

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***

BETWEEN:

THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent

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

**(Motions for (i) Advice and Directions in respect of
Post-Liquidation Interest, and (ii) Preliminary Motion for
Appointment of Representative Counsel and Directions for Service)**

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

January 5, 2009

I. THE MOTIONS

1. This Report is respectfully filed in support of two motions by KPMG Inc., the Liquidator (“Liquidator”) of the insurance business in Canada of Reliance Insurance Company (“Reliance Canada”). The main motion (the “Post-liquidation Interest Motion”) is for advice and directions with respect to whether post-liquidation interest is payable on claims in the estate of Reliance Canada and, if so, on which claims and on what basis. The secondary motion (the “Preliminary Directions Motion”) is a preliminary motion for

the appointment of representative counsel and directions for service in respect of the Post-liquidation Interest Motion.

2. The Liquidator may file a further Report, or Reports, as advisable and as may be appropriate in light of any responding materials that may be filed.

II. BACKGROUND

General Background - Canada's Branch Regime for Foreign Insurers

3. Canadian legislation sets out a regime, and imposes specific requirements, for the carrying on of business of a Canadian branch of a foreign insurance company. For example, pursuant to Part XIII of the *Insurance Companies Act*, S.C. 1991, c. 47, a Canadian branch of a foreign insurer is required, among other things, to:

- be approved by the Superintendent of Financial Institutions Canada ("Superintendent") to insure, in Canada, risks;
- appoint as chief agent a person ordinarily resident in Canada;
- maintain an adequate margin of assets in Canada over liabilities in Canada;
- vest in a trust in Canada, with a Canadian financial institution, assets of a prescribed value to ensure the branch's policy liabilities can be met;
- maintain accounting records respecting its insurance business in Canada;
- appoint an auditor for 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; and
- prepare and file an annual return of the condition and affairs in respect of the insurance business in Canada.

4. The Office of the Superintendent of Financial Institutions Canada ("OSFI") issues Guidelines with respect to financial institutions under its regulatory scope. In respect of Canadian branches of foreign insurance companies, these include Guideline E-4A ("Role of the Chief Agent and Record Keeping Requirement") and Guideline A-2 ("Branches of Foreign Property and Casualty Insurance Companies"), copies of which are respectively attached as Schedules "A" and "B" hereto.
5. These Guidelines elaborate on the requirement that Canadian branches of foreign insurers maintain adequate records of the Canadian businesses so as to, among other things, enable OSFI to administer the branch's business should the Superintendent take control of the branch's assets (Schedule "A" hereto, at p. 4), and elaborate on OSFI's expectation that a branch's assets in Canada be maintained at a targeted 150% of branch liabilities (Schedule "B" hereto, at p. 2).
6. The legislative regime provides for the regulator's taking control of a Canadian branch of a foreign insurer and/or for its liquidation in certain circumstances.
7. In particular, under the *Insurance Companies Act*, where circumstances exist that threaten the interests of the policyholders and creditors of the Canadian branch, the Superintendent may take control of the branch's assets and may do all things necessary or expedient to protect the rights and interests of the policyholders and creditors in Canada.
8. Where the Superintendent has taken control of the assets, the Superintendent may request the Attorney-General to apply for an order to wind-up the branch business under the *Winding-up and Restructuring Act*.

9. The *Winding-up and Restructuring Act* in turn gives the Court the power to order the winding-up of the branch insurance business in Canada.

The Reliance Canada Branch

10. Reliance Insurance Company is a property and casualty insurer incorporated in the early 1800's in the Commonwealth of Pennsylvania, in the United States of America ("U.S.").
11. In 1918, Reliance Insurance Company established Reliance Canada as a branch in the City of Toronto to carry on specific insurance business in Canada. Reliance Canada then carried on business in Canada as a branch of a foreign insurance company under the predecessor legislation to the *Insurance Companies Act*, and ultimately under that *Act*.
12. As noted in the overview above, in order to insure risks in Canada, Reliance Canada required authorization from the Canadian regulator to carry on specified classes of insurance business. Under the current legislation, Part XIII of the *Insurance Companies Act*, this authorization takes the form of an Order issued by the Superintendent. Attached as Schedule "C" hereto 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.
13. Reliance Canada's chief agent and office have always been located in the City of Toronto, Canada. Reliance Canada used (and continues to use), the computerized claims system administered by Reliance Insurance Company's head office in the U.S., however Reliance Canada's business, including claims administration, has always been run by a separate employee force in the City of Toronto.

14. Reliance Canada maintained its own records in respect of its policyholders, as required under the legislation and the Guidelines, and Reliance Canada's assets were held in Canada to back its reported liabilities under its insurance policies.

Liquidation of Reliance Insurance Company/Winding-up of Reliance Canada

15. Reliance Insurance Company began experiencing financial difficulties in the U.S. in 2000, and suffered a series of rating downgrades.
16. In January 2001, the Insurance Commissioner for the Commonwealth of Pennsylvania ("Pennsylvania Commissioner") put Reliance Insurance Company into formal supervision status. By this point, Reliance Canada had stopped issuing new policies and had begun winding-down its business by "running off" its liabilities under the policies it had issued.
17. In May 2001, at the request of the Pennsylvania Commissioner, the Commonwealth Court of Pennsylvania ("Pennsylvania Court") issued an Order of Rehabilitation in respect of Reliance Insurance Company.
18. The Pennsylvania Commissioner then determined that Reliance Insurance Company was insolvent and that there would be insufficient assets to pay all policyholders in full.
19. The Pennsylvania Commissioner accordingly sought an Order from the Pennsylvania Court for the liquidation of Reliance Insurance Company.
20. Reliance Insurance Company was ordered to be liquidated by the Pennsylvania Court on October 3, 2001, pursuant to Pennsylvania's *Insurance Department Act of 1921*. The

Pennsylvania Commissioner was appointed liquidator of Reliance Insurance Company ("U.S. Liquidator"). A copy of this Order is attached as Schedule "D" hereto.

21. On October 5, 2001, pursuant to the *Insurance Companies Act*, the Superintendent took control of the assets in Canada of Reliance Canada, including assets held in Canada under the control of its chief agent.
22. By Notice of Application dated November 8, 2001, upon the Superintendent's recommendation, the Attorney-General sought an Order for the winding-up of Reliance Canada from this Court.
23. By Orders of this Court made December 3, 2001, the insurance business of Reliance Canada was ordered to be wound-up pursuant to the *Winding-up and Restructuring Act*, and the Liquidator was appointed as liquidator of Reliance Canada. The Court did not make a finding as to the insolvency of the Reliance Canada branch. A copy of the Order for the winding-up of Reliance Canada is attached as Schedule "E" hereto. A copy of the appointment order ("Appointment Order") is attached as Schedule "F" hereto.
24. Pursuant to these two Orders, 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, and there are two distinct estates in liquidation.

III. STATUS OF THE RELIANCE CANADA ESTATE

(i) Overview of Payments on Allowed Claims

25. All policy loss claims that had been settled prior to the commencement of the winding-up were paid, prior to the commencement of the winding-up, by Reliance Canada.

26. From the beginning of the winding-up of Reliance Canada, this Honourable Court permitted payment of various policy loss claims within certain thresholds (“Authorized Policy Payments”) as these claims were allowed (settled) during the course of the liquidation.

27. Further, as the liquidation progressed, and upon the Liquidator’s recommendations, this Court has approved distributions (“Interim Dividend Payments”) as follows: (i) various interim dividend payments on all policy loss claims in the estate of Reliance Canada, culminating with this Court’s Order of April 8, 2008 bringing the total authorized level of distributions to 100% of the principal amount of policy loss claims, as well as (ii) a 100% distribution on ordinary creditor claims by this Court’s Order made December 17, 2008, a copy of which is attached as Schedule “G” hereto.

28. The respective types of payments are described in further detail below.

Authorized Policy Payments

29. Since the commencement of the liquidation of Reliance Canada in 2001, pursuant to the Appointment Order and subsequent extension Orders of this Court, the Liquidator paid the following policy benefits by way of Authorized Policy Payments:

- a) defence costs;
- b) valid policy loss claims up to the \$250,000 limit of the voluntary compensation payment of the Property and Casualty Insurance Compensation Corporation ("PACICC") that may be paid under its Memorandum of Operations; and
- c) valid policy loss claims, not covered by PACICC, up to \$25,000.

Interim Dividend Payments on Policy Loss Claims/Payment of Ordinary Creditor Claims

30. This Court's Orders authorizing the Interim Dividend Payments on allowed policy loss claims (to the extent such claims had not already been paid in full by way of the Authorized Policy Payments), and the respective distribution amounts, were as follows:

Date of Order	Authorized Dividend on Policy Loss Claims
June 26, 2003	25%
September 2, 2004	25%
December 21, 2005	15%
December 15, 2006	15%
April 8, 2008	20%

- 31. Copies of the Court's five Orders authorizing these Interim Dividend Payments are attached as Schedules "H", "I", "J", "K" and "L" hereto, respectively.
- 32. Pursuant to this Court's Order of June 24, 2008, a copy of which is attached as Schedule "M" hereto, a call for ordinary (i.e., non-policy) claims was made.
- 33. Only one claim was filed in response to the call for claims, with an approximate value of (U.S.) \$5,800. The Court, by its Order of December 17, 2008 (Schedule "G" hereto),

provided authority to pay that claim, and other proper, allowed ordinary claims up to a total of \$100,000.

(ii) Effect of the Two Types of Payments

34. As a consequence of the two types of payments on claims as described above (the Authorized Policy Payments and the Interim Dividend Payments), as of December 31, 2007 approximately 18,240 policy loss claims (with a total value of approximately \$66 million) in the winding-up of Reliance Canada were paid in full as they were settled and allowed (i.e., at the same time as they would have been paid in the ordinary course of business, absent a liquidation).

35. In particular, since the beginning of the liquidation all of the policy loss claims falling within the allowed thresholds for Authorized Policy Payments were paid in full, contemporaneously with their being settled and allowed. In addition, all of the policy loss claims that were settled and allowed following the Court's Order of April 8, 2008 (bringing the authorized level of distributions to 100%) were paid in full, contemporaneously with their being settled and allowed. (Policy loss claims that are allowed in the future likewise will be paid in full as they are settled and allowed.)

36. However, several reinsurance claims and 64 policy loss claims (with a combined total value of approximately \$65 million) could not be paid in full contemporaneously with their being settled and allowed, since they did not qualify for payment in full under the allowed thresholds for the Authorized Policy Payments and since they were settled and allowed prior to the cumulative Interim Dividend Payments level reaching 100%. These policy loss claims, therefore, were not paid at the same time as they would have been in

the ordinary course (i.e., absent a liquidation). Rather, distributions were made on them over time by way of the Interim Dividend Payments authorized by the Court, resulting ultimately in a cumulative 100 cents on the dollar distribution. (Similarly, the allowed ordinary creditor claim was not paid until following the Order of December 17, 2008, rather than in the ordinary course (i.e., absent a liquidation).

37. By virtue of the nature of Reliance Canada's property and casualty insurance business, in the normal course, absent a liquidation, policy loss claims would only become contractually payable pursuant to the respective policies once they are adjusted and determined (settled and allowed). Thus, those policy loss claims that the Liquidator was able to pay in full under the Authorized Policy Payments as they were settled and allowed, and those which were (or, in the future, will be) settled and allowed following the authorization of the 100% Interim Dividend Payments level, ended up being (or will be) paid in full at the same time as they would have been paid in the ordinary course (i.e., absent a liquidation). The holders of these policy loss claims will be referred to as the "Under-limits Claimants" in this Report.

38. As mentioned above, various policy loss claimants were not paid in full as their policy loss claims were allowed in the liquidation. These claimants did not receive payment of 100 cents on the dollar as their respective policy loss claims were settled and allowed. Instead, these claimants had to wait for distributions that ultimately culminated to 100 cents on the dollar. The holders of these policy loss claims, and any ordinary creditor claims that were payable at the commencement of the liquidation, will collectively be referred to as the "Over-limits Claimants" in this Report. There is also a holder of a policy loss claim that was in litigation which has been decided in favour of the claimant.

That claimant's claim, and any other alleged policy loss claims in litigation that may ultimately be determined in favour of the claimant (collectively, "Disputed Claims") would, but for the liquidation, have been eligible for pre-judgment interest, and are also included in the Over-limits Claimants.

Surplus in the Canadian Estate

39. Under Section 161 of the *Winding-up and Restructuring Act*, the priority scheme for relevant claims in the winding-up of Reliance Canada is:

- costs of liquidation;
- policyholder loss claims;
- claims of ordinary creditors of the branch.

40. With the progress in the winding-up of Reliance Canada to this point, the Liquidator is now in a position to conclude that there will be a surplus of assets: i.e., total assets with a value in excess of (i) the total of the costs of liquidation plus (ii) the principal amount of the claims payable in the Canadian estate.

41. Although the nature of Reliance Canada's remaining liabilities are such that the exact amount of the ultimate surplus of assets over the total liabilities cannot be calculated now, the Liquidator currently forecasts a surplus in the Canadian estate, based on its valuation of liabilities, in the approximate amount of \$95.8 million.

Status of the Estate of Reliance Insurance Company

42. The U.S. Liquidator has advised that it currently estimates that there will be a deficit of approximately (U.S.) \$3.6 billion in that liquidation, so that policy loss claims in the estate of Reliance Insurance Company will receive dividends at significantly less than 100 cents on the dollar.

IV. DISPOSITION OF THE SURPLUS UNDER CANADIAN WINDING-UP LAW

Winding-up Interest Principles and the *Winding-up and Restructuring Act's* Surplus Provisions

43. It is an established principle in Canadian winding-up law that no interest continues to accrue on claims from the commencement of a winding-up: this is often referred to as the "interest stops" rule or similar nomenclature. However, in winding-ups of Canadian companies, in the event of there ultimately being a surplus of assets over the amount of allowed claims in a winding-up, post-liquidation interest may be payable at common law from the surplus on allowed claims.
44. Until amendments that came into force in 1996, the *Winding-up and Restructuring Act* was silent on the issue of post-liquidation interest. The 1996 amendments added subsection (2) to Section 95 in Part I of the *Winding-up and Restructuring Act*, so that Section 95 came to provide as follows:

(1) The court shall distribute among the persons entitled thereto any surplus that remains after the satisfaction of the debts and liabilities of the company and the winding-up charges, costs and expenses, and unless otherwise provided by law or by the Act, charter or instrument of incorporation of the company, any property or assets remaining after the satisfaction shall be

distributed among the members or shareholders according to their rights and interests in the company.

