile du Quebec (the "Regie") under Title II of the Automobile Insurance Act (L.Q. 1977, c.68, as amended) notwithstanding that the resident or deemed resident is, by the terms of the contract, entitled to the indemnity in addition to any compensation from the Regie as aforesaid.

(4) Subject to paragraph 7, once the Amount of the Unearned Premium has been determined in accordance with paragraphs 4 and 5, as the case may be, the Corporation may make a voluntary payment to a Policyholder in respect thereof in an amount equal to the lesser of (i) 70% of the Amount of the Unearned Premium and (ii) the Unearned Premium Limit.

(5) The board of directors shall, from time to time, review the appropriateness of the Unearned Premium Limit and may adjust it upwards. Until such time as the board of directors acts in this regard, the Unearned Premium Limit shall be $700.

Conditions Precedent to Compensation Payment to Policyholder

7. No Compensation Payment shall be made to a Policyholder until the Corporation is in receipt of documentation or a court order has been made, that, in each case to the satisfaction of the Corporation, entitles it to receive the benefit of any distribution or other benefit provided through the winding up and liquidation with respect to the applicable Covered Policy or Policies or to enable the Corporation to deal with the Liquidator in place of the Policyholder and contains such other provisions that the Corporation considers necessary or appropriate.

Payments to Third Party Claimants

8. Where the Corporation is of the view that all or any portion of a Compensation Payment should be made to one or more Third Party Claimants instead of to the Policyholder, the Corporation may refuse to make a Compensation Payment to the Policyholder and may pay all or a portion of the Compensation Payment to one or more Third Party Claimants upon receipt of the documents or order described in paragraph 7 and additional documentation that, to the satisfaction of the Corporation, entitles it to receive the benefit of any distribution or other benefit provided through the winding up and liquidation with respect to the applicable Covered Policy or Policies or to enable the Corporation to deal with the Liquidator in place of the Third Party Claimant and contains such other provisions that the Corporation considers necessary or appropriate.

V. RECOVERY OF CERTAIN FUNDS FROM LIQUIDATOR

Ensuring Recovery From the Liquidator

9. The Corporation shall promptly file notice with the Liquidator of the particulars of any assignment to the Corporation of Covered Policies contemplated by paragraph 7 made by a Policyholder and do all other acts required to ensure that

(i) the assignment is recognized by the Liquidator; and

(ii) the Corporation is listed on the Statement of Creditors and Claimants prepared by the Liquidator so as to ensure that the Corporation receives the proceeds of any ultimate distribution of the assets of the Insolvent Insurer made by the Liquidator in respect of Covered Claims or Unearned Premiums for which Compensation Payments have been made.

Duty of Corporation to Account to Claimants

10. Any funds received by the Corporation from the Liquidator pursuant to a distribution out of the assets of the Insolvent Insurer in respect of a Covered Claim of a particular Policyholder which in the aggregate exceed the Compensation Amount paid to or on behalf of the Policyholder in respect of that Covered Claim shall be paid over forthwith to the Policyholder or, if directed by the Policyholder, to one or more Third Party Claimants.

VI. OTHER ARRANGEMENTS WITH LIQUIDATOR

11. (1) Early Access

The Corporation may enter into an arrangement with the Liquidator which provides a procedure whereby the Liquidator can distribute funds out of the assets of an Insolvent Insurer to the Corporation, prior to the date on which such a distribution would be made in the normal course of a Liquidation, in order to expedite the making of Compensation Payments and to defer or reduce the necessity for bank borrowings or assessments by the Corporation on its Members. Where the Corporation and the Liquidator agree on such a procedure, the Corporation shall be empowered to execute and deliver to the Liquidator, any contract, guarantee or other instrument in writing, and to do all acts or deeds, necessary to give effect to such procedure.

(2) Notice to Policyholders

The Corporation shall endeavour to cause a notice to be sent by ordinary mail to each Policyholder of an Insolvent Insurer, as soon as possible after a Winding Up Order has been made against the Insolvent Insurer (and in any event no later than a day on which, if the notice was mailed on that day, the Corporation is satisfied that the notice would be received by the Policyholders at least two weeks prior to the 45th day following the date of the Winding Up Order) containing information as to the existence of the Corporation, a warning that Claims arising after the 45th day following the date of the Winding Up Order will not be subject to compensation by the Corporation, a recommendation that alternative insurance coverage be obtained with another insurer and any other matter which is appropriate in the circumstances.

VII. ASSESSMENTS ON MEMBERS

Funding of Compensation Payments and Deeming Provisions

12. (1) Compensation Payments paid to or on behalf of Policyholders pursuant to paragraphs 6

and 8 shall be funded by bank borrowings on terms acceptable to the Corporation, funds recovered from the Liquidator pursuant to paragraph 9 (after deducting any amounts the Corporation is obliged to pay over to Policyholders as required by paragraph 10), and assessments levied on its Members as contemplated by this Part VII and by Part VIIA.

(2) For the purpose of this Part VII, where a Jurisdiction ceases to be a Participating Jurisdiction pursuant to action under sub-paragraphs 6(1) or 6(2) of By-Law No. 1, as the case may be, and where the Corporation is obliged to make Compensation Payments in respect of Covered Policies made, or under applicable insurance legislation deemed to be made, in that Jurisdiction because a Member has become an Insolvent Insurer prior to the Termination Date or Jurisdiction Withdrawal Date, as the case may be, reference in this Part to "Participating Jurisdiction" shall be deemed to include the Jurisdiction referred to above.

(3) The termination of a Member's membership in the Corporation shall in no way derogate from or affect that Member's obligations to the Corporation which have arisen prior to the date the membership was terminated and which, as at such date, have not been fulfilled or satisfied; accordingly, such obligations shall continue in full force and effect after the Member's membership has been terminated until fulfilled or satisfied.

Estimate by Board of Directors

13. (1) As soon as is practicable after a Member becomes an Insolvent Insurer, the board of directors shall estimate an amount (the "Total Assessment") which reflects the maximum exposure of the Corporation anticipated by the board of directors in respect of the Insolvency of a particular Member. The board of directors shall then allocate the Total Assessment among each Participating Jurisdiction in which the Insolvent Insurer was licensed (the "Contributing Participating Jurisdictions") (the amount so allocated in respect of each Contributing Participating Jurisdiction is referred to as a "General Assessment").

(2) The allocation of General Assessments shall be made in the proportion that the board of directors' estimate of Covered Claims and Unearned Premiums arising pursuant to Covered Policies made, or under applicable insurance legislation deemed to be made, in a particular Contributing Participating Jurisdiction is to the Total Assessment.

Levy on Members

14. The Corporation shall levy assessments on each Member who is licensed (or, in the case of Member who is a Government Owned Insurer, who carries on business) in a Contributing Participating Jurisdiction as defined in sub-paragraph 13(1) (a "Contributing Member") and shall make separate assessments on each Contributing Member in respect of each Contributing Participating Jurisdiction in which it is licensed in accordance with paragraph 15.

Amount of Assessment

15. The amount of the assessment to be made on each Contributing Member in respect of each Contributing Participating Jurisdiction shall be calculated in accordance with the following formula:

$$A = \frac{B \times C}{D}$$

where:

A is the assessment to be borne by the Contributing Member in respect of the particular Contributing Participating Jurisdiction (the "Contributing Member's Assessment");

B is the General Assessment allocated to the particular Contributing Participating Jurisdiction;

C is the Total Direct Written Premiums of the Contributing Member in respect of the particular Contributing Participating Jurisdiction; and

D is the Total Direct Written Premiums of all Contributing Members in respect of the particular Contributing Participating Jurisdiction.

Meaning of "Total Direct Written Premiums"

16. For the purpose of paragraphs 15 and 20, the phrase "Total Direct Written Premiums" in respect of any particular Contributing Participating Jurisdiction means the total premiums written (excluding reinsurance premiums assumed and without deduction of premiums in respect of Covered Policies held by Ineligible Persons or for amounts paid by way of reinsurance premiums ceded) in respect of all Covered Policies made or deemed to be made in that Contributing Participating Jurisdiction which have been reported in respect of the particular Contributing Member's fiscal year preceding the date of the assessment.

Reliance on Reports

17. For the purpose of determining the Total Direct Written Premiums of Contributing Members, the Corporation shall be entitled to rely on the reports thereof filed with the insurance regulatory authority of the relevant Contributing Participating Jurisdiction.

Interest on Assessments Etc. and Grievance Procedures

18. (1) A Contributing Member may contest the amount of its Contributing Member's Assessment or any draws thereon by notifying the Corporation in writing to that effect and by stipulating in such notice the reason or reasons therefor but, notwithstanding the sending of such notice, the Contributing Member shall pay the draws levied in respect of its Contributing Member's Assessment when due and payable and shall not withhold any such amounts pending the outcome of the determination contemplated by sub-paragraph

18(2).

(2) As soon as is practicable after receipt by the Corporation of a notice referred to in sub-paragraph 18(1), a committee of three persons appointed by the board of directors for the purposes hereof shall investigate the Contributing Member's complaint and meet with its Designated Representative to discuss the matter. Following such meeting, the committee shall render a decision in respect of the matter and notify the Contributing Member thereof.

(3) In the event that the committee decides that the Corporation should refund any amounts previously paid by the Contributing Member, the Corporation shall do so with interest at the rate specified in sub-paragraph 20(4).

(4) Any determination made by the Corporation, the board of directors and any committee thereof with respect to any assessment made on its Members shall be final and binding on all parties and interests.

Notice of Assessment

19. (1) The Corporation shall notify, in writing, each Contributing Member of the Contributing Member's Assessment(s) levied against it as calculated under paragraph 15. No monies in respect of a Contributing Member's Assessment shall be due and payable by the Contributing Member until the Corporation levies draws on the Contributing Member Assessment in accordance with paragraph 20.

(2) Notwithstanding sub-paragraph 19(1) or paragraph 20, a Contributing Member Assessment shall be deemed to have been effected on the date the assessment is approved by the Board of Directors and any accounting therefor in the books of a Contributing Member shall be made in respect of the fiscal year in which such approval is made.

Draws

20. (1) The Corporation may levy draws from time to time in respect of each Contributing Member's Assessment as is deemed necessary by the board of directors. However, the aggregate of the draws levied in respect of each Contributing Member Assessment in any fiscal year of the Contributing Member shall not, subject to sub-paragraph 20(2), exceed the greater of (a) three-quarters of one per cent of the Contributing Member's Total Direct Written Premiums in respect of the relevant Contributing Participating Jurisdiction for that Contributing Member's preceding fiscal year and (b) the Contributing Member's proportionate share of the lesser of $10 million and an amount equal to one per cent of the Total Direct Written Premiums of all Contributing Members in respect of that Participating Jurisdiction for that year. For this purpose "proportionate share" is the ratio of C/D, where "C" and "D" have the meanings given to them in paragraph 15. Any draws made against and paid by a Contributing Member shall reduce its Contributing Member's Assessment by the amount paid; the balance of the Contributing Member's Assessment shall be carried forward so that draws may be made thereon in subsequent years; provided that the balance carried forward shall not be applied to any other Contributing Member so as to increase that other's Contributing Member's Assessment.

(2) Where, by reason of a Contributing Member having ceased to do business in a Contributing Participating Jurisdiction, its Total Direct Written Premiums in respect of that Contributing Participating Jurisdiction for a particular fiscal year have been reduced or eliminated, the board of directors may, for the purpose of sub-paragraph 20(1), apply the percentage referred to therein to the Contributing Member's Total Direct Written Premiums in respect of the relevant Contributing Participating Jurisdiction for the fiscal year preceding the date the Contributing Member ceased to do business therein.

(3) The Corporation shall send, from time to time, a written notice to each Contributing Member of the draws levied in respect of the Contributing Member's Assessment and all draws shall be due and payable by the Contributing Member on the thirtieth day following the date appearing in the notice.

(4) The Corporation shall charge, and each Contributing Member shall pay, interest on any overdue draw at a rate of interest equal, from time to time, to the rate of interest charged at that time to the Corporation in respect of its bank borrowings (or, if the Corporation has no outstanding bank borrowings, the best available rate of interest which would be charged to the Corporation by its banks if bank borrowings were made).

Refund of Contributing Member Assessments

21. Where the board of directors is of the view that the aggregate of the funds obtained through Contributing Member Assessments or interest thereon and held by it exceed the Corporation's requirements in satisfying any indebtedness of the Corporation and in making Compensation Payments, the Corporation shall refund the excess to each Contributing Member on a pro rata basis calculated in a manner consistent with paragraph 15.

Adjustment of Total and Other Assessments

22. The board of directors may, at any time, adjust the amount of the Total Assessment in accordance with the information then available to it. In such case, the Corporation shall make a corresponding adjustment to the General Assessments and each Contributing Member's Assessment.

Administrative Assessments

23. The Corporation shall be entitled to levy on its Members, on an annual basis, administrative assessments in such amounts and on such basis as may be determined by the board of directors, such that the total annual assessment on all Members does not exceed $500,000. The board of directors shall, from time to time, review the appropriateness of this amount and may adjust it upwards. Until such time as the board of directors acts in this regard, the total annual assessments shall not exceed $500,000.

VIIA. COMPENSATION FUND ASSESSMENT

23A Background and Compensation Fund Assessment

(1) The Corporation and the Members recognize that circumstances may arise from time to time in which either:

(a) the funds available to the Corporation to make Compensation Payments from Contributing Members' Assessments under Part VII may not be sufficient to compensate Claimants who have suffered losses in circumstances where a Member has become an Insolvent Insurer; or

(b) it is desirable for the Corporation to make Compensation Payments to Claimants before funds have become available for such purpose from Contributing Members' Assessments under Part VII.

The Compensation Fund established in accordance with this Part shall be available in such circumstances.

(2) The Members agree, therefore, to the establishment by the Corporation of a fund (the "Compensation Fund"), which shall be funded by assessments ("Compensation Fund Assessments") of Members as and when approved by Members in accordance with this Part and which will be available to the Corporation to make Compensation Payments, all as described in this Part.

23B Compensation Fund Assessment

(1) A Compensation Fund Assessment shall be levied in a particular year (the "Assessment Year") and shall comprise for each Member the percentage determined in accordance with the authorizing resolution adopted under paragraph 23C (the "Authorized

Percentage") of that Member's Total Direct Written Premiums reported for the preceding year (the "Base Year"). For the purpose of this sub-paragraph, "Total Direct Written Premiums" means total premiums written (excluding reinsurance premiums assumed and without deduction of premiums in respect of Covered Policies held by Ineligible Persons or for amounts paid by way of reinsurance premiums ceded) in respect of all Covered Policies made or deemed to be made in all Participating Jurisdictions in which the Member was licensed in the Base Year. For the purpose of determining "Total Direct Written Premiums" of Members, the Corporation shall be entitled to rely on the reports thereof filed with the insurance regulatory authority of the relevant Participating Jurisdiction.

(2) The total of all Compensation Fund Assessments, together with any income or other amounts earned thereon, shall form the Compensation Fund.

(3) The Corporation shall maintain separate accounts regarding all transactions involving the Compensation Fund.

(4) The Compensation Fund shall be an asset of the Corporation and shall not constitute trust funds.

23C Approval of Compensation Fund Assessments

(1) A Compensation Fund Assessment may be levied as to any particular Assessment Year only with the consent of the Members given by an authorizing resolution sanctioned by an affirmative vote of at least two-thirds of the votes cast by Designated Representatives at a meeting of Members. The authorizing resolution shall specify or authorize the directors to determine the percentage to be used in determining the amount of the assessment payable by each member under sub-paragraph 23B(1). This resolution shall be binding on all Members.

(2) A Compensation Fund Assessment is authorized with 1998 as the Assessment Year and 1997 as the Base Year and the assessment percentage shall be 0.15%.

23D Investment of Compensation Fund

The board of directors will have authority to invest the Compensation Fund in accordance with investment guidelines adopted from time to time by the Board of Directors. Until such time as investment guidelines are adopted, the investment of the Compensation Fund will be limited to debt obligations of or guaranteed by Canada or a province of Canada.

23E Use of Compensation Fund Where Assessments are Insufficient

(1) If, in any year, the cumulative amounts of assessments to be made with respect to any Participating Jurisdiction (arrived at by aggregating item B in paragraph 15 as it is determined for each and every assessment in that year) is, by reason of the restriction on draws levied in sub-paragraph 20(1), greater than the amount that can be levied with

respect to that Participating Jurisdiction in the year, then the Board of Directors may determine to draw on the Compensation Fund for all or any portion of the short-fall (the amount so drawn being referred to as the "CF Draw" for the particular Participating Jurisdiction).

(2) Where a CF Draw has been made, the Corporation may estimate the additional income that would have been earned by the Compensation Fund if it had available for investment during the year an amount equal to the amount of the CF Draw. Such amount is referred to as the "Adjustment Amount", which may be increased or decreased from year to year as further CF Draws are made or as amounts become available under sub-paragraph 23E(5).

(3) Where a CF Draw has been made, the Corporation shall, in each following year, make an additional assessment on each Member with respect to the particular Participating Jurisdiction which shall be calculated in accordance with the following formula:

$$A = \frac{B \times C}{D}$$

where:

A is the assessment to be borne by the Member in respect of the particular Participating Jurisdiction;

B is the Adjustment Amount (if any) attributable to the particular Participating Jurisdiction;

C is the Total Direct Written Premiums of the Member in respect of the particular Participating Jurisdiction; and

D is the Total Direct Written Premiums of all Members in respect of the particular Participating Jurisdiction.

(4) For the purpose of sub-paragraph (3), the phrase "Total Direct Written Premiums" in respect of any particular Participating Jurisdiction means the total premiums written (excluding reinsurance premiums assumed and without deduction of premiums in respect of Covered Policies held by Ineligible Persons or for amounts paid by way of reinsurance premiums ceded) in respect of all Covered Policies made or deemed to be made in that particular Participating Jurisdiction which have been reported in respect of the particular Member's fiscal year preceding the date of the assessment.

(5) The Corporation may levy draws from time to time in respect of each Member's assessment under sub-paragraph (3) as is deemed necessary by the board of directors. However, the aggregate of the draws levied in respect of each Member's assessment in any fiscal year of that Member shall not, after allowing for all other draws levied in that year with respect to that Member under sub-paragraph 20(1), exceed the amount permitted under sub-paragraphs 20(1) and (2).

(6) The amount paid by a member in respect of a draw made against it under sub-paragraph 23E(5) shall be added to the Compensation Fund and the Adjustment Amount shall be reduced by that amount.

23E-1 Use of Compensation Fund to Bridge Assessment Delays

(1) If, with respect to any Insolvency, the Board of Directors determines that it would be desirable to make Compensation Payments to Claimants before funds have become available for such purpose from Contributing Members' Assessments under Part VII, the Board of Directors may determine to draw an amount from the Compensation Fund for the purpose of making Compensation Payments to such Claimants (the amount so drawn being referred to as a "Bridge Draw").

(2) Where a Bridge Draw has been made, the Corporation may estimate the additional income that would have been earned by the Compensation Fund if it had available for investment during the year an amount equal to such Bridge Draw. Such amount is referred to as the "Bridge Adjustment Amount".

(3) Each Bridge Draw and related Bridge Adjustment Amount for a particular Insolvency shall be repaid to the Compensation Fund from Contributing Members' Assessments under Part VII for such Insolvency forthwith after funds from such Contributing Members' Assessments which are not required for Compensation Payments are received by the Corporation.

23F Notice of Compensation Fund Assessment

(1) The Corporation shall notify each Member in writing of the amount of its Compensation Fund Assessment. Each Member shall be required to pay to the Corporation the amount of its Compensation Fund Assessment within 30 days of receipt of the notice. In the case of the Compensation Fund Assessment for 1998, one-third of the Compensation Fund Assessment shall be payable in each of the years 1998, 1999 and 2000.

(2) If a Member wishes to contest the amount of its Compensation Fund Assessment, the provisions of paragraph 18 will apply, with necessary modifications.

(3) Sub-paragraph 20(4) applies, with the necessary modifications, to any amounts not paid on time under this Part.

23G Special Provisions

(1) The board of directors, acting reasonably, but in their discretion, may determine how amounts received from Members under Part VII are to be allocated between Compensation Payments generally and the Compensation Fund.

(2) Where an issue arises with respect to the interpretation or application generally of this

Part that is not specifically addressed in this Part, the board of directors, acting reasonably, may resolve the matter on a basis that it considers to be appropriate in light of the facts of the particular case, or may enact a rule or policy, which will be binding on all Members, to resolve the issue, provided that the rule or policy is not inconsistent with this Part.

23H Income

None of the income (excluding the amount of any taxable capital gains) of the Corporation will be payable to, or otherwise available for the personal benefit of, any Member.

23I Compensation Fund Not Refundable

Members shall not be entitled to any return or refund of their Compensation Fund Assessments or of amounts in the Compensation Fund.

VIII. OTHER EXCLUSIONS

Insolvencies Prior to Participation by a Jurisdiction

24. Notwithstanding anything else contained herein, no Compensation Payments shall be made in respect of Covered Policies made, or under applicable insurance legislation deemed to be made, in a Participating Jurisdiction if the Covered Policies were made by a Member which became an Insolvent Insurer prior to the date that Participating Jurisdiction became a Participating Jurisdiction.

Insolvencies of Controlled Insurers

25. No Compensation Payments shall be made in respect of any of the Covered Policies made, or under applicable insurance legislation deemed to be made, in a Participating Jurisdiction if the Covered Policies were made by a Member which was a Controlled Insurer at any time between the period commencing on November 1, 1987 and ending on the date such Participating Jurisdiction became a Participating Jurisdiction.

Late Filing of Claim with Liquidator, Etc.

26. Subject to paragraph 30, the Corporation need not make any Compensation Payment in respect of a Covered Claim or Unearned Premium where, by reason of a Policyholder having failed to notify the Liquidator of his Covered Claim or Unearned Premium within the time period specified in the Winding Up Act or because of some other delinquent act by the Policyholder, the Policyholder's right to receive proceeds of any ultimate distribution of the assets of the Insolvent Insurer (and the corresponding right of the Corporation to such proceeds under the documentation or court order contemplated by paragraph 7) is prejudiced.

Financial Difficulties

27. If the making of Compensation Payments, either actual or anticipated, is at any time likely to cause financial difficulties for the property and casualty industry in a Participating Jurisdiction, or for the Corporation, to the detriment of the public, the Corporation shall participate in discussions with the Insurance Regulatory Authority of that Participating Jurisdiction or all Participating Jurisdictions, as the case may be, with a view to an appropriate modification of the Compensation Payment arrangements provided for herein, and while such discussions take place, the Corporation may defer the making of Compensation Payments as is appropriate in the circumstances.

IX. INELIGIBLE PERSONS

Exclusion of Ineligible Persons

28. For the purposes of this Memorandum of Operation, an "Ineligible Person" is a Person who holds a contract or policy of insurance which is a Covered Policy issued by a Member which has become an Insolvent Insurer and as to which the board of directors of the Corporation concludes that any of the terms of such contract or policy (including extent of coverage, premium rates and other terms) were influenced by the nature of the relationship between the Member and the Person and are more favourable to the Person than the terms the Member would have made available in the absence of that relationship.

Explanation of Reasons

29. Where the board of directors exercises its discretion pursuant to paragraph 28, the Corporation shall notify the Insurance Regulatory Authority of the relevant Contributing Participating Jurisdiction to that effect and explain the reasons for exercising its jurisdiction in the particular matter.

X. HARDSHIP CASES

30. Where the board of directors is satisfied that the loss suffered by a Claimant as a result of the Insolvency of a Member constitutes a hardship case, and where for whatever reason a Compensation Payment is either unavailable or inadequate, the board of directors may, by unanimous approval, authorize the Corporation to compensate that Claimant, or to increase the Compensation Payment otherwise available, as the case may be, in or to an amount established by the board of directors not exceeding the Ceiling Amount.

XI. FEDERAL POLICIES, ETC.

31. In recognition of Part XVI and paragraph 57 of By-Law No. 1, this memorandum of operation is expressly made subject to such Part and paragraph, and the provisions hereof shall be interpreted in a manner consistent therewith.

XII. RULES AND REGULATIONS

32. The board of directors may prescribe such rules and regulations not inconsistent with this Memorandum of Operation which may be necessary or desirable in implementing the procedures referred to herein or which deal with any matter contained herein.

XIII. MISCELLANEOUS

33. In this Memorandum of Operation, the singular shall include the plural and the plural the singular; the masculine shall include the feminine.

34. (1) Notwithstanding paragraphs 7 or 10 or any other provision of this Memorandum of Operation, the Corporation shall not make any payment to any Person, or retain any payment made to the Corporation, if the making or retention of such payment would result in a windfall or double payment to, or double recovery by, such Person or the Corporation, and in lieu of making or retaining any such payment the Corporation may, subject to paragraph 34(2), make such payments, or direct that such payments be made on its behalf, as is appropriate in the circumstances (collectively, "Payments in Lieu").

(2) A Payment in Lieu, as defined in paragraph 34(1), shall not be made to a person subject to the Civil Code of Lower Canada who is a Third Party, within the meaning of paragraph 1(1)(dd). In such case, the Payment in Lieu shall be made to the Liquidator.

Schedule A

KINDS OF INSURANCE POLICIES EXCLUDED FROM DEFINITION OF "COVERED POLICY"

For the purposes of sub-paragraph 1(i) of the Memorandum of Operation of the Property and Casualty Insurance Compensation Corporation to which this Schedule is annexed, the following kinds of insurance policies shall be deemed to be excluded from the definition of "Covered Policy":

Accident and Sickness Insurance
Aircraft Insurance
Credit Insurance
Crop Insurance
Directors' and Officers' Insurance
Employer's Liability Insurance
Errors and Omissions Insurance
Fidelity Insurance
Financial Guarantee Insurance
Life Insurance
Loss of Employment Insurance
Marine Insurance
Mortgage Insurance
Personal Accident Insurance
Sickness Insurance
Surety Insurance
Title Insurance

For the purpose of this Schedule:

"Accident and Sickness Insurance" means insurance coming within the class of personal accident insurance and sickness insurance, when written by an organization which is authorized to write (i) only accident and sickness insurance or (ii) life insurance.

"Aircraft Insurance" means insurance against

(a) liability arising out of

(i) bodily injury to, or the death of, a person, or
(ii) the loss of, or damage to, property,

caused by an aircraft or the use or operation thereof; or

(b) the loss of, or damage to, an aircraft.

"Credit Insurance" means insurance against loss to a person who has granted credit where the loss is the result of the insolvency or default of the person to whom credit is given but does not include insurance

coming within the class of mortgage insurance.

"Crop Insurance" means insurance against the loss of, or damage to, crops in the field caused by drought, flood, hail, wind, frost, lightening, excessive rain, snow, hurricane, tornado, wildlife, fire, insect, infestation, plant disease or other peril.

"Directors' and Officers' Insurance" means an undertaking by an insurer

(a) to indemnify the directors and officers of a company in respect of losses resulting from any claim made against them for a negligent or wrongful act; or

(b) to indemnify a company for all loss for which the company may be required or permitted by law to indemnify its directors and officers in respect of claims made against them, for a negligent or wrongful act.

"Errors and Omissions Insurance" means an undertaking by an insurer to pay on behalf of an insured sums which the insured is legally obligated to pay as damages because of any act, error or omission of the insured, or of any other person for whose acts, errors or omissions the insured is legally responsible, and arising out of the performance or intended performance of professional services for others, or failure to perform such professional services as ought to have been performed in the insured's professional capacity; provided that for the purposes hereof, the term "professional services" does not include professional medical services.

"Employer's Liability Insurance"

(a) means insurance against liability arising out of bodily injury to, or the disability or death of, an employee of the insured occurring as a result of or in the course of his employment; and

(b) if included in a contract that provides insurance against liability arising out of bodily injury to, or the disability or death of, an employee of the insured, includes insurance coming within the class of personal accident insurance covering an employee of the insured where the insurance is limited to accidents occurring as a result of or in the course of his employment whether or not liability exists.

"Fidelity Insurance" means

(a) insurance against loss caused by the unfaithful performance of duties by a person in a position of trust; or

(b) insurance whereby an insurer undertakes to guarantee the proper fulfilment of the duties of an officer.

"Financial Guarantee Insurance" means an undertaking by an insurer to perform an agreement or contract or to discharge a trust, duty or obligation upon default of the person liable for such performance or discharge or to pay money upon that default or in lieu of that performance or discharge or where there is loss or damage through that default, but does not include credit insurance.

"Life Insurance" means an undertaking by an insurer to pay insurance money,

(a) on death; or

(b) on the happening of an event or contingency dependent on human life; or

(c) at a fixed or determinable future time; or

(d) for a term dependent on human life,

and, without restricting the generality of the foregoing, includes an undertaking entered into by an insurer to provide an annuity or what would be an annuity except that the periodic payments may be unequal in amount and such an undertaking shall be deemed always to have been life insurance.

"Loss of Employment Insurance" means insurance against the involuntary loss of employment by a person when the loss of employment benefit is limited to all or part of the debt of the person, when written by an organization which is authorized to write (i) life insurance or (ii) loss of employment insurance and accident and sickness insurance only.

"Marine Insurance" means insurance against

(a) liability arising out of

(i) bodily injury to, or the death of, a person, or
(ii) the loss of, or damage to, property, or

(b) the loss of, or damage to, property,

occurring during a voyage or marine adventure at sea or on an inland waterway or during delay incident thereto or during transit, otherwise than by water, incident to such a voyage or marine adventure.

"Mortgage Insurance" means insurance against loss caused by default on the part of a borrower under a loan secured by a mortgage upon real property, a hypothec upon immovable property or an interest in real or immovable property.

"Personal Accident Insurance" means

(a) insurance against loss resulting from bodily injury to, or the death of, a person caused by an accident; or

(b) insurance whereby an insurer undertakes to pay a certain sum or sums of money in the event of bodily injury to, or the death of, a person caused by an accident.

"Sickness Insurance" means

(a) insurance against loss resulting from the illness or disability of a person other than loss resulting from death,

(b) insurance whereby an insurer undertakes to pay a certain sum or sums of money in the event of the illness or disability of a person, or

(c) insurance against expenses incurred for dental care,

other than illness or disability or dental care arising out of an accident.

"Surety Insurance" means insurance whereby an insurer undertakes to guarantee

(a) the due performance of a contract or undertaking, or

(b) the payment of a penalty or indemnity for any default,

but does not include insurance coming within the class of credit insurance or mortgage insurance.

"Title Insurance" means insurance against loss or damage caused by

(a) a defect in the title to real property;

(b) the existence of a lien, encumbrance or servitude upon real property;

(c) a defect in the execution of a mortgage, hypothec or deed of trust in respect of real property; or

(d) any other matter affecting the title to real property or the right to the use and enjoyment of real property.

THE ATTORNEY GENERAL OF CANADA
Applicant
and
RELIANCE INSURANCE COMPANY
Respondent

Court File No: 01-CL-4313

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

AFFIDAVIT OF FRANÇOIS GILBERT

Paul J. Evraire, Q.C.
Department of Justice
Ontario Regional Office
The Exchange Tower,
130 King Street West
Suite 3400, Box 36
Toronto, Ontario
M5X 1K6

Peter A. Vita, Q.C.\LSUC # 11740Q
Tel: (416) 973-3451
Fax: (416) 973-0809

Solicitor for the Applicant

FILE NO.: 016699
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Court File No.

ONTARIO
SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

IN THE MATTER OF
RELIANCE INSURANCE COMPANY

AND IN THE MATTER OF THE
***INSURANCE COMPANIES ACT*, S.C. 1991, C.47, AS AMENDED**

AND IN THE MATTER OF THE
***WINDING-UP AND RESTRUCTURING ACT*, R.S.C. 1985, C.W-11, AS AMENDED**

BETWEEN:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

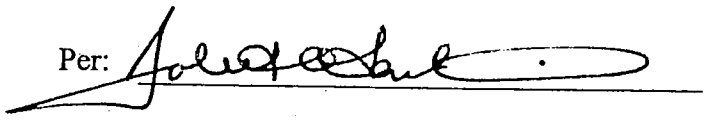
Respondent

CONSENT

KPMG Inc. hereby consents to act as provisional Liquidator of the insurance business in Canada of Reliance Insurance Company.

DATED this 8TH day of November, 2001.

KPMG INC.

Per: 

THE ATTORNEY GENERAL OF CANADA
Applicant
and
RELIANCE INSURANCE COMPANY
Respondent

Court File No: ●

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

CONSENT

Goodmans LLP
250 Yonge Street
Suite 2400
Toronto, Ontario
M5B 2M6

Gale Rubenstein/LSUC#17088E
Tel: (416) 597-4148
Fax: (416) 979-1234

Solicitors for KPMG Inc.

FILE NO.: 016699
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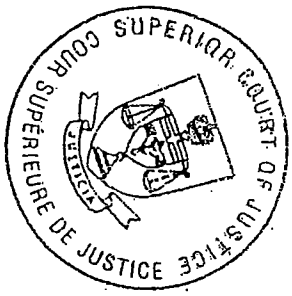
SCHEDULE "C"

TO THE REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – MAY 23, 2007



Court File No. 01-CL-4313

ONTARIO
SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

THE HONOURABLE	)	MONDAY THE 3RD DAY
	)	
MR. JUSTICE FARLEY	)	OF DECEMBER, 2001
	)	
	)	

IN THE MATTER OF
RELIANCE INSURANCE COMPANY

AND IN THE MATTER OF THE
***INSURANCE COMPANIES ACT*, S.C. 1991, C.47, AS AMENDED**

AND IN THE MATTER OF THE
***WINDING-UP AND RESTRUCTURING ACT*, R.S.C. 1985, C.W-11, AS AMENDED**

B E T W E E N:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

WINDING-UP ORDER

THIS APPLICATION made by the Applicant was heard this day without a jury at Toronto, in the presence of counsel for the Applicant, for the Respondent, for KPMG Inc., and for the Property and Casualty Insurance Compensation Corporation ("PACICC"), no one opposing.

ON READING the Notice of Application and the evidence filed by the parties, and on hearing submissions of counsel for the parties

1. THIS COURT ORDERS AND DECLARES that the Respondent Reliance Insurance Company is a foreign insurance company within the meaning of the *Insurance Companies Act* to which the *Winding-up and Restructuring Act* applies, and that the insurance business in Canada of the Respondent ("Reliance (Canada)") may be wound-up by this Court. pursuant to Section 10.1 of the *Winding-up and Restructuring Act.*

2. THIS COURT FURTHER DECLARES that it has made no finding that Reliance (Canada) is insolvent.

3. THIS COURT ORDERS that Reliance (Canada) shall be wound-up by this Court pursuant to the *Winding-up and Restructuring Act.*

4. THIS COURT ORDERS AND DECLARES that the winding-up hereunder of Reliance (Canada) shall be deemed to commence November 8, 2001.

5. THIS COURT ORDERS that no suit, action or other proceeding shall be proceeded with or commenced against Reliance (Canada) or Reliance Insurance Company, except with leave of this Court and subject to such terms as this Court may impose.

6. THIS COURT ORDERS that every judgment, attachment, sequestration, distress, execution or like process put into force against Reliance (Canada) or Reliance Insurance Company, or the estate or effects thereof, after the commencement of the winding-up is void and of no effect.

ONTARIO
SUPERIOR COURT OF JUSTICE
DEC 03 2001
PER/PAR:

Vik Khanna

HE ATTORNEY GENERAL OF CANADA
Applicant
and
RELIANCE INSURANCE COMPANY
Respondent

Court File No: 01-CL-4313

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

WINDING-UP ORDER

LAX O'SULLIVAN SCOTT LLP
Suite 1920
145 King Street West
Toronto, Ontario M5H 1J8

Charles F. Scott LSUC# 14534N
Brooke Shulman LSUC # 41032N
Tel: (416) 646-7997
Fax: (416) 598-3730

Solicitors for the Applicant

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SCHEDULE "D"

TO THE REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – MAY 23, 2007

Court File No. 01-CL-4313

ONTARIO
SUPERIOR COURT OF JUSTICE

COMMERCIAL LIST

THE HONOURABLE
MR. JUSTICE FARLEY

) MONDAY THE 3RD DAY
)
) OF DECEMBER, 2001
)
)

IN THE MATTER OF
RELIANCE INSURANCE COMPANY

AND IN THE MATTER OF THE
***INSURANCE COMPANIES ACT*, S.C. 1991, C.47, AS AMENDED**

AND IN THE MATTER OF THE
***WINDING-UP AND RESTRUCTURING ACT*, R.S.C. 1985, C.W-11, AS AMENDED**

BETWEEN:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

ORDER

THIS APPLICATION made by the Applicant was heard this day without a jury at Toronto, in the presence of counsel for the Applicant, for the Respondent, for KPMG Inc., and for the Property and Casualty Insurance Compensation Corporation ("PACICC"), no one opposing.

ON READING the Notice of Application and the evidence filed by the parties, and on hearing submissions of counsel for the parties:

1. THIS COURT ORDERS that the service of the Notice of Application and the materials herein be and it is hereby good and sufficient notice thereof and that any further service of the Notice of Application and materials herein be and it is hereby dispensed with.

2. THIS COURT ORDERS that KPMG Inc. be and is hereby appointed as provisional liquidator (the "Liquidator") of the insurance business in Canada of the Respondent, including the assets in Canada of the Respondent, together with its other assets held in Canada under the control of its chief agent, including, without limitation, all amounts received or receivable in respect of its insurance business in Canada ("Reliance (Canada)").

3. THIS COURT ORDERS that the giving of security by the Liquidator upon its appointment as liquidator be dispensed with.

4. THIS COURT ORDERS that all moneys belonging to Reliance (Canada) received by or on behalf of the Liquidator and its agents shall be paid into a chartered bank to the account of the Liquidator immediately after the receipt thereof and an account or accounts shall be opened immediately, provided, however, that the Liquidator shall have the discretion to deposit funds to and use the bank accounts currently in the name of or operated by Reliance (Canada).

5. THIS COURT ORDERS that any cheques or drafts in respect of policies, issued by Reliance (Canada) prior to the making of the winding-up order herein and which are presented for payment thereafter, may be paid out of the estate and effects of Reliance (Canada).

6. THIS COURT ORDERS that the amount recoverable from, due or owed by any reinsurer to Reliance (Canada) shall be paid to the Liquidator and shall not be reduced as a result of this Order or the winding-up order, notwithstanding any terms or contractual agreement to the contrary, and that any payment made directly by a reinsurer to an insured or other creditor or claimant of Reliance (Canada) or Reliance Insurance Company shall not diminish or reduce or affect such reinsurer's obligation to Reliance (Canada).

7. THIS COURT ORDERS that the Liquidator is authorized to cure such defaults and effect such arrangements as may be required to reinstate such reinsurance affecting the operations of Reliance (Canada), as the Liquidator deems to be in the interest and for the protection of policyholders, creditors and claimants of Reliance (Canada).

8. THIS COURT ORDERS that the Liquidator may pay all valid policyholder claims, including claims in respect of unearned premiums, to the amount of $25,000 or the amount, if any, of the voluntary compensation payment of PACICC which may be paid under the terms of its Memorandum of Operations (the "PACICC Voluntary Compensation Payment") until April 30, 2002 or such later date as this Court may order, subject to paragraph 9 hereof, and such payments shall be deemed for all purposes to have been payments made on account of claims in the course of the liquidation of Reliance (Canada).

9. THIS COURT ORDERS that the Liquidator may pay all valid claims including claims in respect of unearned premiums under the Meridian and other warranty and surety programs to the amount of $5,000 or the amount, if any, of the PACICC Voluntary Compensation Payment until January 31, 2002 or such later date as this Court may order, and such payments shall be deemed for all purposes to have been payments made on account of claims in the course of the liquidation of Reliance (Canada).

10. THIS COURT ORDERS that the Liquidator may, after consultation with the Inspectors, make such other payments as the Liquidator in the Liquidator's discretion deems advisable in the circumstances in respect of policies of Reliance (Canada) and such payments shall be deemed for all purposes to have been payments made on account of claims in the course of the liquidation of Reliance (Canada).

11. THIS COURT ORDERS that in addition to the payments referred to in paragraphs 8 and 10, until April 30, 2002 or such later date as this Court may order, the Liquidator may pay and continue to pay all reasonable legal and other costs, incurred to and including April 30, 2002, which Reliance (Canada) is obligated to pay for defending any insureds against losses under Reliance (Canada)'s policies in accordance with the applicable policy ("Defence Costs"), subject to the applicable terms and limits of such policies. For greater certainty, all payments of Defence Costs shall be deemed for all purposes to have been payments made on account of claims in the course of the liquidation of Reliance (Canada) and to form part of the expenses of the liquidation as a first charge on the assets of the estate. However, if the applicable policy so provides, such payments shall be taken into account in determining the amount which would otherwise be distributed to the respective policyholders and claimants, or otherwise paid on account of Defence Costs, as the case may be, at such time as any further distributions or similar arrangements are made in respect of their policies.

12. THIS COURT ORDERS that any payments made by the Liquidator pursuant to paragraphs 5, 8, 9, 10 and 11 hereof, other than payments made pursuant to clerical errors (the "Payments"):

(a) shall be deemed to be payments made on account of claims in the liquidation of Reliance (Canada) and shall be deducted from the amount which would otherwise

be distributed at such time as further distributions or similar arrangements are made in respect of such claims;

(b) shall be deemed to have been made in accordance with this Order;

(c) in respect of any policy shall not obligate the Liquidator to make further payments in respect thereof; and

(d) which may have exceeded the ultimate amount which the Liquidator determines is available for distribution to the respective policyholders and claimants, or available for payment of Defence Costs, as the case may be, (collectively, the "Overpayments") shall be deemed not to be preferences and shall not be repayable by the recipients or policyholders.

Neither the Liquidator nor the Liquidator's agents, advisers or employees shall be liable to any person in respect of the Overpayments.

13. THIS COURT ORDERS that PACICC, which shall designate from time to time one or more persons as its representative, and the Insurance Commissioner of the Commonwealth of Pennsylvania in her capacity as Liquidator of the Respondent or her designee are appointed inspectors (collectively the "Inspectors") to assist and advise the Liquidator in the winding-up of Reliance (Canada).

14. THIS COURT ORDERS that the Inspectors may apply to this Court on motion for directions concerning any matter relating to the liquidation of Reliance (Canada).

15. THIS COURT ORDERS that each claim in respect of which PACICC makes a PACICC Voluntary Compensation Payment (a "Compensated Claim") shall be deemed to be and

shall hereby be assigned in its entirety to PACICC without specific assignment or further steps required. PACICC shall be entitled to assert each Compensated Claim in the Liquidation. Reliance (Canada) is hereby deemed to have acquiesced to the assignment of Compensated Claims provided for herein and to have received a copy of the deed of assignment. PACICC and the Liquidator shall be deemed to be and shall hereby be released and forever discharged from any and all claims, actions, losses and liabilities which any person has or may have at present or in the future with respect to each Compensated Claim.

16. THIS COURT ORDERS that, notwithstanding the provisions of paragraph 15, the Liquidator may make funds in the estate available to PACICC from time to time to be used by PACICC to make PACICC Voluntary Compensation Payments pursuant to the terms and conditions of the loan and services agreement made effective as of the date hereof between the Liquidator and PACICC, which is hereby approved.

17. THIS COURT ORDERS that the Liquidator is authorised and empowered to act as administrator of insurance coverage on behalf of third parties who assume all or part of the insurance risk, and to be paid the fees earned by Reliance (Canada), pursuant to the terms of the contracts between Reliance (Canada) and such third parties.

18. THIS COURT ORDERS that the Liquidator is entitled forthwith to possession of all of Reliance (Canada)'s books, accounts, securities, documents, papers, computer programs and data, registers and records of any kind ("Books and Records") and that Reliance (Canada), its present and former shareholders, directors, officers, employees, salespeople and agents, accountants, auditors, solicitors, trustees, and every person having knowledge of this Order and having possession or control of such Books and Records, do forthwith deliver over to the Liquidator or to the Liquidator's agent all such Books and Records.

19. THIS COURT ORDERS that all persons, including, without limitation, employees, brokers, legal counsel, insurance agents, third party administrators, or salespeople having access to or knowledge of the affairs of Reliance (Canada) do co-operate with the Liquidator in providing information or documents necessary or incidental to the liquidation of Reliance (Canada).

20. THIS COURT ORDERS that any entity which has custody or control of any data processing information and records (including but not limited to source documents, all types of electronically stored information, master tapes or any other recorded information) relating to Reliance (Canada), shall transfer custody and control of such records in a form readable by the Liquidator to the Liquidator as of the date of this Order, unless instructed to the contrary by the Liquidator.

21. THIS COURT ORDERS that any entity furnishing claims processing or data processing services to Reliance (Canada) shall maintain such services and transfer any such accounts to the Liquidator as of the date of this Order, unless instructed to the contrary by the Liquidator.

22. THIS COURT ORDERS that Reliance (Canada) and its Chief Agent, officers, trustees, employees, consultants, agents, and legal counsel shall: surrender peacefully to the Liquidator the premises where Reliance (Canada) conducts its business; deliver all keys or access codes thereto and to any safe deposit boxes; advise the Liquidator of the combinations or access codes of any safe or safekeeping devices of Reliance (Canada) or any password or authorization code or access code required for access to data processing equipment; and shall deliver and surrender peacefully to the Liquidator all of the assets, books, records, files, credit cards, and other property of Reliance (Canada) in their possession or control, wherever located,

and otherwise advise and cooperate with the Liquidator in identifying and locating any of the foregoing.

23. THIS COURT ORDERS that all persons, firms, corporations and other entities having agreements, whether written or oral, with Reliance (Canada) for the supply of goods or services, be and they are hereby enjoined from terminating, accelerating, suspending, modifying, determining or cancelling such agreements without the written consent of the Liquidator or leave of this Court, and that all such parties shall continue to comply with their obligations under such agreements or otherwise on terms currently provided so long as the Liquidator pays the normal prices or charges for such goods or services incurred after the date of this Order in accordance with usual payment terms or as may hereafter be negotiated by the Liquidator from time to time.

24. THIS COURT ORDERS that all persons, firms, corporations and other entities be and they are hereby enjoined from disturbing or interfering with the occupation, possession or use by the Liquidator of any premises occupied or leased by Reliance (Canada) as at November 8, 2001 except upon further Order of this Court. From November 8, 2001 and for the period of time that the Liquidator occupies any leased premises, the Liquidator shall pay occupation rent to each lessor based upon the regular monthly base rent that was previously paid by Reliance (Canada) in respect of the premises so occupied or as may hereafter be negotiated by the Liquidator from time to time.

25. THIS COURT ORDERS that all persons, firms, corporations and other entities be and they are hereby enjoined from disturbing or interfering with computer software, hardware, support and data services or with utility services, including, but not limited to, the furnishing of oil, gas, heat, electricity, water, telephone service (including at present telephone numbers used by Reliance (Canada)) or any other utilities of like kind furnished to Reliance (Canada) and they

are hereby enjoined from discontinuing or altering any such utilities or services to the Liquidator except upon further order of this Court, so long as the Liquidator pays the normal prices or charges for such goods and services incurred after November 8, 2001 as the same become due in accordance with usual payment terms or as may hereafter be negotiated by the Liquidator from time to time.

26. THIS COURT ORDERS that, without limiting the generality of the foregoing, and except upon further order of this Court having been obtained on at least 7 days' notice to the Liquidator:

(a) all persons, firms, corporations and other entities be and they are hereby restrained from terminating, cancelling or otherwise withdrawing any licences, permits, approvals or consents with respect to or in connection with Reliance (Canada) as they were on November 8, 2001;

(b) any and all proceedings or steps taken or that may be taken, wheresoever taken, by any person, firm, corporation or entity, including, without limitation, any of the policyholders or creditors of Reliance (Canada), suppliers, co-insurers, reinsurers, contracting parties, depositors, lessors, tenants, co-venturers or partners (hereinafter, in this paragraph "Claimants") against or in respect of Reliance (Canada) shall be and hereby are stayed and suspended;

(c) the right of any Claimant to make demands for payment on or in respect of any guarantee or similar obligation or to make demand or draw down under any letters of credit, bonds or instruments of similar effect, issued by or on behalf of Reliance (Canada), to take possession of, to foreclose upon or to otherwise deal

with any property, wheresoever located, of Reliance (Canada) whether held directly or indirectly, as principal or nominee, beneficially or otherwise, or to continue any actions or proceedings in respect of the foregoing, is hereby restrained;

(d) the right of any Claimant to assert, enforce or exercise any right (including, without limitation, any right of dilution, buy-out, divestiture, forced sale, acceleration, termination, suspension, modification or cancellation or right to revoke any qualification or registration), option or remedy available to it including a right, option or remedy arising under or in respect of any agreement (including, without limitation, any contract, debt instrument, guarantee, option, co-ownership agreement or any agreement of purchase of sale but not including any eligible financial contract, as defined in the *Winding-up and Restructuring Act*) to which Reliance (Canada) is a party, arising out of, relating to or triggered by the occurrence of any default or non-performance by Reliance (Canada) or the making or filing of these proceedings, or any allegation contained in these proceedings, is hereby restrained; and

(e) all Claimants are restrained from exercising any extra judicial remedies against Reliance (Canada), including, without limitation, the registration or re-registration of any securities owned by Reliance (Canada) into the name of such persons, firms, corporations or entities or their nominees, the exercise of any voting rights attaching to such securities, the retention of any payments or other distributions made in respect of such securities, any right of distress, repossession, or consolidation of accounts in relation to amounts due or accruing due in respect of

or arising from any indebtedness or obligation of Reliance (Canada) as of the date hereof.

27. THIS COURT ORDERS that no action lies against the Liquidator, any of its affiliates (the "Affiliates") any director, officer, agent, representative or employee of the Liquidator or of the Affiliates, any entity or person (or director, officer, agent, representative or employee of any such entity or person) acting under the direction of the Liquidator, or the Inspectors or any director, officer, agent, representative or employee thereof, for anything done or omitted to be done in good faith in the administration of the liquidation of Reliance (Canada) or in the exercise of the Liquidator's powers under this Order or otherwise.

28. THIS COURT ORDERS that no suit, action or other proceeding shall be proceeded with or commenced against the Liquidator, the Affiliates, any director, officer, agent, representative or employee of the Liquidator, or of the Affiliates, any entity or person (or director, officer agent, representative or employee of any such person) acting under the direction of the Liquidator, or the Inspectors or any director, officer, agent, representative or employee thereof, except with leave of this Court and subject to such terms as this Court may impose.

29. THIS COURT ORDERS that the Liquidator may, without the approval, sanction or intervention of this Court and without previous notice to the policyholders or creditors of Reliance (Canada) or any other person,

(a) take control of the estate and effects of Reliance (Canada) or such part thereof as the Liquidator shall determine;

(b) bring or defend any action, suit or prosecution or other legal proceeding, civil or criminal, in the Liquidator's own name as liquidator or in the name or on behalf of Reliance (Canada), as the case may be;

(c) carry on the business of Reliance (Canada) so far as it is necessary or incidental to the winding-up of Reliance (Canada);

(d) lease or mortgage or otherwise realize upon the undertaking, property and assets of Reliance (Canada) or any part or parts thereof;

(e) sell the real and personal property, effects, intangibles and choses in action of Reliance (Canada), including all or any portion of Reliance (Canada)'s contracts and products and related assets, including, without limitation, Reliance (Canada)'s lists of policyholders and customers, by public auction or private contract, and transfer the whole thereof to any person or company, or sell them in parcels;

(f) do all acts and execute, in the name of and on behalf of Reliance (Canada), all deeds, receipts, and other documents, and for that purpose use, when necessary, the seal of Reliance (Canada), and file any elections (tax or otherwise), objections or registrations, and file any notices, all as may be necessary or desirable in the opinion of the Liquidator for the better liquidation of Reliance (Canada);

(g) prove, rank, claim and draw dividends in the matter of the bankruptcy, insolvency or sequestration of any contributory, for any sum due to Reliance (Canada) from the contributory, and take and receive dividends in respect of the bankruptcy, insolvency or sequestration, as a separate debt due from that contributory and rateably with the other separate creditors;

(h) draw, accept, make and endorse any bill of exchange or promissory note in the name of and on behalf of Reliance (Canada);

(i) give discharges of mortgages and other securities, partial discharges of mortgages and other securities, and pay property taxes and insurance premiums on mortgages and other securities taken in favour of Reliance (Canada);

(j) pay such debts of Reliance (Canada) as may be necessary to be paid in order to properly preserve and maintain the undertaking, property and assets of Reliance (Canada) or to carry on the business of Reliance (Canada);

(k) surrender possession of any premises occupied by Reliance (Canada) and disclaim any leases entered into by Reliance (Canada);

(l) apply for any permits, licences, approvals or permissions as may be required by any governmental or regulatory authority;

(m) re-direct Reliance (Canada)'s mail;

(n) enter into any eligible financial contracts, as defined in the *Winding-up and Restructuring Act*;

(o) take possession and control of all securities in which Reliance (Canada) has an interest (directly or indirectly) and exercise all rights that may be enjoyed by a holder of such securities including, without limitation, rights (i) that may arise by virtue of the holder being a party to a shareholder or similar agreement that may, by way of example, restrict the powers of the directors to manage or supervise the management of the business and affairs of the corporation, (ii) to receive

information, (iii) to attend at and cause to be held meetings of holders of such securities, (iv) to vote such securities for the removal or election of directors and approval of significant transactions (such as the sale or disposition of all or substantially all of the assets of such company or the winding-up, liquidation, rehabilitation, bankruptcy, receivership, restructuring or amalgamation of such company), and (v) to sell or otherwise dispose of such securities;

(p) compromise all calls and liabilities to calls, debts and liabilities capable of resulting in debts, and all claims, demands and matters in dispute in any way relating to or affecting the assets of Reliance (Canada) or the winding-up of Reliance (Canada), on the receipt of such sums, payable at such times, and generally on such terms as are agreed on by the Liquidator;

(q) make such compromise or other arrangements with creditors or persons claiming to be creditors of Reliance (Canada) as the Liquidator deems expedient; and

(r) do and execute all such other things as are necessary for, or incidental to the winding-up of the affairs of Reliance (Canada), including without limitation entering into agreements incurring obligations.

30. THIS COURT FURTHER ORDERS that the Liquidator may, with the approval of this Court and on such notice as the Court may direct:

(a) arrange for the transfer or reinsurance of all or a portion of the policies of Reliance (Canada); and

(b) cancel all or a portion of the outstanding policies of Reliance (Canada).

31. THIS COURT ORDERS that the Liquidator and any of the Liquidator's agents, officers, directors, representatives or employees shall be deemed not to be an employer or a successor employer of the employees of Reliance (Canada) within the meaning of the *Pension Benefits Act* (Ontario), *Employment Standards Act* (Ontario), the *Labour Relations Act* (Ontario) or any other Federal, Provincial or Municipal legislation governing employment or labour standards or any other statute, regulation or rule of law or equity for any purpose whatsoever and, further, that the Liquidator and any of the Liquidator's agents, directors, officers, representatives or employees shall not be and shall be deemed not to be, in possession, charge or control of the property or business or affairs of Reliance (Canada) pursuant to any Federal, Provincial or Municipal legislation, statute, regulation or rule of law or equity which imposes liability on the basis of such status including, without limitation, the *Environmental Protection Act* (Ontario), the *Canadian Environmental Protection Act*, or the *Ontario Water Resources Act*, and this shall be binding on all tribunals and administrative bodies.

32. THIS COURT ORDERS that the Liquidator may retain, employ or engage such actuaries, accountants, financial advisors, investment dealers, solicitors, attorneys, valuers or other expert or professional persons as the Liquidator deems necessary or desirable to assist the Liquidator in fulfilling the Liquidator's duties, and all reasonable and proper expenses which the Liquidator may incur in so doing shall be costs of liquidation of Reliance (Canada).

33. THIS COURT ORDERS that the Liquidator may act on the advice or information obtained from any actuary, accountant, financial advisor, investment dealer, solicitor, attorney, valuer or other expert or professional person, and the Liquidator shall not be responsible for any loss, depreciation or damage occasioned by acting in good faith in reliance thereon.

34. THIS COURT ORDERS that the Liquidator shall be paid such remuneration as the Court Orders.

35. THIS COURT ORDERS that the Liquidator shall be at liberty to apply reasonable amounts against its remuneration, expenses and disbursements on a monthly basis and that such amounts shall constitute advances against its remuneration and expenses on, but subject to, the passing of its accounts.

36. THIS COURT ORDERS that this Order and any other orders in these proceedings shall have full force and effect in all Provinces and Territories in Canada.

37. THIS COURT SEEKS AND REQUESTS the aid and recognition of any Court or administrative body in any Province or Territory of Canada and any Canadian Federal Court or administrative body and any Federal or State Court or administrative body in the United States of America and any Court or administrative body in the United Kingdom or elsewhere to act in aid of and to be complementary to this Court in carrying out the terms of this Order.

38. THIS COURT ORDERS that the costs of this application, including the costs of the Inspectors, are to be assessed on a solicitor and his own client basis and shall be costs of liquidation of Reliance (Canada).

39. THIS COURT ORDERS that interested parties may apply to the Court for advice and directions on 7 days' notice to the Liquidator and the Inspectors, and that the Liquidator may at any time apply to this Court for advice and directions.

