



KPMG Inc.

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December 3, 2001

To: Legal Counsel

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"). We attach copies of the Appointment Order and the Winding-up Order for your records.

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 books and records of Reliance have been reviewed and your name appears on the records as representing Reliance and/or its named insured.

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:



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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. You will continue to take instructions from the same individuals who were instructing you prior to the winding-up.
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.
6. Where Reliance (Canada) is not a named defendant, leave to proceed is not required.
7. As noted above, at this time it is not certain whether all claimants will eventually recover 100% of their claims. Accordingly, before any final settlements are entered into, you should discuss the matter with your contact at Reliance. Generally, all insureds should be advised that Reliance (Canada) may not be paying a full return on their claims or on the claims against them and that they could be personally liable to third party claimants for any deficiency. There may be opportunities to have plaintiffs agree to accept a dividend from the Liquidator or contributions from co-defendants in satisfaction of a claim. If settlements are concluded, we will require the execution of a document analogous to a Certificate of Independent Legal Advice to confirm that the insured is aware of his personal responsibility for any deficiency amounts.

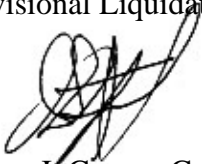
The fact that payments are being made to April 30, 2002 does not obligate the Liquidator to continue to make any payments beyond that date. The Liquidator will report back to the Court by April 30, 2002 on the status of the marketing process and the estate of Reliance (Canada). The Liquidator cannot give you any assurances that payments will continue beyond April 30, 2002. Accounts should be submitted on a monthly basis for all time through to April 30, 2002.

Please provide the undersigned with a written summary outlining the nature and extent of any cases being handled by your firm and any immediate deadlines for any examinations for discovery, pre-trial conferences, trials, applications for judgment or proceedings, or settlements in connection with any matter relating to Reliance (Canada). In addition, please issue a bill for all unpaid time to November 30, 2001. The Liquidator is a court officer and its accounts, including payments made to legal counsel by Reliance (Canada), are subject to taxation. Accordingly, on a go-forward basis, all bills must include the hours and hourly rates of the individuals working on the matter as well as a detailed description of the work performed.

The Liquidator will advise you of any major developments in the liquidation. In the meantime, if you have any questions with respect to a specific claim, you should deal with your contact at Reliance (Canada). If you have any general questions regarding the liquidation, please contact the undersigned in writing.

Yours very truly,

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



Per: I. George Gutfreund
Vice President