(2) Any surplus referred to in subsection (1) shall first be applied in payment of interest from the commencement of the winding-up at the rate of five per cent per annum on all claims proved in the winding-up and according to their priority.

45. Section 95 of the *Winding-up and Restructuring Act* is contained in Part I of the Act.

Section 9 of the Act provides:

In the case of insurance companies, the provisions of this Part are subject to the provisions of Part III.

46. The current Part III of the *Winding-up and Restructuring Act* also came into force with the 1996 amendments. It does not refer to the application of a surplus to post-liquidation interest.

47. Under subsection 161(10) in Part III of the *Winding-up and Restructuring Act*, the Liquidator may, with the approval of the Court, release to the foreign company (i.e., in this case, Reliance Insurance Company, as represented by the U.S. Liquidator) any balance of the assets remaining in the estate of Reliance Canada after payment of claims in the order of priority prescribed.

The Need for Advice and Directions

48. The Court's advice and directions are respectfully sought to determine the issue whether post-liquidation interest is payable in the case of a surplus in the winding-up of a Canadian branch of a foreign insurance Company, in priority to the potential release of any balance of assets to the foreign company and, if it is payable, what methodology and criteria apply.

49. The disposition of the various issues that arise will affect the ultimate amounts payable from the Reliance Canada estate to its claimants and, therefore, the amount available to be released to the U.S. Liquidator if and when a release of the Canadian branch assets is authorized.
50. Accordingly, pursuant to paragraph 39 of the Appointment Order, the Liquidator respectfully seeks this Court's advice and directions to determine the various issues that arise from possible competing constructions of the legislation and the lack of determinative judicial authority. (The Liquidator is not seeking or recommending authority for a specific distribution to claimants of Reliance Canada at this time.)
51. In particular, the Liquidator will respectfully submit the following questions for the advice and direction of this Court on the Post-liquidation Interest Motion:

Question 1:

Does subsection 95(2) of the *Winding-up and Restructuring Act* apply to the winding-up of Reliance Canada, so that interest on allowed claims in the winding-up of Reliance Canada is payable pursuant to subsection 95(2), in the case where there is a surplus, in priority to any release to Reliance Insurance Company (represented by the U.S. Liquidator) of the balance of any assets that the Court may ultimately approve under subsection 161(10) of the *Winding-up and Restructuring Act*?

Question 2:

If the answer to Question 1 is yes, on what basis is post-liquidation interest to be determined? That is, on which type of claims is it payable, at what rate, is it simple or compounded, from what date(s) does it run, and are interim payments that were made on claims to be first applied toward the interest payable on the claim and then to the principal amount of the claim or first toward the principal amount of the claim?

Question 3:

If the answer to Question 1 is no, is interest payable in the winding-up of Reliance Canada on allowed claims on some basis other than subsection 95(2) of the *Winding-up and Restructuring Act*, in the case where there is a surplus, in priority to any release to Reliance Insurance Company of the balance of any assets that

the Court may approve under subsection 161(10) of the *Winding-up and Restructuring Act*?

Question 4: If the answer to Question 1 is no, and the answer to Question 3 is yes, on what basis is post-liquidation interest to be determined?

V. THE LIQUIDATOR'S RECOMMENDATION ON THE POST-LIQUIDATION INTEREST MOTION

52. The spectrum of potential outcomes on the post-liquidation interest question ranges from there being no entitlement to post-liquidation interest for any claimant of Reliance Canada (i.e., for either Under-limits or Over-limits Claimants) at one end and, at the other end, an entitlement to post-liquidation interest for all claimants (i.e., both Under-limits and Over-limits Claimants) on their claims from the date of the commencement of the liquidation, with various potential outcomes falling between these.
53. The Liquidator has determined that it is appropriate to recommend to the Court how the questions ought to be answered. The Liquidator respectfully recommends that subsection 95(2) of the *Winding-up and Restructuring Act* be held to apply to the winding-up, and be construed so as to entitle only the Over-limits Claimants – i.e., those whose payments have been delayed or otherwise affected as a result of the liquidation - to post-liquidation interest, and only for the period that payment to each qualified claimant was delayed beyond the date that claimant would have been paid in full in the ordinary course (absent a liquidation) or, in the case of a Disputed Claim that is ultimately determined in favour of the policyholder, only for the period that pre-judgment interest would (absent a liquidation) have otherwise run on the Disputed Claim during the liquidation. The Liquidator accordingly further respectfully recommends that subsection 95(2) be construed so that any post-liquidation interest due to Over-limits claimants is calculated

from the date that a claim would otherwise have been payable (absent a liquidation) or, in the case of a Disputed Claim that is ultimately determined in favour of the policyholder, the date from which pre-judgment interest would (absent a liquidation) have otherwise run on the Disputed Claim during the liquidation, but in either case from no earlier than the date of commencement of the liquidation.

54. The Liquidator views the recommended conclusion as most closely putting the various claimants of Reliance Canada in the respective position in which each of them would have been had there been no liquidation of Reliance Canada.
55. In particular, in terms of the proposed questions, the Liquidator's recommendation is summarized as follows:

Question 1: The recommended answer is 'yes'.

Question 2: The recommended answer is that the proper construction and application of subsection 95(2) results in: (i) payment of post-liquidation interest to the Over-limits Claimants, but not to the Under-limits Claimants, (ii) calculated as simple interest (i.e., not compounded), at an annual rate of 5%, on the unpaid portion of each Over-limits Claimant's allowed claim from the time such claim was settled and allowed (or, (a) in the case of a Disputed Claim, from the time since the commencement of the winding-up that it would have been eligible for pre-judgment interest, but for the winding-up, but not earlier than the commencement of the winding-up, and (b) in the case of an ordinary creditor claim that was already payable as of the commencement of the winding-up, from the commencement of the winding-up) until such portion was paid.

The Liquidator further recommends that any payments made to Over-limits Claimants by way of Interim Dividend Payments and/or Authorized Policy Payments during the course of the winding-up are to be treated as being allocated first toward any post-liquidation interest payable on the claim of an Over-limits Claimant, and then to the principal portion of such claim.

Question 3-4: The recommended answers above would render answers to questions 3-4 not necessary. The Liquidator through its counsel will make any appropriate submissions on these questions in its factum and at the hearing.

56. If there is a final determination that the Liquidator's recommendations are the correct approach to the question of post-liquidation interest then, given the anticipated amount of the surplus, the Liquidator anticipates being able to seek authority to make the post-liquidation interest payments some time in 2009.

VI. RECOMMENDATIONS ON THE PRELIMINARY MOTION FOR THE APPOINTMENT OF REPRESENTATIVE COUNSEL AND DIRECTIONS FOR SERVICE

The U.S. Liquidator's Interest

57. If any post-liquidation interest is payable, on any basis, this will reduce the assets available for any release that the Court may ultimately order to be made to Reliance Insurance Company (represented by the U.S. Liquidator).
58. The interests of Reliance Insurance Company and its stakeholders are represented by the U.S. Liquidator and his counsel in this winding-up, and the U.S. Liquidator and his counsel will be served with the Liquidator's motion materials in respect of the Post-liquidation Interest Motion.

Reliance Canada Claimants' Interests

59. Of the potential outcomes of the question of entitlement to post-liquidation interest, the one recommended by the Liquidator in paragraph 55 above would result in a favourable outcome for the Over-limits Claimants (because the Over-limits Claimants will be

entitled to post-liquidation interest), but would result in no entitlement to post-liquidation interest for the Under-limits Claimants.

60. The Under-limits Claimants therefore may seek to assert, for example, that their claims should bear post-liquidation interest under subsection 95(2), or otherwise, contrary to the Liquidator's recommendation in paragraph 55 above. Also, the Over-limits Claimants may assert that all their claims should be entitled to post-liquidation interest calculated from the commencement of the liquidation, rather than from the time in respect of each claim that the Liquidator is recommending in paragraph 55 above.
61. If post-liquidation interest is determined to run on claims of both Over-limits Claimants and Under-limits Claimants from the commencement of winding-up, the quantum of each group's entitlement would be uncertain until the end, or near the end, of the liquidation, so that it is anticipated the Liquidator would not be in a position to seek and recommend authority to actually distribute the post-liquidation interest until significantly later in the liquidation. The currently projected surplus would be entirely payable to post-liquidation interest in this scenario. Under the Liquidator's recommendation, there is more than sufficient surplus to pay out post-liquidation interest to the Over-limits Claimants in the near future.
62. The *Winding-up and Restructuring Act* authorizes the Court's nomination and appointment of representative counsel to represent a class where appropriate. In this case, the Liquidator respectfully recommends the appointment of separate counsel to represent, as classes, the Under-limits Claimants and the Over-limits Claimants of Reliance Canada on the Post-liquidation Interest Motion.

63. The Liquidator recommends the appointment of Ms Elizabeth Pillon as representative counsel in respect of the Under-limits Claimants of Reliance Canada, and James Grout as representative counsel in respect of the Over-limits Claimants of Reliance Canada. The proposed representative counsel have agreed to act in such capacity if appointed by this Honourable Court.

Public Notice

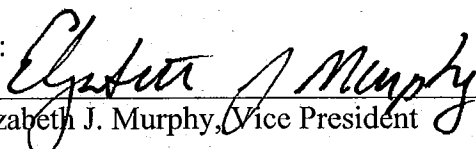
64. The Liquidator also proposes to give public notice of the Post-liquidation Interest Motion (i) by service of its materials on the service list maintained by counsel for the Liquidator in this proceeding, and (ii) by way of a notice to be published in the national edition of *The Globe and Mail*, and published on the Liquidator's website for the winding-up at www.reliancecanada.ca, substantially in the form attached hereto a Schedule "N", on or before January 28, 2009.
65. The Liquidator is of the view, and respectfully recommends, that the foregoing appointment of representative counsel, and the proposed service and public notice of the Post-liquidation Interest Motion, and the proposed directions for the proceeding, will result in the fair and full submission to this Court on the issues arising in the Post-liquidation Interest Motion.

DATED the 5th day of January, 2009

ALL OF WHICH IS RESPECTFULLY
SUBMITTED,

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

Per:


Elizabeth J. Murphy, Vice President

THE ATTORNEY GENERAL OF CANADA

And

RELIANCE INSURANCE COMPANY

Applicant

Respondent

Commercial List Court File No: 01-CL-4313

ONTARIO

**SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at TORONTO

REPORT OF THE LIQUIDATOR

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Solicitors for KPMG Inc., Liquidator
Reliance Canada

Schedule "A"



Guideline

Subject: Role of the Chief Agent and Record Keeping Requirements

No: E-4A

Date: November 1992

Revised: November 2005

Introduction

This guideline describes OSFI's expectations with respect to the role of the Chief Agent (CA) of a foreign company¹. The guideline applies to the Canadian branch operations of foreign life and property and casualty insurance companies, and foreign fraternal benefit societies. For the purposes of this guideline, these entities will be referred to collectively as foreign company branches (FCBs). It also discusses OSFI's expectations with respect to records and documents to be maintained at the chief agency. The guideline does not address all legislative and regulatory obligations and requirements; therefore, CAs are expected to refer to relevant provisions in the legislation and regulations. Reference should also be made to a number of other guidelines applicable to FCBs.²

As part of its risk-based supervisory framework, OSFI evaluates FCBs against the expectations of this guideline and other guidelines applicable to FCBs.

¹ Pursuant to subsection 2(1) of the *Insurance Companies Act* (ICA), a foreign company means a body corporate incorporated elsewhere than in Canada under the laws of a foreign country, and an association or an exchange, the insurance of risks in Canada by which has been approved by order of the Superintendent under Part XIII of the ICA.

² Refer to OSFI's Internet Web site at http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?ArticleID=526 for other guidelines.



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Canada

1. Role of the Chief Agent

Foreign companies establishing a branch in Canada are required to appoint a CA³. As noted in the Corporate Governance Guideline, OSFI looks to the CA to oversee the management of the branch, including matters of a corporate governance nature that relate to the branch. As such, OSFI expects that the CA will be accountable for the FCB's operations. However, OSFI recognizes the nature, scope, complexity, and risk profile of FCBs may affect how the CA carries out his or her role with respect to the expectations set out in this guideline.

It is recognized that the CA may delegate various branch responsibilities to branch employees. Alternatively, he/she may enter into arrangements with the home office, another entity within the corporate group, or a third party. OSFI would expect all situations where the CA does not have direct responsibility for a significant function (e.g., large reinsurance policies centralized at the home office) to be documented either in written mandates/policies or service level agreements of the FCB. Such arrangements made with the home office, another entity within the group, or a third party would be considered outsourcing under OSFI's Guideline B-10 on Outsourcing of Business Activities, Functions, and Processes. This guideline sets out OSFI's expectations for the management of various types of outsourcing arrangements, including the areas to be addressed by a written outsourcing agreement. Guideline B-10 includes specific expectations for arrangements where the service provider is a related party of an FCB.

While the CA may not conduct all responsibilities or activities directly, OSFI expects the CA to retain his or her overall accountability for the operations of the FCB. Regardless of who conducts the various functions, OSFI expects the CA to:

- ensure the business objectives, strategies and plans set for the FCB are prudent in the context of the FCB. Recognizing that FCBs are not legal entities but rather an extension of the home office, the CA is expected to advise the home office should any planned activities for the FCB not be considered suitable;
- be satisfied that appropriate policies and procedures (i.e. control systems) are in place to manage the risks, regardless of where the controls may reside;
- receive sufficiently comprehensive and frequent reports to understand and monitor the business of the FCB; and
- undertake or obtain, periodically, an independent assessment of the adequacy and effectiveness of the controls. Independent assessment may be obtained from individuals or groups designated with that role, such as internal audit or risk management (either at the branch or home office), or qualified third parties.

³ Pursuant to section 571 of the ICA, a CA is the natural person appointed pursuant to subsection 579(3) and named as such in the power of attorney referred to in paragraph 579(1)(b). Pursuant to subsection 579(3), the foreign company shall appoint a CA who is ordinarily resident in Canada. Pursuant to paragraph 579(2)(b), the foreign company shall provide the CA with a power of attorney expressly authorizing the CA to receive all notices under the laws of Canada from the Minister or Superintendent.