ENTERED AT/INSCRIT À TORONTO
ON BOOK NO:
LE/DANS LE REGISTRE NO:

DEC 03 2001

PER/PAR:

Registrar

THE ATTORNEY GENERAL OF CANADA
Applicant

and

RELIANCE INSURANCE COMPANY
Respondent

Court File No: 01-CL-4313

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

ORDER

LAX O'SULLIVAN SCOTT LLP
Suite 1920
145 King Street West
Toronto, Ontario M5H 1J8

Charles F. Scott LSUC# 14534N
Brooke Shulman LSUC # 41032N
Tel: (416) 646-7997
Fax: (416) 598-3730

Solicitors for the Applicant

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SCHEDULE "E"

TO THE REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – MAY 23, 2007

SCHEDULE "E"

REINSURANCE CHART

Respondents	Amount Due by Respondent for Losses Insured by Reliance Canada	Reinsurance Treaty Reference	Schedule to Report
Swiss Re Frankona Ruckversicherungs AG	$25,000.00	AR 6557-93	Schedule "F"
Swiss Re Frankona Ruckversicherungs AG	$75,000.00	AR 6558-93	Schedule "G"
Swiss Re Frankona Ruckversicherungs AG	$68,417.88	AR 6559-93	Schedule "H"
Swiss Re Frankona Reinsurance Limited	$755,583.20 (U.S.)	AR 6427-99	Schedule "I"
Swiss Re Germany AG	$755,583.20 (U.S.)	AR 6427-99	Schedule "I"
The Scheme Administrators of HIH Casualty & General Insurance Limited	$604,466.56 (U.S.)	AR 6427-99	Schedule "I"
Converium AG	$604,466.56 (U.S.)	AR 6427-99	Schedule "I"
The individual and corporate members of the following Lloyd's Syndicates for the respective identified years of account: Lloyd's Syndicate 205 (year of account 1998)	$453,349.93 (U.S.)	AR 6427-99	Schedule "I"
Lloyd's Syndicate 79 (year of account 1998)	$377,791.60 (U.S.)	AR 6427-99	Schedule "I"
Lloyd's Syndicate 138 (year of account 1995)	$1,637.02	CT 1131-96	Schedule "J"

Respondents	Amount Due by Respondent for Losses Insured by Reliance Canada	Reinsurance Treaty Reference	Schedule to Report
Lloyd's Syndicate 205 (year of account 1995)	$61,483.82	CT 1131-96	Schedule "J"
Lloyd's Syndicate 314 (year of account 1995)	$24,594.66	CT 1131-96	Schedule "J"
Lloyd's Syndicate 435 (year of account 1995)	$129,116.30	CT 1131-96	Schedule "J"
Lloyd's Syndicate 1007 (year of account 1995)	$73,781.15	CT 1131-96	Schedule "J"
Lloyd's Syndicate 340 (year of account 1997)	$856,406.80	757/ZT970616	Schedule "K"
Lloyd's Syndicate 2341 (year of account 1997)	$95,178.70	757/ZT970616	Schedule "K"
Lloyd's Syndicate 53 (year of account 1997)	$512,366.36	757/ZT970616	Schedule "K"
Lloyd's Syndicate 1121 (year of account 1997)	$292,756.78	757/ZT970616	Schedule "K"
Lloyd's Syndicate 205 (year of account 1998)	$57,150.00 (U.S.)	AR 10254	Schedule "L"
Lloyd's Syndicate 314 (year of account 1998)	$22,725.00 (U.S.)	AR 10254	Schedule "L"
Lloyd's Syndicate 435 (year of account 1998)	$119,700.00 (U.S.)	AR 10254	Schedule "L"
Lloyd's Syndicate 1223 (year of account 1998)	$22,725.00 (U.S.)	AR 10254	Schedule "L"
Markel International Insurance Company Limited	$57,150.00 (U.S.)	AR 10254	Schedule "L"

SCHEDULE "F"

TO THE REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – MAY 23, 2007

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FIRST D&O/E&O EXCESS OF LOSS REINSURANCE AGREEMENT

FIRST D&O/E&O EXCESS OF LOSS REINSURANCE AGREEMENT

THIS AGREEMENT is made and entered into by and between RELIANCE INSURANCE COMPANY, Philadelphia, Pennsylvania, FIREMARK INSURANCE COMPANY, Philadelphia, Pennsylvania, REGENT INTERNATIONAL INSURANCE COMPANY, LTD., Bermuda, RELIANCE INSURANCE COMPANY OF NEW YORK, Fairport, New York, RELIANCE LLOYDS, Philadelphia, Pennsylvania, RELIANCE NATIONAL (BARBADOS) INSURANCE LTD., Barbados, RELIANCE NATIONAL INSURANCE COMPANY (U.K.) LTD., London, England, RELIANCE NATIONAL PROPERTY AND CASUALTY INSURANCE COMPANY, Des Moines, Iowa, UNITED PACIFIC INSURANCE COMPANY OF NEW YORK, Fairport, New York and any additional company established or acquired by the Company (hereinafter called "Company") of the one part, and the various Reinsurers identified by the attached Interests and Liabilities Agreements (hereinafter called "Reinsurer") of the other part.

WITNESSETH:

That in consideration of the mutual covenants hereinafter contained and upon the terms and conditions herein below set forth, the parties hereto agree as follows:

ARTICLE I

POOLING ARRANGEMENT

Reliance Insurance Company assumes 100% of the liability of United Pacific Insurance Company, Planet Insurance Company, Reliance National Insurance Company, Reliance Insurance Company of Illinois, and Compac Insurance Company as this business pertains to this Agreement after deduction for facultative reinsurance and ceded captive reinsurance programs. Notwithstanding any other provisions of this Agreement, this Agreement protects such assumed reinsurance liability as if it were written directly by Reliance Insurance Company and attaches prior to redistribution to those companies

under the terms of Company's intercompany reinsurance pool, which redistribution will be disregarded for all purposes hereunder. With respect to all other named companies set forth in the preamble of this Agreement, this Agreement will apply as provided for in the Net Retained Lines Article. In the event that this Agreement applies on a per risk basis, and a single occurrence affects two or more of the pooling companies named above under different policies, Company will continue to maintain a separate retention and a separate limit for each risk as if the policies were written by separate companies.

ARTICLE II

BUSINESS COVERED

This Agreement applies to new and renewal policies with an effective date during the term of this Agreement, issued by Company and written through Reliance National Division of Company, and classified by Company as Directors and Officers Liability, Employee's Retirement Income Security Act Liability, General Partnership Liability and Errors and Omissions Liability; except as excluded in the Exclusions Article, subject to the limitations set forth in the Reinsurance Coverage Article.

There will be no coverage under this Agreement for policies where the original policy limit does not exceed Company's retention under this Agreement.

If any law or regulation of the Federal, State or Local government of the United States or the rulings of officials having supervision over insurance companies, should render the undertaking of this Agreement illegal within the jurisdiction of such Authority, Company may upon written notice to Reinsurer suspend, abrogate or amend this Agreement insofar as it relates to such jurisdiction, to the extent necessary to comply with such law, regulation or ruling. Such suspension, abrogation or amendment of a portion of this Agreement will in no way affect any other portion thereof, nor increase or extend Reinsurer's liability hereunder.

ARTICLE III

TERM

This Agreement is effective from July 1, 1993 through June 30, 1994, both days inclusive, at the location of the original policy.

Reinsurance coverage will remain in force for all policies in force at the date of expiration of this Agreement until their natural expiration defined as the full original policy period plus any run-off provision and/or any extended reporting period option and/or any discovery period and/or any retroactive coverage period contained in the original policy. However, should any policy to which this Agreement applies during the reinsurance run-off period be extended, continued or renewed due to regulatory or other legal restrictions, this Agreement will automatically continue to provide reinsurance coverage until such time as said policies may be actually terminated by Company.

The provisions of the preceding paragraph notwithstanding, Company will have the option, subject to Company notifying Reinsurer prior to the date of expiration of this Agreement, to terminate Reinsurer's liability for claims first made after the date of expiration of this Agreement on policies in force as at the date of expiration and Reinsurer will return to Company within 60 days the ceded unearned premium reserve and cash equivalent calculated as of the date of expiration less applicable ceding commission for all policies in force as at the date of termination.

The provisions of this Agreement will continue to apply to all unfinished business hereunder to the end that all obligations and liabilities incurred by each party hereunder prior to termination will be fully performed and discharged.

ARTICLE IV

EXCLUSIONS

A. The reinsurance provided under this Agreement is subject to the exclusions set forth below and will not cover said excluded risks, hazards

and coverages unless individually submitted by Company to Reinsurer for inclusion hereunder, and, if specially accepted by Reinsurer, such business will then be covered under the terms of this Agreement, except as such terms will be modified by such acceptance. Any renewal of a special acceptance covered under the previous year's reinsurance agreement will be automatically covered hereunder.

B. The reinsurance provided under this Agreement does not apply to:

1. Reinsurance assumed except that:

   a) inter-company reinsurance,

   b) reinsurance of one or more of an agent's policies, with the agent acting for the ceding insurer under its authority,

   c) reinsurance between an insurer and a reinsurer that concerns or is confined to business produced by a named agent of the ceding insurer, usually generated by that agent and administered directly with the reinsurer with permission of the insured, or

   d) specific arrangements with insureds through their single parent "captive" carrier

   will not be excluded hereunder.

2. Nuclear incident in accordance with the Nuclear Incident Exclusion Clauses - Liability - Reinsurance (U.S.A. and Canada) and the Nuclear Energy Risks Exclusion Clause (Reinsurance) 1984 (Worldwide excluding U.S.A. and Canada) attached hereto.

3. Business written through Pools, Syndicates and Associations of which Company is a member.

4. Insolvency funds in accordance with the Insolvency Funds Exclusion Clause attached hereto.

5. Insurance Agents and/or Brokers Errors & Omissions Liability; however, this exclusion does not apply to business where insurance agents and/or brokers represent less than or equal to 5% of total annual revenues.

6. Accountants Errors & Omissions Liability.

7. Medical Malpractice Liability.

8. Actuaries Errors & Omissions Liability when written as such.

9. Non-licensed Real Estate Appraisers Errors & Omissions Liability.

ARTICLE V

TERRITORY

This Agreement will cover wherever Company's policies cover.

ARTICLE VI

REINSURANCE COVERAGE

Company will retain for its own account and pay the first $1,000,000 of ultimate net loss, each and every loss, each policy and Reinsurer will be liable to and reimburse Company for 100% of (a) the amount of ultimate net loss paid or payable by Company in excess of that $1,000,000 of ultimate net loss, each and every loss, each policy; but Reinsurer's maximum liability for ultimate net loss will not exceed $1,000,000 each and every loss, each policy and (b) loss adjustment expense when not included within ultimate net loss on a pro rata basis (in the amount that the ultimate net loss reimbursed under this Agreement bears to the original whole ultimate net loss incurred by Company) and in addition to the limits stated herein and (c) monitoring counsel expense on a pro rata basis (in the amount that the ultimate net loss reimbursed under this Agreement bears to the original whole ultimate net loss incurred by Company) and in addition to the limits stated herein.

Reinsurer will reimburse Company for 100% of the amount of ultimate net loss reimbursable under the preceding paragraph up to a 250% loss ratio to Reinsurer. Company will thereafter retain and be responsible for the amount of ultimate net loss otherwise reimbursable under the preceding paragraph up to an amount equal to 25% of

Reinsurance Premium, net of ceding commission thereon. Thereafter, Reinsurer will be obligated to pay to Company the amount of ultimate net loss reimbursable under the preceding paragraph only up to an additional amount equal to 25% of Reinsurance Premium, net of ceding commission thereon that is, up to a maximum loss ratio cap to Reinsurer of 275% in all during the term hereof.

ARTICLE VII

WARRANTIES

A. The first $1,000,000 of ultimate net loss, each and every loss, each policy is to be retained net to Company's own account and unreinsured other than from other Casualty Catastrophe Excess of Loss reinsurances.

B. All policies subject to this Agreement will contain a pollution liability exclusion or so deemed.

ARTICLE VIII

GENERAL INFORMATION

A. All policies subject to this Agreement are issued on a claims made basis.

B. If Company issues two or more policies on different layers of the same program for any one insured, such policies will be deemed one policy for the purpose of recovery hereunder, subject to one limit and retention within the terms of the Reinsurance Coverage Article.

C. Company will be the sole judge of what constitutes one insured.

ARTICLE IX

DEFINITIONS

"Policies" means each of Company's binders, policies and contracts providing insurance or reinsurance on the business covered hereunder.

"Each and every loss" means each claim made or series of claims made arising from a wrongful act or the same or series of interrelated wrongful acts, as defined in the original policy.

"Ultimate net loss" means the amount paid or payable by Company in settlement of losses or liability on its net retained line after deducting all other recoveries and salvages, and will include all loss indemnity payments, allocated loss adjustment expense when included within the original policy limits, 90% of any Extra Contractual Obligations losses and 90% of losses in Excess of Policy Limits.

All salvages and recoveries received subsequent to a loss settlement under this Agreement will be applied as if received prior to said loss settlement and all necessary adjustments will be made between Company and Reinsurer.

Nothing in this definition will be construed to mean that losses hereunder are not recoverable until Company's final ultimate net loss has been ascertained.

Ultimate net loss includes 90% of any Extra Contractual Obligations losses and 90% of losses in Excess of Policy Limits which are both recoverable hereunder. The remaining 10% of the Extra Contractual Obligations losses and losses in Excess of Policy Limits will be retained net by Company unreinsured except for Casualty Catastrophe Excess of Loss reinsurances. Company will retain an unreinsured $1,000,000 Self-Insured Retention in addition to the 10% participation in Extra Contractual Obligation losses and losses in Excess of Policy Limits. Such self-insured retention is to be applied before the application of the Extra Contractual Obligations losses or losses in Excess of Policy Limits provision contained herein.

"Allocated loss adjustment expense" means all expenses and costs relating to the adjustment and defense of specific losses hereunder, including appellate expenses, expenses and costs associated with policy coverage and declaratory judgment actions that are claim specific, pre-judgment and post-judgment interest, and legal costs and expenses associated with losses in Excess of Policy Limits (90%) and Extra Contractual Obligations losses (90%). However, where defense costs on original policies are in addition to the policy limits, those loss expenses will be reimbursed by Reinsurer to

Company on a pro rata basis (in the amount that the ultimate net loss reimbursed under this Agreement bears to the original whole ultimate net loss incurred by Company) and in addition to the limits stated in the Reinsurance Coverage Article.

"Monitoring counsel expense" means all loss adjustment expenses incurred by Company as a result of activities of an authorized monitoring counsel related to one specific loss and one specific policy that cannot be charged against the limit of the original policy.

"Extra Contractual Obligations" means the legal liability of Company for loss or losses not covered under the coverage, terms and conditions of Company's policies, arising from the handling of any claim on business otherwise covered under this Agreement, when such loss arises because of:

1. The failure of Company to pay a claim within the policy terms of coverage or to provide a defense against such claim as required by law, or

2. Bad faith, fraud or negligence in adjusting a claim, rejecting a claim or in rejecting an offer of settlement, or

3. Negligence or breach of duty in the preparation of the defense or the conduct of a trial or the preparation or prosecution of any appeal and/or subrogation and/or subsequent action resulting therefrom.

Extra Contractual Obligation will not include loss arising out of engineering or other services or any other non claims-related activity provided to the insured by Company.

However, this coverage for Extra Contractual Obligations will not apply when the Extra Contractual Obligations loss has been incurred due to the fraud of a member of the Board of Directors or a corporate officer of Company or any other employee of Company with claims settlement authority acting individually or collectively or in collusion with a member of the Board of Directors, a corporate officer, partner or any other employee of any other corporation or partnership or with any other individual.

"Losses in Excess of Policy Limits" means any judgment or settlement in lieu thereof rendered against an original insured which is in excess of limits provided by Company's policy but otherwise within the terms of Company's policies and for which Company is held liable as a result of alleged or actual bad faith, fraud or negligence in rejecting a settlement within its policy limits, in the duty to defend, in the preparation of the defense, in the trial of an action against the insured or in the preparation or prosecution of an appeal consequent upon such action.

"Loss ratio" means the percent resulting from Reinsurer's paid ultimate net loss arising from policies with an effective date during the term of this Agreement divided by Reinsurance Premium, net of ceding commission thereon, arising from policies with an effective date during the term of this Agreement.

"Gross Net Written Premium" means Company's gross premiums charged for the original policies with an effective date during the term of this Agreement plus additional premiums thereon, less return premiums thereon and less any premiums paid or payable for reinsurance inuring to the benefit of Reinsurers.

ARTICLE X

NET RETAINED LINES

This Agreement will apply only to that portion of any insurance or reinsurance Company retains net for its own account [prior to the deduction of any underlying, and other treaty excess of loss reinsurances (including Casualty Catastrophe Excess of Loss) but not inuring facultative reinsurance], and in calculating the amount of any ultimate net loss hereunder and the amount in excess of which this Agreement attaches, only ultimate net loss or ultimate net losses with respect to that portion of any insurance or reinsurance Company retains net for its own account will be included. It is understood and agreed, however, that Reinsurer's liability hereunder with respect to any ultimate net loss or

ultimate net losses will not be increased by reason of the inability of Company to collect from any other reinsurers, whether specific or general, any amounts which may be due from them, whether such inability arises from the insolvency of such other reinsurers or otherwise.

Recoveries, collectibles or retention from any form of insurance or reinsurance other than: 1) from other excess of loss reinsurances including Casualty Catastrophe Excess of Loss reinsurances, 2) primary Errors and Omissions policy issued to Company, 3) the deductible thereon, and 4) Self-Insured Excess Errors and Omissions policy, will inure to the benefit of Reinsurer and will be deducted in arriving at the Ultimate Net Loss hereunder. It being the intention of the parties hereto that any Extra Contractual Obligations and Excess of Policy Limits coverage provided hereunder will be applied first to the original insured's loss and any loss under Company's own insurance (i.e., primary insurance, deductible and Self-Insured Excess insurance) will be treated as a separate loss.

Intercompany reinsurance and other underlying and excess of loss reinsurance will be disregarded in calculating ultimate net loss and net retained line.

ARTICLE XI

SUBROGATION AND SALVAGE

Reinsurer will be credited with salvage i.e., reimbursement obtained or recovery made by Company, less the actual cost, excluding salaries of officials and employees of Company and sums paid to attorneys as retainer, of obtaining such recovery on account of claims and settlements involving reinsurance hereunder. Salvage hereon will always be used to reimburse the excess carriers in the reverse order of their priority according to their participation before being used in any way to reimburse Company for its primary loss. Company agrees reasonably to enforce its rights to salvage or subrogation relating to

any loss, a part of which loss was sustained by Reinsurer, and to prosecute all reasonable claims arising out of such rights.

ARTICLE XII

NOTICE OF LOSS AND LOSS SETTLEMENT

Company will advise Reinsurer of all losses for which Company has established an indemnity and/or expense reserve of $500,000 or greater and of all losses which, in the opinion of Company, are likely to involve Reinsurer under this Agreement, and all material subsequent developments pertaining thereto, which, in the opinion of Company, may materially affect the position of Reinsurer.

Company may make loss settlements either under strict policy conditions or by way of compromise and such settlements will be unconditionally binding on Reinsurer provided such settlements are made within the terms and conditions of this Agreement and within the terms and conditions of the original policies including all modifications, waivers, alterations and interpretations made thereto.

ARTICLE XIII

REINSURANCE PREMIUM

Company will pay to Reinsurer its proportionate share of Gross Net Written Premium as allocated by Company for the limit or limits ceded hereunder in accordance with Company's increased limits factors for this layer.

If Company issues two or more policies on different layers of the same program for any one insured, cession factors are applied to the combined total limits of the original policies only when Company writes contiguous policies and the full limit of each original policy.

If Company does not write contiguous policies and/or does not write the full limit of each original policy, the underlying policy will be ceded by applying the cession factors to the limit of that policy. Subsequent policy(ies) will be ceded on a pro rata basis (i.e., based on the amount of limit applied to the reinsurance layer).

ARTICLE XIV

CEDING COMMISSION

Reinsurer will allow Company a ceding commission of 27% of the Reinsurance Premium.

ARTICLE XV

REPORTS AND REMITTANCES

Company will provide Reinsurer with all necessary data respecting premiums, losses and recoveries on forms mutually acceptable to Company and Reinsurer.

Company will render a quarterly account of Gross Net Written Premium due Company and Reinsurance Premium due thereon during said quarter and any premium due Reinsurer will be remitted within 60 days of the end of each calendar quarter.

Company will provide to Reinsurer, as promptly as possible after the close of each year the information necessary for Annual Statement purposes.

Except as provided in the following paragraph, payment by Reinsurer of its proportion of ultimate net loss paid by Company will be made by Reinsurer to Company within 15 days after proof of payment by Company is received by Reinsurer.

In the event Reinsurer's share of any one ultimate net loss is $500,000 or more, Company may give Reinsurer written notice of its intention to pay such loss on a certain date and may require Reinsurer to have its share of the ultimate net loss in the hands of Company by such date. Such written notice will allow Reinsurer at least 15 working days after its receipt to prepare and dispatch its payment by check or wire transfer.

ARTICLE XVI

TAXES

In consideration of the terms under which this Agreement is issued, Company will not claim a deduction in respect of the premium hereon when making tax returns, other than income or profits tax returns, to any state or territory of the United States of America, the District of Columbia or Canada.

ARTICLE XVII

FEDERAL EXCISE TAX

(Applicable to those reinsurers, except Underwriters at Lloyds London and other reinsurers exempt from Federal Excise Tax, who are domiciled outside the United States of America.)

Reinsurer has agreed to allow for the purpose of paying the Federal Excise Tax the applicable percentage of the premium payable hereon (as imposed under Section 4371 of the Internal Revenue Service Code) to the extent such premium is subject to the Federal Excise Tax.

In the event of any return of premium becoming due hereunder, Reinsurer will deduct the aforesaid percentage from the return premium payable hereon and Company or its agent should take steps to recover the tax from the United States government.

ARTICLE XVIII

CURRENCY

Wherever the word "Dollars" or the "$" sign appears in this Agreement, they will be construed to mean United States Dollars, except in those cases where the policies are issued by Company in Canadian Dollars, they will mean Canadian Dollars.

All transactions under this Agreement as regards payment and settlements of premium and losses will be made in the currency of the original policy except that

currencies other than United States Dollars or Canadian Dollars will be converted to United States Dollars at the applicable rate of exchange appearing in the Wall Street Journal on the date such transaction is entered in the books of Company.

The Retention and the Limit are stated in United States Dollars or its equivalent at the same rate of exchange as used by Company in recording the transaction in Company's records. In the event that there is an increase or reduction in the parity value of the United States Dollar against the currency of the original policy at the date of settlement of loss, from that existing at the time of the risk's cession to this Agreement, then the Retention and the Limit will be adjusted to maintain the original relative Retention and Limit.

In the event Company is involved in a loss requiring payment in more than one currency hereunder, Company's retention and the amount recoverable hereunder will be apportioned in the currencies in the same proportion as the amount of ultimate net loss in each currency bears to the total ultimate net loss from all currencies paid by Company.

ARTICLE XIX

ACCESS TO RECORDS

Reinsurer or its duly authorized representatives will have the right at any reasonable time upon 5 working days prior notice during the term of this Agreement, or at any time after the expiration of this Agreement to visit the offices of Company to inspect, examine, audit, and verify any of the policy or claim files ("records") relating to the business reinsured under this Agreement. Reinsurer will have the right to make copies, at its own expense, or extracts of any records. Notwithstanding the above, Reinsurer will not have any right of access to the records of Company if it is not current in all payments due to Company and Company will have no right to reimbursement under this Agreement if it fails or refuses to provide the access required by this Article other than by reason of Reinsurer's failure to pay. Reinsurer will keep confidential all information and reports

derived from the records of Company to which it has received access and will not publish or communicate that information or report(s) to any other person or reinsurer without Company's express prior written consent.

ARTICLE XX

DELAYS, ERRORS, OR OMISSIONS

Inadvertent delays, errors, or omissions made in connection with this Agreement or any transaction hereunder will not relieve either party from any liability which would have attached had such delay, error, or omission not occurred, provided always that such error or omission will be rectified as soon as possible after discovery, and shall not impose any greater liability on the other party than would have attached hereunder if such delay, error or omission had not occurred.

ARTICLE XXI

INSOLVENCY

In the event of the insolvency of one (or more) of the reinsured companies, and the appointment of a liquidator, receiver, conservator or statutory successor for such insolvent company, reinsurance payable to such company will be payable immediately upon demand, with reasonable provision for verification, on the basis of the liability of such Company as a result of claims allowed against such company by any court of competent jurisdiction or any liquidator, receiver, conservator or statutory successor having authority to allow such claims, without diminution because of such insolvency or because such liquidator, receiver, conservator or statutory successor has failed to pay all or a portion of any claims. Every liquidator, receiver, conservator, guaranty fund(s) or association(s) or statutory successor of Company will give written notice to Reinsurer of the pendency of a claim involving Company indicating the subject policy, which claim would be a possible liability on the part of Reinsurer to Company or to its domiciliary liquidator, receiver, or statutory successor within a reasonable amount of time after the claim is filed in the conservation, liquidation, receivership or other proceeding; during the

pendency of any claim, Reinsurer may investigate the same and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses that it may deem available to Company, to its policyholder or to any liquidator, receiver, conservator, guaranty fund(s) or association(s) or statutory successor. The expense thus incurred by Reinsurer will be chargeable, subject to the approval of the Court, against Company as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit which may accrue to Company as a result of the defense undertaken by Reinsurer.

Where two or more reinsurers are involved in the same claim and a majority in interest elect to interpose defense to such claim, the expense will be apportioned in accordance with the terms of this Agreement as though such expense had been incurred by Company.

This reinsurance will be payable directly by Reinsurer to Company or to its domiciliary liquidator, receiver, conservator or statutory successor, except as expressly provided otherwise by applicable insurance law, or except (a) where this Agreement specifically provides another payee of the reinsurance in the event of the insolvency of Company and (b) where Reinsurer with the express written consent of the direct policyholder or policyholders has assumed the policy obligations of Company as direct obligations of Reinsurer to the payees under the subject policies and in substitution for the obligations of Company to such payees; however, as between Company or its domiciliary liquidator, receiver, conservator or statutory successor and any ancillary liquidator, receiver, conservator, guaranty fund(s) or association(s) or statutory successor, howsoever named, the proceeds hereof will be payable to Company or its domiciliary liquidator, receiver, conservator or statutory successor. Prior to implementation of a novation, any certificate of assumption on New York risks must be approved by the Superintendent of Insurance for the state of New York.

ARTICLE XXII

ARBITRATION

Any and all disputes between Company and Reinsurer arising out of, relating to, or concerning this Agreement, whether sounding in contract or tort and whether arising during or after termination of this Agreement, will be submitted to the decision of a board of arbitration composed of two arbitrators and an umpire ("Board") meeting at a site in Philadelphia, Pennsylvania. The arbitration will be conducted under the Federal Arbitration Act and will proceed as follows:

A. Submission to Arbitration. A notice requesting arbitration, or any other notice made in connection therewith, will be in writing and will be sent certified or registered mail, return receipt requested, to the affected parties. The notice requesting arbitration will state in particulars all issues to be resolved in the view of the claimant, will appoint the arbitrator selected by the claimant, and will set a tentative date for the hearing, which date will be no sooner than 90 days and no later than 150 days from the date that the notice requesting arbitration is mailed. Within 30 days of receipt of claimant's notice, the respondent will notify the claimant of any additional issues to be resolved in the arbitration and of the name of its appointed arbitrator.

B. Arbitration Board Membership. Unless otherwise mutually agreed, the members of the Board will be impartial and disinterested and will be active or retired lawyers, familiar with insurance and reinsurance, or current or former officers of property-casualty insurance companies, reinsurance companies, or Underwriters at Lloyd's, London. Company and Reinsurer as aforesaid will each appoint an arbitrator and the two arbitrators will choose an umpire before instituting the hearing. As time is of the essence, if the respondent fails to appoint its arbitrator within 30 days after having received the claimant's written request for arbitration, the claimant is authorized to and will appoint the second arbitrator. If the two arbitrators fail to agree upon the appointment of an umpire within 30 days after notification of the appointment of the second arbitrator, within 10 days thereof, the two arbitrators will request the American Arbitration Association ("AAA") to appoint an umpire for the arbitration with the qualifications set forth above in this Article. If the AAA fails to name an umpire, either party may apply to a court of competent jurisdiction to appoint an umpire with the above required qualifications. The umpire will promptly notify in writing all parties to the arbitration of his/her selection

and of the scheduled date for the hearing. Upon resignation or death of any member of the Board, a replacement will be appointed in the same fashion as the resigning or deceased member was appointed.

C. Submission of Briefs. The claimant and respondent will each submit initial briefs to the Board outlining the issues in dispute and the basis, authority and reasons for their respective positions within 30 days of the date of notice of appointment of the umpire. The claimant and the respondent may submit reply briefs to the Board within 10 days after filing of the initial brief(s). Initial and reply briefs may be amended by the submitting party at any time, but not later than 10 days prior to the date of commencement of the arbitration hearing. Reasonable responses will be allowed at the arbitration hearing to new material contained in any amendments filed to the briefs but not previously responded to.

D. Arbitration Award. The Board will make a decision and award with regard to the terms expressed in this Agreement, the original intentions of the parties to the extent reasonably ascertainable, and the custom and usage of the property and casualty insurance and reinsurance business, which decision and award will be in writing and will state the factual and legal basis for the decision and award. The decision and award will be based upon a hearing in which evidence will be allowed and in which the formal rules of evidence will not strictly apply but in which cross examination and rebuttal will be allowed. At its own election or at the request of the Board, either party may submit a post-hearing brief for consideration of the Board within 20 days of the close of the hearing. The Board will make its decision and award within 30 days following the close of the hearing or the submission of post-hearing briefs, whichever is later, unless the parties consent to an extension. Every decision by the Board will be by a majority of the members of the Board, and each decision and award by the majority of the members of the Board will be final and binding upon all parties to the proceeding. Either party may apply to a court of competent jurisdiction for an order confirming any decision and the award; a judgment of that Court will thereupon be entered on any decision or award. If such an order is issued, the attorneys' fees of the party so applying and court costs will be paid by the party against whom confirmation is sought. The Board may award interest at the rate published in the Wall Street Journal on the date of the award calculated from the date the Board determines that any amounts due the prevailing party should have been paid to the prevailing party, but may not award punitive, exemplary, or treble damages.

E. Arbitration Expense. Except in the event of a consolidated arbitration, each party will bear the expense of the one arbitrator appointed by it and will jointly and equally bear with the other party the expense of any stenographer requested, and of the umpire. The remaining costs of the arbitration proceedings will be finally allocated by the Board.

F. Evidence. Subject to customary and recognized legal rules of privilege, each party participating in the arbitration will have the obligation to produce those documents and as witnesses to the arbitration those of its employees, those of its affiliates, and those of any intermediary or underwriting manager as any other participating party reasonably requests, providing always that the same witnesses and documents be obtainable and relevant to the issues before the arbitration and not be unduly burdensome or excessive. The parties may mutually agree as to pre-hearing discovery prior to the arbitration hearing and in the absence of agreement, upon the request of any party, pre-hearing discovery may be conducted as the umpire determines in his/her sole discretion to be in the interest of fairness, full disclosure, and a prompt hearing, decision, and award by the Board. The umpire will be the final judge of the procedures of the Board, the conduct of the arbitration, of the rules of evidence, the rules of privilege and production, and of excessiveness and relevancy of any witnesses and documents upon the petition of any participating party. To the extent permitted by law, the Board and the umpire will have the authority to issue subpoenas and other orders to enforce their decisions.

G. Equitable Relief. Nothing herein will be construed to prevent any participating party from applying to a federal district court of competent jurisdiction to issue a restraining order or other equitable relief to maintain the "status quo" of the parties participating in the arbitration pending the decision and award by the Board or to prevent any party from incurring irreparable harm or damage at any time prior to the decision and award of the Board. The Board will also have the authority to issue interim decisions or awards in the interest of fairness, full disclosure, and a prompt and orderly hearing, decision, and award by the Board.

H. Consolidate Hearing. Upon request of Company made within 30 days of the umpire's appointment, the Board may order a consolidated hearing between Company and all affected reinsurers to this Agreement if the Board is satisfied in its discretion that the issues in dispute affect more than one reinsurer and a consolidated hearing would be in the interest of fairness and a prompt resolution of the issues in dispute. If the Board orders a consolidated hearing, all other affected participating reinsurers will join and participate in the arbitration at Company's request under time frames established by the umpire and will be bound by the Board's

decision and award unless excused by the Board in its discretion. Any reinsurer may decline to actively participate in a consolidated arbitration if in advance of the hearing, that reinsurer files with the Board a written agreement satisfactory to the Board to be bound by the decision and award of the Board in the same fashion and to the same degree as if it actively participated in the arbitration.

In the event of an order of consolidation by the Board, the arbitrator appointed by the original reinsurer will be subject to being and may be replaced within 30 days of the Board's order of consolidation by an arbitrator named by the reinsurer with the largest participation in this Agreement affected by the dispute. In the event two or more reinsurers affected by the dispute each have the same largest participation, they will agree among themselves as to the replacement arbitrator, if any, to be appointed. The umpire will be the final determiner in the event of any dispute over replacement of that arbitrator. All other aspects of the arbitration will be conducted as provided for in this Article provided that (a) each party actively participating in the consolidated arbitration will have the right to its own attorney, position, and related claims and defenses; (b) each party will not, in presenting its position, be prevented from presenting its position by the position set forth by any other party; and (c) the cost and expense of the arbitration, exclusive of attorney's fees (which will be borne exclusively by the respective retaining party) but including the expense of any stenographer requested and the fees of the umpire and arbitrators will be borne pro rata by each party actively participating in the consolidated arbitration or as the Board determines to be fair and appropriate under the circumstances.

ARTICLE XXIII

OFFSET

All amounts due either Company or Reinsurer, by reason of premiums, losses or otherwise, under this Agreement will be subject to recoupment and to offset, the rights to which may be exercised at any time and from time to time by either party and, upon exercise thereof, only the balance will be due.

ARTICLE XXIV

SERVICE OF SUIT

(This Article only applies to Reinsurers domiciled outside of the United States and/or unauthorized in any state, territory, or district of the United States having jurisdiction over Company.)

In the event of a dispute or the failure of Reinsurer to pay any amount claimed to be due hereunder, Reinsurer hereon, at the request of Company, will submit to the jurisdiction of a court of competent jurisdiction within the United States. Nothing in this Article constitutes or should be understood to constitute a waiver of Reinsurer's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States. It is further agreed that service of process in such suit may be made upon Mendes and Mount, 750 Seventh Avenue, New York, New York 10019-6829 and that in any suit instituted, Reinsurer will abide by the final decision of such court or of any Appellate Court in the event of an appeal.

The above-named is hereby authorized and directed to accept service of process on behalf of Reinsurer in any such suit and/or upon the request of Company to give a written undertaking to Company that they will enter a general appearance upon Reinsurer's behalf in the event such a suit will be instituted.

Further, pursuant to any statute of any state, territory, or district of the United States which makes provision therefor, Reinsurer hereon hereby designates the Superintendent, Commissioner, Director of Insurance, or other officer specified for that purpose in the statute, or his successor or successors in office, as its true and lawful attorney upon whom may be served any lawful process in any action, suit, or proceeding instituted by or on behalf of Company or any beneficiary hereunder arising out of this Agreement of reinsurance, and hereby designates the above-named as the person to whom the said officer is authorized to mail such process or a true copy thereof.

ARTICLE XXV

SECURITY AND UNAUTHORIZED REINSURANCE

If any reinsurer is unauthorized or otherwise unqualified in any state or other jurisdiction, or if, without such security, a financial penalty to Company would result on any statement or report it is required to make or file with regulatory authorities, for reasons of Company's financial security and condition, that reinsurer will secure no later than December 31 of each year its share of "obligations" under this Agreement in a manner, form and amount and from a bank acceptable to the regulatory authorities having jurisdiction, by a clean, irrevocable, and unconditional "evergreen" letter of credit.

The "obligations" referred to herein will mean the then current (as of the end of each calendar quarter) sum of:

1. The amount of ceded unearned premium for which Reinsurer is responsible;

2. The amount of paid losses and allocated loss adjustment expenses paid by Company but not yet recovered from Reinsurer;

3. The amount of ceded reserves for losses reported and outstanding, as well as for reserves for allocated loss adjustment expenses, for which Reinsurer is responsible;

4. The amount of return and refund premiums for which Reinsurer is responsible.

5. Contingent Profit Collateral. The amount of such collateral is calculated by applying the following criteria and rates:

6 Months	18 Months	30 Months	42 Months	54 Months
35%	35%	25%	15%	0%

The amount of such collateral will equal the percentage shown above times the difference between the ceded earned premium, net of ceding commission and brokerage, and the total of all ceded paid losses, ceded paid allocated loss expenses and ceded case reserves.

The first calculation of the Contingent Profit Collateral will be made by Company no later than December 31, 1993 and will be recalculated by Company at 12 month intervals until 48 months after the initial calculation when Company agrees to return the Contingent Profit Collateral to Reinsurer.

If any reinsurer is unauthorized in any province or jurisdiction of Canada, that reinsurer agrees to fund 115% of its share of Company's ceded Canadian unearned premium and outstanding loss and loss adjustment expense reserves by cash advances, if, without such funding, a penalty would accrue to Company on any financial statement it is required to file with the insurance regulatory authorities involved. Such cash advances will not exceed treaty limits as defined in Article VI, Reinsurance Coverage.

Company, or its successors in interest may draw, at any time and from time to time, upon the established letter of credit (or subsequent cash deposit) without diminution or restriction because of the insolvency of either Company or Reinsurer for one or more of the following purposes:

1. To make payment to and reimburse Company for Reinsurer's share of paid loss and allocated loss adjustment expense paid by Company under its original policies covered under this Agreement due to Company but unpaid by Reinsurer;

2. To make payments to Reinsurer of any amounts held thereby that exceed the amount required to fund Reinsurer's "obligations" under this Agreement.

3. To make payment to Company of Reinsurer's share of premium refunds and returns; and

4. To obtain a cash deposit of the entire amount of the remaining balance under the letter of credit where Company:

   a. has received notice of non-renewal or expiration of the letter of credit;

b. has not received assurances satisfactory to Company of any required increase in the amount of the letter of credit, or its replacement or other continuation of the letter of credit at least 30 days before its stated expiration date;

c. has been made aware that others may attempt to attach or otherwise place in jeopardy the security represented by the letter of credit; or

d. has concluded that the issuing (or confirming) bank's financial condition is such that the security represented by the letter of credit may be in jeopardy;

and under any of those circumstances where Reinsurer's entire "obligations" or part thereof, under this Agreement remain unliquidated and undischarged at least 30 days prior to the stated expiration date or at the time Company learns of the possible jeopardy to the security.

If Company draws on the letter of credit to obtain a cash deposit, Company will hold the amount of the cash deposit so obtained in the name of Company in any solvent United States Bank or Trust Company that is a member of the Federal Reserve System and insured by the Federal Deposit Insurance Corporation in trust solely to secure the "obligations" referred to above and for the use and purposes enumerated above and to return any balance thereof to Reinsurer:

1. upon the complete and final liquidation and discharge of all Reinsurer's obligations to Company under this Agreement; or

2. in the event Reinsurer subsequently provides alternate or replacement security consistent with the terms hereof and acceptable to Company.

All income earned and received by the amount held in a trust account will be added to the principal.

Company will prepare and forward at least quarterly to Reinsurer a statement for the purposes of this Article, showing Reinsurer's share of "obligations" as set forth above. If Reinsurer's share thereof exceeds the then existing balance of the security provided,

Reinsurer will, within 15 days of receipt of Company's statement, but never later than December 31 of any year, increase the amount of the letter of credit (or cash deposit) to the required amount of Reinsurer's share of "obligations" set forth in Company's statement.

If Reinsurer's share thereof is less than the then existing balance of the letter of credit (or cash deposit) provided, Company will release the excess thereof to Reinsurer upon Reinsurer's written request.

Reinsurer will not attempt to prevent Company from drawing on the letter of credit (or cash deposit) so long as Company is acting in accordance with this Article.

Company's "successors in interest" will include those by operation of law, including without limitation, any liquidator, rehabilitator, receiver, or conservator.

Reinsurer will take any other reasonable steps that may be required for Company to take credit on its statutory financial statements for the reinsurance provided by this Agreement.

Company may apply the Canadian cash advances under the third paragraph above to satisfy Reinsurer's Canadian obligations to Company in the same manner as if it were drawing on the letter of credit (or subsequent cash deposit).

ARTICLE XXVI

OTHER TERMS AND CONDITIONS

A. Waiver. The failure of Company or Reinsurer to insist on strict compliance with this Agreement, or to exercise any right or remedy hereunder, will not constitute a waiver of any rights contained herein nor stop the parties from thereafter demanding full and complete compliance nor prevent the parties from exercising such a remedy in the future.

B. Conflict with Law and Severability. If any provision of this Agreement should be invalid under applicable laws, the latter will control but only to the extent of the conflict without affecting the remaining provisions of this Agreement.

C. Headings. The headings preceding the text of the Articles and paragraphs of this Agreement are intended and inserted solely for the convenience of reference and will not affect the meaning, interpretation, construction or effect of this Agreement.

D. Assignment. This Agreement will be binding upon and inure to the benefit of Company and Reinsurer and their respective successors and assignees, provided, however, that this Agreement may not be assigned or delegated by either Company or Reinsurer without the prior written consent of the other which consent may be withheld by either party in its sole unfettered discretion.

E. Notices. Wherever notice of termination is required under this Agreement, it will be in writing, sent by certified mail, return receipt requested.

F. Governing Law. This Agreement will be governed by and construed according to the laws of Pennsylvania, exclusive of its rules with respect to conflict of laws, except as to rules with respect to credit for reinsurance where the laws of (a) the domicile of the individual ceding company will apply, and (b) the laws of other states applying their laws with respect to credit for reinsurance with foreign reinsurers will also apply.

G. Entire Agreement. This Agreement supersedes, merges with and makes null and void any and all previous agreements, whether written or oral, between Company and Reinsurer with respect to the reinsurance to be written under this Agreement commencing July 1, 1993 and constitutes the full and complete agreement between the parties with respect to that reinsurance. No amendment to this Agreement will be enforceable unless in writing and signed by the party against whom enforcement is sought.

ARTICLE XXVII

THIRD PARTY BENEFICIARY

Except as specifically and expressly provided for in the Insolvency Article, the provisions of this Agreement are intended solely for the benefit of the parties to and executing this Agreement and nothing in this Agreement will in any manner create or be construed to create any obligations to or establish any rights against any party to this Agreement in favor of any third parties or other persons not parties to and executing this Agreement.

ARTICLE XXVIII

AGENCY AGREEMENT

If more than one reinsured company is named as a party to this Agreement, the first named company will be deemed the agent of the other reinsured companies for purposes of sending or receiving notices required by the terms and conditions of this Agreement, and for purposes of remitting or receiving any monies due any party.

ARTICLE XXIX

NEGOTIATED AGREEMENT

This Agreement has been negotiated by the parties and the fact that the initial and final draft will have been prepared by the Intermediary will not give rise to any presumption for or against any party to this Agreement or be used in any form in the construction or interpretation of this Agreement or any of its provisions.

ARTICLE XXX

INTERMEDIARY

Aon Re Inc. is hereby recognized as the Intermediary negotiating this Agreement for all business hereunder. Correspondence regarding Agreement terms will be transmitted through Aon Re Inc., Two World Trade Center New York, New York 10048. All statements for premiums, return premiums, commissions, taxes, losses, loss expense, salvages, and loss settlements will be transmitted through Aon Reinsurance Agency, Inc., 123 North Wacker Drive, Chicago, Illinois 60606. Payments by Company to Aon Reinsurance Agency, Inc. will be deemed payment to Reinsurers. Payment by Reinsurers to Aon Reinsurance Agency, Inc. will be deemed payment to Company only to the extent that such payments are actually received by Company.

ARTICLE XXXI

SELF-INSURED OBLIGATIONS

This Agreement will cover self-insured obligations of Company assumed by it as a self-insurer, including self-insured obligations in excess of any valid and collectible insurance available to Company, to the same extent as if all types of insurance covered by this Agreement were afforded to Company under the broadest forms of policies issued by Company.

For the purposes of this Agreement, "self-insured obligations" means insurable exposures of Company on which Company has issued an actual policy of the kind described above. If a self-insured obligation policy reinsured under this Agreement protects Company for loss arising from the handling of a claim under another policy reinsured hereunder, the date on which such loss from the handling of that claim is incurred will be deemed to be the date the claim under that other policy reinsured hereunder is first made but nevertheless will be considered as a separate accident, casualty, disaster or occurrence for which a separate retention and limit will apply.

Any insurance or reinsurance wherein Company hereby reinsured and/or its affiliated and/or subsidiary Companies are named as the Insured or Reinsured party, either alone or jointly with some other party, will be deemed to be an insurance or reinsurance coming within the scope of this Agreement, notwithstanding that no legal liability may arise in respect thereof by reason of the fact that Company hereby reinsured and/or its affiliated and/or subsidiary Companies are named as the Insured or Reinsured party or one of the Insured or Reinsured parties.

All amounts of ultimate net loss paid hereunder will be deemed to reimburse for loss and loss adjustment expense first and Extra Contractual Obligations and losses in Excess of Policy Limits thereafter.

U.S.A.

NUCLEAR INCIDENT EXCLUSION CLAUSE - LIABILITY - REINSURANCE.

(1) This reinsurance does not cover any loss or liability accruing to the Reassured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.

(2) Without in any way restricting the operation of paragraph (1) of this Clause it is understood and agreed that for all purposes of this reinsurance all the original policies of the Reassured (new, renewal and replacement) of the classes specified in Clause II of this paragraph (2) from the time specified in Clause III in this paragraph (2) shall be deemed to include the following provision (specified as the Limited Exclusion Provision):

Limited Exclusion Provision.*

I. It is agreed that the policy does not apply under any liability coverage,
to (*injury, sickness, disease, death or destruction* / bodily injury or property damage) with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability.

II. Family Automobile Policies (liability only), Special Automobile Policies (private passenger automobiles, liability only), Farmers Comprehensive Personal Liability Policies (liability only), Comprehensive Personal Liability Policies (liability only) or policies of a similar nature; and the liability portion of combination forms related to the four classes of policies stated above, such as the Comprehensive Dwelling Policy and the applicable types of Homeowners Policies.

III. The inception dates and thereafter of all original policies as described in II above, whether new, renewal or replacement, being policies which either
(a) become effective on or after 1st May, 1960, or
(b) become effective before that date and contain the Limited Exclusion Provision set out above;
provided this paragraph (2) shall not be applicable to Family Automobile Policies, Special Automobile Policies, or policies or combination policies of a similar nature, issued by the Reassured on New York risks, until 90 days following approval of the Limited Exclusion Provision by the Governmental Authority having jurisdiction thereof.

(3) Except for those classes of policies specified in Clause II of paragraph (2) and without in any way restricting the operation of paragraph (1) of this Clause, it is understood and agreed that for all purposes of this reinsurance the original liability policies of the Reassured (new, renewal and replacement) affording the following coverages:

Owners, Landlords and Tenants Liability, Contractual Liability, Elevator Liability, Owners or Contractors (including railroad) Protective Liability, Manufacturers and Contractors Liability, Product Liability, Professional and Malpractice Liability, Storekeepers Liability, Garage Liability, Automobile Liability (including Massachusetts Motor Vehicle or Garage Liability)

shall be deemed to include, with respect to such coverages, from the time specified in Clause V of this paragraph (3), the following provision (specified as the Broad Exclusion Provision):

Broad Exclusion Provision.*

It is agreed that the policy does not apply:

I. Under any Liability Coverage to (*injury, sickness, disease, death or destruction* / bodily injury or property damage)

(a) with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability; or

(b) resulting from the hazardous properties of nuclear material and with respect to which (1) any person or organization is required to maintain financial protection pursuant to the Atomic Energy Act of 1954, or any law amendatory thereof, or (2) the insured is, or had this policy not been issued would be, entitled to indemnity from the United States of America, or any agency thereof, under any agreement entered into by the United States of America, or any agency thereof, with any person or organization.

II. Under any Medical Payments Coverage, or under any Supplementary Payments Provision relating to (*immediate medical or surgical relief* / first aid, to expenses incurred with respect to (*bodily injury, sickness, disease or death* / bodily injury resulting from the hazardous properties of nuclear material and arising out of the operation of a nuclear facility by any person or organization.

III. Under any Liability Coverage to (*injury, sickness, disease, death or destruction* / bodily injury or property damage resulting from the hazardous properties of nuclear material, if

(a) the nuclear material (1) is at any nuclear facility owned by, or operated by or on behalf of, an insured or (2) has been discharged or dispersed therefrom;

(b) the nuclear material is contained in spent fuel or waste at any time possessed, handled, used, processed, stored, transported or disposed of by or on behalf of an insured; or

(c) the (*injury, sickness, disease, death or destruction* / bodily injury or property damage arises out of the furnishing by an insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility, but if such facility is located within the United States of America, its territories, or possessions or Canada, this exclusion (c) applies only to (*injury to or destruction of property at such nuclear facility* / property damage to such nuclear facility and any property thereat.

IV. As used in this endorsement:
"hazardous properties" include radioactive, toxic or explosive properties; "nuclear material" means source material, special nuclear material or byproduct material; "source material", "special nuclear material", and "byproduct material" have the meanings given them in the Atomic Energy Act of 1954 or in any law amendatory thereof; "spent fuel" means any fuel element or fuel component, solid or liquid, which has been used or exposed to radiation in a nuclear reactor; "waste" means any waste material (1) containing byproduct material and (2) resulting from the operation by any person or organization of any nuclear facility included within the definition of nuclear facility under paragraph (a) or (b) thereof; "nuclear facility" means

(a) any nuclear reactor,

(b) any equipment or device designed or used for (1) separating the isotopes of uranium or plutonium, (2) processing or utilizing spent fuel, or (3) handling processing or packaging waste,

(c) any equipment or device used for the processing, fabricating or alloying of special nuclear material if at any time the total amount of such material in the custody of the insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235,

(d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste,

and includes the site on which any of the foregoing is located, all operations conducted on such site and all premises used for such operations; "nuclear reactor" means any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of fissionable material;

(*With respect to injury to or destruction of property, the word "injury" or "destruction"*
("property damage" includes all forms of radioactive contamination of property.
(*includes all forms of radioactive contamination of property.*

V. The inception dates and thereafter of all original policies affording coverages specified in this paragraph (3), whether new, renewal or replacement, being policies which become effective on or after 1st May, 1960, provided this paragraph (3) shall not be applicable to

(i) Garage and Automobile Policies issued by the Reassured on New York risks, or

(ii) statutory liability insurance required under Chapter 90, General Laws of Massachusetts,

until 90 days following approval of the Broad Exclusion Provision by the Governmental Authority having jurisdiction thereof.

(4) Without in any way restricting the operation of paragraph (1) of this Clause, it is understood and agreed that paragraphs (2) and (3) above are not applicable to original liability policies of the Reassured in Canada and that with respect to such policies this Clause shall be deemed to include the Nuclear Energy Liability Exclusion Provisions adopted by the Canadian Underwriters' Association of the Independent Insurance Conference of Canada.

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*NOTE. *The words printed in italics in the Limited Exclusion Provision and in the Broad Exclusion Provision shall apply only in relation to original liability policies which include a Limited Exclusion Provision or a Broad Exclusion Provision containing those words.*

NUCLEAR INCIDENT EXCLUSION CLAUSE—LIABILITY—REINSURANCE—CANADA

1. This Agreement does not cover any loss or liability accruing to the Reinsured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.

2. Without in any way restricting the operation of paragraph 1 of this clause it is agreed that for all purposes of this Agreement all the original liability contracts of the Reinsured, whether new, renewal or replacement, of the following classes, namely,

   Personal Liability.
   Farmers' Liability.
   Storekeepers' Liability.

   which become effective on or after 31st December 1984, shall be deemed to include, from their inception dates and thereafter, the following provision:-

   Limited Exclusion Provision.

   This Policy does not apply to bodily injury or property damage with respect to which the Insured is also insured under a contract of nuclear energy liability insurance (whether the Insured is unnamed in such contract and whether or not it is legally enforcible by the Insured) issued by the Nuclear Insurance Association of Canada or any other group or pool of insurers or would be an Insured under any such policy but for its termination upon exhaustion of its limits of liability.

   With respect to property, loss of use of such property shall be deemed to be property damage.

3. Without in any way restricting the operation of paragraph 1 of this clause it is agreed that for all purposes of this Agreement all the original liability contracts of the Reinsured, whether new, renewal or replacement, of any class whatsoever (other than Personal Liability, Farmers' Liability, Storekeepers' Liability or Automobile Liability contracts), which become effective on or after 31st December 1984, shall be deemed to include from their inception dates and thereafter, the following provision:-

   Bread Exclusion Provision

   It is agreed that this Policy does not apply:

   (a) To liability imposed by or arising under the Nuclear Liability Act; nor

   (b) to bodily injury or property damage with respect to which an Insured under this policy is also insured under a contract of nuclear energy liability insurance (whether the Insured is unnamed in such contract and whether or not it is legally enforcible by the Insured) issued by the Nuclear Insurance Association of Canada or any other insurer or group or pool of insurers or would be an Insured under any such policy but for its termination upon exhaustion of its limit of liability; nor

   (c) to bodily injury or property damage resulting directly or indirectly from the nuclear energy hazard arising from:

      (i) the ownership, maintenance, operation or use of a nuclear facility by or on behalf of an Insured;

      (ii) the furnishing by an Insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility; and

      (iii) the possession, consumption, use, handling, disposal or transportation of fissionable substances, or of other radioactive material (except radioactive isotopes, away from a nuclear facility, which have reached the final stage of fabrication so as to be useable for any scientific, medical, agricultural, commercial or industrial purpose) used, distributed, handled or sold by an Insured.

As used in this Policy:

1. The term "nuclear energy hazard" means the radioactive, toxic, explosive, or other hazardous properties of radioactive material;

2. The term "radioactive material" means uranium, thorium, plutonium, neptunium, their respective derivatives and compounds, radioactive isotopes of other elements and any other substances that the Atomic Energy Control Board may, by regulation, designate as being prescribed substances capable of releasing atomic energy, or as being requisite for the production, use or application of atomic energy;

3. The term "nuclear facility" means:

   (a) any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of plutonium, thorium and uranium or any one or more of them;

   (b) any equipment or device designed or used for (i) separating the isotopes of plutonium, thorium and uranium or any one or more of them, (ii) processing or utilizing spent fuel, or (iii) handling, processing or packaging waste;

   (c) any equipment or device used for the processing, fabricating or alloying of plutonium, thorium or uranium enriched in the isotope uranium 233 or in the isotope uranium 235, or any one or more of them if at any time the total amount of such material in the custody of the insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235;

   (d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste radioactive material;

   and includes the site on which any of the foregoing is located, together with all operations conducted thereon and all premises used for such operations.

4. The term "fissionable substance" means any prescribed substance that is, or from which can be obtained, a substance capable of releasing atomic energy by nuclear fission.

5. With respect to property, loss of use of such property shall be deemed to be property damage.

NUCLEAR ENERGY RISKS EXCLUSION

1. This contract excludes nuclear energy risks whether written directly or by way of reinsurance or via pools or associations. Under this contract the term "nuclear energy risks" means any first or third party insurance (other than workers' compensation or employers' liability) in respect of:

   (a) nuclear reactors and nuclear power stations or plant;

   (b) any other premises or facilities concerned with

   the production of nuclear energy or

   the production or storage or handling of nuclear fuels or nuclear waste;

   (c) any other premises or facilities eligible for insurance by any local nuclear pool or association but only to the extent of the requirements of the local pool or association;

   (d) nuclear or radioactive fuel, or nuclear or radioactive waste.

2. However, this exclusion shall not apply

   (a) to any insurance or reinsurance in respect of the construction, erection or installation of buildings, plant and other property (including contractor's plant and equipment used in connection therewith):

   for the storage of nuclear fuel - prior to the commencement of storage

   as regards reactor installations - prior to the commencement of loading of nuclear fuel into the reactor, or prior to the initial criticality, depending on the commencement of the insurance or reinsurance of the relevant local nuclear pool or association;

   (b) to any machinery breakdown or other engineering insurance or reinsurance not coming within the scope of 2(a) above, nor affording coverage in the "high radioactivity" zone;

   (c) to any insurance or reinsurance in respect of the hulls of ships, aircraft or other conveyances;

   (d) to any insurance or reinsurance in respect of loss of or damage to (including any expenses incurred therewith) nuclear or radioactive fuel or nuclear or radioactive waste while in transit as cargo.

INSOLVENCY FUNDS EXCLUSIONS CLAUSE

This Agreement excludes all liability of the Company arising, by contract, operation of law, or otherwise, from its participation or membership, whether voluntary or involuntary, in any insolvency fund. "Insolvency fund" includes any guaranty fund, plan, pool, association, fund, or other arrangement, howsoever denominated, established, or governed that provides for any assessment of or payment or assumption by the Company of part or all of any claim, debt, charge, fee, or other obligation of an insurer, or its successors or assigns, which has been declared by any competent authority to be insolvent, or which is otherwise deemed unable to meet any claim, debt, charge, fee, or other obligation in whole or in part.

