



KPMG Inc.

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December 17, 2001

To: Agents and Brokers

Re: The Canadian branch of Reliance Insurance Company

On December 3, 2001, the Ontario Superior Court of Justice (the "Court"), on the application of the Attorney General of Canada, granted an order (the "Appointment Order") appointing KPMG Inc. as provisional liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company ("Reliance (Canada)"). By further order of the same date the Court ordered that Reliance (Canada) be wound-up (the "Winding-up Order").

Reliance (Canada) is the Canadian branch of Reliance Insurance Company, which is a property and casualty insurer in the United States of America ("Reliance"). Reliance was placed in liquidation in Pennsylvania on October 3, 2001. The Insurance Commissioner for the Commonwealth of Pennsylvania is the court-appointed liquidator of Reliance.

The Liquidator is attempting to find one or more companies who will assume the policy liabilities of Reliance (Canada). With respect to all policy liabilities (other than policies issued as part of the Meridian program), the Liquidator has set the objective of finding a new insurance carrier by April 30, 2002. For the Meridian program, the Liquidator has set the objective of January 31, 2002. The Liquidator may return to Court to extend these dates if it appears necessary. If no other insurance carriers agree to assume the policy liabilities, the Liquidator will institute a process to deal with policyholder claims and may seek approval from the Court to cancel some or all of the in-force policies. The Liquidator will provide you with further information as this matter progresses.

The Liquidator is also working with the Property and Casualty Insurance Compensation Corporation ("PACICC") in connection with the winding-up of Reliance (Canada). We enclose a communication to policyholders from PACICC which explains PACICC's role and coverage in liquidation. You can also get information about PACICC and its coverage from its web site at www.pacicc.com.

The Liquidator has written to policyholders advising them of the liquidation. We enclose a copy of the form of letter sent to policyholders (other than those under the Meridian program). We also enclose copies of the Appointment Order and the Winding-up Order for your information.

In accordance with the Appointment Order the following procedures will apply to all policies issued by Reliance (Canada) (other than those issued under the Meridian program) until April 30, 2002 or such later date as the Court may order:



Wholly owned subsidiary of KPMG LLP, a member firm
of KPMG International, a Swiss association

1. The Liquidator will pay up to \$25,000 on all settled and adjusted claims for loss, including claims in respect of unearned premiums. Any amounts above \$25,000 will be claims in the liquidation, on which distributions will be made as the liquidation progresses. The Liquidator is hopeful that all claimants will eventually recover 100% of their claims. However, at this time it is not certain.
2. The \$25,000 limit will not apply to claims covered by PACICC. Policyholders with PACICC-covered claims will be entitled to payments up to PACICC's limits of \$250,000. Any amounts above \$250,000 will be claims in the liquidation, on which distributions will be made as the liquidation progresses. As stated above while the Liquidator is hopeful that all claimants will recover 100% of their claims, it is not certain.
3. In addition to the above, the Liquidator will 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, subject to the applicable terms and limits of such policies.
4. Any payments made in respect of policies, including the above-referenced payments, will be deemed to be payments made on account of claims in the liquidation of Reliance (Canada) and will 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.
5. Section 21 of the *Winding-up and Restructuring Act* stays all actions against Reliance (Canada) in which Reliance (Canada) is a named defendant or a third party. Paragraph 26 of the Appointment Order also imposes a stay of all actions against Reliance (Canada). Leave to proceed is required and may be obtained from the Court in Toronto, Ontario which is seized of all matters dealing with Reliance (Canada). Where appropriate, the Liquidator will consent to leave to proceed on satisfactory terms.

The fact that payments are being made to April 30, 2002 does not obligate the Liquidator to continue to make any payments beyond that date. The Liquidator will report back to the Court by April 30, 2002 on the status of the marketing process and the estate of Reliance (Canada). The Liquidator cannot give any assurances that payments will continue beyond April 30, 2002.

Paragraph 19 of the Appointment Order provides that all brokers and insurance agents having access to or knowledge of the affairs of Reliance (Canada) are required to co-operate with the Liquidator in providing information or documents necessary or incidental to the liquidation. Please provide the undersigned with all relevant documentation with respect to any endorsements, cancellations or changes that you have not already provided to Reliance (Canada) in respect of policies written by you on behalf of Reliance (Canada). In addition, please forward to us any claims that you may have received from your clients and of which you have not yet notified Reliance (Canada).



Pursuant to the Appointment Order, the Liquidator is entitled to receive all amounts payable to Reliance (Canada). Please provide the Liquidator with an accounting, on a gross basis, of all premiums and other amounts held by you on behalf of Reliance (Canada). Please also remit all premiums owing to Reliance (Canada) to the Liquidator forthwith, without off-set.

Should you have any questions, please address them in writing. We will do our best to answer you as quickly as possible.

Yours very truly,

KPMG Inc., in its capacity as Court-appointed
Provisional Liquidator of Reliance (Canada)

Per:

A handwritten signature in black ink, appearing to be 'I. George Gutfreund', written over a light blue horizontal line.

I. George Gutfreund
Vice President