The CA is expected to ensure that there are robust policies and procedures⁴ to manage the assets and liabilities recorded on the FCB's books and records and related accounts (e.g. deposit, investment, vested in trust, etc.). For example, OSFI would expect the CA to ensure that all policy premiums originating from Canadian policyholders would be deposited directly into a Canadian bank account of the FCB.

The FCB's accounts at banks and/or trust companies should only be accessible with the signature of the CA or his/her formally appointed designate(s) who is a Canadian resident.

The CA should ensure the FCB is in compliance with applicable legislation and regulations, and is conducting its business and affairs in a manner consistent with applicable OSFI guidelines. For example, OSFI would expect the CA to have ultimate responsibility for ensuring the FCB has sufficient assets vested in trust to cover Canadian liabilities and required margins.

Additional information on compliance issues can be found in OSFI's Guideline E-13: Legislative Compliance Management.

While the CA may delegate responsibility for day-to-day management to others, OSFI expects the CA to be in a position to verify the annual return. Therefore, OSFI would expect the CA to have, or to ensure the individuals undertaking activities with respect to the FCB have, a good understanding of applicable legislation, regulations and guidelines, as well as the activities and related records of the FCB, including its assets, liabilities, revenues and expenses.

⁴ It is recognized that the home office may have established some of these policies and procedures. Where this is the case, OSFI would expect the CA to concur with their appropriateness and to recommend amendments where necessary to suit the FCB's activities.



2. Record Keeping Requirements

OSFI's mandate includes the periodic examination of and inquiry into the business and affairs of each FCB⁵. FCBs are required to maintain all records at the chief agency⁶. In addition, FCBs are required to maintain and process in Canada information and data relating to the preparation and maintenance of these records unless they obtain an exemption from the Superintendent.⁷ OSFI's expectations in evaluating a request for approval to process records outside Canada are set out in Section VIII of Guideline B-10, Outsourcing of Business Activities, Functions and Processes⁸. Furthermore, regardless of whether such an exemption has been obtained, an FCB will continue to be required to maintain records in Canada as specified in the Appendix.

Where processing of records related to the FCB's business occurs at a location other than the chief agency, it is critical that they are backed up as appropriate and provided to the chief agency to ensure that records maintained in Canada are up to date at the end of each business day.⁹ While OSFI recognizes some accounting records may only be available on a monthly or quarterly accounting cycle, this does not override the foregoing requirement with respect to other records.

OSFI expects records maintained in Canada will be of sufficient detail to:

- i. enable the CA to fulfill his or her accountabilities with respect to the FCB's business;
- ii. enable OSFI to conduct an examination and inquiry into the business and affairs of the FCB; and
- iii. enable OSFI to administer the FCB's business should the Superintendent take control of the FCB's assets.

Where sufficient information is not available, OSFI may request it as necessary¹⁰.

The Appendix contains additional guidance with respect to the type and form of records OSFI expects FCBs to maintain in Canada.

⁵ Pursuant to section 674 of the ICA.

⁶ Pursuant to subsection 647(3) of the ICA.

⁷ Pursuant to subsection 268(1) of the ICA.

⁸ See also OSFI's Transaction Instruction DA No. 10 on "Processing Information outside Canada" (http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/guides/transaction/trans10_e.pdf) on the OSFI's Internet Web site.

⁹ Downloading of records to the Canadian operation is only required when the records have changed from the previous day.

¹⁰ Pursuant to section 664 of the ICA.



Appendix

Records Maintained by FCBs

i) Type of Records

OSFI expects the records maintained by an FCB in Canada would include a complete set of accounting records, ledgers, journals and trial balances related to the FCB's business, with sufficient detail to understand and verify the assets, liabilities, revenue and expenditures recorded in the regulatory returns and to enable supervisors to assess the risk profile of the FCB. This would be supported by supervisory access to individuals to whom the CA may have delegated responsibility within the branch or through an arrangement with the home office, another entity within the corporate group, or a third party.

Records in respect of an FCB's business that should be held pursuant to paragraph 647(1)(b) and (c) of the ICA would include:

- complete accounting records;
- policy registers, originals or photocopies of policies (including group policies originated outside Canada that have Canadian certificate holders), policy applications, policy change requests; and
- claims registers, complete claims files including notice and proof of claims, date of settlement, claims payment records, details of unpaid claims and recoverable amounts, adjustors' reports, and supporting documents;

In support of the above records, OSFI expects the FCB to maintain the following records:

- details of investments, derivatives, pledged assets, etc;
- working papers, with properly referenced audit trails, to support the financial statements/regulatory returns;
- bank statements, cheque registers, monthly bank reconciliation, vouchers and receipts pertaining to the Canadian operations, and adequate documentation to confirm that amounts due in respect of business in Canada flow to the bank account in Canada;
- records supporting amounts due to or from the home office and affiliated entities (if any);
- taxation documentation.
- policy movement reports and reserve amounts;
- premium registers detailing premiums written, earned, and unearned;
- listing of policy loans, amounts on deposit by policy, related interest income or expense, and originals or copies of policy loan applications;
- complete investment records including investment statements, summary of investment income from insurance and other operations, supporting documentation including



securities registers (including information regarding Canadian securities held outside Canada), mortgage register and mortgage documents;

- supporting documentation for receivables and payables (due to/from agents, brokers, policyholders, others).
- reinsurance registers for assumptions and cessions showing details of underwriting information by treaty, premiums, losses, commissions, etc., balances due to/from reinsurance companies, and supporting source documents;
- analysis of home office account.

Additional records that could enable the CA to fulfill his/her accountabilities and/or to facilitate the supervisory process would include:

- a description of the accounting system;
- copies of all agreements, including outsourcing agreements with home office and affiliates;
- signed copies of all contracts, material to the FCB, that relate to the administrative operation of the FCB¹¹;
- copies of policies and practices governing the FCB's operations in Canada;
- current organization chart, showing reporting lines within the FCB and to home office and/or other affiliates;
- human resource and payroll information;
- details of any current litigation matters;
- identification information obtained at the time each individual became a policyholder¹² or customer of the FCB and current contact information;
- signed copies of reinsurance agreements and related amendments, facultative reinsurance certificates, group contracts, and agents' agreements¹³;
- actuarial reports, including valuation reports, external review reports, experience studies, etc., and supporting documentation; and
- analyses supporting the adequacy of the margin of assets in Canada over liabilities in Canada relative to the FCB's target level and the supervisory target set out in OSFI Guidelines, including stress and scenario test results.

¹¹ OSFI expects that these contracts will bear the signature of the CA or another individual formally appointed by the CA. OSFI recognizes that there may be instances where the home office, on behalf of the FCB, enters into such contracts. In such instances, OSFI would expect the CA to be made aware of these arrangements and for the FCB to maintain a copy of the contract at the chief agency in Canada.

¹² Policyholder would include direct policyholders and all certificate holders that could have a claim against the foreign company.

¹³ OSFI expects that all reinsurance agreements, group contracts and agents' agreements will bear the signature of the CA or his/her formally appointed designate.



ii) *Form of Records*

An FCB has the option of preparing and maintaining records in hard copy or electronically, provided that electronic records can be reproduced, "in intelligible written form within a reasonable period of time"¹⁴. OSFI would expect to be able to obtain such information without incurring additional costs and using readily available commercial applications. For certain types of information, such as reinsurance arrangements or files on more complex activities, reproduced electronic records may not be sufficient for OSFI's review. OSFI may request that the hard copy, original information be available at the branch in Canada, as needed. The FCB's information systems should be capable of providing appropriate reports having adequate, relevant information for management decision-making and to provide and maintain an audit trail to verify regulatory returns.

¹⁴ Paragraph 266(1)(b) of the ICA (applicable to foreign companies through section 649 of the ICA).



Schedule "B"



Guideline

**Subject: Branch Adequacy of Assets Test (BAAT)
Branches of Foreign Property and Casualty Insurance Companies**

No: A-2

Date: January 2007

Introduction

Subsection 608(1) of the Insurance Companies Act requires Branches of Foreign Property and Casualty Insurance Companies (Branches) to maintain an adequate margin of assets in Canada over liabilities in Canada. The BAAT Guideline¹ is not made pursuant to subsection 608(3) of the Act. However, the minimum and supervisory target standards set out in this Guideline provide the framework within which the Superintendent assesses whether a Branch of a foreign P&C insurance company operating in Canada maintains an adequate margin of assets in Canada over liabilities in Canada. Notwithstanding that a Branch may meet these standards the Superintendent may direct the Branch to increase the margin of assets in Canada over liabilities in Canada under subsection 608(4).

This guideline outlines the framework for Branches using a risk-based formula for the minimum margin to be maintained by Branches, in Canada, and defines the assets that are available to meet the minimum standard.

¹ Pursuant to the *Assets (Foreign Companies) Regulations*, this Guideline also applies to foreign life companies in respect of the insuring of risks that fall within a class of insurance other than life insurance, accident and sickness insurance and loss of employment insurance.



BAAT Supervisory Target

The BAAT ratio compares net assets available to margin required as calculated by applying factors for specified risks. Branches of foreign P&C insurers are required, at a minimum, to maintain a BAAT ratio of 100%.

OSFI believes that each institution should establish a target level that provides a cushion above minimum requirements, both to cope with volatility in markets and economic conditions, innovations in the industry, consolidation trends and international developments, and to provide for risks not explicitly addressed in the calculation of policy liabilities in the BAAT. Such risks include systems, data, strategic, management, fraud, legal and other operational and business risks. An adequate target level provides additional capacity to absorb unexpected losses beyond those covered by the minimum BAAT and to address additional capital needs through ongoing market access.

OSFI expects each institution to establish a target level, and maintain ongoing assets available, at no less than the supervisory target of 150% BAAT. However, the Superintendent may, on a case-by-case basis, establish in consultation with an institution an alternative supervisory target level based upon an individual institution's risk profile.

Institutions are required to inform OSFI immediately if they anticipate falling below the supervisory target capital level and to lay out their plans, for OSFI approval, to return to their target level. OSFI will consider any unusual conditions in the market environment when evaluating institutions' performance against their target level.

**Branch Adequacy of Assets Test
for Branches of Foreign P&C Insurance Companies**

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Overview and Available Assets***The Branch Adequacy of Assets Test for Branches of Foreign P&C Insurance Companies***

This Tab provides an overview of the BAAT for Branches of foreign P&C insurance companies. More detailed information on specific components of the calculation is contained under subsequent tabs. For BAAT purposes, all amounts are net of marine business.

Risk-Based Framework

The risk-based framework assesses the riskiness of assets, policy liabilities, and structured settlements, letters of credit, derivatives and other exposures, by applying varying factors. Branches are required to meet a test of minimum Net Assets Available over Margin Required.

Available Assets

For BAAT purposes, Available Assets are calculated as follows:

1. Excess of Vested Assets over Net Liabilities. Net Liabilities is equal to Total Liabilities net of: Recoverables from Reinsurers; Other (allowable) Recoverables on Unpaid Claims; Unearned Commissions; and, a specified portion of Deferred Policy Acquisition Expenses. This reduction for Deferred Policy Acquisition Expenses (DPAE) is equal to the sum of:
 - a) 65% of the net of Deferred Commissions and Unearned Commission (if the net value is zero or negative, there is no adjustment for this item); and,
 - b) 100% of Deferred Premium Taxes.

Plus

2. Receivables from Agents and Policyholders (including Brokers).

Less

3. Amounts receivable and recoverable from unregistered reinsurers to the extent that they are not covered by deposits held as security from assuming reinsurers (reference Tab 3-2).
4. Accumulated net after-tax fair value gains /losses on available-for-sale loans.

Margin Required

The BAAT margin requirement is the sum of amounts required for:

- i.) Assets (reference Tab 2).
- ii.) Unearned Premiums, Premium Deficiencies and Unpaid Claims (Policy Liabilities – reference Tab 3).
- iii.) Catastrophe Reserves and Additional Policy Provisions (reference Tab 3).
- iv.) Margin for Reinsurance Ceded to Unregistered Reinsurers (reference Tab 3).
- v.) Structured Settlements, Letters of Credit, Derivatives and Other Exposures (reference Tab 4).

Notwithstanding the stated requirements, in any case where the Superintendent believes that the treatment is inappropriate, a specific charge will be determined.

Minimum Requirements

Branches will be expected to maintain Net Assets Available equal to at least the minimum Margin Required. The Superintendent may prescribe a higher requirement, including for an individual Branch, taking into account such factors as operating experience, diversification of the asset or insurance portfolios, and retention limits.

Interpretation of Results

The BAAT establishes the minimum margin requirement for a branch operating in Canada to protect its policyholders. It is one of several indicators that the Superintendent uses to assess financial condition and should not be used in isolation for ranking and rating insurers.

TAB 2

Margin Required for Assets

Description of Asset Risks.....2-1

Counterparty Risk2-2

Asset Factors2-3

Treatment of Collateral and Guarantees2-4

TAB 2-1**Description of Asset Risks**

The margin required for assets covers the potential losses resulting from asset default and the related loss of income, and the loss of market value of equities and the related reduction in income. To determine the margin requirement for assets, branches must apply a factor to the balance sheet values of vested and other admitted assets. For vested loans, factors are applied to amortized cost. The resulting values are added together to arrive at the margin required for assets.

TAB 2-2

Counterparty Risk

This Tab applies to assets (reference Tab 2) and to structured settlements, letters of credit, derivatives and other exposures (reference Tab 4).

The three rating categories used for assigning factors to assets, structured settlements, letters of credit, derivatives and other exposures, or where appropriate collateral and guarantees, are:

1. Government Grade

Government obligations include securities issued by, loans made to, or securities or loans guaranteed by, and accounts receivable from:

- i.) the federal government of Canada or an agent of the Crown;
- ii.) a provincial or territorial government of Canada or one of its agents;
- iii.) a municipality or school corporation in Canada; and,
- iv.) the central government of a foreign country where:
 - the security is rated AAA or, if not rated,
 - the long-term sovereign credit rating of that country is AAA.

2. Investment Grade

A security is treated as Investment Grade if its rating (excluding securities that are included in the Government Grade category) meets or exceeds the rating listed in the table below. If a rating is not available, or where the rating of the security, or guarantor, is less than the rating listed in the table, it will be assigned a Not-Investment Grade factor.