SCHEDULE "G"

TO THE REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – MAY 23, 2007

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ADDENDUM 1

Attaching to and forming a part of

SECOND D&O/E&O EXCESS OF LOSS REINSURANCE AGREEMENT

ISSUED TO: RELIANCE INSURANCE COMPANY
FIREMARK INSURANCE COMPANY
REGENT INTERNATIONAL INSURANCE COMPANY, LTD.
RELIANCE INSURANCE COMPANY OF NEW YORK
RELIANCE LLOYDS
RELIANCE NATIONAL (BARBADOS) INSURANCE LTD.
RELIANCE NATIONAL INSURANCE COMPANY (U.K.) LTD.
RELIANCE NATIONAL PROPERTY AND CASUALTY INSURANCE COMPANY
UNITED PACIFIC INSURANCE COMPANY OF NEW YORK

ISSUED BY: VARIOUS REINSURERS IDENTIFIED BY
INTERESTS AND LIABILITIES AGREEMENTS

It is hereby mutually understood and agreed that effective July 1, 1993 the following changes will take place on the captioned Agreement:

a) The second paragraph of the Notice of Loss and Loss Settlement Article will be amended to read as follows:

> "Company may make loss settlements either under strict policy conditions or by way of compromise and such settlements will be unconditionally binding on Reinsurer provided such settlements are made within the terms and conditions of this Agreement and within the terms and conditions of the original policies including all modifications, waivers, alterations and interpretations made thereto. When so requested, however, the Company will afford the Reinsurers, at their own expense, an opportunity to be associated with the Company in the defense of any claim, suit, or proceeding involving this Agreement, and the Company and the Reinsurers will cooperate in every respect in such defense. Amounts due the Company hereunder in the settlement of loss and loss expense will be payable by the Reinsurers immediately upon being furnished by the Company with reasonable evidence of the amount paid or to be paid in excess of the Company's retention as set forth in the Reinsurance Coverage Article."

b) The Delays, Errors, or Omissions Article will be amended in its entirety to read as follows:

"DELAYS, ERRORS, OR OMISSIONS

"Inadvertent delays, errors, or omissions made in connection with this Agreement or any transaction hereunder will not relieve either party from any liability which would have attached had such delay, error, or omission not occurred, provided always that such error or omission will be rectified as soon as possible after discovery and will not impose any greater liability on the other party than would have attached hereunder if such delay, error or omission had not occurred."

All other terms and conditions of the captioned Agreement will remain unchanged.

SECOND D&O/E&O EXCESS OF LOSS REINSURANCE AGREEMENT

SECOND D&O/E&O EXCESS OF LOSS REINSURANCE AGREEMENT

THIS AGREEMENT is made and entered into by and between RELIANCE INSURANCE COMPANY, Philadelphia, Pennsylvania, FIREMARK INSURANCE COMPANY, Philadelphia, Pennsylvania, REGENT INTERNATIONAL INSURANCE COMPANY, LTD., Bermuda, RELIANCE INSURANCE COMPANY OF NEW YORK, Fairport, New York, RELIANCE LLOYDS, Philadelphia, Pennsylvania, RELIANCE NATIONAL (BARBADOS) INSURANCE LTD., Barbados, RELIANCE NATIONAL INSURANCE COMPANY (U.K.) LTD., London, England, RELIANCE NATIONAL PROPERTY AND CASUALTY INSURANCE COMPANY, Des Moines, Iowa, UNITED PACIFIC INSURANCE COMPANY OF NEW YORK, Fairport, New York and any additional company established or acquired by the Company (hereinafter called "Company") of the one part, and the various Reinsurers identified by the attached Interests and Liabilities Agreements (hereinafter called "Reinsurer") of the other part.

WITNESSETH:

That in consideration of the mutual covenants hereinafter contained and upon the terms and conditions herein below set forth, the parties hereto agree as follows:

ARTICLE I

POOLING ARRANGEMENT

Reliance Insurance Company assumes 100% of the liability of United Pacific Insurance Company, Planet Insurance Company, Reliance National Insurance Company, Reliance Insurance Company of Illinois, and Compac Insurance Company as this business pertains to this Agreement after deduction for facultative reinsurance and ceded captive reinsurance programs. Notwithstanding any other provisions of this Agreement, this Agreement protects such assumed reinsurance liability as if it were written directly by Reliance Insurance Company and attaches prior to redistribution to those companies

under the terms of Company's intercompany reinsurance pool, which redistribution will be disregarded for all purposes hereunder. With respect to all other named companies set forth in the preamble of this Agreement, this Agreement will apply as provided for in the Net Retained Lines Article. In the event that this Agreement applies on a per risk basis, and a single occurrence affects two or more of the pooling companies named above under different policies, Company will continue to maintain a separate retention and a separate limit for each risk as if the policies were written by separate companies.

ARTICLE II

BUSINESS COVERED

This Agreement applies to new and renewal policies with an effective date during the term of this Agreement, issued by Company and written through Reliance National Division of Company, and classified by Company as Directors and Officers Liability, Employee's Retirement Income Security Act Liability, General Partnership Liability and Errors and Omissions Liability; except as excluded in the Exclusions Article, subject to the limitations set forth in the Reinsurance Coverage Article.

There will be no coverage under this Agreement for policies where the original policy limit does not exceed Company's retention under this Agreement.

If any law or regulation of the Federal, State or Local government of the United States or the rulings of officials having supervision over insurance companies, should render the undertaking of this Agreement illegal within the jurisdiction of such Authority, Company may upon written notice to Reinsurer suspend, abrogate or amend this Agreement insofar as it relates to such jurisdiction, to the extent necessary to comply with such law, regulation or ruling. Such suspension, abrogation or amendment of a portion of this Agreement will in no way affect any other portion thereof, nor increase or extend Reinsurer's liability hereunder.

ARTICLE III

TERM

This Agreement is effective from July 1, 1993 through June 30, 1994, both days inclusive, at the location of the original policy.

Reinsurance coverage will remain in force for all policies in force at the date of expiration of this Agreement until their natural expiration defined as the full original policy period plus any run-off provision and/or any extended reporting period option and/or any discovery period and/or any retroactive coverage period contained in the original policy. However, should any policy to which this Agreement applies during the reinsurance run-off period be extended, continued or renewed due to regulatory or other legal restrictions, this Agreement will automatically continue to provide reinsurance coverage until such time as said policies may be actually terminated by Company.

The provisions of the preceding paragraph notwithstanding, Company will have the option, subject to Company notifying Reinsurer prior to the date of expiration of this Agreement, to terminate Reinsurer's liability for claims first made after the date of expiration of this Agreement on policies in force as at the date of expiration and Reinsurer will return to Company within 60 days the ceded unearned premium reserve and cash equivalent calculated as of the date of expiration less applicable ceding commission for all policies in force as at the date of termination.

The provisions of this Agreement will continue to apply to all unfinished business hereunder to the end that all obligations and liabilities incurred by each party hereunder prior to termination will be fully performed and discharged.

ARTICLE IV

EXCLUSIONS

A. The reinsurance provided under this Agreement is subject to the exclusions set forth below and will not cover said excluded risks, hazards

and coverages unless individually submitted by Company to Reinsurer for inclusion hereunder, and, if specially accepted by Reinsurer, such business will then be covered under the terms of this Agreement, except as such terms will be modified by such acceptance. Any renewal of a special acceptance covered under the previous year's reinsurance agreement will be automatically covered hereunder.

B. The reinsurance provided under this Agreement does not apply to:

1. Reinsurance assumed except that:

a) inter-company reinsurance,

b) reinsurance of one or more of an agent's policies, with the agent acting for the ceding insurer under its authority,

c) reinsurance between an insurer and a reinsurer that concerns or is confined to business produced by a named agent of the ceding insurer, usually generated by that agent and administered directly with the reinsurer with permission of the insured, or

d) specific arrangements with insureds through their single parent "captive" carrier

will not be excluded hereunder.

2. Nuclear incident in accordance with the Nuclear Incident Exclusion Clauses - Liability - Reinsurance (U.S.A. and Canada) and the Nuclear Energy Risks Exclusion Clause (Reinsurance) 1984 (Worldwide excluding U.S.A. and Canada) attached hereto.

3. Business written through Pools, Syndicates and Associations of which Company is a member.

4. Insolvency funds in accordance with the Insolvency Funds Exclusion Clause attached hereto.

5. Insurance Agents and/or Brokers Errors & Omissions Liability; however, this exclusion does not apply to business where insurance agents and/or brokers represent less than or equal to 5% of total annual revenues.

6. Accountants Errors & Omissions Liability.

7. Medical Malpractice Liability.

8. Actuaries Errors & Omissions Liability when written as such.

9. Non-licensed Real Estate Appraisers Errors & Omissions Liability.

ARTICLE V

TERRITORY

This Agreement will cover wherever Company's policies cover.

ARTICLE VI

REINSURANCE COVERAGE

Company will retain for its own account and pay the first $2,000,000 of ultimate net loss, each and every loss, each policy and Reinsurer will be liable to and reimburse Company for 100% of (a) the amount of ultimate net loss paid or payable by Company in excess of that $2,000,000 of ultimate net loss, each and every loss, each policy; but Reinsurer's maximum liability for ultimate net loss will not exceed $3,000,000 each and every loss, each policy and (b) loss adjustment expense when not included within ultimate net loss on a pro rata basis (in the amount that the ultimate net loss reimbursed under this Agreement bears to the original whole ultimate net loss incurred by Company) and in addition to the limits stated herein and (c) monitoring counsel expense on a pro rata basis (in the amount that the ultimate net loss reimbursed under this Agreement bears to the original whole ultimate net loss incurred by Company) and in addition to the limits stated herein.

Reinsurer will reimburse Company for 100% of the amount of ultimate net loss reimbursable under the preceding paragraph up to a 250% loss ratio to Reinsurer. Company will thereafter retain and be responsible for the amount of ultimate net loss otherwise reimbursable under the preceding paragraph up to an amount equal to 25% of

Reinsurance Premium, net of ceding commission thereon. Thereafter, Reinsurer will be obligated to pay to Company the amount of ultimate net loss reimbursable under the preceding paragraph only up to an additional amount equal to 25% of Reinsurance Premium, net of ceding commission thereon that is, up to a maximum loss ratio cap to Reinsurer of 275% in all during the term hereof.

ARTICLE VII

WARRANTIES

A. The first $1,000,000 of ultimate net loss, each and every loss, each policy is to be retained net to Company's own account and unreinsured other than from other Casualty Catastrophe Excess of Loss reinsurances.

B. All policies subject to this Agreement will contain a pollution liability exclusion or so deemed.

ARTICLE VIII

GENERAL INFORMATION

A. All policies subject to this Agreement are issued on a claims made basis.

B. If Company issues two or more policies on different layers of the same program for any one insured, such policies will be deemed one policy for the purpose of recovery hereunder, subject to one limit and retention within the terms of the Reinsurance Coverage Article.

C. Company will be the sole judge of what constitutes one insured.

ARTICLE IX

DEFINITIONS

"Policies" means each of Company's binders, policies and contracts providing insurance or reinsurance on the business covered hereunder.

"Each and every loss" means each claim made or series of claims made arising from a wrongful act or the same or series of interrelated wrongful acts, as defined in the original policy.

"Ultimate net loss" means the amount paid or payable by Company in settlement of losses or liability on its net retained line after deducting all other recoveries and salvages, and will include all loss indemnity payments, allocated loss adjustment expense when included within the original policy limits, 90% of any Extra Contractual Obligations losses and 90% of losses in Excess of Policy Limits.

All salvages and recoveries received subsequent to a loss settlement under this Agreement will be applied as if received prior to said loss settlement and all necessary adjustments will be made between Company and Reinsurer.

Nothing in this definition will be construed to mean that losses hereunder are not recoverable until Company's final ultimate net loss has been ascertained.

Ultimate net loss includes 90% of any Extra Contractual Obligations losses and 90% of losses in Excess of Policy Limits which are both recoverable hereunder. The remaining 10% of the Extra Contractual Obligations losses and losses in Excess of Policy Limits will be retained net by Company unreinsured except for Casualty Catastrophe Excess of Loss reinsurances. Company will retain an unreinsured $1,000,000 Self-Insured Retention in addition to the 10% participation in Extra Contractual Obligation losses and losses in Excess of Policy Limits. Such self-insured retention is to be applied before the application of the Extra Contractual Obligations losses or losses in Excess of Policy Limits provision contained herein.

"Allocated loss adjustment expense" means all expenses and costs relating to the adjustment and defense of specific losses hereunder, including appellate expenses, expenses and costs associated with policy coverage and declaratory judgment actions that are claim specific, pre-judgment and post-judgment interest, and legal costs and expenses associated with losses in Excess of Policy Limits (90%) and Extra Contractual Obligations losses (90%). However, where defense costs on original policies are in addition to the policy limits, those loss expenses will be reimbursed by Reinsurer to

Company on a pro rata basis (in the amount that the ultimate net loss reimbursed under this Agreement bears to the original whole ultimate net loss incurred by Company) and in addition to the limits stated in the Reinsurance Coverage Article.

"Monitoring counsel expense" means all loss adjustment expenses incurred by Company as a result of activities of an authorized monitoring counsel related to one specific loss and one specific policy that cannot be charged against the limit of the original policy.

"Extra Contractual Obligations" means the legal liability of Company for loss or losses not covered under the coverage, terms and conditions of Company's policies, arising from the handling of any claim on business otherwise covered under this Agreement, when such loss arises because of:

1. The failure of Company to pay a claim within the policy terms of coverage or to provide a defense against such claim as required by law, or

2. Bad faith, fraud or negligence in adjusting a claim, rejecting a claim or in rejecting an offer of settlement, or

3. Negligence or breach of duty in the preparation of the defense or the conduct of a trial or the preparation or prosecution of any appeal and/or subrogation and/or subsequent action resulting therefrom.

Extra Contractual Obligation will not include loss arising out of engineering or other services or any other non claims-related activity provided to the insured by Company.

However, this coverage for Extra Contractual Obligations will not apply when the Extra Contractual Obligations loss has been incurred due to the fraud of a member of the Board of Directors or a corporate officer of Company or any other employee of Company with claims settlement authority acting individually or collectively or in collusion with a member of the Board of Directors, a corporate officer, partner or any other employee of any other corporation or partnership or with any other individual.

"Losses in Excess of Policy Limits" means any judgment or settlement in lieu thereof rendered against an original insured which is in excess of limits provided by Company's policy but otherwise within the terms of Company's policies and for which Company is held liable as a result of alleged or actual bad faith, fraud or negligence in rejecting a settlement within its policy limits, in the duty to defend, in the preparation of the defense, in the trial of an action against the insured or in the preparation or prosecution of an appeal consequent upon such action.

"Loss ratio" means the percent resulting from Reinsurer's paid ultimate net loss arising from policies with an effective date during the term of this Agreement divided by Reinsurance Premium, net of ceding commission thereon, arising from policies with an effective date during the term of this Agreement.

"Gross Net Written Premium" means Company's gross premiums charged for the original policies with an effective date during the term of this Agreement plus additional premiums thereon, less return premiums thereon and less any premiums paid or payable for reinsurance inuring to the benefit of Reinsurers.

ARTICLE X

NET RETAINED LINES

This Agreement will apply only to that portion of any insurance or reinsurance Company retains net for its own account [prior to the deduction of any underlying, and other treaty excess of loss reinsurances (including Casualty Catastrophe Excess of Loss) but not inuring facultative reinsurance], and in calculating the amount of any ultimate net loss hereunder and the amount in excess of which this Agreement attaches, only ultimate net loss or ultimate net losses with respect to that portion of any insurance or reinsurance Company retains net for its own account will be included. It is understood and agreed, however, that Reinsurer's liability hereunder with respect to any ultimate net loss or

ultimate net losses will not be increased by reason of the inability of Company to collect from any other reinsurers, whether specific or general, any amounts which may be due from them, whether such inability arises from the insolvency of such other reinsurers or otherwise.

Recoveries, collectibles or retention from any form of insurance or reinsurance other than: 1) from other excess of loss reinsurances including Casualty Catastrophe Excess of Loss reinsurances, 2) primary Errors and Omissions policy issued to Company, 3) the deductible thereon, and 4) Self-Insured Excess Errors and Omissions policy, will inure to the benefit of Reinsurer and will be deducted in arriving at the Ultimate Net Loss hereunder. It being the intention of the parties hereto that any Extra Contractual Obligations and Excess of Policy Limits coverage provided hereunder will be applied first to the original insured's loss and any loss under Company's own insurance (i.e., primary insurance, deductible and Self-Insured Excess insurance) will be treated as a separate loss.

Intercompany reinsurance and other underlying and excess of loss reinsurance will be disregarded in calculating ultimate net loss and net retained line.

ARTICLE XI

SUBROGATION AND SALVAGE

Reinsurer will be credited with salvage i.e., reimbursement obtained or recovery made by Company, less the actual cost, excluding salaries of officials and employees of Company and sums paid to attorneys as retainer, of obtaining such recovery on account of claims and settlements involving reinsurance hereunder. Salvage hereon will always be used to reimburse the excess carriers in the reverse order of their priority according to their participation before being used in any way to reimburse Company for its primary loss. Company agrees reasonably to enforce its rights to salvage or subrogation relating to

any loss, a part of which loss was sustained by Reinsurer, and to prosecute all reasonable claims arising out of such rights.

ARTICLE XII

NOTICE OF LOSS AND LOSS SETTLEMENT

Company will advise Reinsurer of all losses for which Company has established an indemnity and/or expense reserve of $1,000,000 or greater and of all losses which, in the opinion of Company, are likely to involve Reinsurer under this Agreement, and all material subsequent developments pertaining thereto, which, in the opinion of Company, may materially affect the position of Reinsurer.

Company may make loss settlements either under strict policy conditions or by way of compromise and such settlements will be unconditionally binding on Reinsurer provided such settlements are made within the terms and conditions of this Agreement and within the terms and conditions of the original policies including all modifications, waivers, alterations and interpretations made thereto.

ARTICLE XIII

REINSURANCE PREMIUM

Company will pay to Reinsurer its proportionate share of Gross Net Written Premium as allocated by Company for the limit or limits ceded hereunder in accordance with Company's increased limits factors for this layer.

If Company issues two or more policies on different layers of the same program for any one insured, cession factors are applied to the combined total limits of the original policies only when Company writes contiguous policies and the full limit of each original policy.

If Company does not write contiguous policies and/or does not write the full limit of each original policy, the underlying policy will be ceded by applying the cession factors to the limit of that policy. Subsequent policy(ies) will be ceded on a pro rata basis (i.e., based on the amount of limit applied to the reinsurance layer).

ARTICLE XIV

CEDING COMMISSION

Reinsurer will allow Company a ceding commission of 27% of the Reinsurance Premium.

ARTICLE XV

REPORTS AND REMITTANCES

Company will provide Reinsurer with all necessary data respecting premiums, losses and recoveries on forms mutually acceptable to Company and Reinsurer.

Company will render a quarterly account of Gross Net Written Premium due Company and Reinsurance Premium due thereon during said quarter and any premium due Reinsurer will be remitted within 60 days of the end of each calendar quarter.

Company will provide to Reinsurer, as promptly as possible after the close of each year the information necessary for Annual Statement purposes.

Except as provided in the following paragraph, payment by Reinsurer of its proportion of ultimate net loss paid by Company will be made by Reinsurer to Company within 15 days after proof of payment by Company is received by Reinsurer.

In the event Reinsurer's share of any one ultimate net loss is $500,000 or more, Company may give Reinsurer written notice of its intention to pay such loss on a certain date and may require Reinsurer to have its share of the ultimate net loss in the hands of Company by such date. Such written notice will allow Reinsurer at least 5 working days after its receipt to prepare and dispatch its payment by check or wire transfer.

ARTICLE XVI

TAXES

In consideration of the terms under which this Agreement is issued, Company will not claim a deduction in respect of the premium hereon when making tax returns, other than income or profits tax returns, to any state or territory of the United States of America, the District of Columbia or Canada.

ARTICLE XVII

FEDERAL EXCISE TAX

(Applicable to those reinsurers, except Underwriters at Lloyds London and other reinsurers exempt from Federal Excise Tax, who are domiciled outside the United States of America.)

Reinsurer has agreed to allow for the purpose of paying the Federal Excise Tax the applicable percentage of the premium payable hereon (as imposed under Section 4371 of the Internal Revenue Service Code) to the extent such premium is subject to the Federal Excise Tax.

In the event of any return of premium becoming due hereunder, Reinsurer will deduct the aforesaid percentage from the return premium payable hereon and Company or its agent should take steps to recover the tax from the United States government.

ARTICLE XVIII

CURRENCY

Wherever the word "Dollars" or the "$" sign appears in this Agreement, they will be construed to mean United States Dollars, except in those cases where the policies are issued by Company in Canadian Dollars, they will mean Canadian Dollars.

All transactions under this Agreement as regards payment and settlements of premium and losses will be made in the currency of the original policy except that

currencies other than United States Dollars or Canadian Dollars will be converted to United States Dollars at the applicable rate of exchange appearing in the Wall Street Journal on the date such transaction is entered in the books of Company.

The Retention and the Limit are stated in United States Dollars or its equivalent at the same rate of exchange as used by Company in recording the transaction in Company's records. In the event that there is an increase or reduction in the parity value of the United States Dollar against the currency of the original policy at the date of settlement of loss, from that existing at the time of the risk's cession to this Agreement, then the Retention and the Limit will be adjusted to maintain the original relative Retention and Limit.

In the event Company is involved in a loss requiring payment in more than one currency hereunder, Company's retention and the amount recoverable hereunder will be apportioned in the currencies in the same proportion as the amount of ultimate net loss in each currency bears to the total ultimate net loss from all currencies paid by Company.

ARTICLE XIX

ACCESS TO RECORDS

Reinsurer or its duly authorized representatives will have the right at any reasonable time upon 5 working days prior notice during the term of this Agreement, or at any time after the expiration of this Agreement to visit the offices of Company to inspect, examine, audit, and verify any of the policy or claim files ("records") relating to the business reinsured under this Agreement. Reinsurer will have the right to make copies, at its own expense, or extracts of any records. Notwithstanding the above, Reinsurer will not have any right of access to the records of Company if it is not current in all payments due to Company and Company will have no right to reimbursement under this Agreement if it fails or refuses to provide the access required by this Article other than by reason of Reinsurer's failure to pay. Reinsurer will keep confidential all information and reports

derived from the records of Company to which it has received access and will not publish or communicate that information or report(s) to any other person or reinsurer without Company's express prior written consent.

ARTICLE XX

DELAYS, ERRORS, OR OMISSIONS

Inadvertent delays, errors, or omissions made in connection with this Agreement or any transaction hereunder will not relieve either party from any liability which would have attached had such delay, error, or omission not occurred, provided always that such error or omission will be rectified as soon as possible after discovery.

ARTICLE XXI

INSOLVENCY

In the event of the insolvency of one (or more) of the reinsured companies, and the appointment of a liquidator, receiver, conservator or statutory successor for such insolvent company, reinsurance payable to such company will be payable immediately upon demand, with reasonable provision for verification, on the basis of the liability of such Company as a result of claims allowed against such company by any court of competent jurisdiction or any liquidator, receiver, conservator or statutory successor having authority to allow such claims, without diminution because of such insolvency or because such liquidator, receiver, conservator or statutory successor has failed to pay all or a portion of any claims. Every liquidator, receiver, conservator, guaranty fund(s) or association(s) or statutory successor of Company will give written notice to Reinsurer of the pendency of a claim involving Company indicating the subject policy, which claim would be a possible liability on the part of Reinsurer to Company or to its domiciliary liquidator, receiver, or statutory successor within a reasonable amount of time after the claim is filed in the conservation, liquidation, receivership or other proceeding; during the

pendency of any claim, Reinsurer may investigate the same and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses that it may deem available to Company, to its policyholder or to any liquidator, receiver, conservator, guaranty fund(s) or association(s) or statutory successor. The expense thus incurred by Reinsurer will be chargeable, subject to the approval of the Court, against Company as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit which may accrue to Company as a result of the defense undertaken by Reinsurer.

Where two or more reinsurers are involved in the same claim and a majority in interest elect to interpose defense to such claim, the expense will be apportioned in accordance with the terms of this Agreement as though such expense had been incurred by Company.

This reinsurance will be payable directly by Reinsurer to Company or to its domiciliary liquidator, receiver, conservator or statutory successor, except as expressly provided otherwise by applicable insurance law, or except (a) where this Agreement specifically provides another payee of the reinsurance in the event of the insolvency of Company and (b) where Reinsurer with the express written consent of the direct policyholder or policyholders has assumed the policy obligations of Company as direct obligations of Reinsurer to the payees under the subject policies and in substitution for the obligations of Company to such payees; however, as between Company or its domiciliary liquidator, receiver, conservator or statutory successor and any ancillary liquidator, receiver, conservator, guaranty fund(s) or association(s) or statutory successor, howsoever named, the proceeds hereof will be payable to Company or its domiciliary liquidator, receiver, conservator or statutory successor. Prior to implementation of a novation, any certificate of assumption on New York risks must be approved by the Superintendent of Insurance for the state of New York.

ARTICLE XXII

ARBITRATION

Any and all disputes between Company and Reinsurer arising out of, relating to, or concerning this Agreement, whether sounding in contract or tort and whether arising during or after termination of this Agreement, will be submitted to the decision of a board of arbitration composed of two arbitrators and an umpire ("Board") meeting at a site in Philadelphia, Pennsylvania. The arbitration will be conducted under the Federal Arbitration Act and will proceed as follows:

A. Submission to Arbitration. A notice requesting arbitration, or any other notice made in connection therewith, will be in writing and will be sent certified or registered mail, return receipt requested, to the affected parties. The notice requesting arbitration will state in particulars all issues to be resolved in the view of the claimant, will appoint the arbitrator selected by the claimant, and will set a tentative date for the hearing, which date will be no sooner than 90 days and no later than 150 days from the date that the notice requesting arbitration is mailed. Within 30 days of receipt of claimant's notice, the respondent will notify the claimant of any additional issues to be resolved in the arbitration and of the name of its appointed arbitrator.

B. Arbitration Board Membership. Unless otherwise mutually agreed, the members of the Board will be impartial and disinterested and will be active or retired lawyers, familiar with insurance and reinsurance, or current or former officers of property-casualty insurance companies, reinsurance companies, or Underwriters at Lloyd's, London. Company and Reinsurer as aforesaid will each appoint an arbitrator and the two arbitrators will choose an umpire before instituting the hearing. As time is of the essence, if the respondent fails to appoint its arbitrator within 30 days after having received the claimant's written request for arbitration, the claimant is authorized to and will appoint the second arbitrator. If the two arbitrators fail to agree upon the appointment of an umpire within 30 days after notification of the appointment of the second arbitrator, within 10 days thereof, the two arbitrators will request the American Arbitration Association ("AAA") to appoint an umpire for the arbitration with the qualifications set forth above in this Article. If the AAA fails to name an umpire, either party may apply to a court of competent jurisdiction to appoint an umpire with the above required qualifications. The umpire will promptly notify in writing all parties to the arbitration of his/her selection

and of the scheduled date for the hearing. Upon resignation or death of any member of the Board, a replacement will be appointed in the same fashion as the resigning or deceased member was appointed.

C. Submission of Briefs. The claimant and respondent will each submit initial briefs to the Board outlining the issues in dispute and the basis, authority and reasons for their respective positions within 30 days of the date of notice of appointment of the umpire. The claimant and the respondent may submit reply briefs to the Board within 10 days after filing of the initial brief(s). Initial and reply briefs may be amended by the submitting party at any time, but not later than 10 days prior to the date of commencement of the arbitration hearing. Reasonable responses will be allowed at the arbitration hearing to new material contained in any amendments filed to the briefs but not previously responded to.

D. Arbitration Award. The Board will make a decision and award with regard to the terms expressed in this Agreement, the original intentions of the parties to the extent reasonably ascertainable, and the custom and usage of the property and casualty insurance and reinsurance business, which decision and award will be in writing and will state the factual and legal basis for the decision and award. The decision and award will be based upon a hearing in which evidence will be allowed and in which the formal rules of evidence will not strictly apply but in which cross examination and rebuttal will be allowed. At its own election or at the request of the Board, either party may submit a post-hearing brief for consideration of the Board within 20 days of the close of the hearing. The Board will make its decision and award within 30 days following the close of the hearing or the submission of post-hearing briefs, whichever is later, unless the parties consent to an extension. Every decision by the Board will be by a majority of the members of the Board, and each decision and award by the majority of the members of the Board will be final and binding upon all parties to the proceeding. Either party may apply to a court of competent jurisdiction for an order confirming any decision and the award; a judgment of that Court will thereupon be entered on any decision or award. If such an order is issued, the attorneys' fees of the party so applying and court costs will be paid by the party against whom confirmation is sought. The Board may award interest at the rate published in the Wall Street Journal on the date of the award calculated from the date the Board determines that any amounts due the prevailing party should have been paid to the prevailing party, but may not award punitive, exemplary, or treble damages.

E. Arbitration Expense. Except in the event of a consolidated arbitration, each party will bear the expense of the one arbitrator appointed by it and will jointly and equally bear with the other party the expense of any stenographer requested, and of the umpire. The remaining costs of the arbitration proceedings will be finally allocated by the Board.

F. Evidence. Subject to customary and recognized legal rules of privilege, each party participating in the arbitration will have the obligation to produce those documents and as witnesses to the arbitration those of its employees, those of its affiliates, and those of any intermediary or underwriting manager as any other participating party reasonably requests, providing always that the same witnesses and documents be obtainable and relevant to the issues before the arbitration and not be unduly burdensome or excessive. The parties may mutually agree as to pre-hearing discovery prior to the arbitration hearing and in the absence of agreement, upon the request of any party, pre-hearing discovery may be conducted as the umpire determines in his/her sole discretion to be in the interest of fairness, full disclosure, and a prompt hearing, decision, and award by the Board. The umpire will be the final judge of the procedures of the Board, the conduct of the arbitration, of the rules of evidence, the rules of privilege and production, and of excessiveness and relevancy of any witnesses and documents upon the petition of any participating party. To the extent permitted by law, the Board and the umpire will have the authority to issue subpoenas and other orders to enforce their decisions.

G. Equitable Relief. Nothing herein will be construed to prevent any participating party from applying to a federal district court of competent jurisdiction to issue a restraining order or other equitable relief to maintain the "status quo" of the parties participating in the arbitration pending the decision and award by the Board or to prevent any party from incurring irreparable harm or damage at any time prior to the decision and award of the Board. The Board will also have the authority to issue interim decisions or awards in the interest of fairness, full disclosure, and a prompt and orderly hearing, decision, and award by the Board.

H. Consolidate Hearing. Upon request of Company made within 30 days of the umpire's appointment, the Board may order a consolidated hearing between Company and all affected reinsurers to this Agreement if the Board is satisfied in its discretion that the issues in dispute affect more than one reinsurer and a consolidated hearing would be in the interest of fairness and a prompt resolution of the issues in dispute. If the Board orders a consolidated hearing, all other affected participating reinsurers will join and participate in the arbitration at Company's request under time frames established by the umpire and will be bound by the Board's

decision and award unless excused by the Board in its discretion. Any reinsurer may decline to actively participate in a consolidated arbitration if in advance of the hearing, that reinsurer files with the Board a written agreement satisfactory to the Board to be bound by the decision and award of the Board in the same fashion and to the same degree as if it actively participated in the arbitration.

In the event of an order of consolidation by the Board, the arbitrator appointed by the original reinsurer will be subject to being and may be replaced within 30 days of the Board's order of consolidation by an arbitrator named by the reinsurer with the largest participation in this Agreement affected by the dispute. In the event two or more reinsurers affected by the dispute each have the same largest participation, they will agree among themselves as to the replacement arbitrator, if any, to be appointed. The umpire will be the final determiner in the event of any dispute over replacement of that arbitrator. All other aspects of the arbitration will be conducted as provided for in this Article provided that (a) each party actively participating in the consolidated arbitration will have the right to its own attorney, position, and related claims and defenses; (b) each party will not, in presenting its position, be prevented from presenting its position by the position set forth by any other party; and (c) the cost and expense of the arbitration, exclusive of attorney's fees (which will be borne exclusively by the respective retaining party) but including the expense of any stenographer requested and the fees of the umpire and arbitrators will be borne pro rata by each party actively participating in the consolidated arbitration or as the Board determines to be fair and appropriate under the circumstances.

ARTICLE XXIII

OFFSET

All amounts due either Company or Reinsurer, by reason of premiums, losses or otherwise, under this Agreement or any other contract previously, now or later in force, between Company and Reinsurer, whether as ceding or assuming company, will be subject to recoupment and to offset, the rights to which may be exercised at any time and from time to time by either party and, upon exercise thereof, only the balance will be due.

ARTICLE XXIV

SERVICE OF SUIT

(This Article only applies to Reinsurers domiciled outside of the United States and/or unauthorized in any state, territory, or district of the United States having jurisdiction over Company.)

In the event of a dispute or the failure of Reinsurer to pay any amount claimed to be due hereunder, Reinsurer hereon, at the request of Company, will submit to the jurisdiction of a court of competent jurisdiction within the United States. Nothing in this Article constitutes or should be understood to constitute a waiver of Reinsurer's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States. It is further agreed that service of process in such suit may be made upon Mendes and Mount, 750 Seventh Avenue, New York, New York 10019-6829 and that in any suit instituted, Reinsurer will abide by the final decision of such court or of any Appellate Court in the event of an appeal.

The above-named is hereby authorized and directed to accept service of process on behalf of Reinsurer in any such suit and/or upon the request of Company to give a written undertaking to Company that they will enter a general appearance upon Reinsurer's behalf in the event such a suit will be instituted.

Further, pursuant to any statute of any state, territory, or district of the United States which makes provision therefor, Reinsurer hereon hereby designates the Superintendent, Commissioner, Director of Insurance, or other officer specified for that purpose in the statute, or his successor or successors in office, as its true and lawful attorney upon whom may be served any lawful process in any action, suit, or proceeding instituted by or on behalf of Company or any beneficiary hereunder arising out of this Agreement of reinsurance, and hereby designates the above-named as the person to whom the said officer is authorized to mail such process or a true copy thereof.

ARTICLE XXV

SECURITY AND UNAUTHORIZED REINSURANCE

If any reinsurer is unauthorized or otherwise unqualified in any state or other jurisdiction, or if, without such security, a financial penalty to Company would result on any statement or report it is required to make or file with regulatory authorities, for reasons of Company's financial security and condition, that reinsurer will secure, on request, and within 30 days after the end of each calendar quarter (but no later than December 31 of each year as respects the fourth quarter), its share of "obligations" under this Agreement in a manner, form and amount and from a bank acceptable to the regulatory authorities having jurisdiction, by a clean, irrevocable, and unconditional "evergreen" letter of credit.

The "obligations" referred to herein will mean the then current (as of the end of each calendar quarter) sum of:

1. The amount of ceded unearned premium for which Reinsurer is responsible;

2. The amount of paid losses and allocated loss adjustment expenses paid by Company but not yet recovered from Reinsurer;

3. The amount of ceded reserves for losses reported and outstanding, as well as for reserves for allocated loss adjustment expenses, for which Reinsurer is responsible;

4. The amount of return and refund premiums for which Reinsurer is responsible.

5. Contingent Profit Collateral. The amount of such collateral is calculated by applying the following criteria and rates:

6 Months	18 Months	30 Months	42 Months	54 Months
35%	35%	25%	15%	0%

The amount of such collateral will equal the percentage shown above times the difference between the ceded earned premium, net of ceding commission and brokerage, and the total of all ceded paid losses, ceded paid allocated loss expenses and ceded case reserves.

The first calculation of the Contingent Profit Collateral will be made by Company no later than December 31, 1993 and will be recalculated by Company at 12 month intervals until 48 months after the initial calculation when Company agrees to return the Contingent Profit Collateral to Reinsurer.

If any reinsurer is unauthorized in any province or jurisdiction of Canada, that reinsurer agrees to fund 115% of its share of Company's ceded Canadian unearned premium and outstanding loss and loss adjustment expense reserves by cash advances, if, without such funding, a penalty would accrue to Company on any financial statement it is required to file with the insurance regulatory authorities involved.

Company, or its successors in interest may draw, at any time and from time to time, upon the established letter of credit (or subsequent cash deposit) without diminution or restriction because of the insolvency of either Company or Reinsurer for one or more of the following purposes:

1. To make payment to and reimburse Company for Reinsurer's share of paid loss and allocated loss adjustment expense paid by Company under its original policies covered under this Agreement due to Company but unpaid by Reinsurer;

2. To make payments to Reinsurer of any amounts held thereby that exceed the amount required to fund Reinsurer's "obligations" under this Agreement.

3. To make payment to Company of any other amounts Company claims are due under this Agreement from Reinsurer including but not limited to Reinsurer's share of premium refunds and returns; and

4. To obtain a cash deposit of the entire amount of the remaining balance under the letter of credit where Company:

   a. has received notice of non-renewal or expiration of the letter of credit;

b. has not received assurances satisfactory to Company of any required increase in the amount of the letter of credit, or its replacement or other continuation of the letter of credit at least 30 days before its stated expiration date;

c. has been made aware that others may attempt to attach or otherwise place in jeopardy the security represented by the letter of credit; or

d. has concluded that the issuing (or confirming) bank's financial condition is such that the security represented by the letter of credit may be in jeopardy;

and under any of those circumstances where Reinsurer's entire "obligations" or part thereof, under this Agreement remain unliquidated and undischarged at least 30 days prior to the stated expiration date or at the time Company learns of the possible jeopardy to the security.

If Company draws on the letter of credit to obtain a cash deposit, Company will hold the amount of the cash deposit so obtained in the name of Company in any solvent United States Bank or Trust Company that is a member of the Federal Reserve System and insured by the Federal Deposit Insurance Corporation in trust solely to secure the "obligations" referred to above and for the use and purposes enumerated above and to return any balance thereof to Reinsurer:

1. upon the complete and final liquidation and discharge of all Reinsurer's obligations to Company under this Agreement; or

2. in the event Reinsurer subsequently provides alternate or replacement security consistent with the terms hereof and acceptable to Company.

Company will prepare and forward at least quarterly to Reinsurer a statement for the purposes of this Article, showing Reinsurer's share of "obligations" as set forth above. If Reinsurer's share thereof exceeds the then existing balance of the security provided, Reinsurer will, within 15 days of receipt of Company's statement, but never later than December 31 of any year, increase the amount of the letter of credit (or cash deposit) to

the required amount of Reinsurer's share of "obligations" set forth in Company's statement.

If Reinsurer's share thereof is less than the then existing balance of the letter of credit (or cash deposit) provided, Company will release the excess thereof to Reinsurer upon Reinsurer's written request.

Reinsurer will not attempt to prevent Company from drawing on the letter of credit (or cash deposit) so long as Company is acting in accordance with this Article.

Company's "successors in interest" will include those by operation of law, including without limitation, any liquidator, rehabilitator, receiver, or conservator.

Reinsurer will take any other reasonable steps that may be required for Company to take credit on its statutory financial statements for the reinsurance provided by this Agreement.

Company may apply the Canadian cash advances under the third paragraph above to satisfy Reinsurer's Canadian obligations to Company in the same manner as if it were drawing on the letter of credit (or subsequent cash deposit).

ARTICLE XXVI

OTHER TERMS AND CONDITIONS

A. Waiver. The failure of Company or Reinsurer to insist on strict compliance with this Agreement, or to exercise any right or remedy hereunder, will not constitute a waiver of any rights contained herein nor stop the parties from thereafter demanding full and complete compliance nor prevent the parties from exercising such a remedy in the future.

B. Conflict with Law and Severability. If any provision of this Agreement should be invalid under applicable laws, the latter will control but only to the extent of the conflict without affecting the remaining provisions of this Agreement.

C. Headings. The headings preceding the text of the Articles and paragraphs of this Agreement are intended and inserted solely for the convenience of

reference and will not affect the meaning, interpretation, construction or effect of this Agreement.

D. Assignment. This Agreement will be binding upon and inure to the benefit of Company and Reinsurer and their respective successors and assignees, provided, however, that this Agreement may not be assigned or delegated by either Company or Reinsurer without the prior written consent of the other which consent may be withheld by either party in its sole unfettered discretion.

E. Notices. Wherever notice of termination is required under this Agreement, it will be in writing, sent by certified mail, return receipt requested.

F. Governing Law. This Agreement will be governed by and construed according to the laws of Pennsylvania, exclusive of its rules with respect to conflict of laws, except as to rules with respect to credit for reinsurance where the laws of (a) the domicile of the individual ceding company will apply, and (b) the laws of other states applying their laws with respect to credit for reinsurance with foreign reinsurers will also apply.

G. Entire Agreement. This Agreement supersedes, merges with and makes null and void any and all previous agreements, whether written or oral, between Company and Reinsurer with respect to the reinsurance to be written under this Agreement commencing July 1, 1993 and constitutes the full and complete agreement between the parties with respect to that reinsurance. No amendment to this Agreement will be enforceable unless in writing and signed by the party against whom enforcement is sought.

ARTICLE XXVII

THIRD PARTY BENEFICIARY

Except as specifically and expressly provided for in the Insolvency Article, the provisions of this Agreement are intended solely for the benefit of the parties to and executing this Agreement and nothing in this Agreement will in any manner create or be construed to create any obligations to or establish any rights against any party to this Agreement in favor of any third parties or other persons not parties to and executing this Agreement.

ARTICLE XXVIII

AGENCY AGREEMENT

If more than one reinsured company is named as a party to this Agreement, the first named company will be deemed the agent of the other reinsured companies for purposes of sending or receiving notices required by the terms and conditions of this Agreement, and for purposes of remitting or receiving any monies due any party.

ARTICLE XXIX

NEGOTIATED AGREEMENT

This Agreement has been negotiated by the parties and the fact that the initial and final draft will have been prepared by the Intermediary will not give rise to any presumption for or against any party to this Agreement or be used in any form in the construction or interpretation of this Agreement or any of its provisions.

ARTICLE XXX

INTERMEDIARY

Aon Re Inc. is hereby recognized as the Intermediary negotiating this Agreement for all business hereunder. Correspondence regarding Agreement terms will be transmitted through Aon Re Inc., Two World Trade Center New York, New York 10048. All statements for premiums, return premiums, commissions, taxes, losses, loss expense, salvages, and loss settlements will be transmitted through Aon Reinsurance Agency, Inc., 123 North Wacker Drive, Chicago, Illinois 60606. Payments by Company to Aon Reinsurance Agency, Inc. will be deemed payment to Reinsurers. Payment by Reinsurers to Aon Reinsurance Agency, Inc. will be deemed payment to Company only to the extent that such payments are actually received by Company.

ARTICLE XXXI

SELF-INSURED OBLIGATIONS

This Agreement will cover self-insured obligations of Company assumed by it as a self-insurer, including self-insured obligations in excess of any valid and collectible insurance available to Company, to the same extent as if all types of insurance covered by this Agreement were afforded to Company under the broadest forms of policies issued by Company.

For the purposes of this Agreement, "self-insured obligations" means insurable exposures of Company on which Company has issued an actual policy of the kind described above. If a self-insured obligation policy reinsured under this Agreement protects Company for loss arising from the handling of a claim under another policy reinsured hereunder, the date on which such loss from the handling of that claim is incurred will be deemed to be the date the claim under that other policy reinsured hereunder is first made but nevertheless will be considered as a separate accident, casualty, disaster or occurrence for which a separate retention and limit will apply.

Any insurance or reinsurance wherein Company hereby reinsured and/or its affiliated and/or subsidiary Companies are named as the Insured or Reinsured party, either alone or jointly with some other party, will be deemed to be an insurance or reinsurance coming within the scope of this Agreement, notwithstanding that no legal liability may arise in respect thereof by reason of the fact that Company hereby reinsured and/or its affiliated and/or subsidiary Companies are named as the Insured or Reinsured party or one of the Insured or Reinsured parties.

All amounts of ultimate net loss paid hereunder will be deemed to reimburse for loss and loss adjustment expense first and Extra Contractual Obligations and losses in Excess of Policy Limits thereafter.

U.S.A.

NUCLEAR INCIDENT EXCLUSION CLAUSE - LIABILITY - REINSURANCE.

(1) This reinsurance does not cover any loss or liability accruing to the Reassured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.

(2) Without in any way restricting the operation of paragraph (1) of this Clause it is understood and agreed that for all purposes of this reinsurance all the original policies of the Reassured (new, renewal and replacement) of the classes specified in Clause II of this paragraph (2) from the time specified in Clause III in this paragraph (2) shall be deemed to include the following provision (specified as the Limited Exclusion Provision):

Limited Exclusion Provision.*

I. It is agreed that the policy does not apply under any liability coverage,
to (*injury, sickness, disease, death or destruction* / bodily injury or property damage) with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability.

II. Family Automobile Policies (liability only), Special Automobile Policies (private passenger automobiles, liability only), Farmers Comprehensive Personal Liability Policies (liability only), Comprehensive Personal Liability Policies (liability only) or policies of a similar nature; and the liability portion of combination forms related to the four classes of policies stated above, such as the Comprehensive Dwelling Policy and the applicable types of Homeowners Policies.

III. The inception dates and thereafter of all original policies as described in II above, whether new, renewal or replacement, being policies which either
(a) become effective on or after 1st May, 1960, or
(b) become effective before that date and contain the Limited Exclusion Provision set out above;
provided this paragraph (2) shall not be applicable to Family Automobile Policies, Special Automobile Policies, or policies or combination policies of a similar nature, issued by the Reassured on New York risks, until 90 days following approval of the Limited Exclusion Provision by the Governmental Authority having jurisdiction thereof.

(3) Except for those classes of policies specified in Clause II of paragraph (2) and without in any way restricting the operation of paragraph (1) of this Clause, it is understood and agreed that for all purposes of this reinsurance the original liability policies of the Reassured (new, renewal and replacement) affording the following coverages:

Owners, Landlords and Tenants Liability, Contractual Liability, Elevator Liability, Owners or Contractors (including railroad) Protective Liability, Manufacturers and Contractors Liability, Product Liability, Professional and Malpractice Liability, Storekeepers Liability, Garage Liability, Automobile Liability (including Massachusetts Motor Vehicle or Garage Liability)

shall be deemed to include, with respect to such coverages, from the time specified in Clause V of this paragraph (3), the following provision (specified as the Broad Exclusion Provision):

Broad Exclusion Provision.*

It is agreed that the policy does not apply:

I. Under any Liability Coverage to (*injury, sickness, disease, death or destruction* / bodily injury or property damage)

(a) with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability; or

(b) resulting from the hazardous properties of nuclear material and with respect to which (1) any person or organization is required to maintain financial protection pursuant to the Atomic Energy Act of 1954, or any law amendatory thereof, or (2) the insured is, or had this policy not been issued would be, entitled to indemnity from the United States of America, or any agency thereof, under any agreement entered into by the United States of America, or any agency thereof, with any person or organization.

II. Under any Medical Payments Coverage, or under any Supplementary Payments Provision relating to (*immediate medical or surgical relief* / (first aid, to expenses incurred with respect to (*bodily injury, sickness, disease or death* / (bodily injury resulting from the hazardous properties of nuclear material and arising out of the operation of a nuclear facility by any person or organization.

III. Under any Liability Coverage to (*injury, sickness, disease, death or destruction* / (bodily injury or property damage resulting from the hazardous properties of nuclear material, if

(a) the nuclear material (1) is at any nuclear facility owned by, or operated by or on behalf of, an insured or (2) has been discharged or dispersed therefrom;

(b) the nuclear material is contained in spent fuel or waste at any time possessed, handled, used, processed, stored, transported or disposed of by or on behalf of an insured; or

(c) the (*injury, sickness, disease, death or destruction* / (bodily injury or property damage arises out of the furnishing by an insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility, but if such facility is located within the United States of America, its territories, or possessions or Canada, this exclusion (c) applies only to (*injury to or destruction of property at such nuclear facility* / (property damage to such nuclear facility and any property thereat.

IV. As used in this endorsement:
"hazardous properties" include radioactive, toxic or explosive properties; "nuclear material" means source material, special nuclear material or byproduct material; "source material", "special nuclear material", and "byproduct material" have the meanings given them in the Atomic Energy Act of 1954 or in any law amendatory thereof; "spent fuel" means any fuel element or fuel component, solid or liquid, which has been used or exposed to radiation in a nuclear reactor; "waste" means any waste material (1) containing byproduct material and (2) resulting from the operation by any person or organization of any nuclear facility included within the definition of nuclear facility under paragraph (a) or (b) thereof; "nuclear facility" means

(a) any nuclear reactor,

(b) any equipment or device designed or used for (1) separating the isotopes of uranium or plutonium, (2) processing or utilizing spent fuel, or (3) handling processing or packaging waste,

(c) any equipment or device used for the processing, fabricating or alloying of special nuclear material if at any time the total amount of such material in the custody of the insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235,

(d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste,

and includes the site on which any of the foregoing is located, all operations conducted on such site and all premises used for such operations; "nuclear reactor" means any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of fissionable material;

(*With respect to injury to or destruction of property, the word "injury" or "destruction"*
("property damage" includes all forms of radioactive contamination of property.
(*includes all forms of radioactive contamination of property.*

V. The inception dates and thereafter of all original policies affording coverages specified in this paragraph (3), whether new, renewal or replacement, being policies which become effective on or after 1st May, 1960, provided this paragraph (3) shall not be applicable to

(i) Garage and Automobile Policies issued by the Reassured on New York risks, or

(ii) statutory liability insurance required under Chapter 90, General Laws of Massachusetts,

until 90 days following approval of the Broad Exclusion Provision by the Governmental Authority having jurisdiction thereof.

(4) Without in any way restricting the operation of paragraph (1) of this Clause, it is understood and agreed that paragraphs (2) and (3) above are not applicable to original liability policies of the Reassured in Canada and that with respect to such policies this Clause shall be deemed to include the Nuclear Energy Liability Exclusion Provisions adopted by the Canadian Underwriters' Association of the Independent Insurance Conference of Canada.

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*NOTE. *The words printed in italics in the Limited Exclusion Provision and in the Broad Exclusion Provision shall apply only in relation to original liability policies which include a Limited Exclusion Provision or a Broad Exclusion Provision containing those words.*

NUCLEAR INCIDENT EXCLUSION CLAUSE—LIABILITY—REINSURANCE—CANADA

1. This Agreement does not cover any loss or liability accruing to the Reinsured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.

2. Without in any way restricting the operation of paragraph 1 of this clause it is agreed that for all purposes of this Agreement all the original liability contracts of the Reinsured, whether new, renewal or replacement, of the following classes, namely,

   Personal Liability.
   Farmers' Liability.
   Storekeepers' Liability.

   which become effective on or after 31st December 1984, shall be deemed to include, from their inception dates and thereafter, the following provision:-

   Limited Exclusion Provision.

   This Policy does not apply to bodily injury or property damage with respect to which the Insured is also insured under a contract of nuclear energy liability insurance (whether the Insured is unnamed in such contract and whether or not it is legally enforcible by the Insured) issued by the Nuclear Insurance Association of Canada or any other group or pool of insurers or would be an Insured under any such policy but for its termination upon exhaustion of its limits of liability.

   With respect to property, loss of use of such property shall be deemed to be property damage.

3. Without in any way restricting the operation of paragraph 1 of this clause it is agreed that for all purposes of this Agreement all the original liability contracts of the Reinsured, whether new, renewal or replacement, of any class whatsoever (other than Personal Liability, Farmers' Liability, Storekeepers' Liability or Automobile Liability contracts), which become effective on or after 31st December 1984, shall be deemed to include from their inception dates and thereafter, the following provision:-

   Broad Exclusion Provision

   It is agreed that this Policy does not apply:

   (a) To liability imposed by or arising under the Nuclear Liability Act; nor

   (b) to bodily injury or property damage with respect to which an Insured under this policy is also insured under a contract of nuclear energy liability insurance (whether the Insured is unnamed in such contract and whether or not it is legally enforcible by the Insured) issued by the Nuclear Insurance Association of Canada or any other insurer or group or pool of insurers or would be an Insured under any such policy but for its termination upon exhaustion of its limit of liability; nor

   (c) to bodily injury or property damage resulting directly or indirectly from the nuclear energy hazard arising from:

      (i) the ownership, maintenance, operation or use of a nuclear facility by or on behalf of an Insured;

      (ii) the furnishing by an Insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility; and

      (iii) the possession, consumption, use, handling, disposal or transportation of fissionable substances, or of other radioactive material (except radioactive isotopes, away from a nuclear facility, which have reached the final stage of fabrication so as to be useable for any scientific, medical, agricultural, commercial or industrial purpose) used, distributed, handled or sold by an Insured.

As used in this Policy:

1. The term "nuclear energy hazard" means the radioactive, toxic, explosive, or other hazardous properties of radioactive material;

2. The term "radioactive material" means uranium, thorium, plutonium, neptunium, their respective derivatives and compounds, radioactive isotopes of other elements and any other substances that the Atomic Energy Control Board may, by regulation, designate as being prescribed substances capable of releasing atomic energy, or as being requisite for the production, use or application of atomic energy;

3. The term "nuclear facility" means:

   (a) any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of plutonium, thorium and uranium or any one or more of them;

   (b) any equipment or device designed or used for (i) separating the isotopes of plutonium, thorium and uranium or any one or more of them, (ii) processing or utilizing spent fuel, or (iii) handling, processing or packaging waste;

   (c) any equipment or device used for the processing, fabricating or alloying of plutonium, thorium or uranium enriched in the isotope uranium 233 or in the isotope uranium 235, or any one or more of them if at any time the total amount of such material in the custody of the insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235;

   (d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste radioactive material;

   and includes the site on which any of the foregoing is located, together with all operations conducted thereon and all premises used for such operations.

4. The term "fissionable substance" means any prescribed substance that is, or from which can be obtained, a substance capable of releasing atomic energy by nuclear fission.

5. With respect to property, loss of use of such property shall be deemed to be property damage.

NUCLEAR ENERGY RISKS EXCLUSION

1. This contract excludes nuclear energy risks whether written directly or by way of reinsurance or via pools or associations. Under this contract the term "nuclear energy risks" means any first or third party insurance (other than workers' compensation or employers' liability) in respect of:

   (a) nuclear reactors and nuclear power stations or plant;

   (b) any other premises or facilities concerned with

   the production of nuclear energy or

   the production or storage or handling of nuclear fuels or nuclear waste;

   (c) any other premises or facilities eligible for insurance by any local nuclear pool or association but only to the extent of the requirements of the local pool or association;

   (d) nuclear or radioactive fuel, or nuclear or radioactive waste.

2. However, this exclusion shall not apply

   (a) to any insurance or reinsurance in respect of the construction, erection or installation of buildings, plant and other property (including contractor's plant and equipment used in connection therewith):

   for the storage of nuclear fuel - prior to the commencement of storage

   as regards reactor installations - prior to the commencement of loading of nuclear fuel into the reactor, or prior to the initial criticality, depending on the commencement of the insurance or reinsurance of the relevant local nuclear pool or association;

   (b) to any machinery breakdown or other engineering insurance or reinsurance not coming within the scope of 2(a) above, nor affording coverage in the "high radioactivity" zone;

   (c) to any insurance or reinsurance in respect of the hulls of ships, aircraft or other conveyances;

   (d) to any insurance or reinsurance in respect of loss of or damage to (including any expenses incurred therewith) nuclear or radioactive fuel or nuclear or radioactive waste while in transit as cargo.

INSOLVENCY FUNDS EXCLUSIONS CLAUSE

This Agreement excludes all liability of the Company arising, by contract, operation of law, or otherwise, from its participation or membership, whether voluntary or involuntary, in any insolvency fund. "Insolvency fund" includes any guaranty fund, plan, pool, association, fund, or other arrangement, howsoever denominated, established, or governed that provides for any assessment of or payment or assumption by the Company of part or all of any claim, debt, charge, fee, or other obligation of an insurer, or its successors or assigns, which has been declared by any competent authority to be insolvent, or which is otherwise deemed unable to meet any claim, debt, charge, fee, or other obligation in whole or in part.

SCHEDULE "H"

TO THE REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – MAY 23, 2007

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ADDENDUM 1

Attaching to and forming a part of

THIRD D&O/E&O EXCESS OF LOSS REINSURANCE AGREEMENT

ISSUED TO: RELIANCE INSURANCE COMPANY
FIREMARK INSURANCE COMPANY
REGENT INTERNATIONAL INSURANCE COMPANY, LTD.
RELIANCE INSURANCE COMPANY OF NEW YORK
RELIANCE LLOYDS
RELIANCE NATIONAL (BARBADOS) INSURANCE LTD.
RELIANCE NATIONAL INSURANCE COMPANY (U.K.) LTD.
RELIANCE NATIONAL PROPERTY AND CASUALTY INSURANCE COMPANY
UNITED PACIFIC INSURANCE COMPANY OF NEW YORK

ISSUED BY: VARIOUS REINSURERS IDENTIFIED BY
INTERESTS AND LIABILITIES AGREEMENTS

It is hereby mutually understood and agreed that effective July 1, 1993 the following changes will take place on the captioned Agreement:

a) The second paragraph of the Notice of Loss and Loss Settlement Article will be amended to read as follows:

> "Company may make loss settlements either under strict policy conditions or by way of compromise and such settlements will be unconditionally binding on Reinsurer provided such settlements are made within the terms and conditions of this Agreement and within the terms and conditions of the original policies including all modifications, waivers, alterations and interpretations made thereto. When so requested, however, the Company will afford the Reinsurers, at their own expense, an opportunity to be associated with the Company in the defense of any claim, suit, or proceeding involving this Agreement, and the Company and the Reinsurers will cooperate in every respect in such defense. Amounts due the Company hereunder in the settlement of loss and loss expense will be payable by the Reinsurers immediately upon being furnished by the Company with reasonable evidence of the amount paid or to be paid in excess of the Company's retention as set forth in the Reinsurance Coverage Article."

b) The Delays, Errors, or Omissions Article will be amended in its entirety to read as follows:

"DELAYS, ERRORS, OR OMISSIONS

"Inadvertent delays, errors, or omissions made in connection with this Agreement or any transaction hereunder will not relieve either party from any liability which would have attached had such delay, error, or omission not occurred, provided always that such error or omission will be rectified as soon as possible after discovery and will not impose any greater liability on the other party than would have attached hereunder if such delay, error or omission had not occurred."

All other terms and conditions of the captioned Agreement will remain unchanged.