A Branch wishing to use the rating of another rating agency should seek the approval of the Superintendent.

Asset/Guarantor Ratings

Rating Agency	Commercial Paper	Bonds & Debentures	Preferred Shares
	(at least as high as)		
Moody's Investor Service	P-1	A	Aa
Standard and Poor's Corporation	A-	A	AA
Dominion Bond Rating Service	R-1 (low)	A	Pfd-2

3. Not-Investment Grade

Includes any item not included in the Government Grade or Investment Grade categories.

In the case of an asset, or exposure, backed by a guarantee (reference Tab 2-4), the long-term issuer credit rating or, in the case of a government, the long-term sovereign risk rating, of the guarantor is used to determine the risk category. In all cases, when a credit rating is not available, the relevant Not-Investment Grade factor is applied.

Asset Factors*0% Factor*

- Cash.
- Obligations² of federal, provincial, territorial and municipal governments, and school corporations in Canada.
- Obligations of agents of the federal, provincial or territorial governments in Canada whose obligations are, by virtue of their enabling legislation, direct obligations of the parent government.
- Obligations of AAA-rated central governments and central banks, or obligations of organizations with the guarantee of the central government.
- Obligations backed by a Government Grade guarantor including, for example, residential mortgages insured under the National Housing Act (NHA) or equivalent provincial mortgage insurance program, and NHA mortgage-backed securities that are guaranteed by the Canada Mortgage and Housing Corporation.
- Instalment Premiums (not yet due).

0.5% Factor

- Term deposits, bonds, and debentures (including commercial paper), rated Investment-Grade, that mature or are redeemable in less than one year.
- Unearned Premiums recoverable from registered insurers (reference Tab 3-2).

2% Factor

- Term deposits, bonds, and debentures (including commercial paper), rated Investment Grade, that mature or are redeemable in one year or more.
- Investment income due and accrued.
- Unpaid Claims and adjustment expenses recoverable from registered insurers (reference Tab 3-2).

² Includes securities, loans and accounts receivable.

4% *Factor*

- Term deposits, bonds, and debentures (including commercial paper), rated Not-Investment Grade, that mature or are redeemable in less than one year.
- Investment Grade preferred shares.
- First mortgages on one- to four-unit residential dwellings.
- Accounts Receivable, outstanding less than 60 days, from Policyholders, Agents, and Brokers, including Instalment Premiums.

8% *Factor*

- Term deposits, bonds, and debentures (including commercial paper), rated Not-Investment Grade, that mature or are redeemable in one year or more.
- Accounts Receivable, outstanding 60 days or more, from Policyholders, Agents and Brokers, including Instalment Premiums.
- Real-estate for a Branch's own use.
- Commercial mortgages.
- The amount by which the vested balance sheet amount of foreign currency assets exceeds the amount of liabilities denominated in the same currency.

10% *Factor*

- Other loans.

15% *Factor*

- Common shares.
- Preferred shares rated Not-Investment Grade.
- Investments in real estate (not for a Branch's own use).
- Mortgages secured by undeveloped land (i.e., construction financing), other than land used for agricultural purposes or for the production of minerals. A property recently constructed or renovated will be considered as "under construction" until it is completed and 80% leased.
- Other Investments, excluding derivative related amounts (per page 40.80 of P&C-2 Instructions: includes investments *other than* term deposits, bonds and debentures, loans, shares, or investment in real estate). Margin requirements for derivative-related amounts included in Other Investments are set out in Tab 4 and are reported on page 30.80, with margins required for structured settlements, letters of credit, derivatives and other exposures.

-
- Other (allowable) Recoverables on Unpaid Claims: includes Salvage and Subrogation assets and Self Insured Retentions, to the extent permitted as Available Assets.

Variable Factors

- Investments in securitized assets, mutual funds or other similar assets must be broken down by type of investment (bond, preferred shares, etc., as per the P&C-2 Instructions), reported on the applicable line, and assigned the appropriate factor relating to the investment. If these investments are not reported on a prorated basis, then the factor of the riskiest asset being securitized, or held in the fund, is assigned to the entire investment.

Derivatives

- Margin requirements for derivatives are set out in Tab 4.

General

- Where information is not available to determine the grade of the counterparty, the counterparty is deemed to be Not-Investment Grade.
- Where information is not available to determine the redemption/maturity of an asset, Branches must use the category with the highest factor for that asset (e.g., use the "deposits, bonds and debentures, expiring or redeemable in more than one year" category where that information is not available for a particular asset).

Treatment of Collateral and Guarantees

This Tab applies to assets and to structured settlements, letters of credit, derivatives and other exposures.

Collateral

Recognition of collateral in reducing the margin required for assets, structured settlements, letters of credit, derivatives and other exposures, is limited to cash or securities meeting the Government Grade or Investment Grade criteria (reference Tab 2-2). Where a rating is not available for the asset, exposure, or counterparty where applicable, no reduction in the required margin is permitted.

Any collateral must be held throughout the period for which the asset is held or for which the exposure exists. Only that portion of an obligation that is covered by eligible collateral will be assigned the weight given to the collateral.

Guarantees

Investments (principal and interest) or exposures that have been explicitly, irrevocably and unconditionally guaranteed by a guarantor whose long-term issuer credit rating or, in the case of a government, the long-term sovereign credit rating, satisfies the Government Grade or Investment Grade rating criteria, may attract the factor allocated to a direct claim on the guarantor where the effect is to reduce the risk. Guarantees provided by a parent or an affiliate are not eligible for this treatment on the basis that guarantees within a corporate group are not considered to be a substitute for the required margin.

Where a rating is not available for the investment, exposure, or guarantor where applicable, no reduction in the required margin is permitted.

To be eligible, guarantees should cover the full term of the instrument and be legally enforceable.

Where the recovery of losses on a loan, financial lease agreement, security or exposure is partially guaranteed, only the part that is guaranteed is to be weighted according to the factor of the guarantor (see examples below).

Example One: Asset (reference Tab 2)

To record a \$100,000 Investment Grade bond due in 10 years that has a Government Grade guarantee of 90%, the insurer would report a book value of \$90,000 ($\$100,000 \times 90\%$) on the Government Grade line and a book value of \$10,000 ($\$100,000 - \$90,000$) on the Investment Grade line on page 30.81 under Term Deposits, Bonds and Debentures, Expiring or redeemable in more than one year. The Margin Required on the Government Grade line is \$0 ($\$90,000 \times 0.0\%$). The Margin Required on the Investment Grade line is \$200 ($\$10,000 \times 2.0\%$) for a total margin requirement of \$200. An example of the calculation, assuming no other assets, is provided in the chart below.

	Factor (%)	Book Value	Margin Required
Investments:			
Term Deposits, Bonds And Debentures:			
- Expiring or redeemable in more than one year:			
Government Grade	0.0%	\$90,000	\$0
Investment Grade	2.0%	\$10,000	\$200
Not-Investment Grade	8.0%		
Total		\$100,000	\$200

Example Two: Type 1 Structured Settlement (reference Tab 4)

To record a \$3,000 Type 1 Structured Settlement rated Not-Investment Grade, backed by collateral or a guarantee of \$2,000 from an Investment Grade counterparty, the insurer would report a Possible Credit Exposure of \$3,000 and Collateral and Guarantees of negative \$2,000 on the Not Investment Grade line, and Collateral and Guarantees of \$2,000 on the Investment Grade line under Structured Settlements on appendix A-2.

The Margin Required on the Not Investment Grade line is \$20 ($(\$3,000 - \$2,000) \times 50\% \times 4\%$). The Margin Required on the Investment Grade line is \$5 ($\$2,000 \times 50\% \times .5\%$) for a total margin requirement of \$25. An example of the calculation, assuming no other exposures, is provided in the chart below.

	Possible Credit Exposure (01)	Collateral and Guarantees (02)	Credit Conversion Factor (%) (03)	Factor (%) (04)	Margin Required (05)
Structured Settlements:					
Government Grade					
Investment Grade		\$2,000	50%	0.5%	\$5
Not Investment Grade	\$3,000	(\$2,000)	50%	4.0%	\$20
Total					\$25

TAB 3

Margin Required for Policy Liabilities (excludes marine business)

Description of Risks for Policy Liabilities..... 3-1

Margins for Unearned Premiums, Premium Deficiencies and Unpaid Claims 3-1

Catastrophes 3-1

Reinsurance Recoverables 3-2

TAB 3-1

Description of Risks for Policy Liabilities

This risk component reflects the insurer's risk profile by individual classes of insurance and results in specific margin requirements on policy liabilities. The risk associated with policy liabilities is divided into four parts:

- i.) variation in claims provisions (Unpaid Claims);
- ii.) possible inadequacy of provisions for Unearned Premiums;
- iii.) possible inadequacy of provisions for premium deficiencies; and
- iv.) occurrence of catastrophes (Earthquake and Other).

Note that, for Branches, policy liabilities exclude Marine business.

Margins for Unearned Premiums, Premium Deficiencies and Unpaid Claims

Given the uncertainty that balance sheet provisions will be sufficient to cover the anticipated liabilities, margins are added to cover the potential shortfall. The margins establish a balance between the recognition of varying risks associated with different classes of insurance and the administrative necessity to minimize the test's complexity.

From a regulatory perspective, these margins are included to take into account possible abnormal negative variations in the amounts calculated by actuaries, given the fact that the margins added by actuaries in their valuation are primarily intended to cover expected variations.

Margins on Unpaid Claims and Unearned Premiums are applied to the net amount at risk (i.e., net of reinsurance, Salvage and Subrogation, and Self Insured Retentions) by class of insurance. The Unearned Premiums margin is applied to the greater of the net Unearned Premiums or 50% of the net written premiums in the last 12 months. The margins are as follows:

Class of Insurance	Margin on Unearned Premiums	Margin on Unpaid Claims
Personal property & commercial property	8%	5%
Automobile - Liability & personal accident	8%	10%
Automobile - Other	8%	5%
Liability	8%	15%
Accident and Sickness	See Appendix A	See Appendix A
Mortgage	See Appendix B	15%
All others	8%	15%

A margin of 8% applies to premium deficiencies.

Catastrophes*Earthquake*

Refer to the OSFI Earthquake Exposure Sound Practices guideline.

Nuclear

Branches issuing nuclear risk policies, are required to record an additional provision of 100% of net premiums written, less commissions. In the absence of meaningful statistical data on the severity and frequency of losses, the Superintendent considers it appropriate for insurers to reverse this provision after twenty years.

Mortgage Insurance

Refer to the "Additional Policy Provisions" section of Appendix A-3.

Reinsurance Recoverables

Registered Reinsurers

The risk of default for recoverables from reinsurers arises from both credit and actuarial risk. Credit risk relates to the risk that the reinsurer will fail to pay the insurer what it is owed. Actuarial risk relates to the risk associated with assessing the amount of the required provision.

The factor applied to recoverables from registered reinsurers is treated as a combined weight under the BAAT, reflecting both the credit risk and the risk of variability or insufficiency of Unpaid Claims and Unearned Premiums. A 2% factor is to be applied to Unpaid Claims recoverable from registered reinsurers and a 0.5% factor is to be applied to Unearned Premiums recoverable from registered reinsurers.

Unregistered Reinsurers

Recoverables from Unregistered Reinsurers, on the balance sheet, have a Margin Required amount equal to the amount calculated on page 70.39 of the P&C-2.

Amounts recoverable from unregistered reinsurers, as reported on the balance sheet, are deducted from available assets to the extent that they are not covered by deposits held as security from assuming reinsurers. Amounts payable to assuming reinsurers may be deducted from amounts recoverable only where there is a legal and contractual right of offset. The deduction is calculated on page 70.39 of the P&C 2, and reported on page 30.80.

The margin for unregistered reinsurance is calculated on page 70.39 and reported on the "Reinsurance Ceded to Unregistered Insurers" line on page 30.80. The margin is 10% of reserves ceded to unregistered reinsurers. The margin requirement for each unregistered reinsurer may be reduced to a minimum of 0 by letters of credit and by deposits held as security that are in excess of the amount of ceded reserves, both divided by 1.5.

Margin Required for Structured Settlements, Letters Of Credit, Derivatives and Other Exposures

Description of Risks for Structured Settlements, Letters Of Credit, Derivatives and Other Exposures..... 4-1

Possible Credit Exposure 4-2

Credit Conversion Factors 4-3

Factors..... 4-4

Tab 4-1**Description of Risks for Structured Settlements, Letters Of Credit, Derivatives and Other Exposures**

This Tab applies to counterparty risk exposures not covered by the treatment for assets.

The risk to a Branch associated with structured settlements, letters of credit, derivatives and other exposures, and the amount of margin required to be held against this risk is:

- i.) The value of the instrument (Possible Credit Exposure; reference Tab 4-2) at the reporting date;
- ii.) Less: the value of eligible collateral security or guarantees (Collateral and Guarantees; reference Tab 2-4);
- iii.) Multiplied by: a factor reflecting the nature and maturity of the instrument (Credit Conversion Factor; reference Tab 4-3);
- iv.) Multiplied by: a factor reflecting the risk of default of the counterparty to a transaction (Credit Risk; reference Tab 4-4).

Refer to Appendix A-2, Worksheet for Margin Required for Derivatives, Structured Settlements, Letters of Credit, and Other Items.

Possible Credit Exposure

The possible credit exposure related to structured settlements, letters of credit, derivatives and other exposures varies depending on the type of instrument.

Structured Settlements

The possible credit exposure for a Structured Settlement is the current cost of the instrument.

Instruments included in this Tab are "Type 1" Structured Settlements that are not recorded as liabilities on the balance sheet. For details on the types of Structured Settlements, refer to Special Topics, section IV of the Instructions to the P&C-2, and to Guideline D5: Accounting for Structured Settlements.

Letters of Credit

The possible credit exposure for a Letter of Credit is the face value of the instrument.

Letters of Credit (LOCs) may include, for example:

- i.) LOCs serving as direct credit substitutes backing financial claims where the risk of loss to the Branch is directly dependent on the creditworthiness of the counterparty.
- ii.) LOCs acting as transaction-related contingencies associated with the ongoing business activities of a counterparty. The risk of loss to the reporting institution depends on the likelihood of a future event that is independent of the creditworthiness of the counterparty.

Derivatives

The possible credit exposure for derivatives is the positive replacement cost (obtained by "marking to market") plus an amount for potential future credit exposure (an "add-on" factor).

Derivatives include forwards, futures, swaps, purchased options, and other similar contracts. Insurers are not exposed to credit risk for the full face value of these contracts (notional principal amount); only to the potential cost of replacing the cash flow (on contracts showing a positive value) if the counterparty defaults. Instruments traded on exchanges are excluded where they are subject to daily receipt and payment of cash variation margins.

The possible credit exposure depends on the maturity of the contract and the volatility of the underlying instrument. It is calculated by adding:

- i.) the total replacement cost (obtained by "marking to market") of all contracts with positive value; and
- ii.) an amount for potential future credit exposure (or "add-on"). This is calculated by multiplying the notional principal amount by the following factors.

Derivative "Add-On" Factors

Residual Maturity	Interest Rate	Exchange Rate	Equity	Other Instruments
<i>One year or less</i>	0.0%	1.0%	6.0%	10.0%
<i>Over one year</i>	0.5%	5.0%	8.0%	12.0%

For contracts that are structured to settle outstanding exposures following specified payment dates, and where the terms are reset so that the market value of the contract is zero on these specified dates, the residual maturity is considered to be the time until the next reset date. In the case of interest rate contracts with remaining maturities of more than one year that also meet the above criteria, the add-on factor is subject to a floor of 0.5%.

The notional principal amount is:

- i.) the stated notional amount, except where the stated notional amount is leveraged or enhanced by the structure of the transaction. In these cases, insurers must use the actual or effective notional amount when determining potential future exposure³.
- ii.) nil, where the credit exposure on single currency floating/floating interest rate swaps would be evaluated solely on the basis of their marked-to-market value; or
- iii.) for contracts with multiple exchanges of principal, the sum of the remaining payments.

Contracts not covered by columns 2 – 4 in the above table are to be treated as "other instruments" for the purpose of determining the add-on factor.

³ For example, if a stated notional amount is based on a specified parameter (e.g., LIBOR), but has actual payments calculated at two-times that parameter, the amount for potential future credit exposure is based on twice the stated notional amount.

Other Exposures

This section includes any other exposures not covered above. Some examples are provided below.

Commitments

A commitment involves an obligation (with or without a material adverse change or similar clause) of the Branch to fund its customer in the normal course of business, should the customer seek to draw down the commitment. This includes:

- i.) extending credit in the form of loans or participations in loans, lease financing receivables, mortgages, letters of credit, guarantees or loan substitutes; or
- ii.) purchasing loans, securities, or other assets.

Normally, commitments involve a written contract or agreement and a commitment fee or some other form of consideration.

The maturity of a commitment should be measured from the date when the commitment was accepted by the customer (regardless of whether the commitment is revocable or irrevocable, conditional or unconditional) until the earliest date on which:

- i.) the commitment is scheduled to expire, or
- ii.) the insurer can, at its option, unconditionally cancel the commitment.

Repurchase and Reverse Repurchase Agreements

A securities repurchase (repo) is an agreement whereby a transferor agrees to sell securities at a specified price and repurchase the securities on a specified date and at a specified price. Since the transaction is regarded as a financing for accounting purposes, the securities remain on the balance sheet. Given that these securities are temporarily assigned to another party, the factor accorded to the asset should be the higher of the factor of the security and the factor of the counterparty to the transaction (net of any eligible collateral).

A reverse repo agreement is the opposite of a repo agreement, and involves the purchase and subsequent sale of a security. Reverse repos are treated as collateralized loans, reflecting the economic reality of the transaction. The risk is therefore to be measured as an exposure to the counterparty. Where the asset temporarily acquired is a security that attracts a preferential factor, the asset would be recognized as collateral and the factor would be reduced accordingly.

Credit Conversion Factors

Separate credit conversion factors exist for structured settlements, letters of credit, derivatives and other exposures.

For Letters of Credit and other exposures, the weighted average of the credit conversion factors, described below, for all of these instruments held by the Branch, should be entered in the appropriate cell on the Worksheet for Derivatives, Structured Settlements, Letters Of Credit and Other Items (Appendix A-2).

100% Factor

- Guarantees, letters of credit, or other equivalent irrevocable obligations serving as financial guarantees. Generally, these are considered direct credit substitutes where the risk of loss to the Branch is directly dependent on the creditworthiness of the counterparty.
- Commitments that mature in one year or more, and the Branch cannot cancel or withdraw the commitment at any time without notice and where their drawdown is certain.
- Derivatives such as forwards, futures, swaps, purchased options (including options purchased over the counter) and other similar derivative contracts, including:
 - i.) Interest rate contracts (single currency interest rate swaps; basis swaps; forward rate agreements and products with similar characteristics; interest rate futures; interest rate options purchased, and similar derivative contracts based on specific parameters as well as on indices, etc.).
 - ii.) Equity contracts (forwards; swaps; purchased options; and similar derivative contracts based on specific parameters as well as on indices, etc.).
 - iii.) Exchange rate contracts (gold contracts; cross-currency swaps; cross-currency interest rate swaps; outright forward foreign exchange contracts; currency futures; currency options purchased; and similar derivative contracts based on specific parameters as well as on indices, etc.).
 - iv.) Precious metals (except gold) and other commodity contracts (forwards; swaps; purchased options; and similar derivative contracts based on specific parameters as well as on indices, etc.).
 - v.) Other derivative contracts based on specific parameters as well as on indices (such as Catastrophe Insurance Options and Futures).

-
- Forward Asset Purchases including a commitment to purchase a loan, security or other asset at a specified future date, usually on prearranged terms.
 - Sale and repurchase agreements.
 - All other exposures not reported elsewhere (provide details).

50% Factor

- Structured settlements that are not recorded as liabilities on the balance sheet (refer to Section IV, Special Topics of the P&C-2 and to Guideline D5: Accounting for Structured Settlements).
- Performance-related and non-financial guarantees such as performance-related standby letters of credit (e.g., representing obligations backing the performance of non-financial or specific commercial contracts or undertakings and not general financial obligations). Performance-related guarantees specifically exclude items relating to non-performance of financial obligations.
- Commitments that mature in one year or more, and the insurer cannot cancel or withdraw the commitment at any time without notice and where their drawdown is uncertain.

0% Factor

- Commitments that mature in less than one year and other commitments where the insurer has full discretion to unconditionally cancel or withdraw the commitment at any time without notice⁴.

⁴ Other than any notice required under legislation or other court rulings that require notice.

Tab 4-4

Factors

Structured settlements, letters of credit, derivatives and other exposures are assigned a factor ranging from 0% to 8.0%, subject to their counterparty risk rating (reference Tab 2-2). The factors to be applied are:

0% Factor

- Exposures rated Government Grade.

0.5% Factor

- Structured Settlements rated Investment Grade.
- Letters of Credit rated Investment Grade.
- Derivatives rated Investment Grade.

2.0% Factor

- "Other Items" rated Investment Grade.

4.0% Factor

- Structured settlements not rated Government Grade or Investment Grade.
- Letters of Credit not rated Government Grade or Investment Grade.
- Derivatives not rated Government Grade or Investment Grade.

8.0% Factor

- "Other Items" not rated Government Grade or Investment Grade.

- END -

Appendix A-1: Capital Required - Accident and Sickness Business

Accident and Sickness requirements determined by actuaries in their valuations are primarily intended to cover expected variations in these requirements based on assumptions about mortality and morbidity. Margins on Unearned Premium and Unpaid Claims for Accident and Sickness Insurance are included in the MCT to take into account possible abnormal negative variations in actual requirements.

The Unearned Premium margin is calculated by applying a factor to annual Earned Premiums. Generally, the factor varies with the length of the premium guarantee remaining. The Unpaid Claims margin is calculated by applying a factor to the Unpaid Claims experience relating to prior years. Generally, the factor varies with the length of benefit period remaining.

This Appendix includes a worksheet for calculating the Margin Required for Accident and Sickness Business. Instructions for completing the worksheet are included in the section below. The total requirement calculated on the worksheet is included in the amount reported on line 22, Unearned Premiums/Unpaid Claims, of Page 30.70.

Instructions for Completing the Worksheet

Mortality/morbidity risk for accident and sickness insurance is the risk that assumptions about mortality and morbidity will be wrong.

To compute the mortality/morbidity component a factor is applied to the measure of exposure to risk. The resulting values are added to arrive at the Unearned Premium and Unpaid Claims margins requirement.

The factors used in deriving the risk component vary with the guaranteed term remaining in the exposure measure. The measure of the exposure to risk is as follows:

Risk	Measure of Exposure	Applicable Guaranteed Term
Disability Income, New Claims Risk	Annual net earned premiums	the length of the premium guarantee remaining
Disability Income, Continuing Claims Risk	Disability income net reserves relating to claims of prior years	the length of the benefit period remaining
Accidental Death and Dismemberment	Net amount at risk = the total net face amount of insurance less policy reserves (even if negative)	the period over which the mortality cost cannot be changed (limited to the remaining period to expiry or maturity)



1) Disability Income Insurance

The additional risks associated with non-cancellable guaranteed premium business should be recognized. As well, increased volatility is characteristic of disability income insurance, as compared to medical and dental expense reimbursement business.

Unearned Premium Margin

The unearned premium component relates to claims arising from the current year's coverage, and includes the risks of incidence and claims continuance. The factor applied to the measure of exposure is as follows:

Percentage of Annual Earned Premiums ¹		Length of Premium Guarantee Remaining
Individually Underwritten	Other	
12%	12%	less than or equal to 1 year
20%	25%	greater than 1 year, but less than or equal to 5 years
30%	40%	greater than 5 years

Unpaid Claims Margin

The unpaid claims component covers the risk of claims continuance arising from coverage provided in prior years. The factor applies to disability income claim reserves related to claims incurred in prior years, including the portion of the provision for incurred but unreported claims. The factor applied to the measure of exposure is as follows:

Duration of Disability			Length of Benefit Period Remaining
less than or equal to 2 years	greater than 2 years but less than or equal to 5 years	greater than 5 years	
4.0%	3.0%	2.0%	less than or equal to 1 year
6.0%	4.5%	3.0%	greater than 1 year but less than or equal to 2 years
8.0%	6.0%	4.0%	greater than 2 years or lifetime

¹ For travel insurance, annual earned premiums should be considered revenue premiums.

2) Accidental Death and Dismemberment

To compute the components for Accidental Death and Dismemberment, the following factors are applied to the net amount at risk:

Type		Factor	Guaranteed Term Remaining
Participating	Group	.015%	less than or equal to 1 year
	All other	.030%	all
Non-participating <i>Individual</i>	Adjustable	.030%	all
	All other	.015%	less than or equal to 1 year
		.030%	greater than 1 year but less than or equal to 5 years
	.060%	greater than 5 years, whole life, and all life insurance continued on disabled lives without payment of premiums.	
Non-participating <i>Group</i>	All	.015%	less than or equal to 1 year
		.030%	greater than 1 year but less than or equal to 5 years
		.060%	greater than 5 years, whole life, and all life insurance continued on disabled lives without payment of premiums.

For participating business without meaningful dividends, and participating adjustable policies where mortality adjustability is not reasonably flexible, the factors for all other non-participating business should be used.

If current premium rates are significantly less than the maximum guaranteed premium rates, the guarantee term used is that applicable to the current rates.

Additional adjustments are accorded group insurance. They are as follows:

- The above factors may be multiplied by 50% for any group benefit that carries one of the following features: 1) a "guaranteed no risk", 2) deficit repayment by policyholders, or 3) "hold harmless" agreement where the policyholder has a legally enforceable debt to the insurer.
- No component is required for "Administrative Services Only" group cases where the insurer has no liability for claims.



Only "all cause" policies solicited by mail should be included in this section for automobile and common carrier accidental death and dismemberment. Specific accident perils accidental death and dismemberment in policies solicited by mail, and "free" coverages on premium credit card groups, should be included in the "Other Accident and Sickness Benefits" section.

3) Other Accident and Sickness Benefits

Unearned Premium Margin

The component requirement is 12% of annual earned premiums.

Unpaid Claims Margin

The component requirement is 10% of the provision for incurred but unpaid claims relating to prior years. The use of prior years avoids a double component requirement for incurred but unpaid claims arising from coverage purchases by premiums paid in the current year.

Special Policyholder Arrangements

For group insurance deposits in excess of liabilities, excluding the liability for such deposits, may reduce the component requirement on any policy to a minimum of zero. Such deposits must be: made by policyholders; available for claims payment (e.g., claim fluctuation and premium stabilization reserves, and accrued provision for experience refunds); and returnable, net of applications, to policyholders on policy termination.



Appendix A-2: Worksheets

Please click on this link to view the [Worksheets](#).



Appendix A-3: Capital Required - Mortgage Insurance

This Appendix currently applies only to federal insurers. It replaces all existing federal Memoranda on the subject of capital requirements for mortgage insurance policies on classes of loans defined in Section 2 of this Appendix.

1. Definitions

In this Appendix,

"**commercial loan**" means a loan on a property used primarily for commercial purposes;

"**conventional loan**" means a loan where the ratio of the initial mortgage amount to the lower of the appraised value or sale price, as at the date of the loan, does not exceed 75%;

"**high-ratio loan**" means a loan that is not a conventional loan;

"**home-ownership loan**" means a loan on a residential property with 1 to 4 units (inclusive), without regard to owner occupation;

"**industrial loan**" means a loan on a property used primarily for industrial purposes;

"**initial mortgage amount**" in respect of a mortgage that is not a first mortgage, means the total amount of the outstanding balance of the first mortgage, and the amount of the other mortgage at the date of commencement of risk under the policy;

"**multiple residential loan**" means a loan on a property with more than 4 units used primarily for residential purposes;

"**variable payment mortgage**" means a mortgage on which the payments to be made by the borrower increase in some pre-determined manner and which the regulator has agreed may be included under this definition.



2. Classes of Loans

The following classes of loans are hereby defined:

Type of Property	1 st Mortgages		2 nd Mortgages		Variable Payment Mortgage
	Conventional / High Ratio		Conventional / High Ratio		
Home-ownership	HCI	HH1	HC2	HH2	HV1
Multiple residential	MC1	MH1	MC2		
Commercial	CCI	CH1	CC2		
Industrial	IC1	IH1	IC2		

Note that the first letter denotes the type of property. The second letter denotes the type of mortgage. The suffix denotes the ranking of the mortgage.