THIRD D&O/E&O EXCESS OF LOSS REINSURANCE AGREEMENT

THIRD D&O/E&O EXCESS OF LOSS REINSURANCE AGREEMENT

THIS AGREEMENT is made and entered into by and between RELIANCE INSURANCE COMPANY, Philadelphia, Pennsylvania, FIREMARK INSURANCE COMPANY, Philadelphia, Pennsylvania, REGENT INTERNATIONAL INSURANCE COMPANY, LTD., Bermuda, RELIANCE INSURANCE COMPANY OF NEW YORK, Fairport, New York, RELIANCE LLOYDS, Philadelphia, Pennsylvania, RELIANCE NATIONAL (BARBADOS) INSURANCE LTD., Barbados, RELIANCE NATIONAL INSURANCE COMPANY (U.K.) LTD., London, England, RELIANCE NATIONAL PROPERTY AND CASUALTY INSURANCE COMPANY, Des Moines, Iowa, UNITED PACIFIC INSURANCE COMPANY OF NEW YORK, Fairport, New York and any additional company established or acquired by the Company (hereinafter called "Company") of the one part, and the various Reinsurers identified by the attached Interests and Liabilities Agreements (hereinafter called "Reinsurer") of the other part.

WITNESSETH:

That in consideration of the mutual covenants hereinafter contained and upon the terms and conditions herein below set forth, the parties hereto agree as follows:

ARTICLE I

POOLING ARRANGEMENT

Reliance Insurance Company assumes 100% of the liability of United Pacific Insurance Company, Planet Insurance Company, Reliance National Insurance Company, Reliance Insurance Company of Illinois, and Compac Insurance Company as this business pertains to this Agreement after deduction for facultative reinsurance and ceded captive reinsurance programs. Notwithstanding any other provisions of this Agreement, this Agreement protects such assumed reinsurance liability as if it were written directly by Reliance Insurance Company and attaches prior to redistribution to those companies

under the terms of Company's intercompany reinsurance pool, which redistribution will be disregarded for all purposes hereunder. With respect to all other named companies set forth in the preamble of this Agreement, this Agreement will apply as provided for in the Net Retained Lines Article. In the event that this Agreement applies on a per risk basis, and a single occurrence affects two or more of the pooling companies named above under different policies, Company will continue to maintain a separate retention and a separate limit for each risk as if the policies were written by separate companies.

ARTICLE II

BUSINESS COVERED

This Agreement applies to new and renewal policies with an effective date during the term of this Agreement, issued by Company and written through Reliance National Division of Company, and classified by Company as Directors and Officers Liability, Employee's Retirement Income Security Act Liability, General Partnership Liability and Errors and Omissions Liability; except as excluded in the Exclusions Article, subject to the limitations set forth in the Reinsurance Coverage Article.

There will be no coverage under this Agreement for policies where the original policy limit does not exceed Company's retention under this Agreement.

If any law or regulation of the Federal, State or Local government of the United States or the rulings of officials having supervision over insurance companies, should render the undertaking of this Agreement illegal within the jurisdiction of such Authority, Company may upon written notice to Reinsurer suspend, abrogate or amend this Agreement insofar as it relates to such jurisdiction, to the extent necessary to comply with such law, regulation or ruling. Such suspension, abrogation or amendment of a portion of this Agreement will in no way affect any other portion thereof, nor increase or extend Reinsurer's liability hereunder.

ARTICLE III

TERM

This Agreement is effective from July 1, 1993 through June 30, 1994, both days inclusive, at the location of the original policy.

Reinsurance coverage will remain in force for all policies in force at the date of expiration of this Agreement until their natural expiration defined as the full original policy period plus any run-off provision and/or any extended reporting period option and/or any discovery period and/or any retroactive coverage period contained in the original policy. However, should any policy to which this Agreement applies during the reinsurance run-off period be extended, continued or renewed due to regulatory or other legal restrictions, this Agreement will automatically continue to provide reinsurance coverage until such time as said policies may be actually terminated by Company.

The provisions of the preceding paragraph notwithstanding, Company will have the option, subject to Company notifying Reinsurer prior to the date of expiration of this Agreement, to terminate Reinsurer's liability for claims first made after the date of expiration of this Agreement on policies in force as at the date of expiration and Reinsurer will return to Company within 60 days the ceded unearned premium reserve and cash equivalent calculated as of the date of expiration less applicable ceding commission for all policies in force as at the date of termination.

The provisions of this Agreement will continue to apply to all unfinished business hereunder to the end that all obligations and liabilities incurred by each party hereunder prior to termination will be fully performed and discharged.

ARTICLE IV

EXCLUSIONS

A. The reinsurance provided under this Agreement is subject to the exclusions set forth below and will not cover said excluded risks, hazards

and coverages unless individually submitted by Company to Reinsurer for inclusion hereunder, and, if specially accepted by Reinsurer, such business will then be covered under the terms of this Agreement, except as such terms will be modified by such acceptance. Any renewal of a special acceptance covered under the previous year's reinsurance agreement will be automatically covered hereunder.

B. The reinsurance provided under this Agreement does not apply to:

1. Reinsurance assumed except that:

   a) inter-company reinsurance,

   b) reinsurance of one or more of an agent's policies, with the agent acting for the ceding insurer under its authority,

   c) reinsurance between an insurer and a reinsurer that concerns or is confined to business produced by a named agent of the ceding insurer, usually generated by that agent and administered directly with the reinsurer with permission of the insured, or

   d) specific arrangements with insureds through their single parent "captive" carrier

   will not be excluded hereunder.

2. Nuclear incident in accordance with the Nuclear Incident Exclusion Clauses - Liability - Reinsurance (U.S.A. and Canada) and the Nuclear Energy Risks Exclusion Clause (Reinsurance) 1984 (Worldwide excluding U.S.A. and Canada) attached hereto.

3. Business written through Pools, Syndicates and Associations of which Company is a member.

4. Insolvency funds in accordance with the Insolvency Funds Exclusion Clause attached hereto.

5. Insurance Agents and/or Brokers Errors & Omissions Liability; however, this exclusion does not apply to business where insurance agents and/or brokers represent less than or equal to 5% of total annual revenues.

6. Accountants Errors & Omissions Liability.

7. Medical Malpractice Liability.

8. Actuaries Errors & Omissions Liability when written as such.

9. Non-licensed Real Estate Appraisers Errors & Omissions Liability.

ARTICLE V

TERRITORY

This Agreement will cover wherever Company's policies cover.

ARTICLE VI

REINSURANCE COVERAGE

Company will retain for its own account and pay the first $5,000,000 of ultimate net loss, each and every loss, each policy and Reinsurer will be liable to and reimburse Company for 100% of (a) the amount of ultimate net loss paid or payable by Company in excess of that $5,000,000 of ultimate net loss, each and every loss, each policy; but Reinsurer's maximum liability for ultimate net loss will not exceed $5,000,000 each and every loss, each policy and (b) loss adjustment expense when not included within ultimate net loss on a pro rata basis (in the amount that the ultimate net loss reimbursed under this Agreement bears to the original whole ultimate net loss incurred by Company) and in addition to the limits stated herein and (c) monitoring counsel expense on a pro rata basis (in the amount that the ultimate net loss reimbursed under this Agreement bears to the original whole ultimate net loss incurred by Company) and in addition to the limits stated herein.

Reinsurer will reimburse Company for 100% of the amount of ultimate net loss reimbursable under the preceding paragraph up to a 250% loss ratio to Reinsurer. Company will thereafter retain and be responsible for the amount of ultimate net loss otherwise reimbursable under the preceding paragraph up to an amount equal to 25% of

Reinsurance Premium, net of ceding commission thereon. Thereafter, Reinsurer will be obligated to pay to Company the amount of ultimate net loss reimbursable under the preceding paragraph only up to an additional amount equal to 25% of Reinsurance Premium, net of ceding commission thereon that is, up to a maximum loss ratio cap to Reinsurer of 275% in all during the term hereof.

ARTICLE VII

WARRANTIES

A. The first $1,000,000 of ultimate net loss, each and every loss, each policy is to be retained net to Company's own account and unreinsured other than from other Casualty Catastrophe Excess of Loss reinsurances.

B. All policies subject to this Agreement will contain a pollution liability exclusion or so deemed.

ARTICLE VIII

GENERAL INFORMATION

A. All policies subject to this Agreement are issued on a claims made basis.

B. If Company issues two or more policies on different layers of the same program for any one insured, such policies will be deemed one policy for the purpose of recovery hereunder, subject to one limit and retention within the terms of the Reinsurance Coverage Article.

C. Company will be the sole judge of what constitutes one insured.

ARTICLE IX

DEFINITIONS

"Policies" means each of Company's binders, policies and contracts providing insurance or reinsurance on the business covered hereunder.

"Each and every loss" means each claim made or series of claims made arising from a wrongful act or the same or series of interrelated wrongful acts, as defined in the original policy.

"Ultimate net loss" means the amount paid or payable by Company in settlement of losses or liability on its net retained line after deducting all other recoveries and salvages, and will include all loss indemnity payments, allocated loss adjustment expense when included within the original policy limits, 90% of any Extra Contractual Obligations losses and 90% of losses in Excess of Policy Limits.

All salvages and recoveries received subsequent to a loss settlement under this Agreement will be applied as if received prior to said loss settlement and all necessary adjustments will be made between Company and Reinsurer.

Nothing in this definition will be construed to mean that losses hereunder are not recoverable until Company's final ultimate net loss has been ascertained.

Ultimate net loss includes 90% of any Extra Contractual Obligations losses and 90% of losses in Excess of Policy Limits which are both recoverable hereunder. The remaining 10% of the Extra Contractual Obligations losses and losses in Excess of Policy Limits will be retained net by Company unreinsured except for Casualty Catastrophe Excess of Loss reinsurances. Company will retain an unreinsured $1,000,000 Self-Insured Retention in addition to the 10% participation in Extra Contractual Obligation losses and losses in Excess of Policy Limits. Such self-insured retention is to be applied before the application of the Extra Contractual Obligations losses or losses in Excess of Policy Limits provision contained herein.

"Allocated loss adjustment expense" means all expenses and costs relating to the adjustment and defense of specific losses hereunder, including appellate expenses, expenses and costs associated with policy coverage and declaratory judgment actions that are claim specific, pre-judgment and post-judgment interest, and legal costs and expenses associated with losses in Excess of Policy Limits (90%) and Extra Contractual Obligations losses (90%). However, where defense costs on original policies are in addition to the policy limits, those loss expenses will be reimbursed by Reinsurer to

Company on a pro rata basis (in the amount that the ultimate net loss reimbursed under this Agreement bears to the original whole ultimate net loss incurred by Company) and in addition to the limits stated in the Reinsurance Coverage Article.

"Monitoring counsel expense" means all loss adjustment expenses incurred by Company as a result of activities of an authorized monitoring counsel related to one specific loss and one specific policy that cannot be charged against the limit of the original policy.

"Extra Contractual Obligations" means the legal liability of Company for loss or losses not covered under the coverage, terms and conditions of Company's policies, arising from the handling of any claim on business otherwise covered under this Agreement, when such loss arises because of:

1. The failure of Company to pay a claim within the policy terms of coverage or to provide a defense against such claim as required by law, or

2. Bad faith, fraud or negligence in adjusting a claim, rejecting a claim or in rejecting an offer of settlement, or

3. Negligence or breach of duty in the preparation of the defense or the conduct of a trial or the preparation or prosecution of any appeal and/or subrogation and/or subsequent action resulting therefrom.

Extra Contractual Obligation will not include loss arising out of engineering or other services or any other non claims-related activity provided to the insured by Company.

However, this coverage for Extra Contractual Obligations will not apply when the Extra Contractual Obligations loss has been incurred due to the fraud of a member of the Board of Directors or a corporate officer of Company or any other employee of Company with claims settlement authority acting individually or collectively or in collusion with a member of the Board of Directors, a corporate officer, partner or any other employee of any other corporation or partnership or with any other individual.

"Losses in Excess of Policy Limits" means any judgment or settlement in lieu thereof rendered against an original insured which is in excess of limits provided by Company's policy but otherwise within the terms of Company's policies and for which Company is held liable as a result of alleged or actual bad faith, fraud or negligence in rejecting a settlement within its policy limits, in the duty to defend, in the preparation of the defense, in the trial of an action against the insured or in the preparation or prosecution of an appeal consequent upon such action.

"Loss ratio" means the percent resulting from Reinsurer's paid ultimate net loss arising from policies with an effective date during the term of this Agreement divided by Reinsurance Premium, net of ceding commission thereon, arising from policies with an effective date during the term of this Agreement.

"Gross Net Written Premium" means Company's gross premiums charged for the original policies with an effective date during the term of this Agreement plus additional premiums thereon, less return premiums thereon and less any premiums paid or payable for reinsurance inuring to the benefit of Reinsurers.

ARTICLE X

NET RETAINED LINES

This Agreement will apply only to that portion of any insurance or reinsurance Company retains net for its own account [prior to the deduction of any underlying, and other treaty excess of loss reinsurances (including Casualty Catastrophe Excess of Loss) but not inuring facultative reinsurance], and in calculating the amount of any ultimate net loss hereunder and the amount in excess of which this Agreement attaches, only ultimate net loss or ultimate net losses with respect to that portion of any insurance or reinsurance Company retains net for its own account will be included. It is understood and agreed, however, that Reinsurer's liability hereunder with respect to any ultimate net loss or

ultimate net losses will not be increased by reason of the inability of Company to collect from any other reinsurers, whether specific or general, any amounts which may be due from them, whether such inability arises from the insolvency of such other reinsurers or otherwise.

Recoveries, collectibles or retention from any form of insurance or reinsurance other than: 1) from other excess of loss reinsurances including Casualty Catastrophe Excess of Loss reinsurances, 2) primary Errors and Omissions policy issued to Company, 3) the deductible thereon, and 4) Self-Insured Excess Errors and Omissions policy, will inure to the benefit of Reinsurer and will be deducted in arriving at the Ultimate Net Loss hereunder. It being the intention of the parties hereto that any Extra Contractual Obligations and Excess of Policy Limits coverage provided hereunder will be applied first to the original insured's loss and any loss under Company's own insurance (i.e., primary insurance, deductible and Self-Insured Excess insurance) will be treated as a separate loss.

Intercompany reinsurance and other underlying and excess of loss reinsurance will be disregarded in calculating ultimate net loss and net retained line.

ARTICLE XI

SUBROGATION AND SALVAGE

Reinsurer will be credited with salvage i.e., reimbursement obtained or recovery made by Company, less the actual cost, excluding salaries of officials and employees of Company and sums paid to attorneys as retainer, of obtaining such recovery on account of claims and settlements involving reinsurance hereunder. Salvage hereon will always be used to reimburse the excess carriers in the reverse order of their priority according to their participation before being used in any way to reimburse Company for its primary loss. Company agrees reasonably to enforce its rights to salvage or subrogation relating to

any loss, a part of which loss was sustained by Reinsurer, and to prosecute all reasonable claims arising out of such rights.

ARTICLE XII

NOTICE OF LOSS AND LOSS SETTLEMENT

Company will advise Reinsurer of all losses for which Company has established an indemnity and/or expense reserve of $2,500,000 or greater and of all losses which, in the opinion of Company, are likely to involve Reinsurer under this Agreement, and all material subsequent developments pertaining thereto, which, in the opinion of Company, may materially affect the position of Reinsurer.

Company may make loss settlements either under strict policy conditions or by way of compromise and such settlements will be unconditionally binding on Reinsurer provided such settlements are made within the terms and conditions of this Agreement and within the terms and conditions of the original policies including all modifications, waivers, alterations and interpretations made thereto.

ARTICLE XIII

REINSURANCE PREMIUM

Company will pay to Reinsurer its proportionate share of Gross Net Written Premium as allocated by Company for the limit or limits ceded hereunder in accordance with Company's increased limits factors for this layer.

If Company issues two or more policies on different layers of the same program for any one insured, cession factors are applied to the combined total limits of the original policies only when Company writes contiguous policies and the full limit of each original policy.

If Company does not write contiguous policies and/or does not write the full limit of each original policy, the underlying policy will be ceded by applying the cession factors to the limit of that policy. Subsequent policy(ies) will be ceded on a pro rata basis (i.e., based on the amount of limit applied to the reinsurance layer).

ARTICLE XIV

CEDING COMMISSION

Reinsurer will allow Company a ceding commission of 27% of the Reinsurance Premium.

ARTICLE XV

REPORTS AND REMITTANCES

Company will provide Reinsurer with all necessary data respecting premiums, losses and recoveries on forms mutually acceptable to Company and Reinsurer.

Company will render a quarterly account of Gross Net Written Premium due Company and Reinsurance Premium due thereon during said quarter and any premium due Reinsurer will be remitted within 60 days of the end of each calendar quarter.

Company will provide to Reinsurer, as promptly as possible after the close of each year the information necessary for Annual Statement purposes.

Except as provided in the following paragraph, payment by Reinsurer of its proportion of ultimate net loss paid by Company will be made by Reinsurer to Company within 15 days after proof of payment by Company is received by Reinsurer.

In the event Reinsurer's share of any one ultimate net loss is $500,000 or more, Company may give Reinsurer written notice of its intention to pay such loss on a certain date and may require Reinsurer to have its share of the ultimate net loss in the hands of Company by such date. Such written notice will allow Reinsurer at least 5 working days after its receipt to prepare and dispatch its payment by check or wire transfer.

ARTICLE XVI

TAXES

In consideration of the terms under which this Agreement is issued, Company will not claim a deduction in respect of the premium hereon when making tax returns, other than income or profits tax returns, to any state or territory of the United States of America, the District of Columbia or Canada.

ARTICLE XVII

FEDERAL EXCISE TAX

(Applicable to those reinsurers, except Underwriters at Lloyds London and other reinsurers exempt from Federal Excise Tax, who are domiciled outside the United States of America.)

Reinsurer has agreed to allow for the purpose of paying the Federal Excise Tax the applicable percentage of the premium payable hereon (as imposed under Section 4371 of the Internal Revenue Service Code) to the extent such premium is subject to the Federal Excise Tax.

In the event of any return of premium becoming due hereunder, Reinsurer will deduct the aforesaid percentage from the return premium payable hereon and Company or its agent should take steps to recover the tax from the United States government.

ARTICLE XVIII

CURRENCY

Wherever the word "Dollars" or the "$" sign appears in this Agreement, they will be construed to mean United States Dollars, except in those cases where the policies are issued by Company in Canadian Dollars, they will mean Canadian Dollars.

All transactions under this Agreement as regards payment and settlements of premium and losses will be made in the currency of the original policy except that

currencies other than United States Dollars or Canadian Dollars will be converted to United States Dollars at the applicable rate of exchange appearing in the Wall Street Journal on the date such transaction is entered in the books of Company.

The Retention and the Limit are stated in United States Dollars or its equivalent at the same rate of exchange as used by Company in recording the transaction in Company's records. In the event that there is an increase or reduction in the parity value of the United States Dollar against the currency of the original policy at the date of settlement of loss, from that existing at the time of the risk's cession to this Agreement, then the Retention and the Limit will be adjusted to maintain the original relative Retention and Limit.

In the event Company is involved in a loss requiring payment in more than one currency hereunder, Company's retention and the amount recoverable hereunder will be apportioned in the currencies in the same proportion as the amount of ultimate net loss in each currency bears to the total ultimate net loss from all currencies paid by Company.

ARTICLE XIX

ACCESS TO RECORDS

Reinsurer or its duly authorized representatives will have the right at any reasonable time upon 5 working days prior notice during the term of this Agreement, or at any time after the expiration of this Agreement to visit the offices of Company to inspect, examine, audit, and verify any of the policy or claim files ("records") relating to the business reinsured under this Agreement. Reinsurer will have the right to make copies, at its own expense, or extracts of any records. Notwithstanding the above, Reinsurer will not have any right of access to the records of Company if it is not current in all payments due to Company and Company will have no right to reimbursement under this Agreement if it fails or refuses to provide the access required by this Article other than by reason of Reinsurer's failure to pay. Reinsurer will keep confidential all information and reports

derived from the records of Company to which it has received access and will not publish or communicate that information or report(s) to any other person or reinsurer without Company's express prior written consent.

ARTICLE XX

DELAYS, ERRORS, OR OMISSIONS

Inadvertent delays, errors, or omissions made in connection with this Agreement or any transaction hereunder will not relieve either party from any liability which would have attached had such delay, error, or omission not occurred, provided always that such error or omission will be rectified as soon as possible after discovery.

ARTICLE XXI

INSOLVENCY

In the event of the insolvency of one (or more) of the reinsured companies, and the appointment of a liquidator, receiver, conservator or statutory successor for such insolvent company, reinsurance payable to such company will be payable immediately upon demand, with reasonable provision for verification, on the basis of the liability of such Company as a result of claims allowed against such company by any court of competent jurisdiction or any liquidator, receiver, conservator or statutory successor having authority to allow such claims, without diminution because of such insolvency or because such liquidator, receiver, conservator or statutory successor has failed to pay all or a portion of any claims. Every liquidator, receiver, conservator, guaranty fund(s) or association(s) or statutory successor of Company will give written notice to Reinsurer of the pendency of a claim involving Company indicating the subject policy, which claim would be a possible liability on the part of Reinsurer to Company or to its domiciliary liquidator, receiver, or statutory successor within a reasonable amount of time after the claim is filed in the conservation, liquidation, receivership or other proceeding; during the

pendency of any claim, Reinsurer may investigate the same and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses that it may deem available to Company, to its policyholder or to any liquidator, receiver, conservator, guaranty fund(s) or association(s) or statutory successor. The expense thus incurred by Reinsurer will be chargeable, subject to the approval of the Court, against Company as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit which may accrue to Company as a result of the defense undertaken by Reinsurer.

Where two or more reinsurers are involved in the same claim and a majority in interest elect to interpose defense to such claim, the expense will be apportioned in accordance with the terms of this Agreement as though such expense had been incurred by Company.

This reinsurance will be payable directly by Reinsurer to Company or to its domiciliary liquidator, receiver, conservator or statutory successor, except as expressly provided otherwise by applicable insurance law, or except (a) where this Agreement specifically provides another payee of the reinsurance in the event of the insolvency of Company and (b) where Reinsurer with the express written consent of the direct policyholder or policyholders has assumed the policy obligations of Company as direct obligations of Reinsurer to the payees under the subject policies and in substitution for the obligations of Company to such payees; however, as between Company or its domiciliary liquidator, receiver, conservator or statutory successor and any ancillary liquidator, receiver, conservator, guaranty fund(s) or association(s) or statutory successor, howsoever named, the proceeds hereof will be payable to Company or its domiciliary liquidator, receiver, conservator or statutory successor. Prior to implementation of a novation, any certificate of assumption on New York risks must be approved by the Superintendent of Insurance for the state of New York.

ARTICLE XXII

ARBITRATION

Any and all disputes between Company and Reinsurer arising out of, relating to, or concerning this Agreement, whether sounding in contract or tort and whether arising during or after termination of this Agreement, will be submitted to the decision of a board of arbitration composed of two arbitrators and an umpire ("Board") meeting at a site in Philadelphia, Pennsylvania. The arbitration will be conducted under the Federal Arbitration Act and will proceed as follows:

A. Submission to Arbitration. A notice requesting arbitration, or any other notice made in connection therewith, will be in writing and will be sent certified or registered mail, return receipt requested, to the affected parties. The notice requesting arbitration will state in particulars all issues to be resolved in the view of the claimant, will appoint the arbitrator selected by the claimant, and will set a tentative date for the hearing, which date will be no sooner than 90 days and no later than 150 days from the date that the notice requesting arbitration is mailed. Within 30 days of receipt of claimant's notice, the respondent will notify the claimant of any additional issues to be resolved in the arbitration and of the name of its appointed arbitrator.

B. Arbitration Board Membership. Unless otherwise mutually agreed, the members of the Board will be impartial and disinterested and will be active or retired lawyers, familiar with insurance and reinsurance, or current or former officers of property-casualty insurance companies, reinsurance companies, or Underwriters at Lloyd's, London. Company and Reinsurer as aforesaid will each appoint an arbitrator and the two arbitrators will choose an umpire before instituting the hearing. As time is of the essence, if the respondent fails to appoint its arbitrator within 30 days after having received the claimant's written request for arbitration, the claimant is authorized to and will appoint the second arbitrator. If the two arbitrators fail to agree upon the appointment of an umpire within 30 days after notification of the appointment of the second arbitrator, within 10 days thereof, the two arbitrators will request the American Arbitration Association ("AAA") to appoint an umpire for the arbitration with the qualifications set forth above in this Article. If the AAA fails to name an umpire, either party may apply to a court of competent jurisdiction to appoint an umpire with the above required qualifications. The umpire will promptly notify in writing all parties to the arbitration of his/her selection

and of the scheduled date for the hearing. Upon resignation or death of any member of the Board, a replacement will be appointed in the same fashion as the resigning or deceased member was appointed.

C. Submission of Briefs. The claimant and respondent will each submit initial briefs to the Board outlining the issues in dispute and the basis, authority and reasons for their respective positions within 30 days of the date of notice of appointment of the umpire. The claimant and the respondent may submit reply briefs to the Board within 10 days after filing of the initial brief(s). Initial and reply briefs may be amended by the submitting party at any time, but not later than 10 days prior to the date of commencement of the arbitration hearing. Reasonable responses will be allowed at the arbitration hearing to new material contained in any amendments filed to the briefs but not previously responded to.

D. Arbitration Award. The Board will make a decision and award with regard to the terms expressed in this Agreement, the original intentions of the parties to the extent reasonably ascertainable, and the custom and usage of the property and casualty insurance and reinsurance business, which decision and award will be in writing and will state the factual and legal basis for the decision and award. The decision and award will be based upon a hearing in which evidence will be allowed and in which the formal rules of evidence will not strictly apply but in which cross examination and rebuttal will be allowed. At its own election or at the request of the Board, either party may submit a post-hearing brief for consideration of the Board within 20 days of the close of the hearing. The Board will make its decision and award within 30 days following the close of the hearing or the submission of post-hearing briefs, whichever is later, unless the parties consent to an extension. Every decision by the Board will be by a majority of the members of the Board, and each decision and award by the majority of the members of the Board will be final and binding upon all parties to the proceeding. Either party may apply to a court of competent jurisdiction for an order confirming any decision and the award; a judgment of that Court will thereupon be entered on any decision or award. If such an order is issued, the attorneys' fees of the party so applying and court costs will be paid by the party against whom confirmation is sought. The Board may award interest at the rate published in the Wall Street Journal on the date of the award calculated from the date the Board determines that any amounts due the prevailing party should have been paid to the prevailing party, but may not award punitive, exemplary, or treble damages.

E. Arbitration Expense. Except in the event of a consolidated arbitration, each party will bear the expense of the one arbitrator appointed by it and will jointly and equally bear with the other party the expense of any stenographer requested, and of the umpire. The remaining costs of the arbitration proceedings will be finally allocated by the Board.

F. Evidence. Subject to customary and recognized legal rules of privilege, each party participating in the arbitration will have the obligation to produce those documents and as witnesses to the arbitration those of its employees, those of its affiliates, and those of any intermediary or underwriting manager as any other participating party reasonably requests, providing always that the same witnesses and documents be obtainable and relevant to the issues before the arbitration and not be unduly burdensome or excessive. The parties may mutually agree as to pre-hearing discovery prior to the arbitration hearing and in the absence of agreement, upon the request of any party, pre-hearing discovery may be conducted as the umpire determines in his/her sole discretion to be in the interest of fairness, full disclosure, and a prompt hearing, decision, and award by the Board. The umpire will be the final judge of the procedures of the Board, the conduct of the arbitration, of the rules of evidence, the rules of privilege and production, and of excessiveness and relevancy of any witnesses and documents upon the petition of any participating party. To the extent permitted by law, the Board and the umpire will have the authority to issue subpoenas and other orders to enforce their decisions.

G. Equitable Relief. Nothing herein will be construed to prevent any participating party from applying to a federal district court of competent jurisdiction to issue a restraining order or other equitable relief to maintain the "status quo" of the parties participating in the arbitration pending the decision and award by the Board or to prevent any party from incurring irreparable harm or damage at any time prior to the decision and award of the Board. The Board will also have the authority to issue interim decisions or awards in the interest of fairness, full disclosure, and a prompt and orderly hearing, decision, and award by the Board.

H. Consolidate Hearing. Upon request of Company made within 30 days of the umpire's appointment, the Board may order a consolidated hearing between Company and all affected reinsurers to this Agreement if the Board is satisfied in its discretion that the issues in dispute affect more than one reinsurer and a consolidated hearing would be in the interest of fairness and a prompt resolution of the issues in dispute. If the Board orders a consolidated hearing, all other affected participating reinsurers will join and participate in the arbitration at Company's request under time frames established by the umpire and will be bound by the Board's

decision and award unless excused by the Board in its discretion. Any reinsurer may decline to actively participate in a consolidated arbitration if in advance of the hearing, that reinsurer files with the Board a written agreement satisfactory to the Board to be bound by the decision and award of the Board in the same fashion and to the same degree as if it actively participated in the arbitration.

In the event of an order of consolidation by the Board, the arbitrator appointed by the original reinsurer will be subject to being and may be replaced within 30 days of the Board's order of consolidation by an arbitrator named by the reinsurer with the largest participation in this Agreement affected by the dispute. In the event two or more reinsurers affected by the dispute each have the same largest participation, they will agree among themselves as to the replacement arbitrator, if any, to be appointed. The umpire will be the final determiner in the event of any dispute over replacement of that arbitrator. All other aspects of the arbitration will be conducted as provided for in this Article provided that (a) each party actively participating in the consolidated arbitration will have the right to its own attorney, position, and related claims and defenses; (b) each party will not, in presenting its position, be prevented from presenting its position by the position set forth by any other party; and (c) the cost and expense of the arbitration, exclusive of attorney's fees (which will be borne exclusively by the respective retaining party) but including the expense of any stenographer requested and the fees of the umpire and arbitrators will be borne pro rata by each party actively participating in the consolidated arbitration or as the Board determines to be fair and appropriate under the circumstances.

ARTICLE XXIII

OFFSET

All amounts due either Company or Reinsurer, by reason of premiums, losses or otherwise, under this Agreement or any other contract previously, now or later in force, between Company and Reinsurer, whether as ceding or assuming company, will be subject to recoupment and to offset, the rights to which may be exercised at any time and from time to time by either party and, upon exercise thereof, only the balance will be due.

ARTICLE XXIV

SERVICE OF SUIT

(This Article only applies to Reinsurers domiciled outside of the United States and/or unauthorized in any state, territory, or district of the United States having jurisdiction over Company.)

In the event of a dispute or the failure of Reinsurer to pay any amount claimed to be due hereunder, Reinsurer hereon, at the request of Company, will submit to the jurisdiction of a court of competent jurisdiction within the United States. Nothing in this Article constitutes or should be understood to constitute a waiver of Reinsurer's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States. It is further agreed that service of process in such suit may be made upon Mendes and Mount, 750 Seventh Avenue, New York, New York 10019-6829 and that in any suit instituted, Reinsurer will abide by the final decision of such court or of any Appellate Court in the event of an appeal.

The above-named is hereby authorized and directed to accept service of process on behalf of Reinsurer in any such suit and/or upon the request of Company to give a written undertaking to Company that they will enter a general appearance upon Reinsurer's behalf in the event such a suit will be instituted.

Further, pursuant to any statute of any state, territory, or district of the United States which makes provision therefor, Reinsurer hereon hereby designates the Superintendent, Commissioner, Director of Insurance, or other officer specified for that purpose in the statute, or his successor or successors in office, as its true and lawful attorney upon whom may be served any lawful process in any action, suit, or proceeding instituted by or on behalf of Company or any beneficiary hereunder arising out of this Agreement of reinsurance, and hereby designates the above-named as the person to whom the said officer is authorized to mail such process or a true copy thereof.

ARTICLE XXV

SECURITY AND UNAUTHORIZED REINSURANCE

If any reinsurer is unauthorized or otherwise unqualified in any state or other jurisdiction, or if, without such security, a financial penalty to Company would result on any statement or report it is required to make or file with regulatory authorities, for reasons of Company's financial security and condition, that reinsurer will secure, on request, and within 30 days after the end of each calendar quarter (but no later than December 31 of each year as respects the fourth quarter), its share of "obligations" under this Agreement in a manner, form and amount and from a bank acceptable to the regulatory authorities having jurisdiction, by a clean, irrevocable, and unconditional "evergreen" letter of credit.

The "obligations" referred to herein will mean the then current (as of the end of each calendar quarter) sum of:

1. The amount of ceded unearned premium for which Reinsurer is responsible;

2. The amount of paid losses and allocated loss adjustment expenses paid by Company but not yet recovered from Reinsurer;

3. The amount of ceded reserves for losses reported and outstanding, as well as for reserves for allocated loss adjustment expenses, for which Reinsurer is responsible;

4. The amount of return and refund premiums for which Reinsurer is responsible.

5. Contingent Profit Collateral. The amount of such collateral is calculated by applying the following criteria and rates:

6 Months	18 Months	30 Months	42 Months
35%	35%	25%	0%

The amount of such collateral will equal the percentage shown above times the difference between the ceded earned premium, net of ceding commission and brokerage, and the total of all ceded paid losses, ceded paid allocated loss expenses and ceded case reserves.

The first calculation of the Contingent Profit Collateral will be made by Company no later than December 31, 1993 and will be recalculated by Company at 12 month intervals until 36 months after the initial calculation when Company agrees to return the Contingent Profit Collateral to Reinsurer.

If any reinsurer is unauthorized in any province or jurisdiction of Canada, that reinsurer agrees to fund 115% of its share of Company's ceded Canadian unearned premium and outstanding loss and loss adjustment expense reserves by cash advances, if, without such funding, a penalty would accrue to Company on any financial statement it is required to file with the insurance regulatory authorities involved.

Company, or its successors in interest may draw, at any time and from time to time, upon the established letter of credit (or subsequent cash deposit) without diminution or restriction because of the insolvency of either Company or Reinsurer for one or more of the following purposes:

1. To make payment to and reimburse Company for Reinsurer's share of paid loss and allocated loss adjustment expense paid by Company under its original policies covered under this Agreement due to Company but unpaid by Reinsurer;

2. To make payments to Reinsurer of any amounts held thereby that exceed the amount required to fund Reinsurer's "obligations" under this Agreement.

3. To make payment to Company of any other amounts Company claims are due under this Agreement from Reinsurer including but not limited to Reinsurer's share of premium refunds and returns; and

4. To obtain a cash deposit of the entire amount of the remaining balance under the letter of credit where Company:

   a. has received notice of non-renewal or expiration of the letter of credit;

b. has not received assurances satisfactory to Company of any required increase in the amount of the letter of credit, or its replacement or other continuation of the letter of credit at least 30 days before its stated expiration date;

c. has been made aware that others may attempt to attach or otherwise place in jeopardy the security represented by the letter of credit; or

d. has concluded that the issuing (or confirming) bank's financial condition is such that the security represented by the letter of credit may be in jeopardy;

and under any of those circumstances where Reinsurer's entire "obligations" or part thereof, under this Agreement remain unliquidated and undischarged at least 30 days prior to the stated expiration date or at the time Company learns of the possible jeopardy to the security.

If Company draws on the letter of credit to obtain a cash deposit, Company will hold the amount of the cash deposit so obtained in the name of Company in any solvent United States Bank or Trust Company that is a member of the Federal Reserve System and insured by the Federal Deposit Insurance Corporation in trust solely to secure the "obligations" referred to above and for the use and purposes enumerated above and to return any balance thereof to Reinsurer:

1. upon the complete and final liquidation and discharge of all Reinsurer's obligations to Company under this Agreement; or

2. in the event Reinsurer subsequently provides alternate or replacement security consistent with the terms hereof and acceptable to Company.

Company will prepare and forward at least quarterly to Reinsurer a statement for the purposes of this Article, showing Reinsurer's share of "obligations" as set forth above. If Reinsurer's share thereof exceeds the then existing balance of the security provided, Reinsurer will, within 15 days of receipt of Company's statement, but never later than December 31 of any year, increase the amount of the letter of credit (or cash deposit) to

the required amount of Reinsurer's share of "obligations" set forth in Company's statement.

If Reinsurer's share thereof is less than the then existing balance of the letter of credit (or cash deposit) provided, Company will release the excess thereof to Reinsurer upon Reinsurer's written request.

Reinsurer will not attempt to prevent Company from drawing on the letter of credit (or cash deposit) so long as Company is acting in accordance with this Article.

Company's "successors in interest" will include those by operation of law, including without limitation, any liquidator, rehabilitator, receiver, or conservator.

Reinsurer will take any other reasonable steps that may be required for Company to take credit on its statutory financial statements for the reinsurance provided by this Agreement.

Company may apply the Canadian cash advances under the third paragraph above to satisfy Reinsurer's Canadian obligations to Company in the same manner as if it were drawing on the letter of credit (or subsequent cash deposit).

ARTICLE XXVI

OTHER TERMS AND CONDITIONS

A. Waiver. The failure of Company or Reinsurer to insist on strict compliance with this Agreement, or to exercise any right or remedy hereunder, will not constitute a waiver of any rights contained herein nor stop the parties from thereafter demanding full and complete compliance nor prevent the parties from exercising such a remedy in the future.

B. Conflict with Law and Severability. If any provision of this Agreement should be invalid under applicable laws, the latter will control but only to the extent of the conflict without affecting the remaining provisions of this Agreement.

C. Headings. The headings preceding the text of the Articles and paragraphs of this Agreement are intended and inserted solely for the convenience of

reference and will not affect the meaning, interpretation, construction or effect of this Agreement.

D. Assignment. This Agreement will be binding upon and inure to the benefit of Company and Reinsurer and their respective successors and assignees, provided, however, that this Agreement may not be assigned or delegated by either Company or Reinsurer without the prior written consent of the other which consent may be withheld by either party in its sole unfettered discretion.

E. Notices. Wherever notice of termination is required under this Agreement, it will be in writing, sent by certified mail, return receipt requested.

F. Governing Law. This Agreement will be governed by and construed according to the laws of Pennsylvania, exclusive of its rules with respect to conflict of laws, except as to rules with respect to credit for reinsurance where the laws of (a) the domicile of the individual ceding company will apply, and (b) the laws of other states applying their laws with respect to credit for reinsurance with foreign reinsurers will also apply.

G. Entire Agreement. This Agreement supersedes, merges with and makes null and void any and all previous agreements, whether written or oral, between Company and Reinsurer with respect to the reinsurance to be written under this Agreement commencing July 1, 1993 and constitutes the full and complete agreement between the parties with respect to that reinsurance. No amendment to this Agreement will be enforceable unless in writing and signed by the party against whom enforcement is sought.

ARTICLE XXVII

THIRD PARTY BENEFICIARY

Except as specifically and expressly provided for in the Insolvency Article, the provisions of this Agreement are intended solely for the benefit of the parties to and executing this Agreement and nothing in this Agreement will in any manner create or be construed to create any obligations to or establish any rights against any party to this Agreement in favor of any third parties or other persons not parties to and executing this Agreement.

ARTICLE XXVIII

AGENCY AGREEMENT

If more than one reinsured company is named as a party to this Agreement, the first named company will be deemed the agent of the other reinsured companies for purposes of sending or receiving notices required by the terms and conditions of this Agreement, and for purposes of remitting or receiving any monies due any party.

ARTICLE XXIX

NEGOTIATED AGREEMENT

This Agreement has been negotiated by the parties and the fact that the initial and final draft will have been prepared by the Intermediary will not give rise to any presumption for or against any party to this Agreement or be used in any form in the construction or interpretation of this Agreement or any of its provisions.

ARTICLE XXX

INTERMEDIARY

Aon Re Inc. is hereby recognized as the Intermediary negotiating this Agreement for all business hereunder. Correspondence regarding Agreement terms will be transmitted through Aon Re Inc., Two World Trade Center New York, New York 10048. All statements for premiums, return premiums, commissions, taxes, losses, loss expense, salvages, and loss settlements will be transmitted through Aon Reinsurance Agency, Inc., 123 North Wacker Drive, Chicago, Illinois 60606. Payments by Company to Aon Reinsurance Agency, Inc. will be deemed payment to Reinsurers. Payment by Reinsurers to Aon Reinsurance Agency, Inc. will be deemed payment to Company only to the extent that such payments are actually received by Company.

ARTICLE XXXI

SELF-INSURED OBLIGATIONS

This Agreement will cover self-insured obligations of Company assumed by it as a self-insurer, including self-insured obligations in excess of any valid and collectible insurance available to Company, to the same extent as if all types of insurance covered by this Agreement were afforded to Company under the broadest forms of policies issued by Company.

For the purposes of this Agreement, "self-insured obligations" means insurable exposures of Company on which Company has issued an actual policy of the kind described above. If a self-insured obligation policy reinsured under this Agreement protects Company for loss arising from the handling of a claim under another policy reinsured hereunder, the date on which such loss from the handling of that claim is incurred will be deemed to be the date the claim under that other policy reinsured hereunder is first made but nevertheless will be considered as a separate accident, casualty, disaster or occurrence for which a separate retention and limit will apply.

Any insurance or reinsurance wherein Company hereby reinsured and/or its affiliated and/or subsidiary Companies are named as the Insured or Reinsured party, either alone or jointly with some other party, will be deemed to be an insurance or reinsurance coming within the scope of this Agreement, notwithstanding that no legal liability may arise in respect thereof by reason of the fact that Company hereby reinsured and/or its affiliated and/or subsidiary Companies are named as the Insured or Reinsured party or one of the Insured or Reinsured parties.

All amounts of ultimate net loss paid hereunder will be deemed to reimburse for loss and loss adjustment expense first and Extra Contractual Obligations and losses in Excess of Policy Limits thereafter.

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NUCLEAR INCIDENT EXCLUSION CLAUSE - LIABILITY - REINSURANCE.

(1) This reinsurance does not cover any loss or liability accruing to the Reassured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.

(2) Without in any way restricting the operation of paragraph (1) of this Clause it is understood and agreed that for all purposes of this reinsurance all the original policies of the Reassured (new, renewal and replacement) of the classes specified in Clause II of this paragraph (2) from the time specified in Clause III in this paragraph (2) shall be deemed to include the following provision (specified as the Limited Exclusion Provision):

Limited Exclusion Provision.*

I. It is agreed that the policy does not apply under any liability coverage,
to (*injury, sickness, disease, death or destruction* / bodily injury or property damage) with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability.

II. Family Automobile Policies (liability only), Special Automobile Policies (private passenger automobiles, liability only), Farmers Comprehensive Personal Liability Policies (liability only), Comprehensive Personal Liability Policies (liability only) or policies of a similar nature; and the liability portion of combination forms related to the four classes of policies stated above, such as the Comprehensive Dwelling Policy and the applicable types of Homeowners Policies.

III. The inception dates and thereafter of all original policies as described in II above, whether new, renewal or replacement, being policies which either
(a) become effective on or after 1st May, 1960, or
(b) become effective before that date and contain the Limited Exclusion Provision set out above;
provided this paragraph (2) shall not be applicable to Family Automobile Policies, Special Automobile Policies, or policies or combination policies of a similar nature, issued by the Reassured on New York risks, until 90 days following approval of the Limited Exclusion Provision by the Governmental Authority having jurisdiction thereof.

(3) Except for those classes of policies specified in Clause II of paragraph (2) and without in any way restricting the operation of paragraph (1) of this Clause, it is understood and agreed that for all purposes of this reinsurance the original liability policies of the Reassured (new, renewal and replacement) affording the following coverages:

Owners, Landlords and Tenants Liability, Contractual Liability, Elevator Liability, Owners or Contractors (including railroad) Protective Liability, Manufacturers and Contractors Liability, Product Liability, Professional and Malpractice Liability, Storekeepers Liability, Garage Liability, Automobile Liability (including Massachusetts Motor Vehicle or Garage Liability)

shall be deemed to include, with respect to such coverages, from the time specified in Clause V of this paragraph (3), the following provision (specified as the Broad Exclusion Provision):

Broad Exclusion Provision.*

It is agreed that the policy does not apply:

I. Under any Liability Coverage to (*injury, sickness, disease, death or destruction* / bodily injury or property damage)

(a) with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability; or

(b) resulting from the hazardous properties of nuclear material and with respect to which (1) any person or organization is required to maintain financial protection pursuant to the Atomic Energy Act of 1954, or any law amendatory thereof, or (2) the insured is, or had this policy not been issued would be, entitled to indemnity from the United States of America, or any agency thereof, under any agreement entered into by the United States of America, or any agency thereof, with any person or organization.

II. Under any Medical Payments Coverage, or under any Supplementary Payments Provision relating to (*immediate medical or surgical relief* / (first aid, to expenses incurred with respect to (*bodily injury, sickness, disease or death* / (bodily injury resulting from the hazardous properties of nuclear material and arising out of the operation of a nuclear facility by any person or organization.

III. Under any Liability Coverage to (*injury, sickness, disease, death or destruction* / (bodily injury or property damage resulting from the hazardous properties of nuclear material, if

(a) the nuclear material (1) is at any nuclear facility owned by, or operated by or on behalf of, an insured or (2) has been discharged or dispersed therefrom;

(b) the nuclear material is contained in spent fuel or waste at any time possessed, handled, used, processed, stored, transported or disposed of by or on behalf of an insured; or

(c) the (*injury, sickness, disease, death or destruction* / (bodily injury or property damage arises out of the furnishing by an insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility, but if such facility is located within the United States of America, its territories, or possessions or Canada, this exclusion (c) applies only to (*injury to or destruction of property at such nuclear facility* / (property damage to such nuclear facility and any property thereat.

IV. As used in this endorsement:
"hazardous properties" include radioactive, toxic or explosive properties; "nuclear material" means source material, special nuclear material or byproduct material; "source material", "special nuclear material", and "byproduct material" have the meanings given them in the Atomic Energy Act of 1954 or in any law amendatory thereof; "spent fuel" means any fuel element or fuel component, solid or liquid, which has been used or exposed to radiation in a nuclear reactor; "waste" means any waste material (1) containing byproduct material and (2) resulting from the operation by any person or organization of any nuclear facility included within the definition of nuclear facility under paragraph (a) or (b) thereof; "nuclear facility" means

(a) any nuclear reactor,

(b) any equipment or device designed or used for (1) separating the isotopes of uranium or plutonium, (2) processing or utilizing spent fuel, or (3) handling processing or packaging waste,

(c) any equipment or device used for the processing, fabricating or alloying of special nuclear material if at any time the total amount of such material in the custody of the insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235,

(d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste,

and includes the site on which any of the foregoing is located, all operations conducted on such site and all premises used for such operations; "nuclear reactor" means any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of fissionable material;

(*With respect to injury to or destruction of property, the word "injury" or "destruction"*
("property damage" includes all forms of radioactive contamination of property.
(*includes all forms of radioactive contamination of property.*

V. The inception dates and thereafter of all original policies affording coverages specified in this paragraph (3), whether new, renewal or replacement, being policies which become effective on or after 1st May, 1960, provided this paragraph (3) shall not be applicable to

(i) Garage and Automobile Policies issued by the Reassured on New York risks, or

(ii) statutory liability insurance required under Chapter 90, General Laws of Massachusetts,

until 90 days following approval of the Broad Exclusion Provision by the Governmental Authority having jurisdiction thereof.

(4) Without in any way restricting the operation of paragraph (1) of this Clause, it is understood and agreed that paragraphs (2) and (3) above are not applicable to original liability policies of the Reassured in Canada and that with respect to such policies this Clause shall be deemed to include the Nuclear Energy Liability Exclusion Provisions adopted by the Canadian Underwriters' Association of the Independent Insurance Conference of Canada.

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*NOTE. *The words printed in italics in the Limited Exclusion Provision and in the Broad Exclusion Provision shall apply only in relation to original liability policies which include a Limited Exclusion Provision or a Broad Exclusion Provision containing those words.*

NUCLEAR INCIDENT EXCLUSION CLAUSE—LIABILITY—REINSURANCE—CANADA

1. This Agreement does not cover any loss or liability accruing to the Reinsured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.

2. Without in any way restricting the operation of paragraph 1 of this clause it is agreed that for all purposes of this Agreement all the original liability contracts of the Reinsured, whether new, renewal or replacement, of the following classes, namely,

   Personal Liability.
   Farmers' Liability.
   Storekeepers' Liability.

   which become effective on or after 31st December 1984, shall be deemed to include, from their inception dates and thereafter, the following provision:-

   Limited Exclusion Provision.

   This Policy does not apply to bodily injury or property damage with respect to which the Insured is also insured under a contract of nuclear energy liability insurance (whether the Insured is unnamed in such contract and whether or not it is legally enforcible by the Insured) issued by the Nuclear Insurance Association of Canada or any other group or pool of insurers or would be an Insured under any such policy but for its termination upon exhaustion of its limits of liability.

   With respect to property, loss of use of such property shall be deemed to be property damage.

3. Without in any way restricting the operation of paragraph 1 of this clause it is agreed that for all purposes of this Agreement all the original liability contracts of the Reinsured, whether new, renewal or replacement, of any class whatsoever (other than Personal Liability, Farmers' Liability, Storekeepers' Liability or Automobile Liability contracts), which become effective on or after 31st December 1984, shall be deemed to include from their inception dates and thereafter, the following provision:-

   Bread Exclusion Provision

   It is agreed that this Policy does not apply:

   (a) To liability imposed by or arising under the Nuclear Liability Act; nor

   (b) to bodily injury or property damage with respect to which an Insured under this policy is also insured under a contract of nuclear energy liability insurance (whether the Insured is unnamed in such contract and whether or not it is legally enforcible by the Insured) issued by the Nuclear Insurance Association of Canada or any other insurer or group or pool of insurers or would be an Insured under any such policy but for its termination upon exhaustion of its limit of liability; nor

   (c) to bodily injury or property damage resulting directly or indirectly from the nuclear energy hazard arising from:

      (i) the ownership, maintenance, operation or use of a nuclear facility by or on behalf of an Insured;

      (ii) the furnishing by an Insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility; and

      (iii) the possession, consumption, use, handling, disposal or transportation of fissionable substances, or of other radioactive material (except radioactive isotopes, away from a nuclear facility, which have reached the final stage of fabrication so as to be useable for any scientific, medical, agricultural, commercial or industrial purpose) used, distributed, handled or sold by an Insured.

Continued

As used in this Policy:

1. The term "nuclear energy hazard" means the radioactive, toxic, explosive, or other hazardous properties of radioactive material;

2. The term "radioactive material" means uranium, thorium, plutonium, neptunium, their respective derivatives and compounds, radioactive isotopes of other elements and any other substances that the Atomic Energy Control Board may, by regulation, designate as being prescribed substances capable of releasing atomic energy, or as being requisite for the production, use or application of atomic energy;

3. The term "nuclear facility" means:

   (a) any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of plutonium, thorium and uranium or any one or more of them;

   (b) any equipment or device designed or used for (i) separating the isotopes of plutonium, thorium and uranium or any one or more of them, (ii) processing or utilizing spent fuel, or (iii) handling, processing or packaging waste;

   (c) any equipment or device used for the processing, fabricating or alloying of plutonium, thorium or uranium enriched in the isotope uranium 233 or in the isotope uranium 235, or any one or more of them if at any time the total amount of such material in the custody of the insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235;

   (d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste radioactive material;

   and includes the site on which any of the foregoing is located, together with all operations conducted thereon and all premises used for such operations.

4. The term "fissionable substance" means any prescribed substance that is, or from which can be obtained, a substance capable of releasing atomic energy by nuclear fission.

5. With respect to property, loss of use of such property shall be deemed to be property damage.

NUCLEAR ENERGY RISKS EXCLUSION

1. This contract excludes nuclear energy risks whether written directly or by way of reinsurance or via pools or associations. Under this contract the term "nuclear energy risks" means any first or third party insurance (other than workers' compensation or employers' liability) in respect of:

   (a) nuclear reactors and nuclear power stations or plant;

   (b) any other premises or facilities concerned with

   the production of nuclear energy or

   the production or storage or handling of nuclear fuels or nuclear waste;

   (c) any other premises or facilities eligible for insurance by any local nuclear pool or association but only to the extent of the requirements of the local pool or association;

   (d) nuclear or radioactive fuel, or nuclear or radioactive waste.

2. However, this exclusion shall not apply

   (a) to any insurance or reinsurance in respect of the construction, erection or installation of buildings, plant and other property (including contractor's plant and equipment used in connection therewith):

   for the storage of nuclear fuel - prior to the commencement of storage

   as regards reactor installations - prior to the commencement of loading of nuclear fuel into the reactor, or prior to the initial criticality, depending on the commencement of the insurance or reinsurance of the relevant local nuclear pool or association;

   (b) to any machinery breakdown or other engineering insurance or reinsurance not coming within the scope of 2(a) above, nor affording coverage in the "high radioactivity" zone;

   (c) to any insurance or reinsurance in respect of the hulls of ships, aircraft or other conveyances;

   (d) to any insurance or reinsurance in respect of loss of or damage to (including any expenses incurred therewith) nuclear or radioactive fuel or nuclear or radioactive waste while in transit as cargo.

INSOLVENCY FUNDS EXCLUSIONS CLAUSE

This Agreement excludes all liability of the Company arising, by contract, operation of law, or otherwise, from its participation or membership, whether voluntary or involuntary, in any insolvency fund. "Insolvency fund" includes any guaranty fund, plan, pool, association, fund, or other arrangement, howsoever denominated, established, or governed that provides for any assessment of or payment or assumption by the Company of part or all of any claim, debt, charge, fee, or other obligation of an insurer, or its successors or assigns, which has been declared by any competent authority to be insolvent, or which is otherwise deemed unable to meet any claim, debt, charge, fee, or other obligation in whole or in part.

SCHEDULE "I"

TO THE REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – MAY 23, 2007

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SECOND INTERNATIONAL D&O/E&O EXCESS OF LOSS REINSURANCE AGREEMENT

SECOND INTERNATIONAL D&O/E&O EXCESS OF LOSS REINSURANCE AGREEMENT

THIS AGREEMENT is made and entered into by and between the RELIANCE INSURANCE COMPANIES, which include RELIANCE INSURANCE COMPANY, a Pennsylvania corporation; REGENT INTERNATIONAL INSURANCE COMPANY, LIMITED, a Bermuda corporation; RELIANCE NACIONAL DE ARGENTINA SEGUROS, S.A., an Argentina corporation; RELIANCE NATIONAL ASIA RE PTE, LTD., a Singapore corporation; RELIANCE NATIONAL (BARBADOS) INSURANCE LIMITED, a Barbados corporation; RELIANCE NATIONAL DE MEXICO, S.A., a Mexico corporation; RELIANCE NATIONAL INSURANCE COMPANY (EUROPE) LIMITED, an English corporation; RELIANCE SURETY COMPANY, a Delaware corporation; RENASA INSURANCE COMPANY, LIMITED, a South Africa corporation; LIPPO RELIANCE INSURANCE COMPANY, a Hong Kong corporation; and any additional company established or acquired by Reliance Insurance Companies (hereinafter called the "Company") of the one part, and the various Reinsurers as identified by the Interests and Liabilities Agreements attaching to and forming a part of this Agreement (hereinafter called the "Reinsurer") of the other part.

In consideration of the mutual covenants hereinafter contained and upon the terms and conditions hereinbelow set forth, the parties hereto agree as follows:

ARTICLE I

POOLING ARRANGEMENT

Reliance Insurance Company of Illinois assumes 100% of the liability of Reliance Lloyds after deduction for facultative reinsurance. Effective December 31, 1995, Reliance Insurance Company assumed 100% of the responsibility (as either a direct responsibility by assumption reinsurance or by way of indemnity reinsurance) for all of the business previously or currently written by Reliance National Insurance Company of New York and United Pacific Insurance Company of New York. Reliance Insurance Company assumes 100% of the liability of United Pacific Insurance Company, Reliance National Indemnity Company, Reliance National Insurance Company, Reliance Insurance Company of Illinois, Reliance Insurance Company of California, Reliance National Insurance Company of New York, and United Pacific Insurance Company of New York, after deduction for facultative reinsurance and ceded captive reinsurance programs. Notwithstanding any other provisions of this Agreement, this Agreement protects such assumed reinsurance liability as if it were written directly by Reliance Insurance Company and attaches prior to redistribution to those companies under the terms of the Company's inter-company reinsurance pool, which redistribution will be disregarded for all purposes hereunder. With respect to any other named companies set forth in the

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preamble of this Agreement, this Agreement will apply as provided for in the Net Retained Line Article. In the event that this Agreement applies on a per risk basis, and a single occurrence affects two or more of the pooling companies named above under different policies, the Company will continue to maintain a separate retention and a separate limit for each risk as if the policies were written by separate companies.

ARTICLE II

BUSINESS COVERED

This Agreement applies to new and renewal policies with an effective date during the term of this Agreement, issued by the Company and written through the Reliance National International Division of the Company and classified by the Company as:

DIRECTORS AND OFFICERS LIABILITY, PROFESSIONAL INDEMNITY/MISCELLANEOUS ERRORS AND OMISSIONS, EMPLOYMENT PRACTICE LIABILITY, FIDELITY, AND/OR FIDUCIARY LIABILITY.

If any law or regulation of the Federal, State or Local government of the United States or the rulings of officials having supervision over insurance companies, should render the undertaking of this Agreement illegal within the jurisdiction of such Authority, the Company may upon written notice to the Reinsurer suspend, abrogate or amend this Agreement insofar as it relates to such jurisdiction, to the extent necessary to comply with such law, regulation or ruling. Such suspension, abrogation or amendment of a portion of this Agreement will in no way affect any other portion thereof, nor increase or extend the Reinsurer's liability hereunder.

ARTICLE III

TERM

This Agreement is effective from December 31, 1998 through December 30, 2000, both days inclusive, at the location of the policy.

The Company has the option, upon agreement by the Reinsurer, to cancel this Agreement at December 31, 1999 or July 1, 2000.

Reinsurance coverage will remain in force for all policies in force at the date of Agreement expiration until their natural expiration defined as the full policy period plus any run-off provision and/or any extended reporting period option and/or any discovery period and/or any retroactive coverage period contained in the policy. However, should

any policy to which this Agreement applies during the reinsurance run-off period be extended, continued or renewed due to regulatory or other legal restrictions, this Agreement will automatically continue to provide reinsurance coverage until such policies are actually terminated by the Company.