3. Mortgage Insurance Margin

- a) A company shall, in respect of its mortgage insurance business covered by this Appendix, maintain a mortgage insurance margin as stipulated below, adjusted for:
- various classes of mortgages by factors prescribed in paragraph (b);
 - various settlement options by factors prescribed in section 8;
 - the margin for commitments likely to result into policies in the following 60 days; and
 - the investment income discount factor prescribed in paragraph (c).

This margin replaces the unearned premium margin required in the Minimum Capital Test (MCT) for Canadian Property and Casualty Insurance Companies.

Completed Policy Duration in Years	Mortgage Insurance Margin per \$100 of Initial Mortgage Amount	
	Homeownership	Others
0	\$0.616	\$1.10
1	\$0.711	\$1.10
2	\$0.694	\$1.07
3	\$0.644	\$0.98
4	\$0.496	\$0.87
5	\$0.346	\$0.73
6	\$0.194	\$0.54
7	\$0.106	\$0.33
8	\$0.051	\$0.10
9	\$0.030	Nil
10	Nil	Nil

The "Others" category consists of Multiple Residential, Commercial and Industrial loans.

b) The following adjustment factors will apply to the mortgage insurance margin for various classes of mortgages:

<u>Class</u>		<u>Factors</u>
HC1	<u>Homeownership conventional 1st mortgages</u>	
	Maximum loan to value ratio up to 50%	.04
	Maximum loan to value ratio over 50% to 65%	.08
	Maximum loan to value ratio over 65% to 75%	.10
HH1	<u>Homeownership high ratio 1st mortgages</u>	
	Maximum loan to value ratio over 75% to 80%	.30
	Maximum loan to value ratio over 80% to 85%	.60
	Maximum loan to value ratio over 85% to 90%	.90
	Maximum loan to value ratio over 90% to 95%	1.20
	Maximum loan to value ratio over 95% to 100%, and	
	Average credit score greater than or equal to 700	1.35
	Average credit score between 680 and 699	1.40
	Average credit score between 660 and 679	1.45
	Average credit score less than 660	1.75
MCI	Multiple residential conventional 1st mortgages	1.00
MH1	Multiple residential high ratio 1st mortgages	1.50
MC2	Multiple residential conventional 2nd mortgages	1.00
CCI	Commercial conventional 1st mortgages	1.00
CHI	Commercial high ratio 1st mortgages	1.50
CC2	Commercial conventional 2nd mortgages	1.50
ICI	Industrial conventional 1st mortgages	1.00
IH1	Industrial high ratio 1st mortgages	1.50
IC2	Industrial conventional 2nd mortgages	1.50

For homeownership second mortgages, the factor used should be 90% of the first mortgage factor.

For homeownership variable payment mortgage, the factor used should be 110% of the non-variable payment factor.

c) The above requirements shall be adjusted by application of an investment income factor defined as follows:

The income factor = $1 - 2.5(x - .05)$ where x denotes the investment yield of the company per unit of assets during the previous 12 months. The investment income factor shall not be less than 0.875.

-
- For the purposes of calculating the yield, the investment income will be calculated as *Income (20.30.32.01)* plus the *share of net income (loss) of subsidiaries and affiliates (20.30.41.01)* of the Annual Return, while assets are the *Assets Available for Test Purposes* or an equivalent amount.
- d) A company shall also maintain, a margin on the basis prescribed herein in respect of commitments likely to result into policies in the following 60 days. As regards the balance of commitments, the company will have to satisfy the regulator that capital would be available at the time when policies are likely to be issued. Companies will be required to justify the factors used in the calculations.
- e) Notwithstanding anything to the contrary stated herein, the mortgage insurance margin required pursuant to this section shall not be less than 0.15% of the initial mortgage amount on the total business of the company.



4. Unearned Premiums

a) A company shall maintain unearned premiums on the scales prescribed below:

Completed Policy Duration in Years	Unearned Premium Reserve as Percent of Single Premium Policy Reserve in Years					
	5 or less	over 5 and less than 10	over 10 and less than 15	over 15 up to 25	over 25 up to 30	over 30 up to 40
0	100.0	100.0	100.0	100.0	100.00%	100.00%
1	75.0	80.0	85.0	88.0	88.50%	89.00%
2	50.0	60.0	65.0	70.0	70.50%	71.00%
3	25.0	40.0	45.0	52.0	52.50%	53.00%
4	12.5	20.0	30.0	35.0	35.50%	36.00%
5	0.0	10.0	18.0	23.0	23.50%	24.00%
6		5.0	10.0	14.0	16.00%	16.50%
7		3.0	6.0	8.0	12.00%	12.25%
8		2.0	4.0	6.0	8.00%	8.25%
9		1.0	2.0	3.0	5.00%	5.50%
10		0.0	1.5	2.5	3.00%	3.50%
11			1.0	2.0	2.50%	2.75%
12			0.50	1.5	2.00%	2.10%
13			0.25	1.0	1.50%	1.70%
14			0.125	0.50	1.00%	1.30%
15			0.000	0.40	0.50%	0.90%
16				0.35	0.45%	0.70%
17				0.30	0.40%	0.65%
18				0.25	0.35%	0.50%
19				0.20	0.30%	0.40%
20				0.15	0.25%	0.35%
21				0.12	0.22%	0.32%
22				0.09	0.19%	0.29%
23				0.06	0.16%	0.26%
24				0.03	0.13%	0.23%
25				0.00	0.10%	0.20%
26					0.08%	0.18%
27					0.06%	0.16%
28					0.04%	0.14%
29					0.02%	0.12%
30					0.00%	0.10%
31						0.09%
32						0.08%
33						0.07%
34						0.06%
35						0.05%
36						0.04%
37						0.03%
38						0.02%
39						0.01%
40						0.00%



b) Renewable policies, other than for homeownership, subject to the first premium not less than 1.25% (1% for conventional loans) of the initial sum insured and a renewal premium of not less than 0.25% of the sum insured issued for an initial term (or a renewal term) not exceeding 5 years:

- i) The unearned premiums shall be maintained in accordance with the scale for policies over 5 and less than 10 years in (a) above; and
- ii) The unearned premiums in respect of any renewal premium shall be calculated pro-rata over the greater of the following periods:
 - a. the renewal period; and
 - b. three years.

5. Additional Policy Provisions

A company shall maintain additional policy provisions as follows:

Completed Policy Duration in Years	Additional Policy Reserve as Per Cent of Single Premium Original Term of the Policy			
	Up to 5 yrs	Over 5 to 10 yrs	Over 10 to 15 yrs	Over 15 to 40 yrs
1	2.0	3.0	4.0	4.0
2	1.0	2.0	4.0	4.0
3	0.5	1.0	3.5	4.0
4		1.0	3.0	5.5
5		0.5	3.0	6.0
6		0.5	2.0	5.0
7		0.0	1.0	3.5
8			1.0	2.0
9			1.0	1.5
10			1.0	1.5
11			0.0	1.0
12				1.0
13				0.5
14				0.5
15				0.5
16				0.5
17				0.5
18				0.5
19				0.5
20				0.0
21				0.0
22				0.0
23				0.0
24				0.0
25				0.0

Note: For the purposes of this paragraph, the term of a policy for term 10 to 15 years described in paragraph 4(b) shall be treated as 10 years.



These factors are derived based on the assumption that the premium rates charged are adequate. Should these rates change over time, additional policy provisions factors will have to be readjusted. The regulator should be advised whenever a company is making a material change to its rates charged.

6. Other Policy Durations

Factors for Calculating Requirements of:

- a) mortgage insurance margin;
- b) Unearned Premiums; and
- c) Additional Policy Provisions

at policy durations other than those specified in this Appendix shall be obtained by simple interpolation.

7. Premium Deficiency

A company shall maintain a premium deficiency calculated as set out below for the different grouping of policies.

The premium deficiency in respect of a grouping of policies shall be the excess, if any, of:

- a) the sum of the future claims and adjustment expenses, future servicing expenses and reinsurance costs;
over
- b) the Unearned Premiums.



8. Optional Settlement Clause

- a) The mortgage insurance margin required (as specified in section 3) will be adjusted for the settlement option specified in the mortgage insurance policy by the following proportion.

Mortgage Loan to Original Value	Settlement Option ¹	Factor Applicable to the Mortgage Insurance Margin
0 to 80%	10%	73%
0 to 85%	15%	80%
0 to 90%	20%	84%
0 to 95%	25%	100%
0 to 50%	100%	100%
Over 50% to 65%	100%	100%
Over 65% to 75%	100%	100%
Over 75% to 80%	100%	105%
Over 80% to 85%	100%	110%
Over 85% to 90%	100%	115%
Over 90% to 95%	100%	140%
Over 95% to 100%	100%	150%

- b) A company may in respect of Homeownership loans issue policies with 100% coverage, subject to the following conditions:
- i) The company shall include in all such policies a clause giving the company the option to pay claims on a deficiency basis without being required to settle the claim on the basis of the company taking over title to the mortgaged property; and
 - ii) At any time when the real estate holdings of a company exceed 25% of its total invested assets, the company shall settle claims on such policies only on a deficiency basis, unless the company has received written permission from the regulator permitting it to settle such claims on the basis of taking over title to the mortgaged property.
- c) For the purpose of this section invested assets will include those that are required to be reported in the Annual Return, data points 20.10.01.01, 20.10.03.01 and 20.10.04.01 to 20.10.09.01, plus any other items that may be approved by the regulator.
- d) For proportional coverage², the factor used to adjust the mortgage insurance margin is obtained by multiplying the proportional coverage percentage by the applicable factor from the above table for a 100% settlement option. For example, a factor of 55% (50% times 110%) would apply for proportional coverage on a mortgage with an original loan to value ratio of 85%.

¹ Settlement Option - the percentage refers to the maximum claim measured as a percentage of the original loan amount. For example, a 25% settlement option on a \$200,000 mortgage means that the insurer is liable for up to the first \$50,000 of the lender's loss.

² Proportional Coverage Option - refers to the percentage of a lender's loss that is payable by the insurer. For example, with a 50% proportional coverage option, the insurer is liable for 50% of the lender's loss.



9. Date of Recognition of Claim

Provision for losses in respect of mortgages in default will be made on the earlier of:

- a) the date five months after the date of the first default; and
- b) the date when the claim is submitted to the company.

10. Policies Under Which Premium Credits for Existing Policies are Given

For the purposes of this Appendix, the Unearned Premiums and Additional Policy Provisions shall be maintained based on the premium ignoring credits, if any, allowed for an existing policy.



Schedule "C"



*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.

Schedule "D"

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.

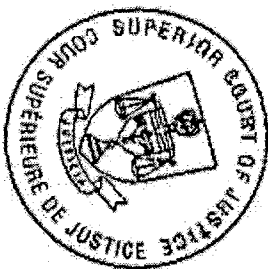
28. This Order shall be effective on the date of entry specified above and supercedes this Court's Order of May 29, 2001.

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, Judge

Schedule "E"



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**

BETWEEN:

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.--

DEC 13 2001
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Court File No: 01-CL-4313

THE ATTORNEY GENERAL OF CANADA *Applicant* and *Respondent* RELIANCE INSURANCE COMPANY

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

Schedule "F"

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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

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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.

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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,

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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

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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 or 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

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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;

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- (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;

- 13 -

- (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

- 14 -

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).

- 15 -

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.

- 16 -

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

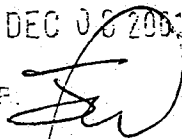
35. THIS COURT ORDERS that the Liquidator shall be at liberty to apply reasonable amounts against its remuneration, expenses and disbursements on a monthly basis and that such amounts shall constitute advances against its remuneration and expenses on, but subject to, the passing of its accounts.

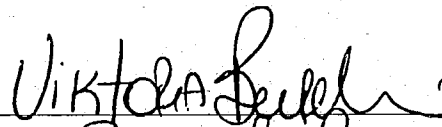
36. THIS COURT ORDERS that this Order and any other orders in these proceedings shall have full force and effect in all Provinces and Territories in Canada.

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.

DEC 03 2001
PER/DAR




Registrator

THE ATTORNEY GENERAL OF CANADA and
Applicant

Court File No: 01-CL-4313

RELIANCE INSURANCE COMPANY
Respondent

**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

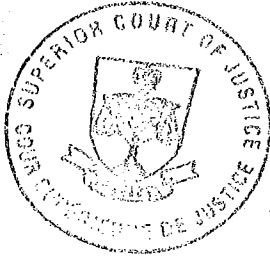
Charles F. Scott LSUC# 14534N
Brooke Shulman LSUC # 41032N
Tel: (416) 646-7997
Fax: (416) 598-3730

Solicitors for the Applicant

Schedule "G"

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

THE HONOURABLE MR.) WEDNESDAY, THE 17TH DAY
)
JUSTICE CAMPBELL) OF DECEMBER, 2008



**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 MOTION, brought by KPMG Inc., liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company ("Reliance Canada"), was heard this day at 330 University Avenue, Toronto, Ontario.

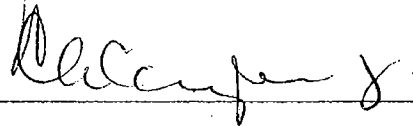
ON READING the Report of the Liquidator dated December 10, 2008 (the "Report"), filed, and on hearing submissions of counsel for the Liquidator, no other party appearing, although properly served as appears from the proof of service, filed:

- 2 -

1. **THIS COURT ORDERS** that the service of the Notice of Motion and materials herein is good and sufficient service of this motion, that the motion is properly returnable before this Court and that further service thereof upon any interested party other than those parties served be and is hereby dispensed with.

2. **THIS COURT ORDERS** that the Liquidator is hereby authorized to pay a distribution from the estate of Reliance Canada in the amount of 100% of valid and allowed ordinary creditor claims up to a cumulative total amount of \$100,000.00, including, for greater certainty, the claim of Hub International Ltd. filed in the amount of (U.S.) \$5,810.87.

3. **THIS COURT ORDERS** that the Liquidator is hereby authorized to pay to the Property and Casualty Insurance Compensation Corporation ("PACICC") as remuneration for PACICC's inspectorship herein the sum of \$129,244.99.



ENTERED AT / INSCRIT A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

DEC 17 2008

PER / PAR: TV

THE ATTORNEY GENERAL OF CANADA
Applicant

RELIANCE INSURANCE COMPANY
and
Respondent

Court File No: 01-CL-4313

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

Proceeding commenced at Toronto

**ORDER
(December 17, 2008)**

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Graham Smith (LSUC # 26377D)
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Solicitors for KPMG Inc.,
Liquidator of Reliance (Canada)

File No. 016699

15656925

Schedule "H"

Court File No. 01-CL-4313



**ONTARIO SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE
MR. JUSTICE FARLEY

) THURSDAY, THE 26th DAY
)
) OF JUNE, 2003

**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 MOTION, brought by KPMG Inc., liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company ("Reliance (Canada)"), was heard this day at 393 University Avenue, Toronto, Ontario.

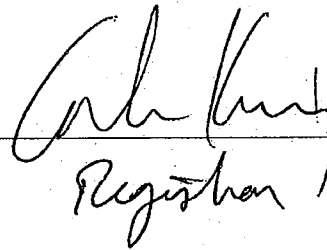
ON READING the Report of the Liquidator dated June 20, 2003, filed, the Order of this Court dated December 3, 2001 appointing the Liquidator (the "Appointment Order") and the Orders of this Court dated January 30, 2002, April 29, 2002, May 8, 2002, December 6, 2002

and March 26, 2003 (collectively the "Extension Orders"), and on hearing-submissions of counsel for the Liquidator and counsel for Maritime Road Development Corporation, no one else appearing although properly served as appears from the proof of service filed:

1. **THIS COURT ORDERS** that the service of the Notice of Motion and materials herein is good and sufficient service of this motion, that the motion is properly returnable before this Court and that further service thereof upon any interested party other than those parties served be and is hereby dispensed with.

2. **THIS COURT ORDERS** that paragraphs 8, 9 and 11 of the Appointment Order, amended by the Extension Orders, are hereby further amended *nunc pro tunc* to extend the date of June 30, 2003 to December 31, 2003 or such later date as this Court may order.

3. **THIS COURT ORDERS** that the Liquidator is hereby authorized to pay a first interim distribution from the estate of Reliance (Canada) in the amount of 25% of valid and allowed policyholder loss claims, where such amount exceeds the payments authorized by paragraphs 8 and 9 of the Appointment Order.


Registrar

ENTERED AT/INSCRIT À TORONTO
ON/BOOK NO:
LE/DANS LE REGISTRE NO:

JUN 26 2003

PER/PAR:

NB

THE ATTORNEY GENERAL OF CANADA
Applicant

RELIANCE INSURANCE COMPANY
Respondent

Court File No: 01-CL-4313

ONTARIO SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

Proceeding commenced at Toronto

ORDER

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Gale Rubenstein\LSUC # 17088E

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Fax: (416) 979-1234

Solicitors for KPMG Inc.,
Liquidator of Reliance (Canada)

G26\NRUBENSTG\4486124.2

Schedule "I"

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

THE HONOURABLE) THURSDAY, THE 2nd DAY
)
MR. JUSTICE FARLEY) OF SEPTEMBER, 2004

**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:

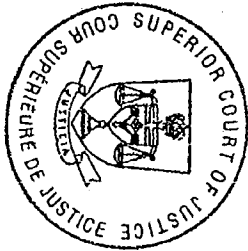
THE ATTORNEY GENERAL OF CANADA

Applicant

- and -

RELIANCE INSURANCE COMPANY

Respondent



ORDER

THIS MOTION, brought by KPMG Inc., liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company ("Reliance (Canada)"), was heard this day at 393 University Avenue, Toronto, Ontario.

ON READING the Report of the Liquidator dated August 25, 2004 (the "Report"), the Affidavit of Gale Rubenstein sworn August 25, 2004 and the Affidavit of Robert O. Sanderson sworn August 25, 2004, filed, and on hearing submissions of counsel for the

Liquidator, no one else appearing although properly served as appears from the proof of service, filed:

1. **THIS COURT ORDERS** that the service of the Notice of Motion and materials herein is good and sufficient service of this motion, that the motion is properly returnable before this Court and that further service thereof upon any interested party other than those parties served be and is hereby dispensed with.
2. **THIS COURT ORDERS** that the accounts of the Liquidator for the period October 1, 2003 to June 30, 2004, as reflected in the financial statements of Reliance (Canada) attached to the Report, be and they are hereby passed and approved as submitted.
3. **THIS COURT ORDERS** that the fees and disbursements of the Liquidator and of its counsel, Goodmans LLP, for the period October 1, 2003 to June 30, 2004 be and they are hereby approved as submitted.
4. **THIS COURT ORDERS** that the Liquidator is hereby authorized to pay up to \$25,000 on valid claims under the Meridian program, until further order of this Court.
5. **THIS COURT ORDERS** that the Liquidator is hereby authorized to pay a second interim distribution from the estate of Reliance (Canada) in the amount of 25% of valid and allowed policyholder loss claims, where, and to the extent that, such amount combined with the amount of payment by way of the first interim distribution exceeds the payments authorized by either paragraph 8 of the Order of this Court dated December 3, 2001 *inter alia* appointing the Liquidator or paragraph 4 hereinabove.

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

SEP 07 2004

PER/PAR: 



DAVID EVANS
REGISTRAR

THE ATTORNEY GENERAL OF CANADA
Applicant

RELIANCE INSURANCE COMPANY
Respondent

Court File No: 01-CL-4313

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

Proceeding commenced at Toronto

ORDER

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Fax: (416) 979-1234

Solicitors for KPMG Inc.,
Liquidator of Reliance (Canada)

GOODMANSPAQUETTS046595.1

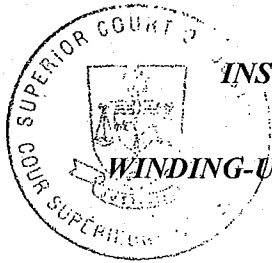
Schedule "J"

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

THE HONOURABLE) WEDNESDAY, THE 21ST DAY
MR. JUSTICE FARLEY) OF DECEMBER, 2005

**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

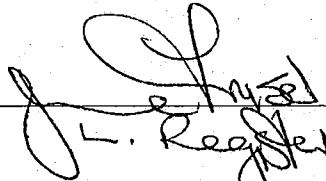
ORDER

THIS MOTION, brought by KPMG Inc., liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company ("Reliance (Canada)"), was heard this day at 393 University Avenue, Toronto, Ontario.

ON READING the Report of the Liquidator dated December 14, 2005 (the "Report"), the Affidavit of Gale Rubenstein sworn December 14, 2005 and the Affidavit of I. George Gutfreund sworn December 14, 2005, filed, and on hearing submissions of counsel for

the Liquidator, and Maritime Road Development Corporation, although properly served as appears from the proof of service, filed:

1. **THIS COURT ORDERS** that the service of the Notice of Motion and materials herein is good and sufficient service of this motion, that the motion is properly returnable before this Court and that further service thereof upon any interested party other than those parties served be and is hereby dispensed with.
2. **THIS COURT ORDERS** that the accounts of the Liquidator for the period July 1, 2004 to September 30, 2005, as reflected in the financial statements of Reliance (Canada) attached to the Report, be and they are hereby passed and approved as submitted.
3. **THIS COURT ORDERS** that the fees and disbursements of the Liquidator and of its counsel, Goodmans LLP, for the period July 1, 2004 to September 30, 2005 be and they are hereby approved as submitted.
4. **THIS COURT ORDERS** that the Liquidator is hereby authorized to pay a third interim distribution from the estate of Reliance (Canada) in the amount of 15% of valid and allowed loss claims, where, and to the extent that, such amount, combined with the amount of payment by way of the first and second interim distributions, exceeds the payments authorized by paragraph 8 of the Order of this Court dated December 3, 2001 *inter alia* appointing the Liquidator.



ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

DEC 21 2005

PER/PAR 

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

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Graham Smith (LSUC # 26377D)
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Fax: 416-979-1234

Solicitors for KPMG Inc.,
Liquidator of Reliance (Canada)

GOODMANS\5251587.1

Schedule "K"

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

THE HONOURABLE MR.) FRIDAY, THE 15th DAY
)
JUSTICE CUMMING) OF DECEMBER, 2006



**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 MOTION, brought by KPMG Inc., liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company ("Reliance (Canada)"), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Report of the Liquidator dated December 8, 2006 (the "Report"), the Affidavit of Gale Rubenstein sworn December 7, 2006 and the Affidavit of Robert O. Sanderson sworn December 8, 2006, filed, and on hearing submissions of counsel for the

Liquidator, and for Maritime Road Development Corporation, no other party appearing, although properly served as appears from the proof of service, filed:

1. **THIS COURT ORDERS** that the service of the Notice of Motion and materials herein is good and sufficient service of this motion, that the motion is properly returnable before this Court and that further service thereof upon any interested party other than those parties served be and is hereby dispensed with.

2. **THIS COURT ORDERS** that the accounts of the Liquidator for the period October 1, 2005 to September 30, 2006, as reflected in the financial statements of Reliance (Canada) attached to the Report, be and they are hereby passed and approved as submitted.

3. **THIS COURT ORDERS** that the fees and disbursements of the Liquidator and of its counsel, Goodmans LLP, for the period October 1, 2005 to September 30, 2006 be and they are hereby approved as submitted.

4. **THIS COURT ORDERS** that the Liquidator is hereby authorized to pay a fourth interim distribution from the estate of Reliance (Canada) in the amount of 15% of valid and allowed loss claims, where, and to the extent that, such amount, combined with the amount of payment by way of the first, second and third interim distributions, exceeds the payments authorized by paragraph 8 of the Order of this Court dated December 3, 2001 *inter alia* appointing the Liquidator.

Dec 15/06 Peter A. Cumming J.

ENTERED AT / INSCRIT A TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

DEC 15 2006

PER/PAR 

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

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Graham Smith (LSUC # 26377D)
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Fax: 416-979-1234

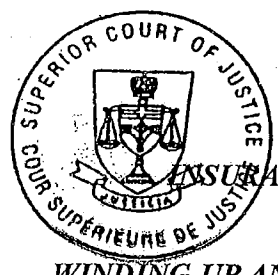
Solicitors for KPMG Inc.,
Liquidator of Reliance (Canada)

GOODMANS\SMITH\G53723672
File No. 016699

Schedule "L"

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

THE HONOURABLE) TUESDAY, THE 8TH DAY
)
MR. JUSTICE MORAWETZ) OF APRIL, 2008



**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 MOTION, brought by KPMG Inc., liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company ("Reliance (Canada)"), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Report of the Liquidator dated April 1, 2008 (the "Report"), the Affidavit of Gale Rubenstein sworn April 1, 2008 and the Affidavit of Robert O. Sanderson

sworn April 1, 2008, filed, and on hearing submissions of counsel for the Liquidator, no other party appearing, although properly served as appears from the proof of service, filed:

1. **THIS COURT ORDERS** that the service of the Notice of Motion and materials herein is good and sufficient service of this motion, that the motion is properly returnable before this Court and that further service thereof upon any interested party other than those parties served be and is hereby dispensed with.

2. **THIS COURT ORDERS** that the accounts of the Liquidator for the period October 1, 2006 to December 31, 2007 (the "Period"), as reflected in the financial statements of Reliance (Canada) attached to the Report, be and they are hereby passed and approved as submitted.

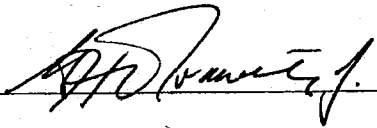
3. **THIS COURT ORDERS** that the fees and disbursements of the Liquidator and of its counsel, Goodmans LLP, for the Period be and they are hereby approved as submitted.

4. **THIS COURT ORDERS** that the Liquidator is hereby authorized to pay a fifth interim distribution from the estate of Reliance (Canada) in the amount of 20% of valid and allowed loss claims, where, and to the extent that, such amount, combined with the amount of payment by way of the first, second, third and fourth interim distributions, exceeds the payments authorized by paragraph 8 of the Order herein of the Honourable Mr. Justice Farley dated December 3, 2001 that, *inter alia*, appointed the Liquidator (the "Appointment Order").

5. **THIS COURT ORDERS** that the Appointment Order is hereby varied such that the payments authorized by paragraphs 8, 9 and 11 thereof (as may have been varied or amended by further Orders of this Court) are authorized to be paid up to the lesser of (i) the full amount of

the relevant valid claim, or, in the case of paragraph 11, the amount of reasonable legal and other costs, and (ii) the applicable limits of the relevant policy.

ENTREPRENEUR / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:



APR 08 2008

PER/PAR: PQ

THE ATTORNEY GENERAL OF CANADA
Applicant

RELIANCE INSURANCE COMPANY
Respondent

Court File No: 01-CL-4313

ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST

Proceeding commenced at Toronto

ORDER
(April 8, 2008)

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Toronto, Ontario
M5B 2M6

Graham Smith (LSUC # 26377D)
Tel: 416-597-4161
Fax: 416-979-1234

Solicitors for KPMG Inc.,
Liquidator of Reliance (Canada)

File No. 016699

Schedule "M"



Commercial List Court File No. 01-CL-4313

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

THE HONOURABLE MR.
JUSTICE CAMPBELL

) TUESDAY, THE 24TH DAY
)
) OF JUNE, 2008

**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 MOTION made by KPMG Inc., liquidator (the "Liquidator") of the insurance business in Canada of Reliance Insurance Company ("Reliance Canada"), was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Report of the Liquidator dated June 19, 2008 (the "Report"), filed, and upon hearing the submissions of counsel for the Liquidator, no other party appearing, although properly served as appears from the proof of service, filed:

1. **THIS COURT ORDERS** that the service made of the Notice of Motion and supporting materials herein is good and sufficient notice of this motion, that this motion is properly returnable today, and that any further service or notice of the Notice of Motion and supporting materials be and the same is hereby dispensed with.
2. **THIS COURT ORDERS** that, under Section 74 of the *Winding-up and Restructuring Act*, September 30, 2008 be fixed as the last day on which ordinary creditor claimants may send in their claims, which shall be sent in in the manner set out below.
3. **THIS COURT ORDERS** that by no later than July 14, 2008 the Liquidator shall cause a letter, Notice of Claim and instruction sheet, substantially in the form attached as Schedule "A" hereto, to be (i) sent by ordinary mail to agents and brokers whom it appears from the books and records of Reliance Canada a balance may be due, at their last known address according to the books and records of Reliance Canada, and (ii) posted on the website www.relianceinsurance.ca.
4. **THIS COURT ORDERS** that by no later than July 14, 2008 the Liquidator shall cause a Notice, substantially in the form attached as Schedule "B" hereto, to be (i) published in the national edition of *The Globe & Mail* newspaper, and (ii) posted on the website www.relianceinsurance.ca.
5. **THIS COURT ORDERS** that the Liquidator shall send by ordinary mail or by fax transmission a Notice of Claim and instruction sheet, substantially in the form included in Schedule "A" attached hereto, to any person making a request for such on or before September 30, 2008, at the address or fax number provided by the person, within seven (7) business days of the request being received.
6. **THIS COURT ORDERS** that the Liquidator shall send by ordinary mail a Notice of Allowance of Claim, substantially in the form attached as Schedule "C" hereto, to those ordinary

creditor claimants having sent in claims which are admitted in whole by the Liquidator, at the address provided by the claimants in their respective Notices of Claim.