Alternatively, the Company will have the option to terminate the Reinsurer's liability for claims first made after the date of expiration of this Agreement on business in force as of the date of expiration and the Reinsurer will return to the Company within 60 days the ceded unearned premium reserve and cash equivalent calculated as of the date of expiration less applicable ceding commission, if any.

The provisions of this Agreement will continue to apply to all unfinished business hereunder to the end that all obligations and liabilities incurred by each party hereunder prior to termination will be fully performed and discharged.

ARTICLE IV

EXCLUSIONS

A. With respect to all classes described in the Business Covered Article, this Agreement does not cover:

1. All losses, howsoever arising, from Errors and Omissions written on Lloyd's brokers, members, managing agents and the affiliated operations for Lloyd's brokers, members, and managing agents.

2. Life business, other than Accidental Death and Dismemberment.

3. Loss or liability excluded by the Non-Marine London Market War Exclusion Clause (1978) attached hereto.

4. Loss or liability excluded by the Nuclear Energy Risks Exclusion Clause, (Reinsurance) 1994 (Worldwide Excluding U.S.A. and Canada), NMA 1975 (a) and the Nuclear Incident Exclusion Clauses, Reinsurance, NMA 1119, NMA 1166, NMA 1251, NMA 1590 ("waste" definition amended), NMA 1979, and NMA 1980 attached hereto.

5. Reinsurance assumed except that:

a) inter-company reinsurance and reinsurance of Sable Insurance Company,

b) reinsurance of one or more of an agent's policies, with the agent acting for the ceding insurer under its authority,

c) reinsurance between an insurer and a reinsurer that concerns or is confined to business produced by a named agent of the ceding insurer, usually generated by that agent and administered directly with the reinsurer with permission of the insured,

d) specific arrangements with insureds through their single parent "captive" carrier, or

e) facultative reinsurance when written on an individual basis

will not be excluded hereunder.

6. Business written through Pools, Associations, and Syndicates of which the Company is a member.

7. Medical Malpractice Liability.

B. With respect to Fidelity business only, this Agreement does not cover:

Financial Guarantee or Insolvency; however, the liability of the Company under any bond covering losses due to dishonesty or negligence of any person or failure of any person to faithfully perform his/her duty or failure to account for or pay over money or other property in his/her custody, will not be considered Financial Guarantee or Insolvency.

Notwithstanding the foregoing, no claim to attach hereto in respect of any loss or losses arising as a result of:

1. the insolvency of any financial institution at which trust monies are deposited or insolvency of any person, firm, or company, or

2. the fall in the market value of investments,

unless such loss is the result of a) a dishonest, fraudulent, or negligent act on the part of the bonded person, or b) a dishonest or fraudulent act on the part of any other person or persons, or c) unless such loss is solely created by a physical damage loss to property other than where such physical damage loss could have been recovered from a third party but for the insolvency of such third party.

C. The reinsurance provided under this Agreement is subject to the exclusions set forth above and will not cover said excluded risks, hazards and coverages unless individually submitted by the Company to the Reinsurer for inclusion hereunder, and, if specially accepted by the Reinsurer, such business will then be covered under the terms of this Agreement, except as such terms will be modified by such acceptance. Any renewal of a special acceptance covered under the previous year's reinsurance Agreement will be automatically covered hereunder.

ARTICLE V

TERRITORY

This Agreement will cover wherever the Company's policies cover.

ARTICLE VI

SPECIAL PROVISIONS

The first US $1,000,000 of ultimate net loss, each and every loss, each and every policy, for policies written in or converted to U.S. currency, the first CAN $1,000,000 of ultimate net loss, each and every loss, each and every policy for policies written in or converted to Canadian currency, the first £1,000,000, of ultimate net loss, each and every loss, each and every policy, for policies written in or converted to British Pounds Sterling, and the first SING $1,000,000 of ultimate net loss, each and every loss, each and every policy, for policies written in or converted to Singapore currency to be retained net to the Company's own account and unreinsured other than from other Casualty Catastrophe Excess of Loss reinsurances and Aggregate Excess of Loss reinsurances.

Agreement by the Reinsurers, the sum of whose percentage participations hereon is greater than 50%, will be binding on all Reinsurers participating hereon.

ARTICLE VII

ORIGINAL CONDITIONS

Except as expressly modified in this Agreement, the Reinsurer's liability to the Company under the reinsurance coverage provided under this Agreement will be subject to the same terms, limits, conditions, and endorsements of the Company's policies and to all interpretations, modifications, waivers and alterations thereto.

ARTICLE VIII

REINSURANCE COVERAGE

A. As respects policies written in and/or converted to United States dollars:

The Reinsurer will be liable to and reimburse the Company for (i) US $18,000,000 of ultimate net loss, each and every loss, each and every policy excess of US $2,000,000 of ultimate net loss, each and every loss, each and every policy, (ii) and in addition thereto, loss expenses as set forth in the Definitions Article.

B. As respects policies written in and/or converted to Canadian dollars:

The Reinsurer will be liable to and reimburse the Company for (i) CAN $18,000,000 of ultimate net loss, each and every loss, each and every policy excess of CAN $2,000,000 of ultimate net loss, each and every loss, each and every policy, (ii) and in addition thereto, loss expenses as set forth in the Definitions Article.

C. As respects policies written in and/or converted to British Pounds Sterling:

The Reinsurer will be liable to and reimburse the Company for (i) £18,000,000 of ultimate net loss, each and every loss, each and every policy excess of £2,000,000 of ultimate net loss, each and every loss, each and every policy, (ii) and in addition thereto, loss expenses as set forth in the Definitions Article.

D. As respects policies written in and/or converted to Singapore Dollars:

The Reinsurer will be liable to and reimburse the Company for (i) SING $18,000,000 of ultimate net loss, each and every loss, each and every policy excess of SING $2,000,000 of ultimate net loss, each and every loss, each and every policy, (ii) and in addition thereto, loss expenses as set forth in the Definitions Article.

If the Company issues two or more policies on different layers of the same program for any one insured, such policies will be deemed one policy hereunder, subject to one limit and retention within the terms of this Agreement.

The Company will be the sole judge of what constitutes one insured.

The Company may issue original policies that reinstate the policy limit.

The Reinsurer will reimburse the Company for 100% of the amount of ultimate net loss reimbursable under paragraphs A., B., C., and D. above for each annual period up to the greater of a 1000% loss ratio to the Reinsurer or $150,000,000 in all during the annual period hereof.

ARTICLE IX

DEFINITIONS

The following definitions will apply to this Agreement:

A. "Policies" as used in this Agreement will mean each of the Company's binders, policies and contracts providing insurance or reinsurance on the business covered hereunder.

B. "Each and every loss" as used in this Agreement will mean each loss discovered and/or claim made or series of losses discovered and/or series of claims made arising from a wrongful act or the same or series of interrelated wrongful acts, as defined in the original policy.

C. "Ultimate net loss" as used in this Agreement will include the amount of loss or liability paid or payable under the Company's original policies, plus 90% of extra contractual obligations plus 90% of losses in excess of policy limits, plus 90% of loss expense from a successful declaratory judgment action. For the purposes of this definition a declaratory judgment action is deemed to be "successful" if the Company incurs no loss from the claim from which the declaratory judgment action arises. In addition, some loss expenses are included within the ultimate net loss (see paragraph B below) and some loss expenses are covered in addition to the ultimate net loss (see paragraph A below) in accordance with the following:

1. With respect to those parts of loss expenses that do not erode the limit of liability under the Company's original policies, the Reinsurer will be liable in addition to its limit of liability for ultimate net loss for its proportionate share of loss expenses in the same proportion as ultimate net loss payments under this Agreement bear to the total ultimate net loss payments made by the Company.

In the event a verdict or judgment is reduced by appeal or settlement, subsequent to the entry of the judgment, resulting in an ultimate saving on that verdict or judgment, or a judgment is reversed outright, the expenses incurred in securing that final reduction or reversal will be prorated between the Reinsurer and the Company in the proportion that each benefit from that reduction or reversal and the expense incurred up to the time of the original verdict or judgment will be prorated in proportion to each party's interest in that verdict or judgment.

2. With respect to those parts of loss expenses that erode the limit of liability under the Company's original policies, the Reinsurer will be liable for the ultimate net loss in excess of the Company's retention under this Agreement; and such ultimate net loss under the limit and retention of this Agreement will consist of either indemnity payments or loss expenses or any combination of indemnity payments and loss expenses as well as extra contractual obligations and losses in excess of policy limits.

   Notwithstanding the above, in the event that the original policy limit does not exceed the Company's retention under this Agreement, reinsurance coverage will be provided by the Reinsurer for ultimate net loss consisting of the amount of loss or liability paid or payable under the Company's original policy, plus 90% of extra contractual obligations, plus 90% of losses in excess of policy limits, plus 90% of loss expense from a successful declaratory judgment action, plus loss expenses associated with extra contractual obligations and losses in excess of policy limits; however, such coverage is subject to 25% of the applicable limits as set forth in the Reinsurance Coverage Article.

D. "Loss expense" as used in this Agreement will mean any and all paid or payable costs and expenses allocable to a specific claim that are incurred by the Company in the investigation, appraisal, adjustment, settlement, litigation, defense, or appeal of a specific claim, including court costs and costs of supersedeas and appeal bonds expense, including a pro rata share of salaries and expenses of Company employees and expenses of Company officers who have been temporarily diverted from their normal and customary duties and assigned to the field adjustment of losses covered by this Agreement, interest accrued after award or judgment and pre-judgment interest awarded, legal expenses and costs incurred by the Company in connection with coverage questions and legal actions connected therewith, monitoring expenses, and legal costs and expenses

associated with extra contractual obligations and loss in excess of policy limits.

E. "Monitoring expense" as used in this Agreement will mean all loss expenses incurred by the Company allocable to a specific loss that cannot be charged against the original policy.

F. "Extra contractual obligations" means any punitive, exemplary, compensatory, or consequential damages, other than loss in excess of policy limits, together with any legal costs and expenses incurred in connection therewith, paid by the Company as a result of a claim against it by its insured, its insured's assignee, or a third party claimant, which claim alleges negligence or bad faith on the part of the Company (or its third party administrator) in the handling of a claim under a policy covered hereunder. An extra contractual obligation will be deemed to have occurred on the same date as the loss covered or alleged to be covered under the policy that gave rise to the extra contractual obligation. This Agreement will not apply to any extra contractual obligation incurred by the Company as the result of any fraudulent or criminal act directed against the Company by any officer or director of the Company acting individually or collectively or in collusion with any other organization or party involved in the presentation, defense, or settlement of any claim under this Agreement.

G. "Loss in excess of policy limits" means any amount of loss, together with any legal costs and expenses incurred in connection therewith, paid by the Company in excess of its policy limits, but otherwise within the coverage terms of the policy, as a result of a claim against it by its insured or its insured's assignee to recover damages the insured is legally obligated to pay to a third party claimant because of the Company's (or its third party administrator's) alleged or actual negligence or bad faith in rejecting a settlement within the policy limits, or in discharging its duty to defend or prepare the defense in the trial of an action against its insured, or in discharging its duty to prepare or prosecute an appeal consequent upon such an action. This Agreement will not apply to any loss in excess of policy limits incurred by the Company as the result of any fraudulent or criminal act directed against the Company by any officer or director of the Company acting individually or collectively or in collusion with any other organization or party involved in the presentation, defense, or settlement of any claim under this Agreement.

The date of loss on which any loss in excess of policy limits is incurred by the Company will be deemed to be as follows: (a) the date of the original

loss occurrence for policies issued on an occurrence basis, or (b) the date the claim is made under the original policy for policies issued on a claims made basis, or (c) the date the loss is discovered for policies issued on a losses discovered basis.

H. "Gross net written premium" as used in this Agreement will mean the Company's gross premiums charged for the original policies with an effective date during the term of this Agreement plus additional premiums thereon, less return premiums thereon and less any premiums paid or payable for reinsurance inuring to the benefit of this Agreement.

I. "Loss ratio" means the percent resulting from the Reinsurer's ultimate net loss arising from policies with an effective date during each annual period of this Agreement divided by reinsurance premium, net of ceding commission thereon arising from policies with an effective date during each annual period of this Agreement.

J. "Annual period" means the period December 31, 1998 to December 30, 1999, and the period December 31, 1999 to December 30, 2000.

ARTICLE X

NET RETAINED LINE

This Agreement will apply only to that portion of any insurance or reinsurance the Company retains net for its own account [prior to the deduction of any underlying, and other treaty excess of loss reinsurances (including Casualty Catastrophe Excess of Loss) but not inuring facultative reinsurance], and in calculating the amount of any ultimate net loss hereunder and the amount in excess of which this Agreement attaches, only ultimate net loss or ultimate net losses with respect to that portion of any insurance or reinsurance the Company retains net for its own account will be included. It is understood and agreed, however, that the Reinsurer's liability hereunder with respect to any ultimate net loss or ultimate net losses will not be increased by reason of the inability of the Company to collect from any other reinsurers, whether specific or general, any amounts which may be due from them, whether such inability arises from the insolvency of such other reinsurers or otherwise.

Recoveries, collectibles or retention from any form of insurance or reinsurance other than: 1) from other excess of loss reinsurances including Casualty Catastrophe Excess of Loss reinsurances, 2) primary Errors and Omissions policy issued to the Company, 3) the deductible thereon, and 4) Self-Insured Excess Errors and Omissions policy, will inure to the benefit of the Reinsurer and will be deducted in arriving at the ultimate net loss hereunder. It being the intention of the parties hereto that any extra

contractual obligations and excess of policy limits coverage provided hereunder will be applied first to the original insured's loss and any loss under the Company's own insurance (i.e., primary insurance, deductible and Self-Insured Excess insurance) will be treated as a separate loss.

Intercompany reinsurance and other underlying and excess of loss reinsurance to be disregarded in calculating ultimate net loss and net retained line.

ARTICLE XI

SUBROGATION AND SALVAGE

The Reinsurer will be subrogated, as respects any loss for which the Reinsurer will actually pay or become liable to pay, but only to the extent of the amount of payment by or the amount of liability to the Reinsurer, to all the rights of the Company against any person or other entity who may be legally responsible in damages for said loss. The Company hereby agrees to reasonably enforce such rights, but in case the Company unreasonably refuses or neglects to do so, the Reinsurer is hereby authorized and empowered to bring any appropriate action in the name of the Company or its policyholders, or otherwise to enforce such right.

Any recoveries, salvage or reimbursements applying to risks covered under this Agreement will always be used to reimburse the excess carriers (from the last to the first, beginning with the carrier of the last excess), according to their participation, before being used in any way to reimburse the Company for its primary loss.

Where subject original policies written by the Company cover expenses in addition to the limit of liability, in the event there are any salvages, recoveries or reimbursements recovered subsequent to a loss settlement, it is agreed that if the loss expense incurred in obtaining salvage or other recoveries is less than the amount recovered, such expense will be borne by each party in the proportion that each party benefits from the recoveries. Otherwise, the amount recovered will first be applied to the reimbursement of the expense of recovery and the remaining expense will be borne by the Company and the Reinsurer in proportion to the liability of each party for the loss before such recovery had been obtained.

Where subject original policies written by the Company include expenses as part of the limit of liability, all salvages, recoveries or reimbursements, after deduction of loss expense applicable thereto, recovered or received subsequent to all loss settlement under this Agreement will be applied as if recovered or received prior to the aforesaid settlement, and all necessary adjustments will be made by the parties hereto, provided always, that nothing in this Article will be construed to mean that losses under this

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Agreement are not recoverable until the Company's ultimate net loss has been ascertained.

ARTICLE XII

NOTICE OF LOSS AND LOSS SETTLEMENT

The Company will advise the Reinsurer of all losses for which the Company has established an indemnity and/or expense reserve of US$/CAN/£/SINGS$1,000,000 or greater and of all losses, which, in the opinion of the Company, are likely to involve the Reinsurer under this Agreement, and all material subsequent developments pertaining thereto, which, in the opinion of the Company, may materially affect the position of the Reinsurer.

In its full discretion the Company will adjust, settle or compromise all claims and losses. All such adjustments, settlements and compromises will be unconditionally binding on the Reinsurer. The Company will likewise, at its sole discretion, commence, continue, defend, compromise, settle or withdraw from actions, suits or proceedings and generally handle all matters related to all claims or losses.

The Reinsurer agrees to abide by the loss settlements of the Company, such settlements to be construed as satisfactory upon receipt of a proof of loss which contains the following information:

1. Claim number;
2. Policy number;
3. Policy limit;
4. Policy period;
5. Loss location;
6. Date of loss;
7. Date reported;
8. Claim type;
9. Name of insured;
10. Name of claimant;
11. Brief loss description;
12. Gross loss reserve;
13. Paid loss to date;
14. Paid expense to date.

Amounts falling to the share of the Reinsurer will be payable to the Company by the Reinsurer within 15 days of the Reinsurer's receipt of a proof of loss.

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In the event the Reinsurer's share of any one ultimate net loss is US$/CAN$/£/SING$500,000 or greater of the limit of liability for this Agreement, the Company may give the Reinsurer written notice of its intention to immediately pay such loss on a certain date and may require the Reinsurer to have its share of the ultimate net loss in the hands of the Company by such date. Such written notice will allow the Reinsurer at least 15 working days after its receipt to prepare and dispatch its payment by check or wire transfer.

ARTICLE XIII

REINSURANCE PREMIUM

The Company will pay the Reinsurer a net deposit premium for each annual period of this Agreement, after ceding commission, of US $3,250,000 and £6,100,000 to be paid in installments as follows:

US$812,500 and £1,525,000 at January 31, 1999
US$812,500 and £1,525,000 at April 30, 1999
US$812,500 and £1,525,000 at July 31, 1999
US$812,500 and £1,525,000 at October 31, 1999
US$812,500 and £1,525,000 at January 31, 2000
US$812,500 and £1,525,000 at April 30, 2000
US$812,500 and £1,525,000 at July 31, 2000
US$812,500 and £1,525,000 at October 31, 2000

Each annual period is subject to a net minimum premium, after ceding commission, of US $2,925,000 and £5,490,000 (or US $11,700,000 on a combined basis at the Company's option). Reinsurance premium for this layer will be adjusted following the end of each annual period to equal 28.2609% (gross rate) of the Company's Gross Net Written Premium for business subject to this Agreement.

The net rate of 19.5% is the gross rate less ceding commission of 31% as set forth in the Ceding Commission Article.

ARTICLE XIV

CEDING COMMISSION

The Reinsurer will allow the Company a ceding commission of 31% of the reinsurance premium.

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ARTICLE XV

REINSTATEMENT

If the Reinsurer's liability hereunder for losses incurred during any one annual period is in excess of $13,000,000, or if the ratio of losses for that annual period of the Agreement to the reinsurance premium (net of ceding commission) for that same annual period is in excess of 100%, whichever is greater, the Company will pay the Reinsurer a reinstatement premium of $1,000,000. Reinstatement of the Reinsurer's liability will be effective immediately and automatically without creating a separate retention or limit hereunder for any one loss, but the reinstatement premium will not be due until the close of the annual period. Subsequent reinstatements will be free and unlimited.

Payment of the reinstatement premium, if applicable, will be made within 30 days after the end of each annual period of the Agreement term, at which time the Company will pay the Reinsurer any reinstatement premium due. Annual adjustments will continue thereafter until all losses under this Agreement are settled, at which time the Company will pay to the Reinsurer any reinstatement premium due, or the Reinsurer will refund any reinstatement premium previously paid if applicable.

"Incurred" means paid plus outstanding loss.

ARTICLE XVI

REPORTS AND REMITTANCES

Within 90 days after the close of each calendar quarter, the Company will furnish the Reinsurer with an informational report of policies written. The report will set forth the policy number, name of insured, policy limits, premium charged, attachment point, and a notation as to the class of business and type of risk subject.

Within 90 days after the expiration of each annual period and annually thereafter, the Company will furnish the Reinsurer with a report of reinsurance premium due the Reinsurer for the term of this Agreement. Such report will show and properly segregate the Company's premium to which the reinsurance rate applies as well as set forth the Reinsurer's portion of the unearned premium reserve and contain such other information as may be required by the Reinsurer for completion of its NAIC annual statement. The premium due the Reinsurer will be balanced against the minimum and deposit premium set forth in the Reinsurance Premium Article, and any balance shown to be due the Reinsurer will be remitted with said report. Any balance shown to be due the Company will be paid as soon as possible following receipt of the report by the Reinsurer.

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ARTICLE XVII

TAXES

In consideration of the terms under which this Agreement is issued, the Company will not claim a deduction in respect of the premium hereon when making tax returns, other than income or profits tax returns, to any state or territory of the United States of America, the District of Columbia or Canada.

ARTICLE XVIII

FEDERAL EXCISE TAX

(Applicable to those reinsurers, except Underwriters at Lloyds London and other reinsurers exempt from Federal Excise Tax, who are domiciled outside the United States of America.)

The Reinsurer has agreed to allow for the purpose of paying the Federal Excise Tax the applicable percentage of the premium payable hereon (as imposed under Section 4371 of the Internal Revenue Service Code) to the extent such premium is subject to the Federal Excise Tax.

In the event of any return of premium becoming due hereunder, the Reinsurer will deduct the aforesaid percentage from the return premium payable hereon and the Company or its agent should take steps to recover the tax from the United States government.

ARTICLE XIX

CURRENCY CONVERSION

Wherever the "$" sign appears in this Agreement, it will be construed to mean United States Dollars. Wherever the "CAN$" sign appears in this Agreement, it will be construed to mean Canadian Dollars. Wherever the "£" sign appears in this Agreement, it will be construed to mean British Pounds Sterling. Wherever the "SING$" sign appears in this Agreement, it will be construed to mean Singapore Dollars.

All original policy transactions under this Agreement as regards payment and settlements of premium and losses will be made in accordance with where the Company underwrites and/or accounts for the original policies, as follows:

A. In respect of all policies written and/or accounted for through the New York office of Reliance National Division of the Company all original policy transactions will be converted to United States Dollars at the applicable rate of exchange appearing in the New York Times on the date such transaction is entered on the books of the Company.

B. In respect of all policies written and/or accounted for through the London office of Reliance National Division of the Company all original policy transactions will be converted to British Pounds Sterling at the applicable rate of exchange appearing in the London Financial Times on the date such transaction is entered on the books of the Company, except when such original policies are written in Canadian Dollars or United States Dollars, then payment and settlements of losses only will be in the original currency.

C. In respect of all policies written and/or accounted for through the Toronto office of Reliance National Division of the Company all original policy transactions will be converted to Canadian Dollars at the applicable rate of exchange appearing in the New York Times on the date such transaction is entered on the books of the Company, except when such original policies are written in United States Dollars, then payment and settlements of losses only will be in the original currency.

D. In respect of all policies written and/or accounted for through the Singapore office of Reliance National Division of the Company all original policy transactions will be converted to United States Dollars at the applicable rate of exchange appearing in the New York Times on the date such transaction is entered on the books of the Company.

The retention and the limit are stated in United States Dollars, Canadian Dollars, British Pounds Sterling, Singapore Dollars or its equivalent at the same rate of exchange as used by the Company in recording the transaction in the Company's records. In the event that there is an increase or reduction in the parity value of the United States Dollar, Canadian Dollar, British Pound Sterling or Singapore Dollar (as applicable) against the currency of the original policy at the date of settlement of loss, from that existing at the time of the risk's cession to this Agreement, then the retention and the limit will be adjusted to maintain the original relative retention and limit.

For purpose of calculating loss ratio and premium adjustments under this Agreement, all losses and premiums will be converted to U.S. Dollars using the following rates of exchange between:

A. Sterling and U.S. dollars:

for reinsurance premiums and claim payments, the currency conversion ratio from Sterling to U.S. dollars will be £.75 = $1.00 or the actual rate of exchange to $1.00 on the date of loss or premium payment, if the actual rate is less than £.75 = $1.00 (i.e., £.74 or less).

B. Canadian dollars and U.S. dollars:

for reinsurance premiums and claim payments, the currency conversion ratio from U.S. dollars to Canadian dollars will be CAN $1.00 = $1.00 or the actual rate of exchange to $1.00 on the date of loss or premium payment, if the actual rate is greater than CAN $1.00 = $1.00 (i.e., CAN $1.01 or greater).

C. Singapore dollars and U.S. dollars:

for reinsurance premiums and claim payments, the currency conversion ratio from Singapore dollars to U.S. dollars will be SING $1.6133 = $1.00 or the actual rate of exchange to $1.00 on the date of loss or premium payment, if the actual rate is greater than SING $1.6133 = $1.00 (i.e., SING $1.6134 or greater).

ARTICLE XX

ACCESS TO RECORDS

The Reinsurer or its duly authorized representatives will have the right at any reasonable time upon 5 working days prior notice, at any time during regular business hours during the term of this Agreement or after the expiration of this Agreement, to visit the offices of the Company to inspect, examine, audit, and verify any of the policy, accounting or claim files ("records") relating to business reinsured under this Agreement. The Reinsurer, at its own expense, will have the right to make copies or extracts of any records. Notwithstanding the above, the Reinsurer will not have any right of access to the records of the Company if it is not current in all undisputed payments due the Company and the Company will have no right to reimbursement under this Agreement if it fails or refuses to provide the access required by this article other than by reason of the Reinsurer's failure to pay. The Reinsurer will keep confidential all information and reports derived from the records of the Company to which it has received access and will not publish or communicate that information or report(s) to any other person or reinsurer without the Company's express prior written consent except under the following circumstances: when required by Retrocessionaires; when a Reinsurer is subject to a lawful subpoena or other duly issued order of a court or other regulatory or other

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governmental authority; or when required by auditors, legal counsel, and/or arbitrators involved in any arbitration procedures under this Agreement.

ARTICLE XXI

CONFIDENTIALITY

All claim information communicated between the Company and the Reinsurer is intended to further the joint interests of the Company and the Reinsurer in the business covered by and related claims under this Agreement and will be considered and will be treated by both the Company and the Reinsurer as privileged and confidential. Claim information will not be disclosed to any other party other than (i) counsel retained by the Company in the defense of a claim, (ii) to retrocessionaire(s) of the Reinsurer whose interest likewise may be affected by the claim or claims, (iii) as directed by a lawful court order, (iv) counsel retained by the Reinsurer, or (v) external accounting or compliance auditors. The Company and the Reinsurer will take all lawful measures necessary or required to preserve the confidentiality of claim information received from the Company.

ARTICLE XXII

ERRORS AND OMISSIONS

Any inadvertent act, delay, omission, or error by either party to this Agreement will not be held to relieve either party to this Agreement from any liability that would attach to it under this Agreement if that act, delay, omission, or error had not been made, providing that act, delay, omission, or error is sought to be rectified after discovery.

ARTICLE XXIII

INSOLVENCY

In the event of the declared insolvency of one (or more) of the Companies reinsured under this Agreement and the appointment of a liquidator, receiver, conservator, or statutory successor for that Company, this reinsurance will be payable directly to the Company or to its liquidator, receiver, conservator, or statutory successor on the basis of the liability of that insolvent Company as a result of claims allowed against that Company by any court of competent jurisdiction or any liquidator, receiver, conservator, or statutory successor having authority to allow such claims without diminution because of the insolvency of the Company or because the liquidator, receiver, conservator, or statutory successor of the Company has failed to pay all or a portion of any claim.

Every liquidator, receiver, conservator, statutory successor of the Company, or guaranty fund or association will give written notice to the Reinsurer of the pendency of a claim involving the Company indicating the subject policy, which claim would involve a possible liability on the part of the Reinsurer to the Company or to its liquidator, receiver, conservator, or statutory successor, within a reasonable amount of time after the claim is filed in the conservation, liquidation, receivership, or other proceeding. During the pendency of any claim, the Reinsurer may investigate the same and interpose, at its own expense, in the proceeding where that claim is to be adjudicated, any defense or defenses that it may deem available to the Company, or to its liquidator, receiver, conservator, statutory successor, or guaranty fund or association. The expense thus incurred by the Reinsurer will be chargeable, subject to the approval of the Court, against the Company as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit that may accrue to the Company as a result of the defense undertaken by the Reinsurer.

Where two or more reinsurers are involved in the same claim and a majority in interest elect to interpose defense to the claim, the expense will be apportioned in accordance with the terms of this Agreement as though such expense had been incurred by the Company.

The reinsurance will be payable by the Reinsurer to that Company, or to its liquidator, receiver, conservator, or statutory successor (except as provided by Section 4118(a) of the New York Insurance Law) or (a) where the Agreement specifically provides another payee of such reinsurance in the event of the insolvency of that Company and (b) where the Reinsurer with the consent of the direct insured or insureds has assumed such policy obligations of that Company as direct obligations of the Reinsurer to the payees under such policies and in substitution for the obligations of that Company to such payees. Prior to implementation of a novation, any certificate of assumption on New York risks must be approved by the Superintendent of Insurance for the State of New York.

ARTICLE XXIV

ARBITRATION

Any disputes between the Company and the Reinsurer arising out of, relating to, or concerning this Agreement, including its formation and validity, whether sounding in contract or tort and whether arising during or after termination of this Agreement, will be submitted for decision to a board of arbitration composed of two arbitrators and an umpire ("Board") meeting at a site in Philadelphia, Pennsylvania. The arbitration will be conducted under the Federal Arbitration Act and will proceed as follows:

A. Submission to Arbitration. A notice requesting arbitration, or any other notice made in connection therewith, will be in writing and will be sent certified mail, return receipt requested, to the affected parties. The notice requesting arbitration will state in particulars all issues to be resolved in the view of the claimant, the name of the claimant's arbitrator, and will set a tentative date for the hearing, which will be no sooner than 90 days and no later than 150 days from the date that the notice requesting arbitration is mailed if one reinsurer is involved, or no sooner than 180 days and no later than 240 days from the date that the notice requesting arbitration is mailed if more than one Reinsurer is involved.

Should more than one Reinsurer to this Agreement be involved in the same dispute or other matter in controversy, the Company may effect a consolidated arbitration by simultaneously serving notice upon each involved Reinsurer. The Reinsurers so served will then act together as a single party for purposes of this Article provided that:

(1) Each Reinsurer will have the ability to negotiate and reach a settlement of the dispute or matter in controversy separately from the other Reinsurers;

(2) Each Reinsurer has the right to its own attorney, position, and related claims and defenses;

(3) Each party will not, in presenting its position, be prevented from presenting its position by the position set forth by any other party; and

(4) The costs and expense of the consolidated arbitration, exclusive of attorney's fees (which will be borne exclusively by the respective retaining party) but including the expense of any stenographer requested and the fees of the umpire and arbitrators will be borne pro rata by each party actively participating in the consolidated arbitration or as the Board will determine to be fair and appropriate under the circumstances.

Within 30 days of receipt of the claimant's notice, or 60 days in the event of a consolidated arbitration, the respondent will notify the claimant of any additional issues to be resolved in the arbitration and of the name of its appointed arbitrator.

B. Arbitration Board Membership. Unless otherwise mutually agreed, the members of the Board will be impartial and disinterested and will be current or former (i) officers of property-casualty insurance companies or

reinsurance companies, (ii) underwriters at Lloyd's, London, or (iii) lawyers who have worked or are working for an insurance or a reinsurance company.

As time is of the essence, if the respondent fails to appoint its arbitrator within 30 days after having received the claimant's written request for arbitration, or 60 days in the event of a consolidated arbitration, the claimant is authorized to and will appoint the second arbitrator.

The two appointed arbitrators will choose an umpire before instituting the hearing. If the two arbitrators fail to agree upon the appointment of an umpire within 30 days after notification of the appointment of the second arbitrator, the two arbitrators will promptly request the American Arbitration Association ("AAA") to appoint an umpire for the arbitration with the qualifications set forth above in this Article. If the AAA fails to name an umpire within 30 days of the arbitrators' request, either party may apply to a court of competent jurisdiction to appoint an umpire with the above required qualifications. The umpire will promptly notify in writing all parties to the arbitration of his selection and thereupon the Board will notify all parties of the scheduled date for the hearing. Upon resignation or death of any member of the Board, a replacement will be appointed in the same fashion as the resigning or deceased member was appointed.

C. Submission of Briefs. The claimant and the respondent will each submit initial briefs to the Board outlining the issues in dispute and the basis, authority, and reasons for their respective positions within 30 days of the date of notice of the appointment of the umpire if one Reinsurer is involved, or 60 days of the date of notice of the appointment of the umpire if more than one Reinsurer is involved. The claimant and the respondent may submit reply briefs to the Board within 10 days after filing of the initial brief(s) if one Reinsurer is involved and within 20 days after filing of the initial brief(s) if more than one Reinsurer is involved. Initial and reply briefs may be amended by the submitting party at any time, but not later than 10 days prior to the date of commencement of the arbitration hearing. Reasonable responses will be allowed at the arbitration hearing to new material contained in any amendments filed to the briefs but not previously responded to.

D. Arbitration Award. The Board will make a decision and award with regard to the terms expressed in this Agreement, the original intentions of the parties to the extent reasonably ascertainable, and the practice of the reinsurance business which decision and award will be in writing and will state the basis for the decision and award.

The decision and award will be based upon a hearing in which evidence will be allowed and to which the formal rules of evidence will not strictly apply but in which cross-examination and rebuttal will be allowed. At the request of the Board, or at its own election, either party may submit a post-hearing brief after the close of the hearing. The Board will make its decision and award within 30 days following the close of the hearing or the submission of post-hearing briefs, whichever is later. Every decision by the Board will be by a majority of the members of the Board and each decision and award by the majority of the members of the Board will be final and binding upon all parties to the proceeding. Either party may apply to a court of competent jurisdiction within the State of Pennsylvania for an order confirming any decision and the award; a judgment of that Court will thereupon be entered on any decision or award. If such an order is issued, the attorney's fees of the party so applying and court costs will be paid by the party against whom confirmation is sought.

In its discretion, the Board may award interest at a rate of up to 100 basis points above the prime rate as published in the Wall Street Journal (Eastern Edition) on the date of the award calculated from the date the Board determines that any amounts due the prevailing party should have been paid to the prevailing party. The Board may not award punitive, exemplary, or treble damages.

E. Arbitration Expense. Except in the event of a consolidated arbitration, each party will bear the fee and expenses of the arbitrator appointed by it and one-half of the fee and expenses of the umpire. All other expenses of the arbitration will be equally divided between the parties.

F. Evidence. Subject to customary and recognized legal rules of privilege, each party participating in the arbitration will have the obligation to produce, within the limits of its control, those documents and as witnesses to the arbitration those of its employees, those of its affiliates, and those of any intermediary or underwriting manager as any other participating party reasonably requests providing always that the same witnesses and documents be obtainable and relevant to the issues before the arbitration and not be unduly burdensome or excessive. The parties may mutually agree as to pre-hearing discovery prior to the arbitration hearing and in the absence of agreement, upon the request of any party, pre-hearing discovery may be conducted as the Board will determine in its discretion to be in the interest of fairness, full disclosure, and a prompt hearing, decision, and award by the Board. The Board will be the final judge of the procedures of the Board, the conduct of the arbitration, the rules of evidence, the rules of privilege and production, and of excessiveness and relevancy of any witnesses and documents upon the petition of any

participating party. To the extent permitted by law, the Board will have the authority to issue subpoenas and other orders to enforce its decisions. The Board will have the authority to issue interim decisions or awards in the interest of fairness, full disclosure, and a prompt and orderly hearing, decision, and award.

G. Equitable Relief. Nothing herein will be construed to prevent any participating party from applying to a federal district court or other court of competent jurisdiction to issue a restraining order or other equitable relief to maintain the "status quo" of the parties participating in the arbitration pending the decision and award by the Board or to prevent any party from incurring irreparable harm or damage at any time prior to the decision and award of the Board.

ARTICLE XXV

OFFSET

Unless otherwise required by applicable law, all amounts due either the Company or the Reinsurer, whether by reason of premium, commission, loss, ultimate net loss, or loss expense, or otherwise, under this Agreement will be subject to the right of recoupment and offset and upon the exercise of the same, only the net balance will be due. All claims for amounts of premium, commission, loss, ultimate net loss, or loss expense, whether or not fixed in amount at the time of the insolvency of any party to this Agreement, arising from coverage placed in effect under this Agreement prior to the insolvency of any party to this Agreement will be deemed pre-liquidation debts and subject to this Article. In the event of insolvency of the Company, offset will be in accord with applicable law.

ARTICLE XXVI

SERVICE OF SUIT

(This Article only applies to Reinsurers not domiciled in the United States of America, and/or not authorized in any state, territory, or district of the United States where authorization is required by insurance regulatory authorities).

It is agreed that in the event of any dispute under this Agreement or the failure of the Reinsurer hereon to pay any amount claimed to be due hereunder, the Reinsurer hereon, at the request of the Company, will submit to the jurisdiction of a court of competent jurisdiction within the United States. Nothing in this Article constitutes or should be understood to constitute a waiver of the Reinsurer's rights to commence an

action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek transfer of a case to another court as permitted by the laws of the United States or of any state in the United States. It is further agreed that service of process in such suit may be made upon Mendes and Mount, 750 Seventh Avenue, New York, New York 10019, and that in any suit instituted against any one of them upon this Agreement, the Reinsurer will abide by the final decision of such court or of any Appellate Court in the event of an appeal.

The above-named is hereby authorized and directed to accept service of process on behalf of the Reinsurer in any such suit and/or upon the request of the Company to give a written undertaking to the Company that they will enter a general appearance upon the Reinsurer's behalf in the event such a suit will be instituted.

Further, pursuant to any statute of any state, territory, or district of the United States which makes provision therefor, the Reinsurer hereon hereby designates the Superintendent, Commissioner, Director of Insurance, or other officer specified for that purpose in the statute, or his successor or successors in office, as its true and lawful attorney upon whom may be served any lawful process in any action, suit, or proceeding instituted by or on behalf of the Company or any beneficiary hereunder arising out of this Agreement, and hereby designate the above-named Mendes and Mount as the firm to whom the said officer is authorized to mail such process or a true copy thereof.

ARTICLE XXVII

SECURITY AND UNAUTHORIZED REINSURANCE

If any Reinsurer is unauthorized or otherwise unqualified in any state or other United States jurisdiction, or if, without such security, a financial penalty to the Company would result on any statement or report it is required to make or file with regulatory authorities, for reasons of the Company's financial security and condition, that Reinsurer will secure no later than December 31 of each year, its share of "obligations" under this Agreement in a manner, form and amount and from a bank acceptable to the regulatory authorities having jurisdiction, by a clean, irrevocable, and unconditional "evergreen" letter of credit.

If any Reinsurer is unauthorized in any province or jurisdiction of Canada, that Reinsurer agrees to fund 115% of its share of the Company's ceded Canadian unearned premium and outstanding loss and loss expense reserves (including incurred but not reported loss reserves) by cash advances, if, without such funding, a penalty would accrue to the Company on any financial statement it is required to file with the insurance regulatory authorities involved. Such cash advances will not exceed the limits of this Agreement as defined in the Reinsurance Coverage Article.

The "obligations" referred to herein will mean the then current (as of the end of each calendar quarter) sum of:

1. The amount of ceded unearned premium for which the Reinsurer is responsible;

2. The amount of paid losses and allocated loss expenses paid by the Company but not yet recovered from the Reinsurer;

3. The amount of ceded reserves for losses reported and outstanding, as well as for reserves for allocated loss expenses, for which the Reinsurer is responsible;

4. The amount of return and refund premiums for which the Reinsurer is responsible;

5. Contingent Profit Collateral. The amount of such collateral is calculated by using the following criteria and rates:

12 Months	24 Months	36 Months	48 Months	60 Months
35%	35%	25%	15%	0%

The amount of such collateral will equal the percentage shown above times the difference between the ceded earned premium (net of ceding commission and brokerage) and the total of all ceded paid losses, ceded paid allocated loss expenses, and ceded case reserves.

The first calculation of the Contingent Profit Collateral for each annual period will be made by the Company no later than each December 31, following the annual period and will be recalculated by the Company at 12 month intervals until 48 months after the initial calculation, when the Company agrees to return Contingent Profit Collateral to the Reinsurer.

The Company, or its successors in interest may draw, at any time and from time to time, upon the established letter of credit (or subsequent cash deposit) without diminution or restriction because of the insolvency of either the Company or the Reinsurer for one or more of the following purposes:

1. To make payment to and reimburse the Company for the Reinsurer's share of paid losses and allocated loss expense paid by the Company under its original policies covered under this Agreement due to the Company but unpaid by the Reinsurer;

2. To make payments to the Reinsurer of any amounts held thereby that exceed the amount required to fund the Reinsurer's "obligations" under this Agreement;

3. To make payment to the Company of the Reinsurer's share of premium refunds and returns; and

4. To obtain a cash deposit of the entire amount of the remaining balance under a letter of credit, where the Company:

   a. has received notice of non renewal or expiration of the letter of credit;

   b. has not received assurances satisfactory to the Company of any required increase in the amount of the letter of credit, or its replacement or other continuation of the letter of credit at least 30 days before its stated expiration date;

   c. has been made aware that others may attempt to attach or otherwise place in jeopardy the security represented by the letter of credit; or

   d. has concluded that the issuing (or confirming) bank's financial condition is such that the security represented by the letter of credit may be in jeopardy;

and under any of those circumstances where the Reinsurer's entire "obligations" or part thereof, under this Agreement remain unliquidated and undischarged at least 30 days prior to the stated expiration date or at the time the Company learns of the possible jeopardy to the security.

If the Company draws on the letter of credit to obtain a cash deposit, the Company will hold the amount of the cash deposit so obtained in the name of the Company in any solvent United States Bank or Trust Company that is a member of the Federal Reserve System and insured by the Federal Deposit Insurance Corporation in trust solely to secure the "obligations" referred to above and for the use and purposes enumerated above and to return any balance thereof to the Reinsurer:

A. upon the complete and final liquidation and discharge of all of the Reinsurer's obligations to the Company under this Agreement; or

B. in the event the Reinsurer subsequently provides alternate or replacement security consistent with the terms hereof and acceptable to the Company.

The Company will prepare and forward at least quarterly to the Reinsurer a statement for the purposes of this Article, showing the Reinsurer's share of "obligations," as set forth above. If the Reinsurer's share thereof exceeds the then existing balance of the security provided, the Reinsurer will, within 15 days of receipt of the Company's statement, but never later than December 31 of any year, increase the amount of the letter of credit (or cash deposit) to the required amount of the Reinsurer's share of "obligations" set forth in the Company's statement.

If the Reinsurer's share thereof is less than the then existing balance of the letter of credit (or cash deposit) provided, the Company will release the excess thereof to the Reinsurer upon the Reinsurer's written request.

The Reinsurer will not attempt to prevent the Company from drawing on the letter of credit (or cash deposit) so long as the Company is acting in accordance with this Article.

The Company's "successors in interest" will include those by operation of law, including without limitation, any liquidator, rehabilitator, receiver, or conservator.

Any amounts of cash deposit held by the Company under this Agreement will bear the interest rate at prime, compounded monthly on the average monthly balance in the cash deposit account.

All income earned and received by the amount held in a trust account will be added to the principal.

The Reinsurer will take any other reasonable steps that may be required for the Company to take credit on its statutory financial statements for the reinsurance provided by this Agreement.

The Company may apply the Canadian cash advances under the second paragraph above to satisfy the Reinsurer's Canadian obligations to the Company in the same manner as if it were drawing on the letter of credit (or subsequent cash deposit).

ARTICLE XXVIII

SELF-INSURED OBLIGATIONS

This Agreement will cover self-insured obligations of the Company assumed by it as a self-insurer, including self-insured obligations in excess of any valid and collectible insurance available to the Company, to the same extent as if all types of insurance covered by this Agreement were afforded to the Company under the broadest forms of policies issued by the Company.

For the purposes of this Agreement, "self-insured obligations" means insurable exposures of the Company on which the Company has issued an actual policy of the kind described above. If a self-insured obligation policy reinsured under this Agreement protects the Company for loss arising from the handling of a claim under another policy reinsured hereunder, the date on which such loss from the handling of that claim is incurred will be deemed to be the date the claim under that other policy reinsured hereunder is first made but nevertheless will be considered as a separate accident, casualty, disaster or occurrence for which a separate retention and limit will apply.

Any insurance or reinsurance wherein the Company hereby reinsured and/or its affiliated and/or subsidiary Companies are named as the Insured or Reinsured party, either alone or jointly with some other party, will be deemed to be an insurance or reinsurance coming within the scope of this Agreement, notwithstanding that no legal liability may arise in respect thereof by reason of the fact that the Company hereby reinsured and/or its affiliated and/or subsidiary Companies are named as the Insured or Reinsured party or one of the Insured or Reinsured parties.

All amounts of ultimate net loss paid hereunder will be deemed to reimburse for loss and loss expense first and extra contractual obligations and losses in excess of policy limits thereafter.

ARTICLE XXIX

OTHER TERMS AND CONDITIONS

A. Waiver. The failure of the Company or the Reinsurer to insist on strict compliance with this Agreement or to exercise any right or remedy will not constitute a waiver of any rights contained herein nor estop the parties from demanding full and complete compliance nor prevent the parties from exercising a remedy in the future.

B. Severability. If any provision of this Agreement should be invalid under applicable laws, the latter will control but only to the extent of the conflict without affecting the remaining provisions of this Agreement.

C. Headings. The headings preceding the text of the Articles and paragraphs of this Agreement are intended and inserted solely for the convenience of references and will not affect the meaning, interpretation, construction or effect of this Agreement.

D. Assignment. This Agreement will be binding upon and inure to the benefit of the Company and the Reinsurer and their respective successors

and assignees, provided, however, that this Agreement may not be assigned or delegated by either the Company or the Reinsurer without the prior written consent of the other which consent may be withheld by either party in its sole unfettered discretion.

E. Governing Law. This Agreement will be governed as to performance, administration, and interpretation by the laws of Pennsylvania exclusive of its rules with respect to conflict of laws except as to rules with respect to credit for reinsurance in which case the rules of all applicable states will apply.

F. Entire Agreement. This Agreement supersedes, merges with and makes null and void any and all previous agreements, whether written or oral, between the Company and the Reinsurer or their predecessors with respect to the reinsurance of the Company by the Reinsurer described above and constitutes the full and complete agreement between the parties with respect to that described reinsurance. No amendment to this Agreement will be valid unless in writing and signed by both parties.

G. Third Party Beneficiary. Except as expressly provided for in the Insolvency Article, the provisions of this Agreement are intended solely for the benefit of the Company and the Reinsurer who are executing this Agreement and nothing in this Agreement will in any manner create or be construed to create any obligations to or establish any rights against any party to this Agreement in favor of any third parties or other persons not parties to and executing this Agreement.

H. Negotiated Agreement. This Agreement has been negotiated by the parties and the fact that the initial and final draft will have been prepared by either party or an Intermediary will not give rise to any presumption for or against any party to this Agreement or be used in any form in the construction or interpretation of this Agreement or any of its provisions.

I. Notices. Wherever written notice is required under this Agreement, it will be in writing and either delivered personally, sent by facsimile, overnight mail by a reputable national express mail firm, or by certified mail, return receipt requested to addresses indicated herein.

J. Agency Agreement. If more than one reinsured company is named as a party to this Agreement, the first named company will be deemed the agent of the other reinsured companies for purposes of sending or receiving notices required by the terms and conditions of this Agreement, and for purposes of remitting or receiving any monies due any party.

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K. Per Risk Coverage. If the described reinsurance is provided on a per risk or per policy basis, this Agreement reinsures each Company listed as a cedent under this Agreement as if each Company were separately reinsured under a separate reinsurance agreement.

L. Per Occurrence Coverage. If the described reinsurance is provided to respond to an occurrence regardless of the number of policies or risks contributing to the ultimate net loss, the retention and the limit of liability of this Agreement for each occurrence will apply to the ultimate net loss of the Companies listed as a cedent under this Agreement as a group and not separately to each of the Companies. The recovery from an occurrence by each such Company under this Agreement will be prorated to each such Company in the proportion that each Company contributed to the whole of the ultimate net loss incurred by the Companies as a group from the occurrence.

M. Aggregate Coverage. If the described reinsurance is provided to respond to the aggregate loss results of the Companies arising from multiple unrelated losses or occurrences, the retention and the limit of liability of this Agreement will apply to the ultimate net loss of the Companies listed as a cedent under this Agreement as a group and not separately to each of the Companies. The recovery by each such Company under this Agreement will be prorated to each such Company in the proportion that each Company contributed to the whole of the ultimate net loss incurred by the Companies as a group.

ARTICLE XXX

INTERMEDIARY

Aon Re Inc., an Illinois corporation, or one of its affiliated corporation duly licensed as a reinsurance intermediary, is hereby recognized as the Intermediary negotiating this Agreement for all business hereunder. All communications (including but not limited to notices, statements, premiums, return premiums, commissions, taxes, losses, loss expenses, salvages, and loss settlements) relating to this Agreement will be transmitted to the Company or the Reinsurers through the Intermediary. Payments by the Company to the Intermediary will be deemed payment to the Reinsurers. Payments by the Reinsurer to the Intermediary will be deemed payment to the Company only to the extent that such payments are actually received by the Company.

WAR AND CIVIL WAR EXCLUSION CLAUSE

This Agreement excludes loss or damage directly or indirectly occasioned by, happening through or in consequence of War, Invasion, Acts of Foreign Enemies, Hostilities (whether War be declared or not), Civil War, Rebellion, Revolution, Insurrection, Military or Usurped Power, or confiscation or nationalization or requisition or destruction of or damage to property by or under the order of any government or public or local authority, but this exclusion will not apply to business written in accordance with the Market War and Civil War Risks Exclusion Agreement nor to business outside the scope of such Agreement.

NUCLEAR ENERGY RISKS EXCLUSION CLAUSE (REINSURANCE) (1994) (WORLDWIDE EXCLUDING U.S.A. AND CANADA)

This agreement shall exclude Nuclear Energy Risks whether such risks are written directly and/or by way of reinsurance and/or via Pools and/or Associations.

For all purposes of this agreement Nuclear Energy Risks shall mean all first party and/or third party insurances or reinsurances (other than Workers' Compensation and Employers' Liability) in respect of:

(I) All Property on the site of a nuclear power station. Nuclear Reactors, reactor buildings and plant and equipment therein on any site other than a nuclear power station.

(II) All Property, on any site (including but not limited to the sites referred to in (I) above) used or having been used for:

(a) the generation of nuclear energy; or

(b) the Production, Use or Storage of Nuclear Material.

(III) Any other Property eligible for insurance by the relevant local Nuclear Insurance Pool and/or Association but only to the extent of the requirements of that local Pool and/or Association.

(IV) The supply of goods and services to any of the sites, described in (I) to (III) above, unless such insurances or reinsurances shall exclude the perils of irradiation and contamination by Nuclear Material.

Except as undernoted, Nuclear Energy Risks shall not include:

(i) Any insurance or reinsurance in respect of the construction or erection or installation or replacement or repair or maintenance or decommissioning of Property as described in (I) to (III) above (including contractors' plant and equipment);

(ii) Any Machinery Breakdown or other Engineering insurance or reinsurance not coming within the scope of (i) above;

Provided always that such insurance or reinsurance shall exclude the perils of irradiation and contamination by Nuclear Material.

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However, the above exemption shall not extend to:

(1) The provision of any insurance or reinsurance whatsoever in respect of:

(a) Nuclear Material;

(b) Any Property in the High Radioactivity Zone or Area of any Nuclear Installation as from the introduction of Nuclear Material or - for reactor installations - as from fuel loading or first criticality where so agreed with the relevant local Nuclear Insurance Pool and/or Association.

(2) The provision of any insurance or reinsurance for the undernoted perils:

- Fire, lightning, explosion;
- Earthquake;
- Aircraft and other aerial devices or articles dropped therefrom;

- Irradiation and radioactive contamination;
- Any other peril insured by the relevant local Nuclear Insurance Pool and/or Association;

in respect of any other Property not specified in (1) above which directly involves the Production, Use or Storage of Nuclear Material as from the introduction of Nuclear Material into such Property.

Definitions

"Nuclear Material" means:

(i) Nuclear fuel, other than natural uranium and depleted uranium, capable of producing energy by a self-sustaining chain process of nuclear fission outside a Nuclear Reactor, either alone or in combination with some other material; and

(ii) Radioactive Products or Waste.

"Radioactive Products or Waste" means any radioactive material produced in, or any material made radioactive by exposure to the radiation incidental to the production or utilisation of nuclear fuel, but does not include radioisotopes which have reached the final stage of fabrication so as to be usable for any scientific, medical, agricultural, commercial or industrial purpose.

"Nuclear Installation" means:

(i) Any Nuclear Reactor;

(ii) Any factory using nuclear fuel for the production of Nuclear Material, or any factory for the processing of Nuclear Material, including any factory for the reprocessing of irradiated nuclear fuel; and

(iii) Any facility where Nuclear Material is stored, other than storage incidental to the carriage of such material.

"Nuclear Reactor" means any structure containing nuclear fuel in such an arrangement that a self-sustaining chain process of nuclear fission can occur therein without an additional source of neutrons.

"Production, Use or Storage of Nuclear Material" means the production, manufacture, enrichment, conditioning, processing, reprocessing, use, storage, handling and disposal of Nuclear Material.

"Property" shall mean all land, buildings, structures, plant, equipment, vehicles, contents (including but not limited to liquids and gases) and all materials of whatever description whether fixed or not.

"High Radioactivity Zone or Area" means:

(i) For nuclear power stations and Nuclear Reactors, the vessel or structure which immediately contains the core (including its supports and shrouding) and all the contents thereof, the fuel elements, the control rods and the irradiated fuel store; and

(ii) For non-reactor Nuclear Installations, any area where the level of radioactivity requires the provision of a biological shield.

N.M.A. 1975a (10/3/94)
Approved by Lloyd's Underwriters' Non-Marine Association.

CANADA

NUCLEAR INCIDENT EXCLUSION CLAUSE--PHYSICAL DAMAGE AND LIABILITY (BOILER AND MACHINERY POLICIES)--REINSURANCE

(1) This reinsurance does not cover any loss or liability accruing to the Reassured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.

(2) Without in any way restricting the operation of paragraph (1) of this Clause it is understood and agreed that for all purposes of this reinsurance all original Boiler and Machinery Insurance or Reinsurance contracts of the Reassured shall be deemed to include the following provisions of this paragraph;

This Policy does not apply to loss, whether it be direct or indirect, proximate or remote

(a) from an Accident caused directly or indirectly by nuclear reaction, nuclear radiation or radioactive contamination, all whether controlled or uncontrolled; or

(b) from nuclear reaction, nuclear radiation or radioactive contamination, all whether controlled or uncontrolled, caused directly or indirectly by, contributed to or aggravated by an Accident.

(3) However, it is agreed that loss arising out of the use of Radioactive Isotopes in any form is not hereby excluded from reinsurance protection.

(4) Without in any way restricting the operation of paragraph (1) hereof, it is understood and agreed that policies issued by the Reassured effective on or before 31st December, 1958, shall be free from the application of the other provisions of this Clause until expiry date or 31st December, 1961, whichever first occurs, whereupon all the provisions of this Clause shall apply.

N.M.A. 1251 (29/10/59)
Approved by Lloyd's Underwriters' Fire and Non-Marine Association.

U.S.A.

NUCLEAR INCIDENT EXCLUSION CLAUSE--LIABILITY--REINSURANCE

1. This reinsurance does not cover any loss or liability accruing to the Reassured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.

2. Without in any way restricting the operation of paragraph 1 of this Clause it is understood and agreed that for all purposes of this reinsurance all the original policies of the Reassured (new, renewal and replacement) of the classes specified in Clause II of this paragraph 2 from the time specified in Clause III in this paragraph 2 shall be deemed to include the following provision (specified as the Limited Exclusion Provision):

Limited Exclusion Provision*

I. It is agreed that the policy does not apply under any liability coverage,

to { *injury, sickness, disease, death or destruction* / bodily injury or property damage } with respect to which an insured under the policy is also the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability.

II. Family Automobile Policies (liability only), Special Automobile Policies (private passenger automobiles, liability only), Farmers Comprehensive Personal Liability Policies (liability only), Comprehensive Personal Liability Policies (liability only) or policies of a similar nature; and the liability portion of combination forms related to the four classes of policies stated above, such as the Comprehensive Dwelling Policy and the applicable types of Homeowners Policies.

III. The inception dates and thereafter of all original policies as described in II above, whether new, renewal or replacement, being policies which either
(a) become effective on or after 1st May, 1960, or
(b) become effective before that date and contain the Limited Exclusion Provision set out above;
provided this paragraph 2 shall not be applicable to Family Automobile Policies, Special Automobile Policies, or policies or combination policies of a similar nature, issued by the Reassured on New York risks, until 90 days following approval of the Limited Exclusion Provision by the Governmental Authority having jurisdiction thereof.

3. Except for those classes of policies specified in Clause II of paragraph 2 and without in any way restricting the operation of paragraph 1 of this Clause, it is understood and agreed that for all purposes of this reinsurance the original liability policies of the Reassured (new, renewal and replacement) affording the following coverages:

   Owners, Landlords and Tenants Liability, Contractual Liability, Elevator Liability, Owners or Contractors (including railroad) Protective Liability, Manufacturers and Contractors Liability, Product Liability, Professional and Malpractice Liability, Storekeepers Liability, Garage Liability, Automobile Liability (including Massachusetts Motor Vehicle or Garage Liability)

shall be deemed to include, with respect to such coverages, from the time specified in Clause V of this paragraph 3, the following provision (specified as the Broad Exclusion Provision):

Broad Exclusion Provision*

It is agreed that the policy does not apply:

I. Under any Liability Coverage to {*injury, sickness, disease, death or destruction* / bodily injury or property damage}

(a) with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability; or

(b) resulting from the hazardous properties of nuclear material and with respect to which (1) any person or organization is required to maintain financial protection pursuant to the Atomic Energy Act of 1954, or any law amendatory thereof, or (2) the insured is, or had this policy not been issued would be, entitled to indemnity from the United States of America, or any agency thereof, under any agreement entered into by the United States of America, or any agency thereof, with any person or organization.

II. Under any Medical Payments Coverage, or under any Supplementary Payments Provision relating to {*immediate medical or surgical relief* / first aid,} to expenses incurred with respect to {*bodily injury, sickness, disease or death* / bodily injury} resulting from the hazardous properties of nuclear material and arising out of the operation of a nuclear facility by any person or organization.

III. Under any Liability Coverage, to {*injury, sickness, disease, death or destruction* / bodily injury or property damage} resulting from the hazardous properties of nuclear material, if

(a) the nuclear material (1) is at any nuclear facility owned by, or operated by or on behalf of, an insured or (2) has been discharged or dispersed therefrom;

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(b) the nuclear material is contained in spent fuel or waste at any time possessed, handled, used, processed, stored, transported or disposed of by or on behalf of an insured; or

(c) the { *injury, sickness, disease, death or destruction* / bodily injury or property damage } arises out of the furnishing by an insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility, but if such facility is located within the United States of America, its territories, or possessions or Canada, this exclusion (c) applies only

to { *injury to or destruction of property at such nuclear facility.* / property damage to such nuclear facility and any property thereat. }

IV. As used in this endorsement:

"hazardous properties" include radioactive, toxic or explosive properties; **"nuclear materials"** means source materials, special nuclear material or byproduct material; **"source material," "special nuclear material,"** and **"byproduct material"** have the meanings given them in the Atomic Energy Act of 1954 or in any law amendatory thereof; **"spent fuel"** means any fuel element or fuel component, solid or liquid, which has been used or exposed to radiation in a nuclear reactor; **"waste"** means any waste material (1) containing byproduct material and (2) resulting from the operation by any person or organization of any nuclear facility included within the definition of nuclear facility under paragraph (a) or (b) thereof; **"nuclear facility"** means

(a) any nuclear reactor,

(b) any equipment or device designed or used for (1) separating the isotopes of uranium or plutonium, (2) processing or utilizing spent fuel, or (3) handling, processing or packaging waste,

(c) any equipment or device used for the processing, fabricating or alloying of special nuclear material if at any time the total amount of such material in the custody of the insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235,

(d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste,

and includes the site on which any of the foregoing is located, all operations conducted on such site and all premises used for such operations; **"nuclear reactor"** means any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of fissionable material;

{ *With respect to injury to or destruction of property, the word "injury" or "destruction" includes all forms of radioactive conta*mination *of property.* / "property damage" includes all forms of radioactive contamination of property. }

V. The inception dates and thereafter of all original policies affording coverages specified in this paragraph 3, whether new, renewal or replacement, being policies which become effective on or after 1st May, 1960, provided this paragraph 3 shall not be applicable to
(i) Garage and Automobile Policies issued by the Reassured on New York risks, or
(ii) statutory liability insurance required under Chapter 90, General Laws of Massachusetts,
until 90 days following approval of the Broad Exclusion Provision by the Governmental Authority having jurisdiction thereof.

4. Without in any way restricting the operation of paragraph 1 of this Clause, it is understood and agreed that paragraphs 2 and 3 above are not applicable to original liability policies of the Reassured in Canada and that with respect to such policies this Clause shall be deemed to include the Nuclear Energy Liability Exclusion Provisions adopted by the Canadian Underwriters' Association of the Independent Insurance Conference of Canada.

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* NOTE: The words printed in italics in the Limited Exclusion Provision and in the Broad Exclusion Provision shall apply only in relation to original liability policies which include a Limited Exclusion Provision or a Broad Exclusion Provision containing those words.

N.M.A. 1590 (21/9/67)
Approved by Lloyd's Underwriters' Non-Marine Association.

AMENDMENT TO THE DEFINITION OF WASTE

It is agreed that the definition of "**waste**" contained in sub-paragraph IV above is amended to read as follows:

"**Waste**" means any material

(a) containing byproduct material other than the tailings or waste produced by the extraction or concentration of uranium or thorium from any ore processed primarily for its source material content, and
(b) resulting from the operation by any person or organization of any nuclear facility included under the first two paragraphs of the definition of nuclear facility.

CANADA

NUCLEAR INCIDENT EXCLUSION CLAUSE--LIABILITY--REINSURANCE

1. This Agreement does not cover any loss or liability accruing to the Reinsured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.

2. Without in any way restricting the operation of paragraph 1 of this clause it is agreed that for all purposes of this Agreement all the original liability contracts of the Reinsured, whether new, renewal or replacement, of the following classes, namely,

   Personal Liability.
   Farmers' Liability.
   Storekeepers' Liability.

   which become effective on or after 31st December 1984, shall be deemed to include, from their inception dates and thereafter, the following provision:-

   Limited Exclusion Provision

   This policy does not apply to bodily injury or property damage with respect to which the Insured is also insured under a contract of nuclear energy liability insurance (whether the Insured is unnamed in such contract and whether or not it is legally enforceable by the Insured) issued by the Nuclear Insurance Association of Canada or any other group or pool of insurers or would be an Insured under any such policy but for its termination upon exhaustion of its limits of liability.

   With respect to property, loss of use of such property shall be deemed to be property damage.

3. Without in any way restricting the operation of paragraph 1 of this clause it is agreed that for all purposes of this Agreement all the original liability contracts of the Reinsured, whether new, renewal or replacement, of any class whatsoever (other than Personal Liability, Farmers' Liability, Storekeepers' Liability or Automobile Liability contracts), which become effective on or after 31st December 1984, shall be deemed to include from their inception dates and thereafter, the following provision:-

   Broad Exclusion Provision

   It is agreed that this Policy does not apply:

   (a) To liability imposed by or arising under the Nuclear Liability Act; nor

(b) to bodily injury or property damage with respect to which an Insured under this policy is also insured under a contract of nuclear energy liability insurance (whether the Insured is unnamed in such contract and whether or not it is legally enforceable by the Insured) issued by the Nuclear Insurance Association of Canada or any other insurer or group or pool of insurers or would be an Insured under any such policy but for its termination upon exhaustion of its limit of liability; nor

(c) to bodily injury or property damage resulting directly or indirectly from the nuclear energy hazard arising from:

(i) the ownership, maintenance, operation or use of a nuclear facility by or on behalf of an Insured;

(ii) the furnishing by an Insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility; and

(iii) the possession, consumption, use, handling, disposal or transportation of fissionable substances, or of other radioactive material (except radioactive isotopes, away from a nuclear facility, which have reached the final stage of fabrication so as to be useable for any scientific, medical, agricultural, commercial or industrial purpose) used, distributed, handled or sold by an Insured.

As used in this Policy:

1. The term "nuclear energy hazard" means the radioactive, toxic, explosive, or other hazardous properties of radioactive material;

2. The term "radioactive material" means uranium, thorium, plutonium, neptunium, their respective derivatives and compounds, radioactive isotopes of other elements and any other substances that the Atomic Energy Control Board may, by regulation, designate as being prescribed substances capable of releasing atomic energy, or as being requisite for the production, use or application of atomic energy;

3. The term "nuclear facility" means:

(a) any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of plutonium, thorium and uranium or any one or more of them;

(b) any equipment or device designed or used for (i) separating the isotopes of plutonium, thorium or uranium or any one or more of them, (ii) processing or utilizing spent fuel, or (iii) handling, processing or packaging waste;

(c) any equipment or device used for the processing, fabricating or alloying of plutonium, thorium or uranium enriched in the isotope uranium 233 or in the isotope uranium 235, or any one or more of them if any at any time the total amount of such material in the custody of the Insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235;

(d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste radioactive material;

and includes the site on which any of the foregoing is located, together with all operations, conducted thereon and all premises used for such operations.

4. The term "fissionable substance" means any prescribed substance that is, or from which can be obtained, a substance capable of releasing atomic energy by nuclear fission.

5. With respect to property, loss of use such property shall be deemed to be property damage.

N.M.A. 1979 (11/10/84)
Approved by Lloyd's Underwriters' Non-Marine Association.

CANADA

NUCLEAR INCIDENT EXCLUSION CLAUSE--PHYSICAL DAMAGE--REINSURANCE

1. This Agreement does not cover any loss or liability accruing to the Reinsured directly or indirectly, and whether as Insurer or Reinsurer, from any Pool of Insurers or Reinsurers formed for the purpose of covering Atomic or Nuclear Energy risks.

2. Without in any way restricting the operation of paragraph 1 of this clause, this Agreement does not cover any loss or liability accruing to the Reinsured, directly or indirectly, and whether as Insurer or Reinsurer, from any insurance against Physical Damage (including business interruption or consequential loss arising out of such Physical Damage) to:

   (a) Nuclear reactor power plants including all auxiliary property on the site, or

   (b) Any other nuclear reactor installation, including laboratories handling radioactive materials in connection with reactor installations, and critical facilities as such, or

   (c) Installations for fabricating complete fuel elements or for processing substantial quantities of prescribed substances, and for reprocessing, salvaging, chemically separating, storing or disposing of spent nuclear fuel or waste materials, or

   (d) Installations other than those listed in (c) above using substantial quantities of radioactive isotopes or other products of nuclear fission.

3. Without in any way restricting the operation of paragraphs 1 and 2 of this clause, this Agreement does not cover any loss or liability by radioactive contamination accruing to the Reinsured, directly or indirectly, and whether as Insurer or Reinsurer, from any insurance on property which is on the same site as a nuclear reactor power plant or other nuclear installation and which normally would be insured therewith, except that this paragraph 3 shall not operate:

   (a) where the Reinsured does not have knowledge of such nuclear reactor power plant or nuclear installation, or

   (b) where the said insurance contains a provision excluding coverage for damage to property caused by or resulting from radioactive contamination, however caused.

4. Without in any way restricting the operation of paragraphs 1, 2 and 3 of this clause, this Agreement does not cover any loss or liability by radioactive contamination accruing to the Reinsured, directly or indirectly, and whether as Insurer or Reinsurer, when such radioactive contamination is a named hazard specifically insured against.

5. This clause shall not extend to risks using radioactive isotopes in any form where the nuclear exposure is not considered by the Reinsured to the primary hazard.

6. The term "prescribed substances" shall have the meaning given to it by the Atomic Energy Control Act or by any law amendatory thereof.

7. Reinsured to be sole judge of what constitutes:

   (a) substantial quantities, and

   (b) the extent of installation, plant or site.

8. Without in any way restricting the operation of paragraphs 1, 2, 3 and 4 of this clause, this Agreement does not cover any loss or liability accruing to the Reinsured, directly or indirectly, and whether as Insurer or Reinsurer caused:

   (a) by any nuclear incident as defined in The Nuclear Liability Act or any other nuclear liability act, law or statute, or any law amendatory thereof or nuclear explosion, except for ensuing loss or damage which results directly from fire, lightning or explosion of natural, coal or manufactured gas;

   (b) by contamination by radioactive material.

NOTE: Without in any way restricting the operation of paragraphs 1, 2, 3 and 4 of this clause, paragraph 8 of this clause shall only apply to all original contracts of the Reinsured whether new, renewal or replacement which become effective on or after December 31, 1992.

N.M.A. 1980 (19/02/93)
Approved by Lloyd's Underwriters' Non-Marine Association.

U.S.A.

NUCLEAR INCIDENT EXCLUSION CLAUSE--PHYSICAL DAMAGE--REINSURANCE

1. This Reinsurance does not cover any loss or liability accruing to the Reassured, directly or indirectly and whether as Insurer or Reinsurer, from any Pool of Insurers or Reinsurers formed for the purpose of covering Atomic or Nuclear Energy risks.

2. Without in any way restricting the operation of paragraph (1) of this Clause, this Reinsurance does not cover any loss or liability accruing to the Reassured, directly or indirectly and whether as Insurer or Reinsurer, from any insurance against Physical Damage (including business interruption or consequential loss arising out of such Physical Damage) to:

   I. Nuclear reactor power plants including all auxiliary property on the site, or

   II. Any other nuclear reactor installation, including laboratories handling radioactive materials in connection with reactor installations, and "critical facilities" as such, or

   III. Installations for fabricating complete fuel elements or for processing substantial quantities of "special nuclear material", and for reprocessing, salvaging, chemically separating, storing or disposing of "spent" nuclear fuel or waste materials, or

   IV. Installations other than those listed in paragraph (2) III above using substantial quantities of radioactive isotopes or other products of nuclear fission.

3. Without in any way restricting the operations of paragraphs (1) and (2) hereof, this Reinsurance does not cover any loss or liability by radioactive contamination accruing to the Reassured, directly or indirectly, and whether as Insurer or Reinsurer, from any insurance on property which is on the same site as a nuclear reactor power plant or other nuclear installation and which normally would be insured therewith except that this paragraph (3) shall not operate

   (a) where Reassured does not have knowledge of such nuclear reactor power plant or nuclear installation, or

   (b) where said insurance contains a provision excluding coverage for damage to property caused by or resulting from radioactive contamination, however caused. However on and after 1st January 1960 this sub-paragraph (b) shall only apply provided the said radioactive contamination exclusion provision has been approved by the Governmental Authority having jurisdiction thereof.

4. Without in any way restricting the operations of paragraphs (1), (2) and (3) hereof, this Reinsurance does not cover any loss or liability by radioactive contamination accruing to the Reassured, directly or indirectly, and whether as Insurer or Reinsurer, when such radioactive contamination is a named hazard specifically insured against.

5. It is understood and agreed that this Clause shall not extend to risks using radioactive isotopes in any form where the nuclear exposure is not considered by the Reassured to be the primary hazard.

6. The term "special nuclear material" shall have the meaning given it in the Atomic Energy Act of 1954 or by any law amendatory thereof.

7. Reassured to be sole judge of what constitutes:

   (a) substantial quantities, and

   (b) the extent of installation, plant or site.

NOTE: Without in any way restricting the operation of paragraph (1) hereof, it is understood and agreed that

   (a) all policies issued by the Reassured on or before 31st December 1957 shall be free from the application of the other provisions of this Clause until expiry date or 31st December 1960 whichever first occurs whereupon all the provisions of this Clause shall apply.

   (b) with respect to any risk located in Canada policies issued by the Reassured on or before 31st December 1958 shall be free from the application of the other provisions of this Clause until expiry date or 31st December 1960 whichever first occurs whereupon all the provisions of this Clause shall apply.

N.M.A. 1119 (12/12/57)

U.S.A.

NUCLEAR INCIDENT EXCLUSION CLAUSE--PHYSICAL DAMAGE AND LIABILITY (BOILER AND MACHINERY POLICIES)--REINSURANCE

(1) This reinsurance does not cover any loss or liability accruing to the Reassured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.

(2) Without in any way restricting the operation of paragraph (1) of this Clause it is understood and agreed that for all purposes of this reinsurance all original Boiler and Machinery Insurance or Reinsurance contracts of the Reassured shall be deemed to include the following provisions of this paragraph;

This Policy does not apply to "loss," whether it be direct or indirect, proximate or remote

(a) from an Accident caused directly or indirectly by nuclear reaction, nuclear radiation or radioactive contamination, all whether controlled or uncontrolled; or

(b) from nuclear reaction, nuclear radiation or radioactive contamination, all whether controlled or uncontrolled, caused directly or indirectly by, contributed to or aggravated by an Accident.

(3) However, it is agreed that loss arising out of the use of Radioactive Isotopes in any form is not hereby excluded from reinsurance protection.

(4) Without in any way restricting the operation of paragraph (1) hereof, it is understood and agreed that

(a) all policies issued by the Reassured effective on or before 30th April, 1958, shall be free from the application of the other provisions of this Clause until expiry date or 30th April, 1961, whichever first occurs, whereupon all the provisions of this Clause shall apply,

(b) with respect to any risk located in Canada policies issued by the Reassured effective on or before 30th June, 1958, shall be free from the application of the other provisions of this Clause until expiry date or 30th June, 1961, whichever first occurs, whereupon all the provisions of this Clause shall apply.

N.M.A. 1166 (23/6/58)

Commercial List Court File No. 01-CL-4313

ONTARIO
SUPERIOR COURT OF JUSTICE

- COMMERCIAL LIST

IN THE MATTER OF
RELIANCE INSURANCE COMPANY
AND IN THE MATTER OF THE
***INSURANCE COMPANIES ACT*, S.C. 1991, C.47, AS AMENDED**
AND IN THE MATTER OF THE
***WINDING-UP AND RESTRUCTURING ACT*, R.S.C. 1985, C.W-11, AS AMENDED**

B E T W E E N:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

MOTION RECORD
(VOLUME II OF II)

GOODMANS LLP
Barristers & Solicitors
250 Yonge Street, Suite 2400
Toronto, Ontario M5B 2M6

Graham Smith (LSUC #26377D)
Tel: (416) 597-4161
Fax: (416) 979-1234

Solicitors for KPMG Inc., the Liquidator of
Reliance Canada

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SCHEDULE "J"

TO THE REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – MAY 23, 2007

CT1131-96

FIRST CASUALTY EXCESS OF LOSS REINSURANCE AGREEMENT

(hereinafter referred to as the "Agreement")

between

THE RELIANCE INSURANCE COMPANIES
which shall include the following Companies:
RELIANCE INSURANCE COMPANY;
REGENT INTERNATIONAL INSURANCE COMPANY LIMITED;
RELIANCE NATIONAL COMPANIA ARGENTINA DE SEGUROS, S.A.;
SEGUROS RENAMEX, S.A.;
RELIANCE SURETY COMPANY;
RELIANCE NATIONAL INSURANCE COMPANY (U.K.) LTD;
RELIANCE NATIONAL (BARBADOS) INSURANCE LTD.;
(hereinafter collectively referred to as "Company")
but only in respect of business through Reliance National.

and

VARIOUS REINSURER(S) AS PER
INTERESTS AND LIABILITIES CONTRACT(S)
ATTACHED HERETO
(hereinafter referred to as the "Reinsurers")

Effective: from December 31, 1995 through December 30, 1996, both days inclusive, Eastern Standard Time.

07/15/96

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CT1131-96

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but only in respect of business through Reliance National.

and

VARIOUS REINSURER(S) AS PER
INTERESTS AND LIABILITIES CONTRACT(S)
ATTACHED HERETO
(hereinafter referred to as the "Reinsurers")

PREAMBLE

Wherever the word "Company" is used in this Agreement, such term shall be held to include any and/or all of the companies which are or may hereafter be established or acquired by the Company, provided that notice be given to the Reinsurers of any such company which may hereafter be established or acquired by the Company as soon as practicable, with full particulars as to how such acquisition is likely to affect this Agreement. In the event of either party maintaining that such acquisition calls for alteration in existing terms, and an agreement not being arrived at, then the business of such company is covered only for a period of forty-five (45) days after notice by either party that they do not wish the business so acquired to be covered. The first named

Company shall be the agent of the other named Companies for the purposes of sending or receiving notices or money.

In consideration of the mutual covenants hereinafter contained the parties hereto agree as follows.

ARTICLE I - BUSINESS COVERED

This Agreement applies to claims made during the term of this Agreement on policies in force at the effective date of this Agreement, and on policies written or renewed with an effective date during the term of this Agreement, under binders, policies and/or contracts of insurance or reinsurance written, issued or bound through Environmental Compliance Services and Environmental Compliance Services International on behalf of the Reliance National Division of Company, and classified by the Company as Casualty including General Liability, Owners Contractors Protective Liability, Railroad Protective Liability, Pollution Legal Liability, Pollution and Remediation Legal Liability, Contractors Pollution Liability, Environmental Consultants Errors and Omissions, Consultants Environmental Liability, First Party Clean-Up Coverage, Chemical Distributors Liability, and Products Liability as respects policies issued with limits of indemnity greater than US $2,000,000, CAN $2,500,000 or £1,333,333 (Sterling).

ARTICLE II - TERM AND CANCELLATION

This Agreement shall become effective December 31, 1995, and shall remain in effect through December 30, 1996, both days inclusive, Eastern Standard Time.

In the event of non-renewal hereof, the Reinsurers agree, if required by the Company, to provide coverage in respect of claims first made on or after the expiration date hereof in respect of all policies in force at the date of cancellation or expiration, for the full original policy period including any extended reporting endorsements, that may be in existence at such date, however, the maximum amount recoverable hereunder shall not be increased.

ARTICLE III - TERRITORY

This Agreement is worldwide in scope and shall cover in respect of interests wherever located, as per the original policies.

ARTICLE IV - EXCLUSIONS

This Agreement shall not apply to:

1. Financial Guarantee and Insolvency.

2. Reinsurance Assumed except for intra-company reinsurance between the companies reinsured under this Agreement.

3. Nuclear Incident per Nuclear Incident Exclusion Clauses attached.

4. Business excluded by the Insolvency Funds Exclusion Clause attached hereto.

5. War risks as per original policies.

ARTICLE V - NET RETAINED LINES

This Agreement applies only to that portion of any insurance or reinsurance covered by this Agreement which the Company retains net for its own account, and in calculating the amount of any loss hereunder and also in computing the amount in excess of which this Agreement attaches, only loss or losses in respect of that portion of any insurances or reinsurances which the Company retains net for its own account shall be included.

Intercompany Reinsurance, the Environmental Compliance Services Quota Share and Catastrophe Excess of Loss Reinsurance shall be disregarded in calculating the Net Retained Lines and Ultimate Net Loss.

It is understood and agreed that the amount of the Reinsurer's liability hereunder in respect of any loss or losses shall not be increased by reason of the inability of the Company to collect from any other reinsurer, whether specific or general, any amount which may have become due from them, whether such inability arises from the insolvency of such other reinsurer or otherwise.

Pooling Arrangement

Reliance Insurance Company assumes 100% of the liability of United Pacific Insurance Company, Reliance National Indemnity Company, Reliance National Insurance Company, Reliance Insurance Company of Illinois, and Reliance Insurance Company of California as this business pertains to this Agreement after deduction for facultative reinsurance and ceded captive reinsurance programs. Notwithstanding any other provisions of this Agreement, this Agreement protects such assumed reinsurance liability as if it were written directly by Reliance Insurance Company and attaches prior to

redistribution to those companies under the terms of the Company's intercompany reinsurance pool, which redistribution will be disregarded for all purposes hereunder. With respect to all other named companies set forth in the preamble of this Agreement, this Agreement will apply as provided for in the Net Retained Lines Article. In the event that this Agreement applies on a per risk basis, and a single occurrence affects two or more of the pooling companies named above under different policies, the Company will continue to maintain a separate retention and a separate limit for each risk as if the policies were written by separate companies.

ARTICLE VI - ULTIMATE NET LOSS AND LOSS ADJUSTMENT EXPENSE

Ultimate Net Loss includes the amount of loss paid or payable under the original policies, extra contractual obligations (ECO at 90%) and losses in excess of policy limits (XPL at 90%). In addition, some associated allocated loss expenses are included within the Ultimate Net Loss (see paragraph B below) and some associated allocated loss expenses are covered in addition to the Ultimate Net Loss (see paragraph A below) in accordance with the following:

A. With respect to those parts of Allocated Loss Expenses that do not form part of the limit of liability under Company's original policies, Reinsurer shall be liable in addition to the limit of liability for Ultimate Net Loss for its proportionate share of Allocated Loss Expenses in the same proportion as Ultimate Net Loss payments under this Agreement bear to the total Ultimate Net Loss payments made by Company.

In the event a verdict or judgement is reduced by appeal or settlement, subsequent to the entry of the judgement, resulting in an ultimate saving on that verdict or judgement, or a judgement is reversed outright, the expenses incurred in securing that final reduction or reversal shall be prorated between Reinsurer and Company in the proportion that each benefit from that reduction or reversal and the expense incurred up to the time of the original verdict or judgement being prorated in proportion to each party's interest in that verdict or judgement.

B. With respect to those parts of Allocated Loss Expenses that form part of the limit of liability under Company's original policies Reinsurer shall be liable for the Ultimate Net Loss in excess of Company's retention under this Agreement: that Ultimate Net Loss under the limit and retention of this Agreement consisting of either indemnity payments and those parts of Allocated Loss Expenses as well as extra contractual obligations and losses in excess of policy limits.

"Allocated loss expenses" means all expenses (except for salaries and benefits of Company, its directors, officers and employees, office expenses, overhead and other fixed expenses of Company) allocated by Company to the adjustment of a specific claim under Company's policies including appellate expenses, monitoring expenses and expenses and fees associated with policy coverage and declaratory judgement actions, prejudgment (when not part of indemnity), post-judgment interest and legal costs and expenses associated with extra contractual obligations and losses in excess of policy limits.

ARTICLE VII - REINSURANCE COVERAGE

SECTION A

With the respect to policies issued in United States dollars (US$), the Reinsurers shall be liable to and shall reimburse the Company for the Ultimate Net Loss in excess of the sum of US $2,000,000 of Ultimate Net Loss each and every policy, each claim made subject to a limit of US $3,000,000 of Ultimate Net Loss each and every policy, each claim made.

With the respect to policies issued in Canadian dollars (CAN$), the Reinsurers shall be liable to and shall reimburse the Company for the Ultimate Net Loss in excess of the sum of CAN $2,500,000 of Ultimate Net Loss each and every policy, each claim made subject to a limit of CAN $3,750,000 of Ultimate Net Loss each and every policy, each claim made.

With the respect to policies issued in British Pounds Sterling (£), the Reinsurers shall be liable to and shall reimburse the Company for the Ultimate Net Loss in excess of the sum of £1,333,333 of Ultimate Net Loss each and every policy, each claim made subject to a limit of £2,000,000 of Ultimate Net Loss each and every policy, each claim made.

The Company shall be the sole judge as to what constitutes each policy.

Notwithstanding Reinsurers' liability as set forth above, Reinsurers' liability shall further be limited under this SECTION to a maximum recovery (including all loss expenses) of US $15,000,000 (or the equivalent thereof in CAN$ or £Sterling.

Wherever the CAN$ or £Sterling equivalent of US$ are referred to above they are based on CAN$ being deemed at a rate of US $0.8: CAN $1, and £Sterling being deemed at a rate of US $1.5: £1.

SECTION B

With respect to policies issued in United States dollars (US$) the Reinsurers shall be liable to and shall reimburse the Company for the Ultimate Net Loss

LPSO K.C.

in excess of the sum of US $2,000,000 of Ultimate Net Loss each and every policy, each claim made which is in excess of SECTION A (US $15,000,000 or the equivalent thereof in CAN$ or £Sterling) subject to a limit of US $3,000,000 on account of each and every policy, each claim made.

With respect to policies issued in Canadian dollars (CAN$) the Reinsurers shall be liable to and shall reimburse the Company for the Ultimate Net Loss in excess of the sum of CAN $2,500,000 of Ultimate Net Loss each and every policy, each claim made which is in excess of SECTION A (US $15,000,000 or the equivalent thereof in CAN$ or £Sterling) subject to a limit of CAN $3,750,000 on account of each and every policy, each claim made.

With respect to policies issued in British Pounds Sterling (£) the Reinsurers shall be liable to and shall reimburse the Company for the Ultimate Net Loss in excess of the sum of £1,333,333 of Ultimate Net Loss each and every policy, each claim made which is in excess of SECTION A (US $15,000,000 or the equivalent thereof in CAN$ or £Sterling) subject to a limit of £2,000,000 of Ultimate Net Loss on account of each and every policy, each claim made.

The Company shall be the sole judge as to what constitutes each policy.

Wherever the CAN$ or £Sterling equivalent of US$ are referred to above they are based on CAN$ being deemed at a rate of US $0.8: CAN $1, and £Sterling being deemed at a rate of US $1.5: £1.

ARTICLE VIII - REINSTATEMENT

With respect to SECTION B of ARTICLE VII - REINSURANCE COVERAGE, in the event of the whole or any portion of the coverage under this SECTION being exhausted by a loss, the amount so exhausted is automatically reinstated from the time of the loss for three full reinstatements. The Company shall pay to the Reinsurers for each reinstatement an additional premium calculated at pro rata of the net minimum and deposit premium for SECTION B only (being US $440,000 or the equivalent thereof in CAN$ or £Sterling) adjustable at a gross rate of 0.51% of the Company's Environmental Compliance Services General Liability Calendar Year 1996 Gross Net Written Premium Income and at a gross rate of 0.71% of the Company's Environmental Compliance Services Pollution Calendar Year 1996 Gross Net Written Premium Income, being pro rata as to the fraction of the face value hereunder (being US $3,000,000 or the equivalent thereof in CAN$ or £Sterling) reinstated, and 200% as to time.

LPSO K.C.

The additional premium as set forth above shall be calculated and paid by the Company to the Reinsurers as soon as possible following a request by the Company for a loss payment and receipt thereof from Reinsurers. Such reinstatement premium shall be payable in the same currency as the loss relating to such premium payment.

Notwithstanding Reinsurers' liability as set forth above, Reinsurers' liability shall further be limited under SECTION B to a maximum recovery of US $12,000,000 in all (including loss expense) or the equivalent thereof in CAN$ or £Sterling.

Wherever the CAN$ or £Sterling equivalent of US$ are referred to above they are based on CAN$ being deemed at a rate of US $0.8: CAN $1, and £Sterling being deemed at a rate of US $1.5: £1.

ARTICLE IX - PREMIUM AND REPORTS

The Reinsurers shall allow the Company a ceding commission equal to 47.50% on all premiums paid under this Agreement.

The premium to be paid to Reinsurers for coverage under SECTION A and Section B. combined of ARTICLE VII, shall be calculated at a rate of 5.25% of the Company's General Liability Gross Net Written Premium Income and 7.20% of the Company's Pollution Gross Net Written Premium Income.

The term "Gross Net Written Premium Income" shall mean the Calendar Year 1996 gross written premiums applicable to all the Environmental Compliance Services business written subject hereunder less return premiums for cancellations and less premiums paid for reinsurance, if any, recoveries under which would inure to the benefit of this Agreement.

The Company shall pay to the Reinsurers a deposit premium in two installments in advance on December 31, 1995 and June 30, 1996 as follows:

At December 31, 1995:

US$	4,746,196
CAN$	8,925
£	4,442

At June 30, 1996:

US$	4,746,196
CAN$	8,925
£	4.443

As soon as practicable after the expiry of this Agreement, the Company shall furnish a statement of their gross net written premium income, as defined

herein, for the term of this Agreement indicating the reinsurance premium due calculated as stipulated above. If the premium due the Reinsurers is greater than the deposit premium paid, an additional premium shall be due and payable to the Reinsurers for the amount in excess thereof. If the premium due the Reinsurers is less than the deposit premium paid then a return premium shall be due and payable to the Company for the difference thereof subject to a minimum premium of US $9,520,000 or its equivalent with CAN$ being deemed at a rate of US $0.8: CAN $1, and with £Sterling being deemed at a rate of US $1.5: £1.

The Company shall also provide the Reinsurers as soon as possible after December 31 any reports which may be necessary for annual statement purposes.

ARTICLE X - EXTRA CONTRACTUAL OBLIGATIONS

"Extra Contractual Obligations" means those liabilities not covered under any other provision of this Agreement and which arise from the handling of any claim on business covered hereunder, such liabilities arising because of, but not limited to, the following: failure by the Company to settle within the policy limit, or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its Insured or Reinsured or in the preparation or prosecution of an appeal consequent upon such action.

Any Extra Contractual Obligation payment made by the Company is understood to be part of the original loss and the date of such loss, for purposes of this Agreement, shall be the same date of loss as that determined under the original policy.

However, this Article shall not apply where the loss has been incurred due to the fraud of a member of the Board of Directors or a corporate officer of the Company acting individually or collectively or in collusion with any individual or corporation or any other organization or party involved in the presentation, defense or settlement of any claim covered hereunder.

ARTICLE XI - LOSS IN EXCESS OF POLICY LIMITS

"Loss in excess of policy limit" means a loss in excess of the policy limit having been incurred because of failure by it to settle within the policy limit or by reason of alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its Insured or Reinsured or in the preparation or prosecution of an appeal consequent upon such action.

However, this Article shall not apply where the loss has been incurred due to the fraud of a member of the Board of Directors or a corporate officer of the Company acting individually or collectively or in collusion with any individual or corporation or any other organization or party involved in the presentation, defense or settlement of any claim covered hereunder.

For the purposes of this Article, the word "loss" shall mean any amounts for which the Company would have been contractually liable to pay had it not been for the limit of the original policy.

ARTICLE XII - CLAIM NOTICE AND LOSS SETTLEMENT

The reinsured shall provide to reinsurers a quarterly bordereau of losses involving policies greater than US $2,000,000 or its equivalent with CAN$ being deemed at a rate of US $0.8: CAN $1 and with £Sterling being deemed at a rate of US $1.5: £1, where a reserve established on such claims exceeds US $200,000 or its equivalent at the forgoing deemed rates.

The Company shall, at any reasonable time, afford the Reinsurers the opportunity to review the Company's claim procedures in accordance with the Access to Records Article herein.

The Reinsurers shall remit immediately their share of any loss covered hereunder upon reasonable evidence for the amount paid or to be paid given in writing by the Company to the Reinsurers.

ARTICLE XIII - CURRENCY

Wherever the word "Dollars" or the "$" sign appears in this Contract, they shall be construed to mean United States dollars (US$), except in those cases where the policies are issued by Company in Canadian Dollars, they shall mean Canadian Dollars (CAN$). Wherever the sign "£" appears in this Contract it shall mean British pounds sterling.

All payments made by either party shall be made in the currency of the original policy except that currencies other than those above shall be converted to sterling at the rate of exchange on the date such transaction is entered in the books of Company.

In the event Company is involved in a loss requiring payment in more than one currency hereunder. Company's retention and the amount recoverable hereunder shall be apportioned in the currencies in the same proportion as the amount of ultimate net loss in each currency bears to the total ultimate net loss from all currencies paid by the Company.

K.C.

ARTICLE XIV - ACCESS TO RECORDS

The Reinsurers or their designated representatives shall have free access at any reasonable time to all policy and claim records of the Company which pertain to this reinsurance.

ARTICLE XV - OFFSET

Each party hereto shall have, and may exercise at any time and from time to time, the right to offset any balance or balances, whether on account of premiums or on account of losses or otherwise, due from each party to the other (or, if more than one, any other) party hereto under this Agreement; provided, however, that in the event of the insolvency of a party hereto, offsets shall be allowed only in accordance with the provisions of applicable insurance law.

ARTICLE XVI - TAX CLAUSE

In consideration of the terms under which this Agreement is issued, the Company undertakes not to claim any deduction of the premium hereon when making Canadian tax returns or when making tax returns other than Income or Profits Tax returns, to any State or Territory of the United States of America or to the District of Columbia.

ARTICLE XVII - FEDERAL EXCISE TAX

(Federal Excise Tax applies only to those Reinsurers, except underwriters at Lloyd's, London and other Reinsurers exempt from the Federal Excise Tax, who are domiciled outside the United States of America.)

A. The Reinsurers have agreed to allow, for the purpose of paying the Federal Excise Tax, the applicable rate of the premium payable hereon to the extent such premium is subject to Federal Excise Tax.

B. In the event of any return premium becoming due hereunder, the Reinsurers will deduct the applicable amount of Federal Excise Tax from the amount of the return and the Company or its Reinsurance Broker should take steps to recover the Tax from the United States Government.

ARTICLE XVIII - ERRORS AND OMISSIONS

Any delays, omissions or errors inadvertently made in conjunction with this Agreement shall not be held to relieve either party hereto from any liability which would attach to it hereunder if such delay, omission, or error had not been made, provided such delay, omission or error is sought to be rectified as soon as possible after discovery.

ARTICLE XIX - INSOLVENCY

In the event of the insolvency of one or more than one of the Companies reinsured by this Agreement, this reinsurance shall be payable directly to the insolvent Company(ies), or to its liquidator, receiver, conservator or statutory successor, on the basis of the liability of the insolvent Company(ies) without diminution because of the insolvency of one or more than one of the Companies reinsured by this Agreement or because the liquidator, receiver, conservator or statutory successor of the insolvent Company(ies) has failed to pay all or a portion of any claim. It is agreed, however, that the liquidator, receiver, conservator or statutory successor of the insolvent Company(ies) shall give written notice to the Reinsurer of the pendency of a claim against the insolvent Company(ies), indicating the policy or bond reinsured, which claim would involve a possible liability on the part of the Reinsurer within a reasonable time after such claim is filed in the conservation or liquidation proceeding or in the receivership, and that during the pendency of such claim the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses that it may deem available to the insolvent Company(ies) or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to the approval of the Court, against the insolvent Company(ies) as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit which may accrue to the insolvent Company(ies) solely as a result of the defense undertaken by the Reinsurer.

Where two or more reinsurers are involved in the same claim and a majority in interest elect to interpose defense to such claim, the expenses shall be apportioned in accordance with the terms of this Agreement as though such expense had been incurred by the insolvent Company(ies).

The reinsurance shall be payable by the Reinsurer to the insolvent Company(ies) or to its liquidator, receiver, conservator or statutory successor, except as provided by applicable insurance law or except (1) where the Agreement specifically provides another payee of such reinsurance in the event of the insolvency of the Company(ies) and (2) where the Reinsurer with the consent of the direct insured or insureds has assumed such

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policy obligations of the insolvent Company(ies) as direct obligations of the Reinsurer to the payees under such policies and in substitution for the obligations of the insolvent Company(ies) to such payees. Prior to the implementation of a novation, any assumption certificates on New York risks must be approved in advance by the Superintendent of Insurance for New York.

ARTICLE XX - ARBITRATION

Any and all disputes between the Company and the Reinsurer arising out of, relating to, or concerning this Agreement, whether sounding in contract or tort and whether arising during or after termination of this Agreement, shall be submitted to the decision of a board of arbitration composed of two arbitrators and an umpire ("Board") meeting at a site in Philadelphia, Pennsylvania. The arbitration shall be conducted under the Federal Arbitration Act and shall proceed as follows:

(A) Submission to Arbitration. A notice requesting arbitration, or any other notice made in connection therewith, shall be in writing and shall be sent certified or registered mail, return receipt requested to the affected parties. The notice requesting arbitration shall state in particulars all issues to be resolved in the view of the claimant, shall appoint the arbitrator selected by the claimant and shall set a tentative date for the hearing, which date shall be no sooner than ninety (90) days and no later than one hundred fifty (150) days from the date that the notice requesting arbitration is mailed. Within thirty (30) days of receipt of claimant's notice, the respondent shall notify claimant of any additional issues to be resolved in the arbitration and of the name of its appointed arbitrator.

(B) Arbitration Board Membership. Unless otherwise mutually agreed, the members of the Board shall be impartial and disinterested and shall be active or retired lawyers, familiar with insurance and reinsurance, or active or retired officers of property-casualty insurance companies, reinsurance companies or Lloyd's Underwriters. The Company and the Reinsurer as aforesaid shall each appoint an arbitrator and the two (2) arbitrators shall choose an umpire before instituting the hearing. As time is of the essence, if the respondent fails to appoint its arbitrator within thirty (30) days after having received claimant's written request for arbitration, the claimant is authorized to and shall appoint the second arbitrator. If the two arbitrators fail to agree upon the appointment of an umpire within thirty (30) days after notification of the appointment of the second arbitrator, within ten (10) days thereof, the two (2) arbitrators shall request the American Arbitration Association ("AAA") to appoint an umpire for the arbitration with the

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qualifications set forth above in this Article. If the AAA fails to name an umpire, either party may apply to the court named below to appoint an umpire with the above required qualifications. The umpire shall promptly notify in writing all parties to the arbitration of his selection and the scheduled date for the hearing. Upon resignation or death of any member of the Board, a replacement shall be appointed in the same fashion as the resigning or deceased member was appointed.

(C) Submission of Briefs. The claimant and respondent shall each submit initial briefs to the Board outlining the issues in dispute and the basis, authority, and reasons for their respective positions within thirty (30) days of the date of notice of appointment of the umpire. The claimant and the respondent may submit reply briefs to the Board within ten (10) days after filing of the initial brief(s). Initial and reply briefs may be amended by the submitting party at any time, but not later than ten (10) days prior to the date of commencement of the arbitration hearing. Reasonable responses shall be allowed at the arbitration hearing to new material contained in any amendments filed to the briefs but not previously responded to.

(D) Arbitration Award. The Board shall make a decision and award with regard to the terms expressed in this Agreement, the original intentions of the parties to the extent reasonably ascertainable, and the custom and usage of the property and casualty insurance and reinsurance business which decision and award shall be in writing and shall state the factual and legal basis for the decision and award. The decision and award shall be based upon a hearing in which evidence shall be allowed and which the formal rules of evidence shall not strictly apply but in which cross examination and rebuttal shall be allowed. At its own election or at the request of the Board, either party may submit a post-hearing brief for consideration of the Board within twenty (20) days of the close of the hearing. The Board shall make its decision and award within thirty (30) days following the close of the hearing or the submission of post-hearing briefs, whichever is later, unless the parties consent to an extension. Every decision by the Board shall be by a majority of the members of the Board and each decision and award by the majority of the members of the Board shall be final and binding upon all parties to the proceeding. Either party may apply to a Court of competent jurisdiction for an order confirming any decision and the award; a judgement of that Court shall thereupon be entered on any decision or award. If such an order is issued, the attorney's fees of the party so applying and court costs will be paid by the party against whom confirmation is sought. The Board may award interest at a rate of two hundred (200) basis points above the prime rate as published in the Wall Street Journal on the

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date of the award by the Board calculated from the date the Board determines that any amounts due the prevailing party should have been paid to the prevailing party but may not award punitive, exemplary, or treble damages.

(E) Arbitration Expense. Except in the event of a consolidated arbitration, each party shall bear the expense of the one arbitrator appointed by it and shall jointly and equally bear with the other party the expense of any stenographer requested, and of the umpire. The remaining costs of the arbitration proceedings shall be finally allocated by the Board.

(F) Evidence. Subject to customary and recognized legal rules of privilege, each party participating in the arbitration shall have the obligation to produce those documents and as witnesses to the arbitration those of its employees, those of its affiliates, and those of any intermediary or underwriting manager as any other participating party reasonably requests providing always that the same witnesses and documents be obtainable and relevant to the issues before the arbitration and not be unduly burdensome or excessive. The parties may mutually agree as to pre-hearing discovery prior to the arbitration hearing and in the absence of agreement, upon the request of any party, pre-hearing discovery may be conducted as the umpire shall determine in his/her sole discretion to be in the interest of fairness, full disclosure, and a prompt hearing, decision and award by the Board. The umpire shall be the final judge of the procedures of the Board, the conduct of the arbitration, of the rules of evidence, the rules of privilege and production and of excessiveness and relevancy of any witnesses and documents upon the petition of any participating party. To the extent permitted by law, the Board and the umpire shall have the authority to issue subpoenas and other orders to enforce their decisions.

(G) Equitable Relief. Nothing herein shall be construed to prevent any participating party from applying to a federal district court of competent jurisdiction to issue a restraining order or other equitable relief to maintain the "status quo" of the parties participating in the arbitration pending the decision and award by the Board or to prevent any party from incurring irreparable harm or damage at any time prior to the decision and award of the Board. The Board shall also have the authority to issue interim decisions or awards in the interest of fairness, full disclosure, and a prompt and orderly hearing and decision and award by the Board.

(H) Consolidated Hearing. Upon request of Company made within thirty (30) days of the umpire's appointment, the Board may order a

consolidated hearing between Company and all affected reinsurers to this Agreement if the Board is satisfied in its discretion that the issues in dispute affect more than one reinsurer and a consolidated hearing would be in the interest of fairness and a prompt resolution of the issues in dispute. If the Board orders a consolidated hearing, all other affected participating reinsurers shall join and participate in the arbitration at Company's request under time frames established by the umpire and will be bound by the Board's decision and award unless excused by the Board in its discretion. Any reinsurer may decline to actively participate in a consolidated arbitration if in advance of the hearing, that reinsurer shall file with the Board a written agreement satisfactory to the Board to be bound by the decision and award of the Board in the same fashion and to the same degree as if it actively participated in the arbitration.

In the event of an order of consolidation by the Board, the arbitrator appointed by the original reinsurer shall be subject to being and may be replaced within thirty (30) days of the Board's order of consolidation by an arbitrator named by the reinsurer with the largest participation in this Agreement affected by the dispute. In the event two or more reinsurers affected by the dispute each have the same largest participation, they shall agree among themselves as to the replacement arbitrator, if any, to be appointed. The umpire shall be the final determiner in the event of any dispute over replacement of that arbitrator. All other aspects of the arbitration shall be conducted as provided for in this Article provided that (1) each party actively participating in the consolidated arbitration will have the right to its own attorney, position, and related claims and defenses; (2) each party will not, in presenting its position, be prevented from presenting its position by the position set forth by any other party; and (3) the cost and expense of the arbitration, exclusive of attorney's fees (which will be borne exclusively by the respective retaining party) but including the expense of any stenographer requested and the fees of the umpire and arbitrators will be borne pro rata by each party actively participating in the consolidated arbitration or as the Board shall determine to be fair and appropriate under the circumstances.

ARTICLE XXI - SERVICE OF SUIT

(This Article is applicable only to an unauthorized Reinsurer in the State of New York or to the Reinsurer who is domiciled outside the United States of America.)

It is agreed that in the event of any dispute or the failure of the Reinsurer hereon to pay any amount claimed to be due hereunder, the Reinsurer hereon, at the request of the Company, will submit to the jurisdiction of a court of competent jurisdiction within the United States of America.

Nothing in this clause constitutes or should be understood to constitute a waiver of the Reinsurer's rights to commence an action in any Court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another Court as permitted by the laws of the United States or of any State in the United States.

It is further agreed that service of process in such suit may be made upon Messrs. Mendes and Mount, 750 Seventh Avenue, New York, New York 10019-6829, and that in any suit instituted against any one of them upon this contract, the Reinsurer will abide by the final decision of the Court or of any Appellate Court in the event of an appeal.

The above-named are hereby authorized and directed to accept service of process on behalf of Reinsurer in any such suit and/or upon the request of the Company to give a written undertaking to the Company that they will enter a general appearance upon the Reinsurer's behalf in the event such a suit shall be instituted.

Further, pursuant to any statute of any state, territory or district of the United States which makes provision therefor, the Reinsurer hereon hereby designates the Superintendent, Commissioner or Director of Insurance or other officer specified for that purpose in the statute, or his successor or successors in office, as their true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Company or any beneficiary hereunder arising out of this contract of reinsurance, and hereby designate the above-named as the person to whom the said officer is authorized to mail such process or true copy thereof.

ARTICLE XXII - SECURITY AND UNAUTHORIZED REINSURANCE

A. If any Reinsurer is unauthorized or otherwise unqualified in any state or other United States jurisdiction, and if, without such security, a

financial penalty to Company would result on any statement or report it is required to make or file with regulatory authorities, for reasons of Company's financial security and condition, that Reinsurer will secure, at the inception hereof and within thirty (30) days after the end of each calendar quarter (but no later than December 31 of each year as respects the fourth quarter), its share of "obligations" under this Agreement in a manner, form and amount acceptable to Company and to all applicable regulatory authorities by either:

1. Clean, irrevocable, and unconditional evergreen letter(s) of Credit issued and confirmed, if confirmation is required by the applicable insurance regulatory authorities, by a bank or banks meeting the NAIC Securities Valuation Office credit standards for issuers of letters of credit and acceptable to Company and those insurance regulatory authorities;

2. A trust fund meeting at least the standards of New York's Insurance Regulation 114.

3. Cash advances or funds withheld or a combination of both ("deposit of funds").

The initial amount of this security shall be delivered to the Company no later than the first December 31 following the effective date of this Agreement. If Reinsurer fails to provide the security as required by this paragraph by the first December 31st following the effective date of this Agreement, or any anniversary thereof, Reinsurer will secure its obligations under this Agreement at a time, in a manner and form from among the above three options, and in an amount, all as designated by and acceptable to Company in its sole discretion and to insurance regulatory authorities.

B. The "obligations" referred to herein shall mean the then current (as of the end of each calendar quarter) sum of:

1. The amount of ceded unearned premium for which Reinsurer is responsible;

2. The amount of paid losses and allocated loss adjustment expenses paid by Company for which Reinsurer is responsible but not yet recovered from the Reinsurer;

3. The amount of ceded reserves for losses reported and outstanding, as well as for reserves for allocated loss adjustment expenses, for which Reinsurer is responsible;

4. The amount of ceded reserves for the development of losses reported and outstanding, as well as for the development of allocated loss adjustment expenses, for which Reinsurer is responsible;

5. The amount of return and refund premiums for which Reinsurer is responsible but not yet recovered from Reinsurer.

C. If any Reinsurer is unauthorized in any province or jurisdiction of Canada, that Reinsurer agrees to fund one hundred fifteen percent (115%) of its share of Company's ceded Canadian unearned premium and outstanding loss and loss adjustment expense reserves by cash advances, if, without such funding, a penalty would accrue to Company on any financial statement it is required to file with the insurance regulatory authorities involved.

D. Company, or its successors in interest may draw, at any time and from time to time upon the:

1. established letter of credit (or subsequent cash deposit);

2. established trust fund (or subsequent cash deposit); or

3. deposit of funds;

without diminution or restriction because of the insolvency of either Company or Reinsurer for one or more of the following purposes:

a. To make payment to and reimburse Company for Reinsurer's share of paid loss and allocated loss adjustment expense paid by Company under its "subject policies" and for which Reinsurer is responsible under this Agreement that is due to Company but unpaid by Reinsurer;

b. To make payments to Reinsurer of any amounts held thereby that exceed the amount required to fund Reinsurer's "obligations" under this Agreement provided that if a trust fund is applicable, only the excess of one hundred two (102%) percent of the amount required to fund Reinsurer's "obligations" may be released.

c. To make payment to and reimburse Company for other amounts due Company under this Agreement from Reinsurer including but not limited to Reinsurer's share of premium refunds and returns; and

d. To obtain a cash deposit of the entire amount of the remaining balance under the established letter of credit or established trust fund ("cash deposit") in the event that Company:

(i) has received notice of non-renewal or expiration of the letter of credit or trust fund;

(ii) has not received assurances satisfactory to Company of any required increase in the amount of the trust fund or letter of credit, or its replacement or other continuation of the letter of credit at least thirty (30) days before its stated expiration date;

(iii) has been made aware that others may attempt to attach or otherwise place in jeopardy the security represented by the letter of credit or trust fund; or

(iv) has concluded that the trustee or issuing (or confirming) bank's financial condition is such that the security represented by the trust fund or letter of credit may be in jeopardy;

and under any of those circumstances where Reinsurer's entire "obligations" or part thereof, under this Agreement remain unliquidated and undischarged at least thirty (30) days prior to the stated expiration date or at the time Company learns of the possible jeopardy to the security represented by the letter of credit or trust fund.

E. If Company draws on the letter of credit or trust fund to obtain a cash deposit, Company shall hold the amount of the cash deposit so obtained in the name of Company in any solvent United States Bank or Trust Company that is a member of the Federal Reserve System and insured by the Federal Deposit Insurance Corporation in trust solely to secure the "obligations" referred to above and for the use and purposes enumerated above and to return any balance thereof to Reinsurer:

(1) upon the complete and final liquidation and discharge of all the Reinsurer's obligations to Company under this Agreement; or

(2) in the event Reinsurer subsequently provides alternate or replacement security consistent with the terms hereof and acceptable to Company.

F. Company will prepare and forward at least quarterly to Reinsurer a statement for the purposes of this Article, showing Reinsurer's share

of "obligations" as set forth above. If Reinsurer's share thereof exceeds the then existing balance of the security provided, Reinsurer shall, within fifteen (15) days of receipt of Company's statement, but never later than December 31 of any year, increase the amount of the deposit of funds, the trust fund, the letter of credit, or the cash deposit to the required amount of Reinsurer's share of "obligations" set forth in Company's statement.

Subject to the one hundred two (102%) percent restraints with respect to trust funds, if Reinsurer's share thereof is less than the then existing balance of the deposit of funds, trust account, letter of credit, or cash deposit as provided for above, Company will release the excess thereof to Reinsurer upon Reinsurer's written request.

G. Reinsurer shall not attempt to prevent Company from holding the deposit of funds, drawing on the letter of credit or trust fund or holding the cash deposit so long as Company is acting in accordance with this Article.

H. The assets deposited in the trust fund shall be valued according to their current fair market value and shall consist only of cash (U.S. legal tender), certificates of deposit issued by a United States Bank and payable in cash, and investments of the types specified in Section 1404 (a)(1)(2)(13) of the New York Insurance Law. Investments issued by the parent, subsidiary, or affiliate of either Company or Reinsurer shall not be eligible investments. All assets so deposited shall be accompanied by all necessary assignments, endorsements in blank, or transfer of legal title to the trustee in order the Company may negotiate any such assets without the requirement of consent or signature from reinsurer or any other entity.

I. All settlements of account between Company and Reinsurer shall be made in cash or its equivalent.

J. Company's "successors in interest" shall include those by operation of law, including without limitation, any liquidator, rehabilitator, receiver, or conservator.

K. Any income earned and received by the amount held in a trust fund shall be added to the principal thereof.

L. Reinsurer will take any other reasonable steps that may be required for Company to take full credit on its statutory financial statements for the reinsurance provided by this Agreement.

M. Company may apply the Canadian cash advances under paragraph C above to satisfy Reinsurer's obligations to Company in the same fashion as if it were drawing on the letter of credit (or subsequent cash deposit), trust accounts or deposit of funds.

ARTICLE XXIII - PREMIUM LETTERS OF CREDIT

Non admitted reinsurers hereon agree to provide a Premium Letter of Credit for the funding purposes. The amount of such funding on this treaty is calculated by applying the following criteria and rates.

12 MONTHS	24 MONTHS	36 MONTHS	48 MONTHS
30%	30%	20%	0%

The amount of such funding shall constitute the percentage shown of the positive difference between the Ceded Earned Premium, for sections A and B, received by reinsurers, net of ceding commission and the total of all ceded paid losses, ceded paid allocated loss expenses and ceded case reserves net of reinstatement premiums. However, such funding not to exceed the amount required to offset the actual schedule F. penalty to $3m xs $2m.

The first calculation of the funding shall be made at December 31st, 1996 and shall be recalculated at 12 month intervals until 36 months after the initial calculation when the Company agrees to return the Letter of Credit to Reinsurers.

For purposes of this provision any LOC issued shall be advanced in the equivalent amount of US$ only and funding shall not exceed the amount required to offset the actual schedule F. penalty to the limits exposing this contract.

ARTICLE XXIV - INTERMEDIARY

Alexander Reinsurance Intermediaries, Inc., One Whitehall Street, New York, New York 10004-2109, is hereby recognized as the intermediary by whom this Agreement was negotiated and through whom all communications relating hereto (including but not limited to notices, statements, premiums, return premiums, commissions, taxes, losses, loss adjustment expenses, salvage and loss settlements) shall be transmitted to both parties. It is understood, as regards remittances due either party hereunder, that payment by the Company to Alexander Reinsurance Intermediaries, Inc. shall constitute payment to the Reinsurer, but payment by the Reinsurer to Alexander Reinsurance Intermediaries, Inc. shall constitute payment to the

Company only to the extent such payments are actually received by the Company.

ARTICLE XXV.- OTHER TERMS AND CONDITIONS

A. Waiver. The failure of Company or Reinsurer to insist on strict compliance with this Agreement, or to exercise any right or remedy hereunder, shall not constitute a waiver of any rights contained herein nor stop the parties from thereafter demanding full and complete compliance nor prevent the parties from exercising such a remedy in the future.

B. Conflict with Law and Severability. If any provisions of this Agreement should be invalid under applicable laws, the latter shall control but only to the extent of the conflict without affecting the remaining provisions of this Agreement.

C. Headings. The headings preceding the text of the Articles and paragraphs of this Agreement are intended and inserted solely for the convenience of references and shall not affect the meaning, interpretation, construction or effect of this Agreement.

D. Assignment. This Agreement shall be binding upon and inure to the benefit of Company and Reinsurer and their respective successors and assigns provided, however, that this Agreement may not be assigned by the Reinsurer without the prior written consent of the Company which consent may be withheld by the Company in its sole unfettered discretion.

E. Governing Law. This Agreement shall be governed as to performance, administration, and interpretation by the laws of the Commonwealth of Pennsylvania, exclusive of its rules with respect to conflict of laws, except as to rules with respect to credit for reinsurance in which case the rules of all applicable states shall apply.

F. Negotiated Agreement. This Agreement has been negotiated by the parties and the fact that the initial and final draft shall have been prepared by Intermediary shall not give rise to any presumption for or against any party to this Agreement or be used in any form in the construction or interpretation of this Agreement or any of its provisions.

G. Notices. Wherever written notice is required under this Agreement, it shall be in writing, sent by certified mail, return receipt requested to the addresses indicated above.

H. Entire Agreement. This Agreement supersedes, merges with and makes null and void any and all previous agreements, whether written or oral, between Company and Reinsurer, or their predecessors with respect to the reinsurance of Company by Reinsurer commencing December 31, 1995 and constitutes the full and complete Agreement between the parties with respect to that reinsurance. No amendment to this Agreement shall be valid unless in writing and signed by both parties.

ARTICLE XXVI - THIRD PARTY BENEFICIARY

Except as expressly provided for in the Article entitled INSOLVENCY, the provisions of this Agreement are intended solely for the benefit of the Company and Reinsurer. Nothing in this Agreement shall in any manner create or be construed to create any obligations to or establish any rights against any party to this Agreement in favor of any other persons not party to this Agreement.

ARTICLE XXVII - ORIGINAL CONDITIONS

All amounts ceded hereunder shall be subject to the same gross rates and to the same clauses, conditions, and modifications of the Company's policies, subject to the limits, terms and conditions of this Contract.

NUCLEAR INCIDENT EXCLUSION CLAUSE - LIABILITY - REINSURANCE - U.S.A.

1) This Agreement does not cover any loss or liability accruing to the Company as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.

2) Without in any way restricting the operation of paragraph (1) of this Clause it is understood and agreed that for all purposes of this Agreement all the original policies of the Company (new, renewal and replacement) of the classes specified in Clause II of this paragraph (2) from the time specified in Clause III in this paragraph (2) shall be deemed to include the following provisions (specified as the Limited Exclusion Provision):

Limited Exclusion Provision

I. It is agreed that the policy does not apply under any liability coverage, to: -

(injury, sickness, disease, death or destruction*
(bodily injury or property damage

with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability.

II. Family Automobile Policies (liability only), Special Automobile Policies (private passenger automobiles, liability only), Farmers Comprehensive Personal Liability Policies (liability only), Comprehensive Personal Liability Policies (liability only) or policies of a similar nature; and the liability portion of combination forms related to the four classes of policies stated above, such as the Comprehensive Dwelling Policy and the applicable types of Homeowners Policies.

III. The inception dates and thereafter of all original policies described in II above, whether new, renewal or replacement, being policies which either

a) become effective on or after 1st May, 1960, or

b) become effective before that date and contain the Limited Exclusion Provision set out above;

provided this paragraph (2) shall not be applicable to Family Automobile Policies, Special Automobile Policies, or policies or combination policies of a similar nature, issued by the Company on New York risks, until 90 days following approval of the Limited Exclusion Provision by the Governmental Authority having jurisdiction thereof.

3) Except for those classes of policies specified in Clause II of paragraph (2) and without in any way restricting the operation of paragraph (1) of this Clause, it is understood and agreed that for all purposes of this Agreement the original liability policies of the Company (new, renewal and replacement) affording the following coverages:

> Owners, Landlords and Tenants Liability, Contractual Liability, Elevator Liability, Owners or Contractors (including railroad) Protective Liability, Manufacturers and Contractors Liability, Product Liability, Professional and Malpractice Liability, Storekeepers Liability, Garage Liability, Automobile Liability (including Massachusetts Motor Vehicle or Garage Liability)

shall be deemed to include, with respect to such coverages, from the time specified in Clause V of this paragraph (3), the following provision (specified as the Broad Exclusion Provision):

Broad Exclusion Provision

It is agreed that the policy does not apply:

I. Under any Liability Coverage, to:
(injury, sickness, disease, death or destruction*
(bodily injury or property damage

a) with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability; or

b) resulting from the hazardous properties of nuclear material and with respect to which (1) any person or organization is required to maintain financial protection pursuant to the Atomic Energy Act of 1954, or any law amendatory thereof, or (2) the insured is, or had this policy not been issued would be entitled to indemnity from the United States of America, or any agency

thereof, under any agreement entered into by the United States of America, or any agency thereof, with any person or organization.

II. Under any Medical Payments Coverage, or under any Supplementary Payments Provision relating to:
(immediate medical or surgical relief,*
(first aid,
(to expenses incurred with respect to bodily injury, sickness, disease or death*
(bodily injury
resulting from the hazardous properties of nuclear material and arising out of the operation of a nuclear facility by any person or organization.

III. Under any Liability Coverage, to:
(injury, sickness, disease, death or destruction*
(bodily injury or property damage
resulting from the hazardous properties of nuclear material, if

a) the nuclear material (1) is at any nuclear facility owned by, or operated by or on behalf of, an insured or (2) has been discharged or dispersed therefrom;

b) the nuclear material is contained in spent fuel or waste at any time possessed, handled, used, processed, stored, transported or disposed of by or on behalf of an insured; or

c) the
(injury, sickness, disease, death or destruction*
(bodily injury or property damage
arises out of the furnishing by an insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility, but if such facility is located within the United States of America, its territories, or possessions or Canada, this exclusion (c) applies only to:
(injury to or destruction of property at such nuclear facility*
(property damage to such nuclear facility and any property thereat

IV. As used in this endorsement:
"hazardous properties" include radioactive, toxic or explosive properties; "nuclear material" means source material, special nuclear material or byproduct material; "source material",

"special nuclear material", and "byproduct material" have the meanings given them in the Atomic Energy Act of 1954 or in any law amendatory thereof; "spent fuel" means any fuel element or fuel component, solid or liquid, which has been used or exposed to radiation in a nuclear reactor; "waste" means any waste material (1) containing byproduct material other than tailings or wastes produced by the extraction or concentration of uranium or thorium from any ore processed primarily for its source material and (2) resulting from the operation by any person or organization of any nuclear facility included within the definition of nuclear facility under paragraph (a) or (b) thereof; "nuclear facility" means

a) any nuclear reactor

b) any equipment or device designed or used for (1) separating the isotopes of uranium or plutonium, (2) processing or utilizing spent fuel, or (3) handling, processing or packaging waste,

c) any equipment or device used for the processing, fabricating or alloying of special nuclear material if at any time the total amount of such material in the custody of the insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235,

d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste, and includes the site on which any of the foregoing is located, all operations conducted on such site and all premises used for such operations;

"nuclear reactor" means any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of fissionable material;

With respect to injury to or destruction of property, the word "injury" or "destruction"* includes all forms of radioactive contamination of property*

("property damage" includes all forms of radioactive contamination of property

V. The inception dates and thereafter of all original policies affording coverages specified in this paragraph (3), whether new, renewal or replacement, being policies which become effective on or after 1st May, 1960, provided this paragraph (3) shall not be applicable to

i) Garage and Automobile Policies issued by the Company on New York risks, or

ii) statutory liability insurance required under Chapter 90, General Laws of Massachusetts,

until 90 days following approval of the Broad Exclusion Provision by the Governmental Authority having jurisdiction thereof.

4) Without in any way restricting the operation of paragraph (1) of this Clause, it is understood and agreed that paragraphs (2) and (3) above are not applicable to original liability policies of the Company in Canada and that with respect to such policies this Clause shall be deemed to include the Nuclear Energy Liability Exclusion Provisions adopted by the Canadian Underwriters' Association or the Independent Insurance Conference of Canada.

Note: **The words suffixed by (*) in the Limited Exclusion Provision and the Broad Exclusion Provision shall apply only in relation to original liability policies which include a Limited Exclusion Provision or a Broad Exclusion Provision containing those words.**

NOTES: **Wherever used herein the term:**

"Company" shall be understood to mean "Reassured," "Reinsured" or whatever other term is used in the attached Reinsurance Agreement to designate the reinsured company.

"Agreement" shall be understood to mean "Contract, "Policy" or whatever other term is used to designate the attached Reinsurance document.

NUCLEAR INCIDENT EXCLUSION CLAUSE - LIABILITY - REINSURANCE - CANADA

(1) This Agreement does not cover any loss or liability accruing to the Company as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering Nuclear Energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.

(2) Without in any way restricting the operation of paragraph (1) of this Clause, it is agreed that for all purposes of this Agreement all the original liability contracts of the Company, whether new, renewal or replacement, of the following classes, namely,

Personal Liability,
Farmers' Liability,
Storekeepers' Liability,

which become effective on or after 31st December 1984, shall be deemed to include, from their inception dates and thereafter, the following provision:-

Limited Exclusion Provision

This Policy does not apply to bodily injury or property damage with respect to which the Insured is also insured under a contract of nuclear energy liability insurance (whether the Insured is unnamed in such contract and whether or not it is legally enforceable by the Insured) issued by the Nuclear Insurance Association of Canada or any other group or pool of insurers or would be an Insured under any such Policy but for its termination upon exhaustion of its limit of liability.

With respect to property, loss of use of such property shall be deemed to be property damage.

(3) Without in any way restricting the operation of paragraph (1) of this Clause, it is agreed that for all purposes of this Agreement all the original liability contracts of the Company, whether new, renewal or replacement, of any class whatsoever (other than Personal Liability, Farmers' Liability, Storekeepers' Liability or Automobile Liability contracts), which become effective on or after 31st December 1984, shall be deemed to include, from their inception dates and thereafter, the following provision:-

Broad Exclusion Provision

It is agreed that this Policy does not apply:

(a) to liability imposed by or arising under the Nuclear Liability Act; nor

(b) to bodily injury or property damage with respect to which an Insured under this Policy is also insured under a contract of nuclear energy liability insurance (whether the Insured is unnamed in such contract and whether or not it is legally enforceable by the Insured) issued by the Nuclear Insurance Association of Canada or any other insurer or group or pool of insurers or would be an Insured under any such policy but for its termination upon exhaustion of its limit of liability; nor

(c) to bodily injury or property damage resulting directly or indirectly from the nuclear energy hazard arising from:

1) the ownership, maintenance, operation or use of a nuclear facility by or on behalf of an Insured;

2) the furnishing by an Insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility; and

3) the possession, consumption, use, handling, disposal or transportation of fissionable substances, or of other radioactive material (except radioactive isotopes, away from a nuclear facility, which have reached the final stage of fabrication so as to be useable for any scientific, medical, agricultural, commercial or industrial purpose) used, distributed, handled or sold by an Insured.

As used in this Policy:

(i) The term "nuclear energy hazard" means the radioactive, toxic, explosive or other hazardous properties of radioactive material;

(ii) The term "radioactive material" means uranium, thorium, plutonium, neptunium, their respective derivatives and compounds, radioactive isotopes of other elements and any other substances that the Atomic Energy Control Board may, by regulation, designate as being prescribed substances capable of releasing atomic energy, or as being requisite for the production, use or application of atomic energy;

(iii) The term "nuclear facility" means:

(a) any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of plutonium, thorium and uranium or any one or more of them;

(b) any equipment or device designed or used for (i) separating the isotopes of plutonium, thorium and uranium or any one or more of them, (ii) processing or utilizing spent fuel, or (iii) handling, processing or packaging waste;

(c) any equipment or device used for the processing, fabricating or alloying of plutonium, thorium or uranium enriched in the isotope uranium 233 or in the isotope uranium 235, or any one or more of them if at any time the total amount of such material in the custody of the Insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235;

(d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste radioactive material;

and includes the site on which any of the foregoing is located, together with all operations conducted thereon and all premises used for such operations.

(4) The term "fissionable substance" means any prescribed substance that is, or from which can be obtained, a substance capable of releasing atomic energy by nuclear fission.

(5) With respect to property, loss of use of such property shall be deemed to be property damage.

NOTES: Wherever used herein the term:

"Company" shall be understood to mean "Reassured," "Reinsured" or whatever other term is used in the attached reinsurance Agreement to designate the reinsured company.

"Agreement" shall be understood to mean "Contract," "Policy" or whatever other term is used to designate the attached reinsurance document.

NUCLEAR ENERGY RISK EXCLUSION CLAUSE (REINSURANCE) (1994) (WORLDWIDE EXCLUDING U.S.A. AND CANADA)

This Agreement shall exclude Nuclear Energy Risks whether such risks are written directly and/or by way of reinsurance and/or via Pools and/or Associations.

For all purposes of this Agreement Nuclear Energy Risks shall mean all first party and/or third party insurances or reinsurances (other than Workers' Compensation and Employers' Liability) in respect of: -

(I) All **Property** on the site of a nuclear power station.

Nuclear Reactors, reactor buildings and plant and equipment therein on any site other than a nuclear power station.

(II) All Property, on any site (including but not limited to the sites referred to in (I) above) used or having been used for: -

(a) The generation of nuclear energy; or

(b) The **Production, Use or Storage of Nuclear Material.**

(III) Any other **Property** eligible for insurance by the relevant local Nuclear Insurance Pool and/or Association but only to the extent of the requirements of that local Pool and/or Association.

(IV) The supply of goods and services to any of the sites, described in (I) to (III) above, unless such insurances or reinsurances shall exclude the perils of irradiation and contamination by **Nuclear Material.**

Except as undernoted, Nuclear Energy Risks shall not include: -

(i) Any insurance or reinsurance in respect of the construction, erection or installation or replacement or repair or maintenance or decommissioning of **Property** as described in (I) to (III) above (including contractor's plant and equipment);

(ii) Any Machinery Breakdown or other Engineering insurance or reinsurance not coming within the scope of (i) above;

Provided always that such insurance or reinsurance shall exclude the perils of irradiation and contamination by **Nuclear Material.**

However, the above exemption shall not extend to: -

(1) The provision of any insurance or reinsurance whatsoever in respect of: -

(a) **Nuclear Material;**

(b) Any **Property** in the **High Radioactivity Zone or Area** of any **Nuclear Installation** as from the introduction of **Nuclear Material** or - for reactor installations - as from fuel loading or first criticality where so agreed with the relevant local Nuclear Insurance Pool and/or Association.

(2) The provision of any insurance or reinsurance for the undernoted perils: -

- Fire, lightning, explosion;
- Earthquake;
- Aircraft and other aerial devices or articles dropped therefrom;
- Irradiation and radioactive contamination;
- Any other peril insured by the relevant local Nuclear Insurance Pool and/or Association;

in respect of any other **Property** not specified in (1) above which directly involves the **Production, Use or Storage of Nuclear Material** as from the introduction of **Nuclear Material** into such **Property.**

Definitions

"Nuclear Material" means: -

(i) Nuclear fuel, other than natural uranium and depleted uranium, capable of producing energy by a self-sustaining chain process of nuclear fission outside a **Nuclear Reactor,** either alone or in combination with some other material; and

(ii) **Radioactive Products or Waste.**

"Radioactive Products or Waste" means any radioactive material produced in, or any material made radioactive by exposure to the radiation incidental to the production or utilization of nuclear fuel, but does not include radioisotopes which have reached the final stage of fabrication so as to be usable for any scientific, medical, agricultural, commercial or industrial purpose.

"Nuclear Installation" means: -

(i) Any **Nuclear Reactor;**

(ii) Any factory using nuclear fuel for the production of **Nuclear Material,** or any factory for the processing of **Nuclear Material,** including any factory for the reprocessing of irradiated nuclear fuel; and

(iii) Any facility where **Nuclear Material** is stored, other than storage incidental to the carriage of such material.

"Nuclear Reactor" means any structure containing nuclear fuel in such an arrangement that a self-sustaining chain process of nuclear fission can occur therein without an additional source of neutrons.

"Production, Use or Storage of Nuclear Material" means the production, manufacture, enrichment, conditioning, processing, reprocessing, use, storage, handling and disposal of **Nuclear Material.**

"Property" shall mean all land, buildings, structures, plant, equipment, vehicles, contents (including but not limited to liquids and gases) and all materials of whatever description whether fixed or not.

"High Radioactivity Zone or Area" means: -

(i) For nuclear power stations and **Nuclear Reactors,** the vessel or structure which immediately contains the core (including its supports and shrouding) and all the contents thereof, the fuel elements, the control rods and the irradiated fuel store; and

(ii) For non-reactor **Nuclear Installations,** any area where the level of radioactivity requires the provision of a biological shield.

NOTES: Wherever used herein the term:

"Company" shall be understood to mean "Reassured," "Reinsured" or whatever other term is used in the attached reinsurance Agreement to designate the reinsured company.

"Agreement" shall be understood to mean "Contract," "Policy" or whatever other term is used to designate the attached reinsurance document.

INSOLVENCY FUND EXCLUSION CLAUSE

This Agreement excludes all liabilities of the Company arising by contract, operation of law, or otherwise, from its participation or membership, whether voluntary or involuntary, in any insolvency fund. "Insolvency Fund" includes any guaranty fund, insolvency fund, plan, pool, association, fund or other arrangement, howsoever denominated, established or governed; which provides for any assessment of or payments or assumption by the Company of part or all of any claim, debt, charge, fee or other obligation of an insurer, or its successors or assigns, which has been declared by any competent authority to be insolvent, or which is otherwise deemed unable to meet any claim, debt, charge, fee or other obligation in whole or in part.

NOTES: **Wherever used herein the term:**

"Company" shall be understood to mean "Reassured," "Reinsured" or whatever other term is used in the attached reinsurance Agreement to designate the reinsured company.

"Agreement" shall be understood to mean "Contract," "Policy" or whatever other term is used to designate the attached reinsurance document.

Cover Note No. CT1131-96

COVER NOTE ADDENDUM NO. 1

Reliance National
in respect of
First Casualty Per Risk Excess of Loss Reinsurance

It is hereby understood and agreed that effective December 31, 1995 Standard Time, the Business Covered section of the Cover Note is amended to include Railroad Protective Liability.

All other terms and conditions remain unchanged.

ALEXANDER REINSURANCE INTERMEDIARIES, INC.

Hugh C. Brewer III — 3/14/96
Hugh C. Brewer III — Date
Senior Vice President

Robert H. Shaw — 3/14/96
Robert H. Shaw — Date
Vice President

RELIANCE NATIONAL

Authorized Signature — 3/27/96
Authorized Signature — Date

Please sign and return to Alexander Reinsurance Intermediaries, Inc., One Landmark Square, Stamford, CT 06901

1131cad.96

SCHEDULE "K"

TO THE REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – MAY 23, 2007

COPY 312

JOHNSON
& HIGGINS

THE REINSURED IS REQUESTED TO **READ THIS CONTRACT** AND, IF IT IS INCORRECT, RETURN IT IMMEDIATELY FOR ALTERATION TO:

JOHNSON & HIGGINS LIMITED
ALDGATE HOUSE
33 ALDGATE HIGH STREET
LONDON
EC3N 1AQ

IN ALL COMMUNICATIONS THE CONTRACT NUMBER APPEARING HEREIN *SHOULD BE QUOTED.*

FACULTATIVE EXCESS OF LOSS REINSURANCE CONTRACT No. 757/ZT970616

Issued to

RELIANCE INSURANCE COMPANIES, WHICH INCLUDE:

RELIANCE INSURANCE COMPANY - NAIC NO. 24457
FIREMARK INSURANCE COMPANY - NAIC NO. 41840
REGENT INTERNATIONAL INSURANCE COMPANY LTD. - NAIC NO. NOT APPLICABLE
RELIANCE NATIONAL INSURANCE COMPANY OF NEW YORK - NAIC NO. 36498
RELIANCE NATIONAL (BARBADOS) INSURANCE COMPANY LTD. - NAIC NO. NOT APPLICABLE
RELIANCE NATIONAL INSURANCE COMPANY (U.K.) LTD. - NAIC NO. NOT APPLICABLE
RELIANCE SURETY COMPANY - NAIC NO. 41980
UNITED PACIFIC INSURANCE COMPANY OF NEW YORK - NAIC NO. 36471

AND/OR ANY ADDITIONAL COMPANY ESTABLISHED OR ACQUIRED BY COMPANY (HEREINAFTER TOGETHER CALLED THE "COMPANY"), BUT ONLY IN RESPECT OF BUSINESS WRITTEN THROUGH RELIANCE NATIONAL DIVISION OF COMPANY

(hereinafter called the "Reinsured")

by

CERTAIN UNDERWRITING MEMBERS OF LLOYD'S, LONDON and/or CERTAIN INSURANCE and/or REINSURANCE COMPANIES each for their own part and not one for another, for the respective proportions as set forth in the Schedules attached hereto (hereinafter called the "Reinsurers")

ARTICLE 1 INTEREST CLAUSE

This Contract shall indemnify the Reinsured's participation in settlement of their ultimate net loss, subject to the terms and conditions set forth herein, under all policies or contracts of insurance or reinsurance accepted by the Reinsured, as defined in the following paragraph, as original.

This Contract shall indemnify the Reinsured's participation in respect of the Contracts as set forth in the attached Schedule, and the renewals thereof, as original.

All terms, clauses and conditions to follow the Contracts as set forth in the attached Schedule as far as applicable, such terms, clauses and conditions are deemed fully known by Reinsurers hereon.

TERRITORIAL
SCOPE:

As original

ARTICLE 2 PERIOD CLAUSE

This Contract is in respect of losses occurring on risks attaching to original lineslips (as set forth in the attached Schedule) during the period commencing 1st February 1997 and ending 28th February 1998 both days inclusive, Local Standard Time, plus losses occurring during the period commencing 1st February 1997 and ending 28th February 1998 in respect of risks attaching prior to 14th May 1996.

Where the Reinsured accept business subject to individual declarations, the inception date of the master contract shall govern its date of attachment to this Contract.

ARTICLE 6 PREMIUM CLAUSE

The premium to be paid to the Reinsurers as consideration for this Contract shall be:-

Rate:-	22.50% of the Reinsured's applicable original net premium income during the Contract period.
Minimum premium:-	CAN$400,000
Deposit premium:-	CAN$400,000 Payable in four equal instalments at 1st May 1997, 1st August 1997, 1st November 1997 and 1st February 1998.
Premium in full:-	Not Applicable
Rate of exchange:-	Not Applicable

If this Contract is placed on an adjustable basis then such adjustment shall be made on the following basis:-

A. As soon as practicable the Reinsured shall render to the Reinsurers a statement of their applicable net premium income, and any adjustment to the deposit premium shall be made after expiry in currencies in the same ratio as the net premium income has been declared, subject always to the minimum premium. Where an adjustment is not due, then no apportionment of currencies shall be made.

B. Such net premium income shall be gross premiums (excluding reinstatement premiums received) less brokerages, commissions, discounts, returns of premium, premiums for reinsurances (recoveries under which inure to the benefit of Reinsurers hereon), no claim bonuses, profit commissions and such taxes as are assessed on the policy premium.

ARTICLE 7 ULTIMATE NET LOSS CLAUSE

This Contract applies only to that portion of any insurance or reinsurance which the Reinsured retain net for their own account and the calculation of the ultimate net loss hereunder shall include all sums paid by the Reinsured in settlement of losses or liability after making deductions for all recoveries, all salvages and all claims upon other reinsurances whether collected or not and shall include all adjustment expenses other than the salaries of employees and the office expenses of the Reinsured.

All salvages, recoveries or payments recovered or received subsequent to a loss settlement under this Contract shall be applied as if recovered or received prior to the aforesaid settlement and all necessary adjustments shall be made by the parties hereto. Provided always that nothing in this clause shall be construed to mean that losses under this Contract are not recoverable until the Reinsured's ultimate net loss has been ascertained.

Recoveries under any underlying excess of loss reinsurance arrangements for the account of the Reinsured and in respect of any of the interests protected hereunder shall be disregarded when computing the ultimate net loss to the Reinsured and shall inure to their sole benefit.

The amount of the Reinsurers' liability hereunder in respect of any loss shall not be increased by reason of the inability of the Reinsured to collect from any other Reinsurers, whether specific or general, any amounts which may have become due from them whether such inability arises from the insolvency of such other Reinsurers or otherwise.

Notwithstanding the foregoing, reinsurances, if any, effected by any Treaty Reinsurers and/or Subsidiary and/or Associated Companies protected hereunder shall not be taken into account in computing the ultimate net loss in excess of which this Contract attaches, nor in any way affect the amount recoverable hereunder.

ARTICLE 14 ARBITRATION CLAUSE

All matters in difference between the parties arising under, out of or in connection with this Contract, including formation and validity, and whether arising during or after the period of this Contract, shall be referred to an arbitration tribunal in the manner hereinafter set out.

Unless the parties appoint a sole arbitrator within 14 days of one receiving a written request from the other for arbitration, the claimant (the party requesting arbitration) shall appoint his arbitrator and give written notice thereof to the respondent. Within 30 days of receiving such notice the respondent shall appoint his arbitrator and give written notice thereof to the claimant, failing which the claimant may apply to the appointor hereafter named to nominate an arbitrator on behalf of the respondent.

Before they enter upon a reference the two arbitrators shall appoint a third arbitrator. Should they fail to appoint such a third arbitrator within 30 days of the appointment of the respondent's arbitrator then either of them or either of the parties may apply to the appointor for the appointment of the third arbitrator. The three arbitrators shall decide by majority. If no majority can be reached the verdict of the third arbitrator shall prevail. He shall also act as chairman of the tribunal.

Unless the parties otherwise agree the arbitration tribunal shall consist of persons (including those who have retired) with not less than ten years' experience of insurance or reinsurance as persons engaged in the industry itself or as lawyers or other professional advisers.

The arbitration tribunal shall, so far as is permissible under the law and practice of the place of arbitration, have power to fix all procedural rules for the holding of the arbitration including discretionary power to make orders as to any matters which it may consider proper in the circumstances of the case with regard to pleadings, discovery, inspection of the documents, examination of witnesses and any other matter whatsoever relating to the conduct of the arbitration and may receive and act upon such evidence whether oral or written strictly admissible or not as it shall in its discretion think fit.

The appointor shall be the Chairman for the time being of ARIAS (UK) or if he is unavailable or it is inappropriate for him to act for any reason, such person as may be nominated by the Committee of ARIAS (UK). If for any reason such persons decline or are unable to act, then the appointor shall be the Judge of the appropriate Courts having jurisdiction at the place of arbitration.

All costs of the arbitration shall be determined by the arbitration tribunal who may, taking into account the law and practice of the place of arbitration, direct to and by whom and in what manner they shall be paid.

The place of arbitration may be chosen by the parties, but in default of such choice, the place of arbitration shall be London.

The proper law of this Contract shall be the law of England, in default of an express choice, the proper law of this Contract shall be the law of the country with which it is most closely connected.

The award of the arbitration tribunal shall be in writing and binding upon the parties who consent to carry out the same.

12/94
LSW355 (Amended)

Date in London: 17th October 1997

000898168

ADDITIONAL WORDINGS & CLAUSES

ARTICLE 15 LAW AND JURISDICTION CLAUSE

This Contract shall be governed by and construed in accordance with English law and the English courts shall have exclusive jurisdiction.

ARTICLE 16 DIRECTORS AND OFFICERS LIABILITY EXCLUSION CLAUSE (LSW326)

This Contract shall exclude all cover in respect of directors and officers liability insurances covering "wrongful acts" committed or attempted by directors or officers of an insured company.

Notwithstanding the foregoing this Contract shall not exclude cover in respect of liability incurred by the Reinsured caused by or resulting from personal injury, bodily injury, sickness, disease or death of any person or damage to or destruction of any tangible property including loss of use resulting therefrom.

The term "wrongful act" shall mean any actual or alleged error or mis-statement or misleading statement or omission or neglect or breach of duty by the directors and officers in the discharge of their duties individually or collectively claimed against them solely by reason of their being directors or officers of the company.

ARTICLE 17 EXTRA CONTRACTUAL OBLIGATIONS CLAUSE (LSW327)

This Contract shall exclude all cover in respect of extra contractual obligations howsoever arising, such extra contractual obligations being defined as any award made by a court of competent jurisdiction against an Insurer or Reinsurer, which award is not within the coverage granted by any insurance and/or reinsurance contract made between the parties in dispute.

Notwithstanding the foregoing this Contract shall extend to cover any loss arising from a "claims related extra contractual obligation"

(a) awarded against the Reinsured or

(b) incurred by the Reinsured where they have paid their share of a "claims related extra contractual obligation" awarded against one or more of their co-insurers.

It is warranted that any recovery under this Contract in respect of "claims related extra contractual obligation" shall only be for that part of any award which corresponds to the Reinsured's share of the insurance and/or reinsurance policy and/or contract giving rise to the award and all proportional protection effected by the Reinsured shall provide or shall be deemed to provide pro-rata coverage for such obligations.

This Contract shall also extend to cover all loss from extra contractual obligations howsoever arising where the loss is incurred by the Reinsured as a result of their participation in any insurance or reinsurance which provides cover for such loss, it being understood and agreed that such loss results from a contractual liability incurred by the Reinsured.

A "claims related extra contractual obligation" shall be defined as the amount awarded against an Insurer or Reinsurer found liable by a court of competent jurisdiction to pay damages to an Insured or Reinsured in respect of the conduct of a claim made under an insurance and/or reinsurance policy and/or contract, where such liability has arisen because of:

(a) the failure of the Insurer or Reinsurer to agree or pay a claim within the policy limits or to provide a defence against such claims as required by law or

(b) bad faith or negligence in rejecting an offer of settlement or

(c) negligence or breach of duty in the preparation of the defence or the conduct of a trial or the preparation or prosecution of any appeal and/or subrogation and/or any subsequent action resulting therefrom.

There shall be no liability under this Contract in respect of:

(a) any assumption of liability by way of participation in any mutual scheme designed specifically to cover extra contractual obligations; or

(b) any extra contractual obligation arising from the fraud of a director, officer or employee of the Reinsured acting individually or collectively or in collusion with an individual or corporation or with any other organisation or party involved in the presentation defence or settlement of any claim.

Any loss arising under this Contract in respect of "claims related extra contractual obligations" shall be deemed to be a loss arising from the same event as that giving rise to the claim to which the extra contractual obligation is related; but recovery hereunder is subject to the insurance and/or reinsurance policy and/or contract which gives rise to the extra contractual obligation falling within the scope of this Contract.

ARTICLE 18 AVIATION GROUNDING LIABILITY COMBINED CLAUSE (LSW330A)

A. As regards losses arising under any and/or all Excess of Loss Reinsurance Accounts and Proportional Treaty Portfolios protected by this Contract the following provision shall apply.

AVIATION GROUNDING LIABILITY REINSURANCE CLAUSE

There shall be no recovery hereunder in respect of risks attaching on or after 1st December 1981 for that part of any loss arising from grounding liability which exceeds the limitations set out in the AVIATION GROUNDING LIABILITY CLAUSE; as more fully set forth in B. below.

B. As regards losses other than as set forth in A. above the following provision shall apply.

AVIATION GROUNDING LIABILITY CLAUSE

To apply to Original Risks incepting prior to 1st December 1994:

In the event of an aircraft accident and/or loss and/or discovery which subsequently results in aircraft being grounded because of investigations made resulting from the said accident and/or loss and/or discovery such grounding shall be considered, for the purposes of this Contract, as one occurrence resulting from a single accident and/or loss and/or discovery which (for the purposes of recovery under this Contract) shall then be added to the Reinsured's other losses (if any) resulting from the aforementioned accident.

Nevertheless, as regards such aviation grounding liability coverage, Reinsurers hereunder shall not be liable for more than their share of an original grounding loss/occurrence to insurers of US or CAN$100,000,000 (or the equivalent in other currencies at the date of acceptance of the risk by the Reinsured) to any one original Insured or so deemed. Such loss/occurrence to be defined as a continuous period of withdrawal of aircraft from flight operations arising from one common cause or suspected cause, it being understood that, if grounding is the result of an accident to aircraft, then for the purposes of establishing the foregoing limits, other losses emanating from the accident shall not be included in the grounding losses.

To apply to Original Risks incepting on or after 1st December 1994:

In the event of an aircraft accident and/or loss which subsequently results in aircraft being grounded because of investigations made resulting from the said accident and/or loss such grounding shall be considered, for the purposes of this Contract, as one occurrence resulting from a single accident and/or loss which (for the purposes of recovery under this Contract) shall then be added to the Reinsured's other losses (if any) resulting from the aforementioned accident.

ARTICLE 8 NOTIFICATION OF CLAIMS CLAUSE

The Reinsured undertake to advise the Reinsurers as soon as practicable of any claim arising hereunder, together with an estimate of the Reinsurers' liability where possible.

ARTICLE 9 CURRENCY CONVERSION CLAUSE

All transactions effected by the Reinsured in currencies other than the currency(ies) in which this Contract is written shall be converted into Canadian Dollars at the rate(s) of exchange used by the Reinsured in their records.

If this Contract is written in two or more currencies then in the event of the Reinsured becoming involved in a loss applicable to this Contract requiring payment in two or more of such currencies, the sum payable hereunder shall be apportioned in the proportion that the amount of each currency bears to the total amount of the loss sustained by the Reinsured. For the purposes of calculating the Priority and Indemnity hereunder the amounts involved shall be reduced to a common currency by using the currency ratios established in the REINSURING CLAUSE.

ARTICLE 10 AMENDMENTS AND ALTERATIONS CLAUSE

Any amendments or alterations to this Contract that are agreed between the parties herein shall be automatically binding and shall be considered as forming an integral part of this Contract.

ARTICLE 11 INSPECTION OF RECORDS CLAUSE

All documentation in the possession of the Reinsured and in any way connected with any risk covered hereunder shall be, at all reasonable times, open to inspection by the Reinsurers or their nominees at the offices of the Reinsured or such places as may be agreed to between the parties herein.

ARTICLE 12 ERRORS AND OMISSIONS CLAUSE

Any inadvertent delays, omissions or errors made in connection with this Contract shall not be held to relieve either of the parties hereto from any liability which would have attached to them hereunder if such delay, omission or error had not been made, provided rectification be made as soon as practicable after discovery.

ARTICLE 13 DOCUMENTATION CLAUSE

All documentation and financial transactions relating to this Contract shall be transmitted between the Reinsured and the Reinsurers through the intermediary of:-

Johnson & Higgins Ltd.
The Bowring Building
Location SIC (Mail Point 16)
P.O. Box 145
Tower Place
London
EC3P 3BE

ARTICLE 3 INTERLOCKING CLAUSE

In the event of a loss occurring hereunder for any sum in excess of the Priority of this Contract involving two or more policies accepted by the Reinsured attaching to different periods of reinsurance, then such Priority shall be reduced to that percentage thereof which the Reinsured's settled loss(es) on such policy(ies) attaching to the period of this Contract bears to the total of the Reinsured's settled losses arising out of all such policies contributing to the loss. The Indemnity shall likewise be computed in the same manner.

ARTICLE 4 REINSURING CLAUSE

Reinsurers shall only be liable if and when the ultimate net loss paid by the Reinsured in respect of the interest as defined herein exceeds CAN$1,000,000 or currency equivalent each and every loss (herein referred to as the "Priority").

The Reinsurers shall thereupon be liable for the amount of the excess thereof but their liability under this Contract is limited to CAN$4,000,000 or currency equivalent each and every loss (herein referred to as the "Indemnity").

For the purposes of this Contract the term "each and every loss" shall be understood to mean "each and every loss or accident or occurrence or series thereof arising out of one event".

ARTICLE 5 REINSTATEMENT CLAUSE

In the event of a loss occurring hereunder the amount of liability exhausted shall be automatically reinstated from the time of such occurrence. Nevertheless, the Reinsurers shall not be liable for more than the Indemnity as stated in the REINSURING CLAUSE up to a total liability as determined by the number of reinstatements provided for herein.

At the same time as the loss is settled hereunder the Reinsured shall pay to the Reinsurers an additional premium subject to the provisions of paragraph three below and calculated in accordance with the provisions of the PREMIUM CLAUSE. Such additional premium shall be payable in the same currency or currencies in which the loss is paid by applying the rates of exchange in the PREMIUM CLAUSE.

This Contract shall be subject to the following number of full reinstatements at the amount(s) of additional premium as stipulated below:-

REINSTATEMENT(S)	AMOUNT
FIRST	CAN$375,000
SECOND	CAN$375,000

The foregoing additional premium shall be based on the Indemnity of this Contract, lesser amounts being calculated on a pro rata basis, the date of loss for this purpose being disregarded.

If the loss is settled prior to any premium adjustment provided for in the PREMIUM CLAUSE then the additional premium shall be initially calculated on the deposit premium and subsequently adjusted when the premium adjustments are made.

For all purposes of this Contract, losses shall be considered in chronological order of their occurrence, but this shall not preclude the Reinsured from making provisional collections in respect of losses which may ultimately not be recoverable hereon.

Nevertheless, as regards such aviation grounding liability coverage, Reinsurers hereunder shall not be liable for more than their share of an original grounding loss/occurrence to insurers of US or CAN$100,000,000 (or the equivalent in other currencies at the date of acceptance of the risk by the Reinsured) to any one original Insured or so deemed, where such insured is the airframe/power plant manufacturer contributing to such loss. Reinsurers hereunder shall not be liable for more than their share of an original grounding loss/occurrence to insurers of US or CAN$125,000,000 (or the equivalent in other currencies at the date of acceptance of the risk by the Reinsured) to any one original Insured or so deemed, where such insured is a subcontractor to the airframe/power plant manufacturer. Such loss/occurrence to be defined as a continuous period of withdrawal of aircraft from flight operations arising from one common cause or suspected cause, it being understood that, if grounding is the result of an accident to aircraft, then for the purposes of establishing the foregoing limits, other losses emanating from the accident shall not be included in the grounding losses.

ARTICLE 19 SEEPAGE AND POLLUTION EXCLUSION CLAUSE (LSW331)

For the purposes of this Contract, clause AVN46B or its equivalent, is deemed to be incorporated in all policies accepted by the Reinsured.

Nevertheless for the purposes of this Contract it is agreed that in respect of aviation fuelling, defuelling, refuelling and products legal liability policies paragraph I(b) of clause AVN46B or its equivalent is amended to read "pollution and contamination of any kind whatsoever other than pollution and contamination of a product or products sold or supplied".

ARTICLE 20 LOSS SETTLEMENTS COMBINED CLAUSE (LSW334)

A. As regards loss settlements under any and/or all Excess of Loss Reinsurance Accounts and Proportional Treaty Portfolios protected by this Contract the following provision shall apply.

LOSS SETTLEMENTS REINSURANCE CLAUSE

All loss settlements by the Reinsured including compromise settlements and the establishment of Funds for the settlement of losses shall be binding upon the Reinsurers, providing such settlements are within the terms and conditions of the original policies and/or contracts (or as provided for in the EXTRA CONTRACTUAL OBLIGATIONS CLAUSE) and within the terms and conditions of this Contract.

B. As regards loss settlements other than as set forth in A. above the following provision shall apply.

LOSS SETTLEMENTS CLAUSE

All loss settlements by the Reinsured including compromise settlements and the establishment of Funds for the settlement of losses shall be binding upon the Reinsurers, providing such settlements are within the terms and conditions of the original policies and/or contracts (or as provided for in the EXTRA CONTRACTUAL OBLIGATIONS CLAUSE) and within the terms and conditions of this Contract. However where the Reinsured acts in the capacity as a Leading Underwriter on the business protected by this Contract and are called upon to establish a Fund in respect of a loss or losses which may form the whole or part of a claim within the terms and conditions of this Contract (including provisional collections in respect of claims which ultimately may not be recoverable hereon) such Fund shall only be binding upon the Reinsurers subject to prior notice being given and agreement obtained from leading Lloyd's Underwriter and leading Company hereon if this Contract is affected by the establishment of such a Fund.

For the purposes of this clause the term "Leading Underwriter" shall be understood to mean those Underwriters involved in negotiating the establishment of the Fund.

ARTICLE 21 WAR RISKS HIJACKING CLAUSE B (HULL WAR INCLUDED) (LSW342)

For the purposes of this Contract clause AVN48B shall be understood to mean clause AVN48B or any similar clause used in substitution thereof. The clause applicable hereto shall be that in use in the policy issued by the Reinsured under which the claim falls or, in the absence of such clause, that then in current use.

Part 1. HIJACKING (LOSSES IN FLIGHT) CLAUSE

As regards losses to or in Aircraft in flight (as hereinafter defined) arising from perils as stipulated in paragraph (g) of clause AVN48B (whether or not such losses are actually paid because of the coverage afforded by paragraph (g)), the Priority and Indemnity hereon shall be applied to the total of all losses paid by the Reinsured which are covered hereunder which occur whilst such aircraft is in flight and which arise out of or follow from each act of hijack separately. For the purposes of this part the time of the loss shall be taken as the time the hijacker first makes his presence known.

For the purposes of this clause a "flight" shall be deemed to begin when the aircraft moves forward when taking off and shall be deemed to end when the machine comes to rest after making contact with the ground and/or water.

Part 2. DEFINITION OF COVERAGE FOR CERTAIN PERILS

As regards losses arising from perils as stipulated in clause AVN48B (whether or not such losses are actually paid because of the coverage afforded by clause AVN48B) other than losses covered by the provisions of Part 1 above, for the purposes of this Contract the term "any one event" shall be understood to mean:

"All such losses sustained by the Reinsured which occur during any one period of 24 consecutive hours and within an area of radius 10 miles which arise from one of the perils stipulated in clause AVN48B".

The Reinsured may select both the point from which the 10 mile radius applies and also the moment from which the period of 24 hours shall be deemed to commence. No area, however, may be selected which overlaps another area selected for the purposes of making a recovery hereunder in respect of losses occurring at the same time. No period of 24 hours may commence earlier than the date and time of the happening of the first recorded individual loss to the Reinsured (in respect of the claim under consideration) nor prior to the inception of this Contract. Furthermore in respect of any one location already included in a selected area, no period of 24 hours may commence prior to the expiry of any previously selected 24 hour period.

Notwithstanding the foregoing it is a condition of this Contract that the perils stipulated in paragraph (b) of clause AVN48B are excluded entirely from the protection of this Contract.

ARTICLE 22 NON-PROPORTIONAL REINSURANCE EXCLUSION CLAUSE (LSW344)

This Contract does not cover the Reinsured's acceptances of Non-Proportional Reinsurance OTHER THAN

(i) facultative reinsurance of an Insurer / Reinsurer of an original Insured, including so called "risk excesses", and/or

(ii) reinsurance covering solely insurance policies whose insured's centre of operations is in the same country as the principal office of the original insurers, and/or

(iii) as may be agreed and recorded by endorsement hereon.

ARTICLE 23 SPACE EXCLUSIONS CLAUSE (LSW345)

This Contract EXCLUDES the Reinsured's loss or liability howsoever insured or reinsured in respect of:

(a) actual or contingent "All Risks" or "War Risks" policies or the like, of any satellite or launch vehicle

and

(b) loss, damage or failure of any satellite or launch vehicle which occurs before, during or after launch, or in orbit; and loss of use, business interruption and/or consequential loss arising from the said loss, damage or failure OTHER THAN liability arising out of loss of or damage to property of third parties including loss of or damage to:

(i) a satellite after in-flight separation from its launch vehicle, and

(ii) a satellite, launch vehicle or other property not participating in the launch which causes the said loss or damage

and

(c) "Products" cover in policies / contracts underwritten by the Reinsured which incept on or after 1st April 1992 in excess of the Reinsured's proportion of the following original limits for any one original loss any one satellite any one original insured:

(i) US$250,000,000 or

(ii) US$125,000,000 whilst two or more satellites are on board the same launch vehicle.

CONDITION PRECEDENT

It is a condition precedent to any liability hereon that the Reinsured has taken all reasonable precautions to ensure that customary contract clauses incorporating hold harmless agreements, waivers and indemnities are in place for the benefit of prime contractors and, wherever possible, for the benefit of all sub-contractors.

ARTICLE 24 RESIDUAL VALUE INSURANCE EXCLUSION CLAUSE (LSW346)

As used herein: "Residual Value" means the future value of an asset howsoever described or ascertained.

This Contract shall exclude coverage in respect of any loss or liability in respect of insurance or reinsurance of which the principal purpose is wholly or partly to contribute to or to guarantee, pay, protect, or support Residual Value or any reduction thereof, howsoever insured PROVIDED THAT insurance or reinsurance of accidental physical loss or damage is not excluded hereby.

ARTICLE 25 WAR, POLITICAL AND LIKE PERILS CLAUSE (B) (LSW349A)

This Contract EXCLUDES the Reinsured's proportion of the following risks or amounts howsoever insured or reinsured:

(a) Political and other similar risks including (but without limitation thereto) risks associated with contract frustration and failure to repossess (or attempts thereat) aircraft, engines or spare parts.

and

(b) any amounts of original loss in EXCESS of:

US$300 million each operator (regardless of the number of policies and/or contracts and/or interests on the same hulls), (the value to be determined by reference to the operators "All Risks" policy)

for loss or losses arising out of the same cause from paragraphs (a), (c), (d), (e), (f) or (g) of clause AVN48B or its equivalent on policies/contracts underwritten by the Reinsured with a date of inception on or after 1st April 1993.

ARTICLE 26 NON-AVIATION LIABILITY REINSURANCE CLAUSE (LSW350)

The Reinsured shall not contribute towards their ultimate net loss more than their proportion of US$25,000,000 or currency equivalent any one original loss, any one original insured unless the loss arises from one or more of the following:

1. An occurrence involving the ownership, use or operation of **Aircraft**.

2. An occurrence arising at an airport, airfield or heliport location.

3. An occurrence arising at any other location in connection with the ownership, use or operation of **Aircraft**.

4. An occurrence arising out of the provision of goods or services to others

   (a) in connection with the ownership, use or operation of **Aircraft**

   (b) involved in the **Aircraft** industry

5. An occurrence arising out of the design, manufacture, construction, alteration, repair, overhaul, service or treatment of **Aircraft**.

Aircraft shall not be defined in terms wider than aircraft, airships, missiles, spacecraft, launch vehicles, helicopters, rockets, balloons, gliders, microlights, remote piloted vehicles, air cushioned vehicles or any article forming part thereof, or supplied for installation therein, or used in connection therewith including related advice and services.

ARTICLE 27 NUCLEAR AND RADIOACTIVE CONTAMINATION EXCLUSION CLAUSE (LSW360A)

Each policy protected hereunder is deemed to be subject to a:

nuclear exclusion clause and the Aviation Radioactive Contamination Exclusion Clause (General) AVN38A or its equivalent

or

Nuclear Risks Exclusion Clause AVN38B or its equivalent.

However in respect of space third party legal liability insurance policies, this Contract shall not exclude liability for bodily injury/property damage when the proximate cause of such damage is due to radiation naturally occurring in the space environment.

SCHEDULE

1. Crawley Warren Aviation Lineslip (as per the copy slip which has been seen and noted by Reinsurers).

   Reliance is a 5% participant (US$5,000,000 maximum line).

2. Sedgwick Canadian Aviation Main Lineslip (as per the copy slip reference V5C792 which has been seen and noted by Reinsurers).

   Reliance is a 20% participant (US$ or CAN$5,000,000 Hull / Liabilities maximum line).

3. Sedgwick Canadian Mini-Lineslip (as per the copy slip reference V6C794 which has been seen and noted by Reinsurers).

   Reliance has been asked to take a 30% share (CAN$3,225,000 Hull / Liabilities maximum line).

4. Sedgwick Canadian Aircraft Operators Contract (as per the copy slip reference V6C830 which has been seen and noted by Reinsurers).

   Reliance is a 20% participant (CAN$5,000,000 or the equivalent in US$ Hull / Liabilities maximum line).

SEVERAL LIABILITY NOTICE

The subscribing reinsurers' obligations under contracts of reinsurance to which they subscribe are several and not joint and are limited solely to the extent of their individual subscriptions. The subscribing reinsurers are not responsible for the subscription of any co-subscribing reinsurer who for any reason does not satisfy all or part of its obligations.

08/94
LSW1001 (Reinsurance)

The Table of Syndicates referred to on the face of this Policy follows:

Syndicate Number	Percentage	Underwriters' References
340	20.9100	17336AHAXUPX
2341	2.3238	17336AHAXUPX
340	3.3150	18288CHAXUPZ
2341	0.3684	18288CHAXUPZ
340	1.2751	18837GHAXUXX
2341	0.1417	18837GHAXUXX
1028	13.0770	V38XKF42542G
53	15.2560	D6632LA97
960	8.7180	XL133D97A
998	1.7440	XL133D97A
566	9.1540	F7622SRDXX00
1121	8.7170	G74F97Y00428
Total Lloyd's Line	**85.0000**	

The list of Underwriting Members of Lloyd's is for the 1997 year of account

The NAIC Identification Number for each participating syndicate shown herein is AA-112 followed by a four digit number that can be derived by adding 6000 to the syndicate number.

This Insurance, being signed for 85% insures only that proportion of any loss, whether total or partial, including but not limited to that proportion of associated expenses, if any, to the extent and in the manner provided in this Insurance.

The percentages signed in the Table are percentages of 100% of the amount(s) of Insurance stated herein.

LPSO Signing Number and Date or Reference: 81045 27/06/1997

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SCHEDULE "L"

TO THE REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – MAY 23, 2007

FIRST CASUALTY EXCESS OF LOSS REINSURANCE AGREEMENT

TABLE OF CONTENTS

ATTACHMENTS:

FIRST CASUALTY EXCESS OF LOSS
REINSURANCE AGREEMENT
(hereinafter referred to as the "Agreement")

THIS AGREEMENT is made and entered into by and between THE RELIANCE INSURANCE COMPANIES which shall include the following Companies: RELIANCE INSURANCE COMPANY; RELIANCE SURETY COMPANY; RELIANCE NACIONAL DE ARGENTINA SEGUROS, S.A.; RELIANCE NATIONAL DE MEXICO, S.A.; RELIANCE NATIONAL ASIA RE PTE, LTD.; RELIANCE NATIONAL INSURANCE COMPANY (EUROPE) LTD.; RELIANCE NATIONAL (BARBADOS) INSURANCE LTD.; REGENT INTERNATIONAL INSURANCE COMPANY LTD.; RENASA INSURANCE COMPANY, LIMITED (hereinafter collectively referred to as "Company") but only in respect of business through RELIANCE NATIONAL on the one part, and the VARIOUS REINSURER(S) AS PER INTERESTS AND LIABILITIES CONTRACT(S) ATTACHED HERETO (hereinafter referred to as the "Reinsurers") of the other part.

PREAMBLE

Wherever the word "Company" is used in this Agreement, such term shall be held to include any and/or all of the companies which are or may hereafter be established or acquired by the Company, provided that notice be given to the Reinsurers of any such company which may hereafter be established or acquired by the Company as soon as practicable, with full particulars as to how such acquisition is likely to affect this Agreement. In the event of either party maintaining that such acquisition calls for alteration in existing terms, and an agreement not being arrived at, then the business of such company is covered only for a period of forty-five (45) days after notice by either party that they do not wish the business so acquired to be covered. The first named Company shall be the agent of the other named Companies for the purposes of sending or receiving notices or money.

In consideration of the mutual covenants hereinafter contained the parties hereto agree as follows.

BUSINESS COVERED

As respects policies issued on a claims made basis, this Agreement applies to claims made during the term of this Agreement on policies in force at the effective date of this Agreement or written or renewed with an effective date during the term of this Agreement.

As respects policies issued on an occurrence basis, this Agreement applies to losses occurring on policies written or renewed with an effective date during the term of this Agreement.

Whether policies are written on a claims made or an occurrence basis, this Agreement applies to binders, policies and/or contracts of insurance or reinsurance written, issued or bound through Environmental Compliance Services and Environmental Compliance Services International on behalf of the Reliance National Division of Company, and classified by the Company as Casualty including General Liability, Owners Contractors Protective Liability, Railroad Protective Liability, Pollution Legal Liability, Pollution and Remediation Legal Liability, Contractors Pollution Liability, Remediation Stop Loss, Closure/Post Closure, Commercial Property Redevelopment Pollution Liability, Engineers and Consultants Professional Liability, Consultants Environmental Liability, Products Liability, First Party Clean-Up Coverage, Chemical Distributors Liability, and any other products or coverage parts as agreed by the Company and the Reinsurer as respects policies issued with limits of indemnity greater than US $2,000,000 or CAN $2,500,000 or £1,333,333 (Sterling).

TERM AND CANCELLATION

This Agreement shall become effective December 31, 1998, and shall remain in effect through December 30, 1999, both days inclusive, Eastern Standard Time, covering policies written on a claims made and occurrence basis in accordance with the Company's original policies as follows:

1. Claims Made Policies:

   As respects policies written on a claims made basis, this Agreement will cover claims made during the period hereof under policies covered hereunder. In the event of non-renewal hereof, the Reinsurers agree, if required by the Company, to provide coverage in respect of claims first made on or after the expiration date hereof in respect of all claims made policies in force at the date of cancellation or expiration, for the full original policy period including any extended reporting endorsements, that may be in existence at such date.

2. Occurrence Policies:

   As respects policies written on an occurrence basis, this Agreement will cover losses occurring on policies written with a new or renewal effective date during the period. At expiration, reinsurance coverage will remain in force and the Reinsurer will remain liable to the Company for all losses,

including losses with a date of loss after the expiration date, on all policies in force at the date of expiration until their natural expiration, or cancellation.

However, should any policy which is covered during the reinsurance run-off period be extended, continued or renewed due to regulatory or other restrictions, this Agreement will automatically continue to provide reinsurance coverage until such policies are actually terminated by the Company. The maximum amount recoverable hereunder shall not be increased, however, due to the disposition of any of the foregoing.

Alternately, at the option of the Company, reinsurance coverage hereunder may be terminated as respects policies in force for losses occurring with a date of loss after the expiration date and the Reinsurer will return to the Company all unearned premium reserve calculated as of the expiration date and cash in that amount, less applicable ceding commission thereon within 60 days.

TERRITORY

This Agreement is worldwide in scope and shall cover in respect of interests wherever located, as per the original policies.

EXCLUSIONS

This Agreement shall not apply to:

1. Financial Guarantee and Insolvency.

2. Reinsurance Assumed except for individually underwritten Facultative Reinsurance, as well as intra-company reinsurance between the companies reinsured under this Agreement, including reinsurance assumed from Sable Insurance Company.

3. Nuclear Incident per Nuclear Incident Exclusion Clauses attached.

4. Business excluded by the Insolvency Funds Exclusion Clause attached hereto.

5. War risks as per original policies.

NET RETAINED LINES

This Agreement applies only to that portion of any insurance or reinsurance covered by this Agreement which the Company retains net for its own account, and in calculating the amount of any loss hereunder and also in computing the amount in excess of which this Agreement attaches, only loss or losses in respect of that portion of any insurances or reinsurances which the Company retains net for its own account shall be included.

Intercompany Reinsurance, the Environmental Compliance Services Quota Share and Catastrophe Excess of Loss Reinsurance shall be disregarded in calculating the Net Retained Lines and Ultimate Net Loss.

It is understood and agreed that the amount of the Reinsurer's liability hereunder in respect of any loss or losses shall not be increased by reason of the inability of the Company to collect from any other reinsurer, whether specific or general, any amount which may have become due from them, whether such inability arises from the insolvency of such other reinsurer or otherwise.

POOLING ARRANGEMENT

Reliance Insurance Company of Illinois assumes 100% of the liability of Reliance Lloyds after deduction for facultative reinsurance. Effective December 31, 1995, Reliance Insurance Company assumed 100% of the responsibility (as either a direct responsibility by assumption reinsurance or by way of indemnity reinsurance) for all of the business previously or currently written by Reliance National Insurance Company of New York and United Pacific Insurance Company of New York. Reliance Insurance Company assumes 100% of the liability of United Pacific Insurance Company, Reliance National Indemnity Company, Reliance National Insurance Company, Reliance Insurance Company of Illinois, Reliance Insurance Company of California, Reliance National Insurance Company of New York, and United Pacific Insurance Company of New York, after deduction for facultative reinsurance and ceded captive reinsurance programs. Notwithstanding any other provisions of this Agreement, this Agreement protects such assumed reinsurance liability as if it were written directly by Reliance Insurance Company and attaches prior to redistribution to those companies under the terms of Company's intercompany reinsurance pool, which redistribution will be disregarded for all purposes hereunder. With respect to any other named companies set forth in the preamble of this Agreement, this Agreement will apply as provided for in the NET RETAINED LINES ARTICLE. In the event that this Agreement applies on a per risk basis, and a single occurrence affects two or more of the pooling companies named above under different policies, Company will continue to maintain a separate retention and a separate limit for each risk as if the policies were written by separate companies.

REINSURANCE COVERAGE

SECTION A

With the respect to subject policies issued the Reinsurers shall be liable to and shall reimburse the Company for the following amount of coverage:

1. With respect to policies issued in United States dollars (US$), the Ultimate Net Loss in excess of the sum of US $2,000,000 of Ultimate Net Loss each and every occurrence or claim made, each and every policy subject to a limit of US $3,000,000 of Ultimate Net Loss each and every occurrence or claim made, each and every policy,

   or

2. With the respect to policies issued in Canadian dollars (CAN$), the Ultimate Net Loss in excess of the sum of CAN $2,500,000 of Ultimate Net Loss each and every occurrence or claim made, each and every policy, subject to a limit of CAN $3,750,000 of Ultimate Net Loss each and every occurrence or claim made, each and every policy;

   or

3. With the respect to policies issued in British Pounds Sterling (£),the Ultimate Net Loss in excess of the sum of £1,333,333 of Ultimate Net Loss each and every occurrence or claim made, each and every policy, subject to a limit of £2,000,000 of Ultimate Net Loss each and every occurrence or claim made, each and every policy.

The Company shall be the sole judge as to what constitutes each policy.

Wherever the CAN$ or £Sterling equivalent of US$ are referred to above they are based on CAN$ being deemed at a rate of US $0.8: CAN $1, and £Sterling being deemed at a rate of US $1.5: £1.

SECTION B

With respect to policies issued in United States dollars (US$) the Reinsurers shall be liable to and shall reimburse the Company for the Ultimate Net Loss in excess of the sum of US $2,000,000 of Ultimate Net Loss each and every occurrence or claim made, each and every policy which is in excess of SECTION A (US $15,000,000 or the equivalent thereof in CAN$ or £Sterling) subject to a limit of US $3,000,000 each and every occurrence or claim made, each and every policy.

With respect to policies issued in Canadian dollars (CAN$) the Reinsurers shall be liable to and shall reimburse the Company for the Ultimate Net Loss in excess of the sum of CAN $2,500,000 of Ultimate Net Loss each and every occurrence or claim made, each and every policy which is in excess of SECTION A (US $15,000,000 or the equivalent thereof in CAN$ or £Sterling) subject to a limit of CAN $3,750,000 on account of each and every occurrence or claim made, each and every policy.

With respect to policies issued in British Pounds Sterling (£) the Reinsurers shall be liable to and shall reimburse the Company for the Ultimate Net Loss in excess of the sum of £1,333,333 of Ultimate Net Loss each and every occurrence or claim made, each and every policy which is in excess of SECTION A (US $15,000,000 or the equivalent thereof in CAN$ or £Sterling) subject to a limit of £2,000,000 of Ultimate Net Loss on account of each and every occurrence or claim made, each and every policy.

The Company shall be the sole judge as to what constitutes each policy.

Wherever the CAN$ or £Sterling equivalent of US$ are referred to above they are based on CAN$ being deemed at a rate of US $0.8: CAN $1, and £Sterling being deemed at a rate of US $1.5: £1.

REINSTATEMENT

SECTION A

With respect to SECTION A of the REINSURANCE COVERAGE ARTICLE, in the event of the whole or any portion of the coverage under this SECTION being exhausted by a loss, the amount so exhausted is automatically reinstated from the time of the loss for four full free reinstatements. The first three reinstatements shall be for no additional premium. The Company shall pay to the Reinsurers for the fourth reinstatement an additional premium calculated at pro rata as to the fraction of the face value hereunder, being US $3,000,000 or the equivalent thereof in CAN$ or £Sterling , reinstated, and 33.33% as to time) of the net Minimum and Deposit premium for SECTION A only (being US $4,000,000 or the equivalent thereof in CAN$ or £Sterling) adjustable as follows:

1. at a gross rate of 5.25% of the Company's Environmental Compliance Services General Liability Calendar Year 1999 Gross Net Written Premium Income and at a gross rate of 7.20% of the Company's Environmental Compliance Services Pollution Calendar Year 1999 Gross Net Written Premium Income applicable to policies written on a claims made basis,

plus

2. at a gross rate of 7.20% of the Company's Environmental Compliance Services Pollution 1999 Gross Net Written Premium Income applicable to policies written on an occurrence basis.

The additional premium as set forth above shall be calculated and paid by the Company to the Reinsurers as soon as possible following a request by the Company for a loss payment and receipt thereof from Reinsurers. Such reinstatement premium shall be payable in the same currency as the loss relating to such premium payment.

Notwithstanding Reinsurers' liability as set forth above, Reinsurers' liability shall further be limited under SECTION A to a maximum recovery of US $15,000,000 in all (including loss expense) or the equivalent thereof in CAN$ or £Sterling.

SECTION B

With respect to SECTION B of the REINSURANCE COVERAGE ARTICLE, in the event of the whole or any portion of the coverage under this SECTION being exhausted by a loss, the amount so exhausted is automatically reinstated from the time of the loss for three full reinstatements. The Company shall pay to the Reinsurers for the first and second such reinstatements an additional premium calculated at pro rata (being pro rata as to the fraction of the face value hereunder, being US $3,000,000 or the equivalent thereof in CAN$ or £Sterling, reinstated), and 300% as to time and pro rata and 200% as to time for the third such reinstatement of the net Minimum and Deposit premium for SECTION B only (being US $500,000 or the equivalent thereof in CAN$ or £Sterling) adjustable as follows:

1. at a gross rate of 0.51% of the Company's Environmental Compliance Services General Liability Calendar Year 1999 Gross Net Written Premium Income and at a gross rate of 0.71% of the Company's Environmental Compliance Services Pollution Calendar Year 1999 Gross Net Written Premium Income applicable to policies written on a claims made basis,

plus

2. at a gross rate of 0.71% of the Company's Environmental Compliance Services Pollution 1999 Gross Net Written Premium Income applicable to policies written on an occurrence basis.

The additional premium as set forth above shall be calculated and paid by the Company to the Reinsurers as soon as possible following a request by the Company for a loss payment and receipt thereof from Reinsurers. Such reinstatement premium shall be payable in the same currency as the loss relating to such premium payment.

Notwithstanding Reinsurers' liability as set forth above, Reinsurers' liability shall further be limited under SECTION B to a maximum recovery of US $12,000,000 in all (including loss expense) or the equivalent thereof in CAN$ or £Sterling.

However, the following amounts shall be used in the calculation as the equivalent of the US$ amount, where loss is paid in CAN$ or £Sterling:

CAN$625.000 or £Sterling333,333.

PREMIUM AND REPORTS

The Reinsurers shall allow the Company a ceding commission equal to 47.50% on all premiums paid under this Agreement.

The premium to be paid to Reinsurers for coverage under SECTION A and SECTION B. combined of the REINSURANCE COVERAGE ARTICLE, shall be calculated at the following rates:

1. 5.25% of the Company's Environmental Compliance Services General Liability 1999 Calendar Year "Gross Net Written Premium Income" and at 7.20% of the Company's Environmental Compliance Services Pollution 1999 Calendar Year "Gross Net Written Premium Income" both applicable to policies of the Company written on a claims made basis; plus

2. 7.20% of the Company's Environmental Compliance Services Pollution 1999 "Gross Net Written Premium Income" both applicable to policies of the Company written on an occurrence basis.

The term, "Calendar Year Gross Net Written Premium Income" means the Calendar Year gross written premiums applicable to business written subject hereunder less return premiums for cancellations and less premiums paid for reinsurance, if any, recoveries under which would inure to the benefit of this Agreement.

The term "Gross Net Written Premium Income" shall mean the Company's gross written premiums charged for policies attaching during the term of this Agreement plus additional premiums thereon, less return premiums for cancellations and less premiums paid for reinsurance, if any, recoveries under which would inure to the benefit of this Agreement.

The Company shall pay to the Reinsurers a deposit premium in two equal installments in advance on December 31, 1998 and June 30, 1999 as follows:

At December 31, 1998:

US$4,136,061.50
CAN$7,777.50
£ 3,871.50

At June 30, 1999:

US$4,136,061.50
CAN$7,777.50
£ 3,871.50

As soon as practicable after the expiry of this Agreement, the Company shall furnish a statement of their gross net written premium income, as defined herein, for the term of this Agreement indicating the reinsurance premium due calculated as stipulated above. If the premium due the Reinsurers is greater than the deposit premium paid, an additional premium shall be due and payable to the Reinsurers for the amount in excess thereof. If the premium due the Reinsurers is less than the deposit premium paid then a return premium shall be due and payable to the Company for the difference thereof subject to a minimum premium of US $7,619,048 or its equivalent with CAN$ being deemed at a rate of US $0.8: CAN $1, and with £Sterling being deemed at a rate of US $1.5: £1.

The Company shall also provide the Reinsurers as soon as possible after December 31 any reports which may be necessary for annual statement purposes.

EXTRA CONTRACTUAL OBLIGATIONS AND LOSS IN EXCESS OF POLICY LIMITS

"Extra Contractual Obligations" means any punitive, exemplary, compensatory, or consequential damages, other than loss in excess of policy limits paid by the Company as a result of a claim against it by its insured, its insured's assignee, or a third party claimant, which claim alleges negligence or bad faith on the part of the Company (or its third party administrator) in the handling of a claim under the policy insured. An extra contractual obligation will be deemed to have occurred on the same date as the loss covered or alleged to be covered under the policy that gave rise to the extra contractual obligation. This Agreement will not apply to any extra contractual obligation incurred by the Company as the result of any fraudulent or criminal act directed against the Company by any officer or director of the Company acting individually or collectively or in collusion with any other organization or party involved in the presentation, defense, or settlement of any claim under this Agreement.

"Loss in excess of policy limits" means any amount of loss paid by the Company in excess of its policy limits, but otherwise within the coverage terms of the policy, as a result of a claim against it by its insured or its insured's assignee to recover damages the insured is legally obligated to pay to a third party claimant because of the Company's (or its third party administrator's) alleged or actual negligence or bad faith in rejecting a settlement within the policy limits, or in discharging its duty to defend or prepare the defense in the trial of an action against its insured, or in discharging its duty to prepare or prosecute an appeal consequent upon such an action. This Agreement will not apply to any loss in excess of policy limits incurred by the Company as the result of any fraudulent or criminal act directed against the Company by any officer or director of the Company acting individually or collectively or in collusion with any other organization or party involved in the presentation, defense, or settlement of any claim under this Agreement.

The date of loss on which any loss in excess of policy limits is incurred by the Company will be deemed to be as follows: (a) the date the claim is made under the original policy for policies issued on a claims made basis, or (b) the date the loss is discovered for policies issued on a losses discovered basis.

CLAIM NOTICE AND LOSS SETTLEMENT

The Company will give notice to the Reinsurer, as soon as reasonably practicable, of any claims or losses which in the opinion of the Company are likely to result in a claim against this Agreement, and the Company will keep the Reinsurer advised of all material subsequent developments.

The Company shall, at any reasonable time, afford the Reinsurers the opportunity to review the Company's claim procedures in accordance with the ACCESS TO RECORDS ARTICLE herein.

The Reinsurers shall remit immediately their share of any loss covered hereunder upon reasonable evidence for the amount paid or to be paid given in writing by the Company to the Reinsurers.

CURRENCY

Wherever the word "Dollars" or the "$" sign appears in this Contract, they shall be construed to mean United States dollars (US$), except in those cases where the policies are issued by Company in Canadian Dollars, they shall mean Canadian Dollars (CAN$). Wherever the sign "£" appears in this Contract it shall mean British pounds sterling.

All payments made by either party shall be made in the currency of the original policy except that currencies other than those above shall be converted to sterling at the rate of exchange on the date such transaction is entered in the books of Company.

In the event Company is involved in a loss requiring payment in more than one currency hereunder. Company's retention and the amount recoverable hereunder shall be apportioned in the currencies in the same proportion as the amount of ultimate net loss in each currency bears to the total ultimate net loss from all currencies paid by the Company.

ACCESS TO RECORDS

The Reinsurers or their designated representatives shall have free access at any reasonable time to all policy and claim records of the Company which pertain to this reinsurance.

OFFSET

Each party hereto shall have, and may exercise at any time and from time to time, the right to offset any balance or balances, whether on account of premiums or on account of losses or otherwise, due from each party to the other (or, if more than one, any other) party hereto under this Agreement; provided, however, that in the event of the insolvency of a party hereto, offsets shall be allowed only in accordance with the provisions of applicable insurance law.

TAX CLAUSE

In consideration of the terms under which this Agreement is issued, the Company undertakes not to claim any deduction of the premium hereon when making Canadian tax returns or when making tax returns other than Income or Profits Tax returns, to any State or Territory of the United States of America or to the District of Columbia.

FEDERAL EXCISE TAX

(Federal Excise Tax applies only to those Reinsurers, except underwriters at Lloyd's, London and other Reinsurers exempt from the Federal Excise Tax, who are domiciled outside the United States of America.)

A. The Reinsurers have agreed to allow, for the purpose of paying the Federal Excise Tax, the applicable rate of the premium payable hereon to the extent such premium is subject to Federal Excise Tax.

B. In the event of any return premium becoming due hereunder, the Reinsurers will deduct the applicable amount of Federal Excise Tax from the amount of the return and the Company or its Reinsurance Broker should take steps to recover the Tax from the United States Government.

ERRORS AND OMISSIONS

Any act, delays, omissions or errors inadvertently made in conjunction with this Agreement shall not be held to relieve either party hereto from any liability which would attach to it hereunder if such act, delay, omission, or error had not been made, provided such act, delay, omission or error is sought to be rectified as soon as possible after discovery.

INSOLVENCY

In the event of the insolvency of one or more than one of the Companies reinsured by this Agreement, this reinsurance shall be payable directly to the insolvent Company(ies), or to its liquidator, receiver, conservator or statutory successor, on the basis of the liability of the insolvent Company(ies) without diminution because of the insolvency of one or more than one of the Companies reinsured by this Agreement or because the liquidator, receiver, conservator or statutory successor of the insolvent Company(ies) has failed to pay all or a portion of any claim. It is agreed, however, that the liquidator, receiver, conservator or statutory successor of the insolvent Company(ies) shall give written notice to the Reinsurer of the pendency of a claim against the insolvent Company(ies), indicating the policy or bond reinsured, which claim would involve a possible liability on the part of the Reinsurer within a reasonable time after such claim is filed in the conservation or liquidation proceeding or in the receivership, and that during the pendency of such claim the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses that it may deem available to the insolvent Company(ies) or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to the approval of the Court, against the insolvent Company(ies) as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit which may accrue to the insolvent Company(ies) solely as a result of the defense undertaken by the Reinsurer.

Where two or more reinsurers are involved in the same claim and a majority in interest elect to interpose defense to such claim, the expenses shall be apportioned in accordance with the terms of this Agreement as though such expense had been incurred by the insolvent Company(ies).

The reinsurance shall be payable by the Reinsurer to the insolvent Company(ies) or to its liquidator, receiver, conservator or statutory successor, except as provided by applicable insurance law or except (1) where the Agreement specifically provides another payee of such reinsurance in the event of the insolvency of the Company(ies) and (2) where the Reinsurer with the consent of the direct insured or insureds has assumed such policy obligations of the insolvent Company(ies) as direct obligations of the Reinsurer to the payees under such policies and in substitution for the obligations of the insolvent Company(ies) to such payees. Prior to the implementation of a novation, any assumption certificates on New York risks must be approved in advance by the Superintendent of Insurance for New York.

ARBITRATION

Any disputes between the company and the Reinsurer arising out of, relating to, or concerning this Agreement, whether sounding in contract or tort and whether arising during or after termination of this Agreement, will be submitted for decision to a board of arbitration composed of two arbitrators and an umpire ("Board") meeting at a site in Philadelphia, Pennsylvania. The arbitration will be conducted under the Federal Arbitration Act and will proceed as follows:

A. Submission to Arbitration. A notice requesting arbitration, or any other notice made in connection therewith, will be in writing and will be sent certified mail, return receipt requested, to the affected parties. The notice requesting arbitration will state in particulars all issues to be resolved in the view of the claimant, the name of the claimant's arbitrator and will set a tentative date for the hearing, which will be no sooner than 90 days and no later than 150 days from the date that the notice requesting arbitration is mailed if one Reinsurer is involved, or no sooner than 180 days and no later than 240 days from the date that the notice requesting arbitration is mailed if more than one Reinsurer is involved.

Should more than one Reinsurer to this Agreement be involved in the same dispute or other matter in controversy, the Company may effect a consolidated arbitration by simultaneously serving notice upon each involved Reinsurer. The Reinsurers so served shall then act together as a single party for purposes of this Article provided that:

(a) Each Reinsurer shall have the ability to negotiate and reach a settlement of the dispute or matter in controversy separately from the other Reinsurers;

(b) Each Reinsurer has the right to its own attorney, position, and related claims and defenses;

(c) Each party will not, in presenting its position, be prevented from presenting its position by the position set forth by any other party; and

(d) The costs and expense of the consolidated arbitration, exclusive of attorney's fees (which will be borne exclusively by the respective retaining party) but including the expense of any stenographer requested and the fees of the umpire and arbitrators will be borne pro rata by each party actively participating in the consolidated arbitration or as the Board will determine to be fair and appropriate under the circumstances.

Within 30 days of receipt of the claimant's notice, or 60 days in the event of a consolidated arbitration, the respondent will notify the claimant of any additional issues to be resolved in the arbitration and of the name of its appointed arbitrator.

B. Arbitration Board Membership. Unless otherwise mutually agreed, the members of the Board will be impartial and disinterested and will be current or former (i) officers of property-casualty insurance companies or reinsurance companies, (ii) underwriters at Lloyd's, London, or (iii) lawyers who have worked or are working for an insurance company or a reinsurance company.

As time is of the essence, if the respondent fails to appoint its arbitrator within 30 days after having received the claimant's written request for arbitration, or 60 days in the event of a consolidated arbitration, the claimant is authorized to and will appoint the second arbitrator.

The two appointed arbitrators will choose an umpire before instituting the hearing. If the two arbitrators fail to agree upon the appointment of an umpire within 30 days after notification of the appointment of the second arbitrator, the two arbitrators will promptly request American Arbitration Association ("AAA") to appoint an umpire for the arbitration with the qualifications set forth above in this Article. If the AAA fails to name an umpire within 30 days of the arbitrators' request, either party may apply to a court of competent jurisdiction to appoint an umpire with the above required qualifications. The umpire will promptly notify in writing all parties to the arbitration of his selection and thereupon the Board will notify all parties of the scheduled date for the hearing. Upon resignation

or death of any member of the Board, a replacement will be appointed in the same fashion as the resigning or deceased member was appointed.

C. Submission of Briefs. The claimant and respondent shall each submit initial briefs to the Board outlining the issues in dispute and the basis, authority, and reasons for their respective positions within thirty (30) days of the date of notice of the appointment of the umpire if one Reinsurer is involved, or sixty (60) days of the date of notice of the appointment of the umpire if more than one Reinsurer is involved. The claimant and the respondent may submit reply briefs to the Board within ten (10) days after filing of the initial brief(s) if one Reinsurer is involved and within twenty (20) days after filing of the initial brief(s) if more than one Reinsurer is involved. Initial and reply briefs may be amended by the submitting party at any time, but not later than ten (10) days prior to the date of commencement of the arbitration hearing. Reasonable responses shall be allowed at the arbitration hearing to new material contained in any amendments filed to the briefs but not previously responded to.

D. Arbitration Award. The Board will make a decision and award with regard to the terms expressed in this Agreement, the original intentions of the parties to the extent reasonably ascertainable, and the practice of the reinsurance business which decision and award will be in writing and will state the basis for the decision and award.

The decision and award will be based upon a hearing in which evidence will be allowed and to which the formal rules of evidence will not strictly apply but in which cross-examination and rebuttal will be allowed. At the request of the Board, or at its own election, either party may submit a posthearing brief after the close of the hearing. The Board will make its decision and award within 30 days following the close of the hearing or the submission of posthearing briefs, whichever is later. Every decision by the Board will be by a majority of the members of the Board and each decision and award by the majority of the members of the Board will be final and binding upon all parties to the proceeding. Either party may apply to a court of competent jurisdiction within the State of Pennsylvania for an order confirming any decision and the award; a judgment of that Court will thereupon be entered on any decision or award. If such an order is issued, the attorney's fees of the party so applying and court costs will be paid by the party against whom confirmation is sought.

In its discretion, the Board may award interest at the prime rate as published in the Wall Street Journal (Eastern Edition) on the date of the award calculated from the date the Board determines that any amounts due

the prevailing party should have been paid to the prevailing party. The Board may not award punitive, exemplary, or treble damages.

E. Arbitration Expense. Except in the event of a consolidated arbitration, each party will bear the fee and expenses of the arbitrator appointed by it and one-half of the fee and expenses of the umpire. All other expense of the arbitration shall be equally divided between the parties.

F. Evidence. Subject to customary and recognized legal rules of privilege, each party participating in the arbitration will have the obligation to produce, within the limits of its control, those documents and as witnesses to the arbitration those of its employees, those of its affiliates, and those of any intermediary or underwriting manager as any other participating party reasonably requests providing always that the same witnesses and documents be obtainable and relevant to the issues before the arbitration and not be unduly burdensome or excessive. The parties may mutually agree as to pre-hearing discovery prior to the arbitration hearing and in the absence of agreement, upon the request of any party, pre-hearing discovery may be conducted as the Board will determine in its discretion to be in the interest of fairness, full disclosure, and a prompt hearing, decision, and award by the Board. The Board will be the final judge of the procedures of the Board, the conduct of the arbitration, the rules of evidence, the rules of privilege and production, and of excessiveness and relevancy of any witnesses and documents upon the petition of any participating party. To the extent permitted by law, the Board will have the authority to issue subpoenas and other orders to enforce its decisions. The Board will have the authority to issue interim decisions or awards in the interest of fairness, full disclosure, and a prompt and orderly hearing, decision, and award.

G. Equitable Relief. Nothing herein will be construed to prevent any participating party from applying to a federal district court or other court of competent jurisdiction to issue a restraining order or other equitable relief to maintain the "status quo" of the parties participating in the arbitration pending the decision and award by the Board or to prevent any party from incurring irreparable harm or damage at any time prior to the decision and award of the Board.

SERVICE OF SUIT

(This Article is applicable only to an unauthorized Reinsurer in the State of New York or to the Reinsurer who is domiciled outside the United States of America.)

It is agreed that in the event of any dispute or the failure of the Reinsurer hereon to pay any amount claimed to be due hereunder, the Reinsurer hereon, at the request of the Company, will submit to the jurisdiction of a court of competent jurisdiction within the United States of America.

Nothing in this clause constitutes or should be understood to constitute a waiver of the Reinsurer's rights to commence an action in any Court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another Court as permitted by the laws of the United States or of any State in the United States.

It is further agreed that service of process in such suit may be made upon Messrs. Mendes and Mount, 750 Seventh Avenue, New York, New York 10019-6829, and that in any suit instituted against any one of them upon this contract, the Reinsurer will abide by the final decision of the Court or of any Appellate Court in the event of an appeal.

The above-named are hereby authorized and directed to accept service of process on behalf of Reinsurer in any such suit and/or upon the request of the Company to give a written undertaking to the Company that they will enter a general appearance upon the Reinsurer's behalf in the event such a suit shall be instituted.

Further, pursuant to any statute of any state, territory or district of the United States which makes provision therefor, the Reinsurer hereon hereby designates the Superintendent, Commissioner or Director of Insurance or other officer specified for that purpose in the statute, or his successor or successors in office, as their true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Company or any beneficiary hereunder arising out of this contract of reinsurance, and hereby designate the above-named as the person to whom the said officer is authorized to mail such process or true copy thereof.

SECURITY AND UNAUTHORIZED REINSURANCE

A. If any Reinsurer is unauthorized or otherwise unqualified in any state or other United States jurisdiction, and if, without such security, a financial penalty to Company would result on any statement or report it is required to make or file with regulatory authorities, for reasons of Company's financial security and condition, that Reinsurer will secure, at the inception hereof and within thirty (30) days after the end of each calendar quarter (but no later than December 31 of each year as respects the fourth quarter), its share of "obligations" under this Agreement in a manner, form and amount acceptable to Company and to all applicable regulatory authorities by either:

1. Clean, irrevocable, and unconditional evergreen letter(s) of Credit issued and confirmed, if confirmation is required by the applicable insurance regulatory authorities, by a bank or banks meeting the NAIC Securities Valuation Office credit standards for issuers of letters of credit and acceptable to Company and those insurance regulatory authorities;

2. A trust fund meeting at least the standards of New York's Insurance Regulation 114.

3. Cash advances or funds withheld or a combination of both ("deposit of funds").

The initial amount of this security shall be delivered to the Company no later than the first December 31 following the effective date of this Agreement. If Reinsurer fails to provide the security as required by this paragraph by the first December 31st following the effective date of this Agreement, or any anniversary thereof, Reinsurer will secure its obligations under this Agreement at a time, in a manner and form from among the above three options, and in an amount, all as designated by and acceptable to Company in its sole discretion and to insurance regulatory authorities.

B. The "obligations" referred to herein shall mean the then current (as of the end of each calendar quarter) sum of:

1. The amount of ceded unearned premium for which Reinsurer is responsible;

2. The amount of paid losses and allocated loss adjustment expenses paid by Company for which Reinsurer is responsible but not yet recovered from the Reinsurer;

3. The amount of ceded reserves for losses reported and outstanding, as well as for reserves for allocated loss adjustment expenses, for which Reinsurer is responsible;

4. The amount of ceded reserves for the development of losses reported and outstanding, as well as for the development of allocated loss adjustment expenses, for which Reinsurer is responsible;

5. The amount of return and refund premiums for which Reinsurer is responsible but not yet recovered from Reinsurer.

C. If any Reinsurer is unauthorized in any province or jurisdiction of Canada, that Reinsurer agrees to fund one hundred fifteen percent (115%) of its share of Company's ceded Canadian unearned premium and outstanding loss and loss adjustment expense reserves by cash advances, if, without such funding, a penalty would accrue to Company on any financial statement it is required to file with the insurance regulatory authorities involved.

D. Company, or its successors in interest may draw, at any time and from time to time upon the:

1. established letter of credit (or subsequent cash deposit);

2. established trust fund (or subsequent cash deposit); or

3. deposit of funds;

without diminution or restriction because of the insolvency of either Company or Reinsurer for one or more of the following purposes:

a. To make payment to and reimburse Company for Reinsurer's share of paid loss and allocated loss adjustment expense paid by Company under its "subject policies" and for which Reinsurer is responsible under this Agreement that is due to Company but unpaid by Reinsurer;

b. To make payments to Reinsurer of any amounts held thereby that exceed the amount required to fund Reinsurer's "obligations" under this Agreement provided that if a trust fund is applicable, only the excess of one hundred two (102%) percent of the amount required to fund Reinsurer's "obligations" may be released.

c. To make payment to and reimburse Company for other amounts due Company under this Agreement from Reinsurer including but not limited to Reinsurer's share of premium refunds and returns; and

d. To obtain a cash deposit of the entire amount of the remaining balance under the established letter of credit or established trust fund ("cash deposit") in the event that Company:

(i) has received notice of non-renewal or expiration of the letter of credit or trust fund;

(ii) has not received assurances satisfactory to Company of any required increase in the amount of the trust fund or letter of credit, or its replacement or other continuation of the letter of credit at least thirty (30) days before its stated expiration date;

(iii) has been made aware that others may attempt to attach or otherwise place in jeopardy the security represented by the letter of credit or trust fund; or

(iv) has concluded that the trustee or issuing (or confirming) bank's financial condition is such that the security represented by the trust fund or letter of credit may be in jeopardy;

and under any of those circumstances where Reinsurer's entire "obligations" or part thereof, under this Agreement remain unliquidated and undischarged at least thirty (30) days prior to the stated expiration date or at the time Company learns of the possible jeopardy to the security represented by the letter of credit or trust fund.

E. If Company draws on the letter of credit or trust fund to obtain a cash deposit, Company shall hold the amount of the cash deposit so obtained in the name of Company in any solvent United States Bank or Trust Company that is a member of the Federal Reserve System and insured by the Federal Deposit Insurance Corporation in trust solely to secure the "obligations" referred to above and for the use and purposes enumerated above and to return any balance thereof to Reinsurer:

(1) upon the complete and final liquidation and discharge of all the Reinsurer's obligations to Company under this Agreement; or

(2) in the event Reinsurer subsequently provides alternate or replacement security consistent with the terms hereof and acceptable to Company.

F. Company will prepare and forward at least quarterly to Reinsurer a statement for the purposes of this Article, showing Reinsurer's share of "obligations" as set forth above. If Reinsurer's share thereof exceeds the then existing balance of the security provided, Reinsurer shall, within fifteen (15) days of receipt of Company's statement, but never later than December 31 of any year, increase the amount of the deposit of funds, the trust fund, the letter of credit, or the cash deposit to the required amount of Reinsurer's share of "obligations" set forth in Company's statement.

Subject to the one hundred two (102%) percent restraints with respect to trust funds, if Reinsurer's share thereof is less than the then existing balance of the deposit of funds, trust account, letter of credit, or cash deposit as provided for above, Company will release the excess thereof to Reinsurer upon Reinsurer's written request.

G. Reinsurer shall not attempt to prevent Company from holding the deposit of funds, drawing on the letter of credit or trust fund or holding the cash deposit so long as Company is acting in accordance with this Article.

H. The assets deposited in the trust fund shall be valued according to their current fair market value and shall consist only of cash (U.S. legal tender), certificates of deposit issued by a United States Bank and payable in cash, and investments of the types specified in Section 1404 (a)(1)(2)(13) of the New York Insurance Law. Investments issued by the parent, subsidiary, or affiliate of either Company or Reinsurer shall not be eligible investments. All assets so deposited shall be accompanied by all necessary assignments, endorsements in blank, or transfer of legal title to the trustee in order that the Company may negotiate any such assets without the requirement of consent or signature from reinsurer or any other entity.

I. All settlements of account between Company and Reinsurer shall be made in cash or its equivalent.

J. Company's "successors in interest" shall include those by operation of law, including without limitation, any liquidator, rehabilitator, receiver, or conservator.

K. Any income earned and received by the amount held in a trust fund shall be added to the principal thereof.

L. Reinsurer will take any other reasonable steps that may be required for Company to take full credit on its statutory financial statements for the reinsurance provided by this Agreement.

M. Company may apply the Canadian cash advances under paragraph C above to satisfy Reinsurer's obligations to Company in the same fashion as if it were drawing on the letter of credit (or subsequent cash deposit), trust accounts or deposit of funds.

PREMIUM LETTERS OF CREDIT

Non admitted reinsurers hereon agree to provide a Premium Letter of Credit for the funding purposes. The amount of such funding on this treaty is calculated by applying the following criteria and rates:

12 MONTHS	24 MONTHS	36 MONTHS	48 MONTHS
30%	30%	20%	0%

The amount of such funding shall constitute the percentage shown of the positive difference between the Ceded Earned Premium, for sections A and B, received by reinsurers, net of ceding commission and the total of all ceded paid losses, ceded paid allocated loss expenses and ceded case reserves net of reinstatement premiums. However, such funding not to exceed the amount required to offset the actual schedule F. penalty to $3,000,000 xs $2,000,000.

The first calculation of the funding shall be made at December 31st, 1999 and shall be recalculated at 12 month intervals until 36 months after the initial calculation when the Company agrees to return the Letter of Credit to Reinsurers.

For purposes of this provision any LOC issued shall be advanced in the equivalent amount of US$ only and funding shall not exceed the amount required to offset the actual schedule F. penalty to the limits exposing this contract.

INTERMEDIARY

Aon Re Inc., an Illinois corporation, or one of its affiliated corporations duly licensed as a reinsurance intermediary, is hereby recognized as the Intermediary negotiating this Agreement for all business hereunder. All communications (including but not limited to notices, statements, premiums, return premiums, commissions, taxes, losses, loss expenses, salvages, and loss settlements) relating to this Agreement will be transmitted to the Company or the Reinsurers through the Intermediary. Payments by the Company to the Intermediary will be deemed payment to the Reinsurers. Payments by the Reinsurers to the Intermediary will be deemed payment to the Company only to the extent that such payments are actually received by the Company.

OTHER TERMS AND CONDITIONS

A. Waiver. The failure of Company or Reinsurer to insist on strict compliance with this Agreement, or to exercise any right or remedy will not constitute a waiver of any rights contained herein nor stop the parties from demanding full and complete compliance nor prevent the parties from exercising such remedy in the future.

B. Severability. If any provision of this Agreement should be invalid under applicable laws, the latter will control but only to the extent of the conflict without affecting the remaining provisions of this Agreement.

C. Headings. The headings preceding the text of the articles and paragraphs of this Agreement are intended and inserted solely for the convenience of reference and will not affect the meaning, interpretation, construction, or effect of this Agreement.

D. Assignment. This Agreement will be binding upon and inure to the benefit of Company and Reinsurer and their respective successors and assigns provided, however, that this Agreement may not be assigned by either Company or Reinsurer without the prior written consent of the other which consent may be withheld by either party in its sole unfettered discretion.

E. Negotiated Agreement. This Agreement has been negotiated by the parties and the fact that the initial and final draft will have been prepared by either party will not give rise to any presumption for or against any party to this Agreement or be used in any form in the construction or interpretation of this Agreement or any of its provisions.

F. Notices. Wherever written notice is required under this Agreement, it will be in writing and either delivered personally, sent by facsimile, overnight mail by a reputable national express mail firm, or by certified mail, return receipt requested to addresses indicated above.

G. Governing Law. This Agreement will be governed as to performance, administration, and interpretation by the laws of Pennsylvania, exclusive of its rules with respect to conflicts of law, except as to rules with respect to credit for reinsurance in which case the rules of all applicable states will apply.

H. Entire Agreement. This Agreement supersedes, merges with, and makes null and void any and all previous agreements, whether written or oral, between Company and Reinsurer or their predecessors with respect to the reinsurance of Company by Reinsurer described above and constitutes the full and complete agreement

between the parties with respect to that described reinsurance. No amendment to this Agreement will be valid unless in writing and signed by both parties.

I. Per Risk Coverage. If the described reinsurance is provided on a per risk or per policy basis, this Agreement reinsures each Company listed as a cedent under this Agreement as if each Company were separately reinsured under a separate reinsurance agreement.

J. Per Occurrence Coverage. If the described reinsurance is provided to respond to an occurrence regardless of the number of policies or risks contributing to the Ultimate Net Loss, the retention and the limit of liability of this Agreement for each occurrence will apply to the Ultimate Net Loss of the Companies listed as a cedent under this Agreement as a group and not separately to each of the Companies. The recovery from an occurrence by each such Company under this Agreement will be prorated in proportion that each Company contributed to the whole of the Ultimate Net Loss incurred by the Companies as a group from the occurrence.

K. Aggregate Coverage. If the described reinsurance is provided to respond to the aggregate loss results of the Companies arising from multiple unrelated losses or occurrences, the retention and the limit of liability of this Agreement will apply to the Ultimate Net Loss of the Companies listed as a cedent under this Agreement as a group and not separately to each of the Companies. The recovery by each such Company under this Agreement will be prorated to each such company in the proportion that each Company contributed to the whole of the Ultimate Net Loss incurred by the Companies as a group.

THIRD PARTY BENEFICIARY

Except as expressly provided for in the INSOLVENCY ARTICLE, the provisions of this Agreement are intended solely for the benefit of the Company and Reinsurer. Nothing in this Agreement shall in any manner create or be construed to create any obligations to or establish any rights against any party to this Agreement in favor of any other persons not party to this Agreement.

ORIGINAL CONDITIONS

Except as expressly modified in this Agreement, the obligation to indemnify or reimburse the Company under the reinsurance coverage provided under this Agreement will be subject to the same terms, limits, conditions, and endorsements of the Company's original Policies and to all interpretations, modifications, waivers, and alterations thereon.

NUCLEAR INCIDENT EXCLUSION CLAUSE--LIABILITY--REINSURANCE -- U.S.A.

1. This reinsurance does not cover any loss or liability accruing to the Reassured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.

2. Without in any way restricting the operation of paragraph 1 of this Clause it is understood and agreed that for all purposes of this reinsurance all the original policies of the Reassured (new, renewal and replacement) of the classes specified in Clause II of this paragraph 2 from the time specified in Clause III in this paragraph 2 shall be deemed to include the following provision (specified as the Limited Exclusion Provision):

Limited Exclusion Provision*

I. It is agreed that the policy does not apply under any liability coverage, to {*injury, sickness, disease, death or destruction* / bodily injury or property damage} with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability.

II. Family Automobile Policies (liability only), Special Automobile Policies (private passenger automobiles, liability only), Farmers Comprehensive Personal Liability Policies (liability only), Comprehensive Personal Liability Policies (liability only) or policies of a similar nature; and the liability portion of combination forms related to the four classes of policies stated above, such as the Comprehensive Dwelling Policy and the applicable types of Homeowners Policies.

III. The inception dates and thereafter of all original policies as described in II above, whether new, renewal or replacement, being policies which either
(a) become effective on or after 1st May, 1960, or
(b) become effective before that date and contain the Limited Exclusion Provision set out above;
provided this paragraph 2 shall not be applicable to Family Automobile Policies, Special Automobile Policies, or policies or combination policies of a similar nature, issued by the Reassured on New York risks, until 90 days following approval of the Limited Exclusion Provision by the Governmental Authority having jurisdiction thereof.

3. Except for those classes of policies specified in Clause II of paragraph 2 and without in any way restricting the operation of paragraph 1 of this Clause, it is understood and agreed that for all purposes of this reinsurance the original liability policies of the Reassured (new, renewal and replacement) affording the following coverages:

   Owners, Landlords and Tenants Liability, Contractual Liability, Elevator Liability, Owners or Contractors (including railroad) Protective Liability, Manufacturers and Contractors Liability, Product Liability, Professional and Malpractice Liability, Storekeepers Liability, Garage Liability, Automobile Liability (including Massachusetts Motor Vehicle or Garage Liability)

   shall be deemed to include, with respect to such coverages, from the time specified in Clause V of this paragraph 3, the following provision (specified as the Broad Exclusion Provision):

   Broad Exclusion Provision*

   It is agreed that the policy does not apply:

   I. Under any Liability Coverage, to {*injury, sickness, disease, death or destruction* / bodily injury or property damage}

      (a) with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability; or

      (b) resulting from the hazardous properties of nuclear material and with respect to which (1) any person or organization is required to maintain financial protection pursuant to the Atomic Energy Act of 1954, or any law amendatory thereof, or (2) the insured is, or had this policy not been issued would be, entitled to indemnity from the United States of America, or any agency thereof, under any agreement entered into by the United States of America, or any agency thereof, with any person or organization.

   II. Under any Medical Payments Coverage, or under any Supplementary Payments Provision

      relating to {*immediate medical or surgical relief* / first aid,} to expenses incurred with respect to {*bodily injury, sickness, disease or death* / bodily injury} resulting from the hazardous properties of nuclear material and arising out of the operation of a nuclear facility by any person or organization.

   III. Under any Liability Coverage, to {*injury, sickness, disease, death or destruction* / bodily injury or property damage} resulting from the hazardous properties of nuclear material, if

      (a) the nuclear material (1) is at any nuclear facility owned by, or operated by or on behalf of, an insured or (2) has been discharged or dispersed therefrom;

(b) the nuclear material is contained in spent fuel or waste at any time possessed, handled, used, processed, stored, transported or disposed of by or on behalf of an insured; or

(c) the {*injury, sickness, disease, death or destruction* / bodily injury or property damage} arises out of the furnishing by an insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility, but if such facility is located within the United States of America, its territories, or possessions or Canada, this exclusion (c) applies only to {*injury to or destruction of property at such nuclear facility.* / property damage to such nuclear facility and any property thereat.}

IV. As used in this endorsement:

"hazardous properties" include radioactive, toxic or explosive properties; **"nuclear materials"** means source materials, special nuclear material or byproduct material; **"source material," "special nuclear material,"** and **"byproduct material"** have the meanings given them in the Atomic Energy Act of 1954 or in any law amendatory thereof; **"spent fuel"** means any fuel element or fuel component, solid or liquid, which has been used or exposed to radiation in a nuclear reactor; **"waste"** means any waste material (1) containing byproduct material and (2) resulting from the operation by any person or organization of any nuclear facility included within the definition of nuclear facility under paragraph (a) or (b) thereof; **"nuclear facility"** means

(a) any nuclear reactor,

(b) any equipment or device designed or used for (1) separating the isotopes of uranium or plutonium, (2) processing or utilizing spent fuel, or (3) handling, processing or packaging waste,

(c) any equipment or device used for the processing, fabricating or alloying of special nuclear material if at any time the total amount of such material in the custody of the insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235,

(d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste,

and includes the site on which any of the foregoing is located, all operations conducted on such site and all premises used for such operations; **"nuclear reactor"** means any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of fissionable material;

{*With respect to injury to or destruction of property, the word "injury" or "destruction" includes all forms of radioactive contamination of property.* / "property damage" includes all forms of radioactive contamination of property.}

V. The inception dates and thereafter of all original policies affording coverages specified in this paragraph 3, whether new, renewal or replacement, being policies which become effective on or after 1st May, 1960, provided this paragraph 3 shall not be applicable to

(i) Garage and Automobile Policies issued by the Reassured on New York risks, or

(ii) statutory liability insurance required under Chapter 90, General Laws of Massachusetts,

until 90 days following approval of the Broad Exclusion Provision by the Governmental Authority having jurisdiction thereof.

4. Without in any way restricting the operation of paragraph 1 of this Clause, it is understood and agreed that paragraphs 2 and 3 above are not applicable to original liability policies of the Reassured in Canada and that with respect to such policies this Clause shall be deemed to include the Nuclear Energy Liability Exclusion Provisions adopted by the Canadian Underwriters' Association or the Independent Insurance Conference of Canada.

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* NOTE: The words printed in italics in the Limited Exclusion Provision and in the Broad Exclusion Provision shall apply only in relation to original liability policies which include a Limited Exclusion Provision or a Broad Exclusion Provision containing those words.

N.M.A. 1590 (21/9/67)
Approved by Lloyd's Underwriters' Non-Marine Association.

AMENDMENT TO THE DEFINITION OF WASTE

It is agreed that the definition of "**waste**" contained in sub-paragraph IV above is amended to read as follows:

"**Waste**" means any material

(a) containing byproduct material other than the tailings or waste produced by the extraction or concentration of uranium or thorium from any ore processed primarily for its source material content, and

(b) resulting from the operation by any person or organization of any nuclear facility included under the first two paragraphs of the definition of nuclear facility.

NUCLEAR INCIDENT EXCLUSION CLAUSE--LIABILITY--REINSURANCE -- CANADA

1. This Agreement does not cover any loss or liability accruing to the Reinsured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.

2. Without in any way restricting the operation of paragraph 1 of this clause it is agreed that for all purposes of this Agreement all the original liability contracts of the Reinsured, whether new, renewal or replacement, of the following classes, namely,

   Personal Liability.
   Farmers' Liability.
   Storekeepers' Liability.

   which become effective on or after 31st December 1992, shall be deemed to include, from their inception dates and thereafter, the following provision:-

   Limited Exclusion Provision

   This Policy does not apply to bodily injury or property damage with respect to which the Insured is also insured under a contract of nuclear energy liability insurance (whether the Insured is unnamed in such contract and whether or not it is legally enforceable by the Insured) issued by the Nuclear Insurance Association of Canada or any other group or pool of insurers or would be an Insured under any such policy but for its termination upon exhaustion of its limits of liability.

   With respect to property, loss of use of such property shall be deemed to be property damage.

3. Without in any way restricting the operation of paragraph 1 of this clause it is agreed that for all purposes of this Agreement all the original liability contracts of the Reinsured, whether new, renewal or replacement, of any class whatsoever (other than Personal Liability, Farmers' Liability, Storekeepers' Liability or Automobile Liability contracts), which become effective on or after 31st December 1992, shall be deemed to include from their inception dates and thereafter, the following provision:-

   Broad Exclusion Provision

   It is agreed that this Policy does not apply:

(a) to liability imposed by or arising from any nuclear liability act, law or statute or any law amendatory thereof; nor

(b) to bodily injury or property damage with respect to which an Insured under this policy is also insured under a contract of nuclear energy liability insurance (whether the Insured is unnamed in such contract and whether or not it is legally enforceable by the Insured) issued by the Nuclear Insurance Association of Canada or any other insurer or group or pool of insurers or would be an Insured under any such policy but for its termination upon exhaustion of its limit of liability; nor

(c) to bodily injury or property damage resulting directly or indirectly from the nuclear energy hazard arising from:

(i) the ownership, maintenance, operation or use of a nuclear facility by or on behalf of an Insured;

(ii) the furnishing by an Insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility; and

(iii) the possession, consumption, use, handling, disposal or transportation of fissionable substances, or of other radioactive material (except radioactive isotopes, away from a nuclear facility, which have reached the final stage of fabrication so as to be usable for any scientific, medical, agricultural, commercial or industrial purpose) used, distributed, handled or sold by an Insured.

As used in this Policy:

1. The term "nuclear energy hazard" means the radioactive, toxic, explosive, or other hazardous properties of radioactive material;

2. The term "radioactive material" means uranium, thorium, plutonium, neptunium, their respective derivatives and compounds, radioactive isotopes of other elements and any other substances which may be designated by or pursuant to any law, act or statute, or law amendatory thereof as being prescribed substances capable of releasing atomic energy, or as being requisite for the production, use or application of atomic energy;

3. The term "nuclear facility" means:

(a) any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of plutonium, thorium and uranium or any one or more of them;

(b) any equipment or device designed or used for (i) separating the isotopes of plutonium, thorium and uranium or any one or more of them, (ii) processing or utilizing spent fuel, or (iii) handling, processing or packaging waste;

(c) any equipment or device used for the processing, fabricating or alloying of plutonium, thorium or uranium enriched in the isotope uranium 233 or in the isotope uranium 235, or any one or more of them if at any time the total amount of such material in the custody of the Insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235;

(d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste radioactive material;

and includes the site on which any of the foregoing is located, together with all operations conducted thereon and all premises used for such operations.

4. The term "fissionable substance" means any prescribed substance that is, or from which can be obtained, a substance capable of releasing atomic energy by nuclear fission.

5. With respect to property, loss of use of such property shall be deemed to be property damage.

N.M.A. 1979 a (01/04/96)
Form approved by Lloyd's Underwriters' Non-Marine Association Limited

NUCLEAR ENERGY RISKS EXCLUSION CLAUSE (REINSURANCE) (1994)
(WORLDWIDE EXCLUDING U.S.A. & CANADA)

This agreement shall exclude Nuclear Energy Risks whether such risks are written directly and/or by way of reinsurance and/or via Pools and/or Associations.

For all purposes of this agreement Nuclear Energy Risks shall mean all first party and/or third party insurances or reinsurances (other than Workers' Compensation and Employers' Liability) in respect of:

(I) All Property on the site of a nuclear power station. Nuclear Reactors, reactor buildings and plant and equipment therein on any site other than a nuclear power station.

(II) All Property, on any site (including but not limited to the sites referred to in (I) above) used or having been used for:

(a) the generation of nuclear energy; or

(b) the Production, Use or Storage of Nuclear Material.

(III) Any other Property eligible for insurance by the relevant local Nuclear Insurance Pool and/or Association but only to the extent of the requirements of that local Pool and/or Association.

(IV) The supply of goods and services to any of the sites, described in (I) to (III) above, unless such insurances or reinsurances shall exclude the perils of irradiation and contamination by Nuclear Material.

Except as undernoted, Nuclear Energy Risks shall not include:

(i) Any insurance or reinsurance in respect of the construction or erection or installation or replacement or repair or maintenance or decommissioning of Property as described in (I) to (III) above (including contractors' plant and equipment);

(ii) Any Machinery Breakdown or other Engineering insurance or reinsurance not coming within the scope of (i) above;

Provided always that such insurance or reinsurance shall exclude the perils of irradiation and contamination by Nuclear Material.

However, the above exemption shall not extend to:

(1) The provision of any insurance or reinsurance whatsoever in respect of:

(a) Nuclear Material;

(b) Any Property in the High Radioactivity Zone or Area of any Nuclear Installation as from the introduction of Nuclear Material or - for reactor installations - as from fuel loading or first criticality where so agreed with the relevant local Nuclear Insurance Pool and/or Association.

(2) The provision of any insurance or reinsurance for the undernoted perils:

- Fire, lightning, explosion;
- Earthquake;
- Aircraft and other aerial devices or articles dropped therefrom;

- Irradiation and radioactive contamination;
- Any other peril insured by the relevant local Nuclear Insurance Pool and/or Association;

in respect of any other Property not specified in (1) above which directly involves the Production, Use or Storage of Nuclear Material as from the introduction of Nuclear Material into such Property.

Definitions

"Nuclear Material" means:

(i) Nuclear fuel, other than natural uranium and depleted uranium, capable of producing energy by a self-sustaining chain process of nuclear fission outside a Nuclear Reactor, either alone or in combination with some other material; and

(ii) Radioactive Products or Waste.

"Radioactive Products or Waste" means any radioactive material produced in, or any material made radioactive by exposure to the radiation incidental to the production or utilisation of nuclear fuel, but does not include radioisotopes which have reached the final stage of fabrication so as to be usable for any scientific, medical, agricultural, commercial or industrial purpose.

"Nuclear Installation" means:

(i) Any Nuclear Reactor;

(ii) Any factory using nuclear fuel for the production of Nuclear Material, or any factory for the processing of Nuclear Material, including any factory for the reprocessing of irradiated nuclear fuel; and

(iii) Any facility where Nuclear Material is stored, other than storage incidental to the carriage of such material.

"Nuclear Reactor" means any structure containing nuclear fuel in such an arrangement that a self-sustaining chain process of nuclear fission can occur therein without an additional source of neutrons.

"Production, Use or Storage of Nuclear Material" means the production, manufacture, enrichment, conditioning, processing, reprocessing, use, storage, handling and disposal of Nuclear Material.

"Property" shall mean all land, buildings, structures, plant, equipment, vehicles, contents (including but not limited to liquids and gases) and all materials of whatever description whether fixed or not.

"High Radioactivity Zone or Area" means:

(i) For nuclear power stations and Nuclear Reactors, the vessel or structure which immediately contains the core (including its supports and shrouding) and all the contents thereof, the fuel elements, the control rods and the irradiated fuel store; and

(ii) For non-reactor Nuclear Installations, any area where the level of radioactivity requires the provision of a biological shield.

N.M.A. 1975a (10/3/94)
Approved by Lloyd's Underwriters' Non-Marine Association.

SCHEDULE "M"

TO THE REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – MAY 23, 2007

234 Getting in the company's property

(1) This section applies in the case of a company where--

[(a) the company enters administration,] or

(b) an administrative receiver is appointed, or

(c) the company goes into liquidation, or

(d) a provisional liquidator is appointed;

and "the office-holder" means the administrator, the administrative receiver, the liquidator or the provisional liquidator, as the case may be.

(2) Where any person has in his possession or control any property, books, papers or records to which the company appears to be entitled, the court may require that person forthwith (or within such period as the court may direct) to pay, deliver, convey, surrender or transfer the property, books, papers or records to the office-holder.

(3) Where the office-holder--

(a) seizes or disposes of any property which is not property of the company, and

(b) at the time of seizure or disposal believes, and has reasonable grounds for believing, that he is entitled (whether in pursuance of an order of the court or otherwise) to seize or dispose of that property,

the next subsection has effect.

(4) In that case the office-holder--

(a) is not liable to any person in respect of any loss or damage resulting from the seizure or disposal except in so far as that loss or damage is caused by the office-holder's own negligence, and

(b) has a lien on the property, or the proceeds of its sale, for such expenses as were incurred in connection with the seizure or disposal.

Part XVII

Miscellaneous and General

426 Co-operation between courts exercising jurisdiction in relation to insolvency

(1) An order made by a court in any part of the United Kingdom in the exercise of jurisdiction in relation to insolvency law shall be enforced in any other part of the United Kingdom as if it were made by a court exercising the corresponding jurisdiction in that other part.

(2) However, without prejudice to the following provisions of this section, nothing in subsection (1) requires a court in any part of the United Kingdom to enforce, in relation to property situated in that part, any order made by a court in any other part of the United Kingdom.

(3) The Secretary of State, with the concurrence in relation to property situated in England and Wales of the Lord Chancellor, may by order make provision for securing that a trustee or assignee under the insolvency law of any part of the United Kingdom has, with such modifications as may be specified in the order, the same rights in relation to any property situated in another part of the United Kingdom as he would have in the corresponding circumstances if he were a trustee or assignee under the insolvency law of that other part.

(4) The courts having jurisdiction in relation to insolvency law in any part of the United Kingdom shall assist the courts having the corresponding jurisdiction in any other part of the United Kingdom or any relevant country or territory.

(5) For the purposes of subsection (4) a request made to a court in any part of the United Kingdom by a court in any other part of the United Kingdom or in a relevant country or territory is authority for the court to which the request is made to apply, in relation to any matters specified in the request, the insolvency law which is applicable by either court in relation to comparable matters falling within its jurisdiction.

In exercising its discretion under this subsection, a court shall have regard in particular to the rules of private international law.

(6) Where a person who is a trustee or assignee under the insolvency law of any part of the United Kingdom claims property situated in any other part of the United Kingdom (whether by virtue of an order under subsection (3) or otherwise), the submission of that claim to the court exercising jurisdiction in relation to insolvency law in that other part shall be treated in the same manner as a request made by a court for the purpose of subsection (4).

(7) Section 38 of the Criminal Law Act 1977 (execution of warrant of arrest throughout the United Kingdom) applies to a warrant which, in exercise of any jurisdiction in relation to insolvency law, is issued in any part of the United Kingdom for the arrest of a person as it applies to a warrant issued in that part of the United Kingdom for the arrest of a person charged with an offence.

(8) Without prejudice to any power to make rules of court, any power to make provision by subordinate legislation for the purpose of giving effect in relation to companies or individuals to the insolvency law of any part of the United Kingdom includes power to make provision for the purpose of giving effect in that part to any provision made by or under the preceding provisions of this section.

(9) An order under subsection (3) shall be made by statutory instrument subject to annulment in pursuance of a resolution of either House of Parliament.

(10) In this section "insolvency law" means--

(a) in relation to England and Wales, provision [extending to England and Wales and] made by or under this Act or sections [1A, 6 to 10, [12 to 15], 19(c) and 20 (with Schedule 1) of the Company Directors Disqualification Act 1986 [and sections 1 to 17 of that

Act as they apply for the purposes of those provisions of that Act];

(b) in relation to Scotland, provision extending to Scotland and made by or under this Act, sections [1A,] 6 to 10, [12 to 15], 19(c) and 20 (with Schedule 1) of the Company Directors Disqualification Act 1986 [and sections 1 to 17 of that Act as they apply for the purposes of those provisions of that Act], Part XVIII of the Companies Act or the Bankruptcy (Scotland) Act 1985;

(c) in relation to Northern Ireland, provision made by or under [the Insolvency (Northern Ireland) Order 1989] [*or Part II of the Companies (Northern Ireland) Order 1989*] [or the Company Directors Disqualification (Northern Ireland) Order 2002];

(d) in relation to any relevant country or territory, so much of the law of that country or territory as corresponds to provisions falling within any of the foregoing paragraphs;

and references in this subsection to any enactment include, in relation to any time before the coming into force of that enactment the corresponding enactment in force at that time.

(11) In this section "relevant country or territory" means--

(a) any of the Channel Islands or the Isle of Man, or

(b) any country or territory designated for the purposes of this section by the Secretary of State by order made by statutory instrument.

[(12) In the application of this section to Northern Ireland--

(a) for any reference to the Secretary of State there is substituted a reference to the Department of Economic Development in Northern Ireland;

(b) in subsection (3) for the words "another part of the United Kingdom" and the words "that other part" there are substituted the words "Northern Ireland";

(c) for subsection (9) there is substituted the following subsection--

"(9) An order made under subsection (3) by the Department of Economic Development in Northern Ireland shall be a statutory rule for the purposes of the Statutory Rules (Northern Ireland) Order 1979 and shall be subject to negative resolution within the meaning of section 41(6) of the Interpretation Act (Northern Ireland) 1954.".]

SCHEDULE "N"

TO THE REPORT OF KPMG INC., THE LIQUIDATOR OF RELIANCE INSURANCE COMPANY – MAY 23, 2007

LLOYD'S

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Lloyd's Representation

Select a country:
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Nicholas Smith, Lloyd's Attorney-in-fact Canada.

Nicholas Smith has represented Lloyd's Underwriters as their Attorney-in-fact in Canada since June 2001 and has been President of Lloyd's Canada Inc., the Corporation's Montreal-based subsidiary, since its formation in December 2000.

He joined the Corporation of Lloyd's in 1998 as Regional Manager for Canada within the North America Business Unit and was seconded to Canada in 1999 to lead a review of Lloyd's Canadian operations and co-ordinate the negotiation of a new solvency arrangement with the federal government. Subsequently he was responsible for negotiating the current Canadian outsourcing agreement and implementing the Lineage IT and business process change strategy.

Prior to joining Lloyd's, Nicholas was an insurance broker in the UK and Canada, specialising in the arrangement of insurance and risk management programmes for a range of professional firms, from single practitioner consulting engineers to worldwide accounting networks. He is an officer in the Canadian Naval Reserve and has also worked on full time service with the Canadian Forces.

Nicholas was educated at Cambridge, McGill and London Universities and is a Fellow of the Chartered Insurance Institute and a Chartered Insurance Practitioner. He is a director of the Insurance Bureau of Canada and chairs its Regulatory Affairs Committee. He is also a director of Institute of Catastrophic Loss Reduction and sits on the governing councils of the Nuclear Insurance Association of Canada and the Eastern Division of the British Canadian Chamber of Trade and Commerce.

General Representative:
Nicholas Smith
Attorney in Fact in Canada for Lloyd's underwriters
1155, rue Metcalfe
Suite 1540
Montréal
Québec
H3B 2V6
Canada

Telephone:

Lloyd's Canada Contact Centre for general public: +1 (514) 861 8361

Lloyd's Canada Contact Centre for commercial use: +1 (514) 864 5444

Lloyd's Canada Contact Centre - North America toll free phone number: +1 (877) 455 6937 (or 1 877 4LLOYDS)

Lloyd's Canada fax: +1 (514) 861 0470

Email:

info@lloyds.ca - contact address for general public
lineage@lloyds.ca - contact address for commercial use

Office functions
View the main functions and activities of this office.

Please note: The Lloyd's office detailed above does not distribute insurance and may be unable to answer questions about specific products or policies.

Last updated on 07 Mar 2007

LLOYD'S

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Office functions

Select a country:
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The list below details the main functions and activities of the Canadian office. If the activity you are interested in is not listed, please contact the Lloyd's representative for further discussion:

Service of suit	Accept service when served; ensure Lloyd's correspondent has arranged representation.
Sign documents	Sign documents, agreements and returns on behalf of Lloyd's or individual underwriters as authorised.
Regulatory reporting	Ensure compliance with all regulatory / legal requirements in the country taking action when appropriate. Provide reports to the regulatory / fiscal bodies as required.
Regulatory updates	Ensure Lloyd's is informed of any possible new regulatory or fiscal changes and assist Lloyd's in ensuring the market is informed and complies.
Tax & parafiscal charges	As mandated, ensure that taxes and other charges are paid promptly in accordance with fiscal requirements.
Complaints handling	Receive complaints and ensure these are handled by correspondents or Lloyd's Complaints department as appropriate. Deal with any Ombudsman requirements.
Coverholders	Provide advice and information to Lloyd's centrally regarding coverholder applications. Monitor coverholder activities and report to Lloyd's where necessary. Contribute to the coverholder review process where requested. Identify to Lloyd's and the Lloyd's market problems with run-off arrangements.
Open-market correspondents	Conduct registration of correspondents and maintain register in accordance with procedure specified by Lloyd's.
General enquiries & advice	Deal with any enquiries on behalf of Lloyd's directing these as required. Respond to media enquiries in conjunction with Lloyd's Communications. Provide advice to Lloyd's market and Worldwide Markets as required.
Maintain bank accounts	Maintain and report on any Lloyd's bank accounts that may be established under mandate.
Business development	Assist in any Lloyd's promotional activity. Provide information as to market developments and assist in any business development strategy, identify business opportunities.
Associations / Committees	Manage, participate in or contribute to local Lloyd's Correspondents committees or local insurance associations/working parties etc (if such bodies could assist in Lloyd's conducting business).

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Additional activities

The following activities may be undertaken by the office in particular circumstances - please contact the general representative for further details:

Premium and claims processing	Operate Scheme Canada.
Systems	Develop and maintain systems to ensure Scheme Canada is managed as efficiently as possible. Liaise with Xchanging on interfaces with London systems.
Coverholder audit	On request of the LMA, provide training to auditors in Scheme Canada processes.
Motor	Provide advice and support to underwriters and coverholders, conduct regulatory reporting.
Business development	Provide assistance to underwriters and brokers developing products.
Local support services	On request, provide underwriters and brokers with contact information for support services such as translations and claims handling.

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Last updated on 03 Jan 2007