7. **THIS COURT ORDERS** that the Liquidator shall send by prepaid registered mail a Notice of Disallowance in Part or in Whole ("Disallowance Notice"), substantially in the form attached as Schedule "D" hereto, to those ordinary creditor claimants having sent in claims which are disputed by the Liquidator in whole or in part (the "Disputed Claims"), specifying that such Disputed Claims will be disallowed in whole, or will be disallowed in part and allowed in part, as the case may be, at the address provided by the claimants in their respective Notices of Claim.

8. **THIS COURT ORDERS** that any ordinary creditor claimants wishing to appeal a Disallowance Notice must serve the Liquidator with a Notice of Appeal, substantially in the form attached as Schedule "E" hereto, by prepaid ordinary mail, fax transmission or courier, within thirty (30) days from the date of the Disallowance Notice, failing which the claims of such ordinary creditor claimants shall be deemed to be disallowed and non-admissible in whole, or disallowed and non-admissible in part and allowed and admissible in part, as the case may be, in the winding-up of Reliance Canada.

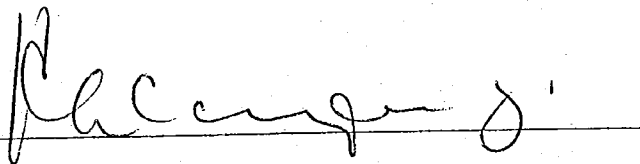
9. **THIS COURT ORDERS** that this Order has no application to any claim that may be asserted by the Liquidator of Reliance Insurance Company in the winding-up of Reliance Canada.

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

JUN 25 2008

PER/PAR: JSN

Joanne Nicoara
Registrar, Superior Court of Justice



SCHEDULE "A"

[on the Letterhead of Reliance Insurance Company – Canadian Branch, in Liquidation]

To: [●]

**Re: Ordinary Creditor Claimants of Reliance Insurance Company –
Canadian Branch, in Liquidation ("Reliance Canada")**

On December 3, 2001, the Ontario Superior Court of Justice (the "Court") ordered the winding-up of Reliance Canada and appointed KPMG Inc. as liquidator (the "Liquidator").

Please be advised that the Court has fixed **Tuesday, the 30th day of September, 2008** as the last day for ordinary creditor claimants of Reliance Canada to send in their claims. If you are aware of any claims that you may have arising from your relationship as an agent or broker, or otherwise, other than Policy Loss Claims, please complete the attached Notice of Claim form, which must be submitted by September 30, 2008.

Claims must be sent to the Liquidator at the address noted below by ordinary mail and must be postmarked no later than midnight on September 30, 2008.

Failure to submit to the Liquidator a properly completed Notice of Claim form by September 30, 2008 will result in any distributions being made without regard to any claim not submitted.

If you have questions or require a further Notice of Claim form, please see our website www.relianceinsurance.ca or make your request in writing to:

KPMG Inc., Liquidator,
Reliance Insurance Company - Canadian Branch, in Liquidation
199 Bay Street, Suite 3300
Toronto, Ontario
M5L 1B2

Attention: Ms. Janine Bradley

Tel: 416-777-8487

Fax: 416-777-3683

E-mail: jmbradley@kpmg.ca

Yours very truly,

KPMG Inc.
Liquidator of Reliance Insurance Company – Canadian Branch, in Liquidation

IN THE MATTER OF THE WINDING-UP OF THE INSURANCE BUSINESS IN CANADA OF
RELIANCE INSURANCE COMPANY ("Reliance Canada")

NOTICE OF CLAIM

(ORDINARY CREDITOR CLAIMS)

NOTE: This form is not to be used for the submission of Policy Loss Claims.

I, _____, _____, residing in _____,
(name) (relationship to Claimant) (City, town etc)

in the Province of _____, Canada,

DO HEREBY CERTIFY THAT:

1. _____ ("Claimant") has a valid claim ("Claim") in the amount of (Cdn.)
\$ _____ against Reliance Canada.

2. The address, telephone number, fax number and authorized contact person for the Claimant
for service of any notice or other materials in respect of the Claim are:

Address: _____

Telephone Number: _____

Fax Number: _____

Contact: _____

3. Attached to this Notice of Claim is an accurate and truthful calculation of the Claim and true and
accurate copies of supporting documentation establishing the Claim.

NOTE: You are required to provide a calculation of the Claim including
supporting documentation, which must be attached to this Notice of Claim.

Dated at _____ this _____ day of _____, 2008.

Witness

Signature

Print Name and position with the Claimant

INSTRUCTIONS FOR COMPLETION OF NOTICE OF CLAIM

It is important that the Notice of Claim be correctly completed. The following points are set out to assist you:

- (a) The form must be completed in its entirety.
- (b) If this form is completed by some person on behalf of the Claimant, that person must state his or her authority and the capacity in which he or she is acting.
- (c) You are required to provide a calculation of the Claim and all supporting documentation.
- (d) The signature of the individual completing the form must be witnessed.
- (e) The form is not to be used for Policy Loss Claims.
- (f) You do not have to submit a form for claims for which you have been paid.
- (g) This form must be mailed to the Liquidator at the address below.

KPMG Inc., Liquidator,
Reliance Insurance Company – Canadian Branch, in Liquidation
199 Bay Street, Suite 3300
Toronto, Ontario
M5L 1B2

Attention: Ms. Janine Bradley

FAILURE TO SUBMIT A PROPERLY COMPLETED NOTICE OF CLAIM BY SEPTEMBER 30, 2008 WILL RESULT IN DISTRIBUTIONS BEING MADE WITHOUT REGARD TO THAT CLAIM.

SCHEDULE "B"

**IN THE MATTER OF THE WINDING-UP OF THE INSURANCE BUSINESS IN
CANADA OF RELIANCE INSURANCE COMPANY ("Reliance Canada")**

**NOTICE TO ORDINARY CREDITOR CLAIMANTS OF RELIANCE
CANADA**

KPMG Inc., as Liquidator of Reliance Canada, under the provisions of the *Winding-up and Restructuring Act*, hereby gives notice that the Ontario Superior Court of Justice has fixed **Tuesday, the 30th day of September, 2008** as the last day for ordinary creditor claimants of Reliance Canada to send in their claims.

**TAKE NOTE THAT FAILURE TO SEND IN A NOTICE OF CLAIM BY
SEPTEMBER 30, 2008 WILL RESULT IN DISTRIBUTIONS BEING MADE WITHOUT
REGARD TO ANY CLAIM NOT SENT IN BY THAT DATE.**

Please note that this is not a call for policy loss claims.

For further information or for a Notice of Claim form, please contact KPMG Inc. as set out below, or visit www.relianceinsurance.ca.

This Notice is being given pursuant to the Order of the Ontario Superior Court of Justice dated the 24th day of June, 2008.

KPMG Inc., Liquidator,
Reliance Insurance Company – Canadian Branch, in
Liquidation
199 Bay Street, Suite 3300
Toronto, Ontario
M5L 1B2

Attention: Ms. Janine Bradley

Fax: 416-777-3683

Tel: 416-777-8487

E-mail: jmbradley@kpmg.ca

SCHEDULE "C"

**IN THE MATTER OF THE WINDING-UP OF THE INSURANCE BUSINESS IN
CANADA OF RELIANCE INSURANCE COMPANY ("Reliance Canada")**

NOTICE OF ALLOWANCE OF CLAIM

TO: (IDENTIFY CLAIMANT)

RE: (DESCRIBE CLAIM)

(CLAIM No. _____)

TAKE NOTICE that we confirm receipt of your Notice of Claim dated _____
_____. The Liquidator has reviewed your Claim and will allow your Claim as an
ordinary creditor claim in the amount of \$ _____, as shown on your Notice of Claim.

The Liquidator will at a future date seek the authority of the Ontario Superior
Court of Justice with respect to making a distribution or distributions with respect to your Claim.

**Please keep the Liquidator advised of any change of address or contact
information.**

DATED at Toronto, this _____ day of _____, 2008.

Janine Bradley

KPMG Inc., Liquidator,
Reliance Insurance Company – Canadian Branch, in
Liquidation
199 Bay Street, Suite 3300
Toronto, Ontario
M5L 1B2

Tel: 416-777-8487

Fax: 416-777-3683

Email: jmbradley@kpmg.ca

SCHEDULE "D"

IN THE MATTER OF THE WINDING-UP OF THE INSURANCE BUSINESS IN
CANADA OF RELIANCE INSURANCE COMPANY ("Reliance Canada")

NOTICE OF DISALLOWANCE OF CLAIM IN PART OR IN WHOLE

TO: (IDENTIFY CLAIMANT)

RE: (DESCRIBE CLAIM)

(CLAIM NO. _____)

TAKE NOTICE that we confirm receipt of your Notice of Claim dated _____ . The Liquidator has reviewed your Claim and allows your Claim (in part in the amount of \$ _____, and disallows your Claim in part in the amount of \$ _____ /disallows your Claim in whole).

AND FURTHER TAKE NOTICE THAT if you are dissatisfied with the Liquidator's decision in respect of your Claim, you must serve the Liquidator by prepaid ordinary mail, fax transmission or courier, at the address or fax number below, with a properly completed Notice of Appeal in the form attached hereto, **within thirty (30) days of the date hereof**, with any further support for your Claim and setting out the reasons for disputing the decision of the Liquidator.

If no Notice of Appeal is served on the Liquidator within thirty (30) days of the date hereof, then this Notice of Disallowance in part or in whole will be deemed final and conclusive and the Liquidator shall conduct the liquidation and distribute the assets of Reliance Canada or any part thereof among the persons entitled thereto without regard to your Claim, if disallowed in whole, or without regard to the disallowed part of your Claim, as the case may be.

This notice is being served pursuant to the *Winding-up and Restructuring Act* and to the Order of the Ontario Superior Court of Justice dated the 24th day of June, 2008.

DATED at Toronto, this day of , 2008.

Janine Bradley

KPMG Inc., Liquidator,
Reliance Insurance Company – Canadian Branch, in
Liquidation
199 Bay Street, Suite 3300
Toronto, Ontario
M5L 1B2

Fax: 416-777-3683

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SCHEDULE "E"

**IN THE MATTER OF THE WINDING-UP OF THE INSURANCE BUSINESS IN
CANADA OF RELIANCE INSURANCE COMPANY ("Reliance Canada")**

NOTICE OF APPEAL OF DISALLOWANCE OF CLAIM

TO: KPMG INC., LIQUIDATOR OF RELIANCE CANADA

FROM: _____

[IDENTIFY CLAIMANT AND FULL CONTACT INFORMATION]

RE: _____ [INSERT CLAIM NUMBER PROVIDED ON THE NOTICE
OF DISALLOWANCE IN PART OR IN WHOLE]

The Claimant herein disputes the Notice of Disallowance of Claim dated the
day of _____, 2008.

REASONS FOR APPEAL FROM DISALLOWANCE OF CLAIM

The Claimant disputes the Notice of Disallowance of Claim for the reasons set out
on Appendix "A":

[You must attach an Appendix "A" setting out the reasons for the dispute.]

In support of this appeal, the Claimant submits the evidence and documentation
attached hereto as Appendix "B".

**[You must attach evidence/documentation to support your claim as
Appendix "B".]**

Dated at _____ this _____ day of _____, 2008.

Witness

Signature

Print Name and position with the Claimant

THE ATTORNEY GENERAL OF
CANADA

and RELIANCE INSURANCE COMPANY

Applicant

Respondent

Commercial List Court File No: 01-CL-4313

**ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST**

Proceeding commenced at Toronto

ORDER

GOODMANS LLP
Barristers & Solicitors
250 Yonge Street
Suite 2400, Box 24
Toronto, Ontario
M5B 2M6

Graham D. Smith - LSUC# 26377D

Tel: (416) 597-4161

Fax: (416) 979-1234

SOLICITORS FOR KPMG INC.,
LIQUIDATOR OF RELIANCE CANADA

Schedule "N"

**IN THE MATTER OF THE WINDING-UP OF THE INSURANCE
BUSINESS IN CANADA OF RELIANCE INSURANCE COMPANY
("Reliance Canada")**

**IMPORTANT NOTICE TO ALL CLAIMANTS OF RELIANCE CANADA,
INCLUDING POLICYHOLDERS AND LOSS CLAIM CLAIMANTS**

KPMG Inc., as Liquidator ("Liquidator") of Reliance Canada under the provisions of the *Winding-up and Restructuring Act*, hereby gives notice that it will seek the advice and directions of the Ontario Superior Court of Justice – Commercial List ("Court") in respect of post-liquidation interest, by way of a motion ("Post-liquidation Interest Motion") which will be scheduled to be heard by the Court.

By the Post-liquidation Interest Motion, the Liquidator will be seeking the advice and directions of the Court as to whether post-liquidation interest is payable on claims in the winding-up of Reliance Canada from any surplus in the winding-up of Reliance Canada, and, if so, on what claims and on what basis.

The Liquidator will be recommending to the Court that the Court direct that post-liquidation interest is payable from any surplus in the winding-up of Reliance Canada on the following basis:

- The holders of claims that were paid in full when settled and allowed by the Liquidator ("Under-limits Claimants") shall not be entitled to receive interest.
- Interest shall be payable only to holders of: (i) policy loss claims that were not paid in full when settled and allowed by the Liquidator (i.e., those claims on which interim dividends and/or partial payments were made from time to time); (ii) policy loss claims that were or are in litigation and ultimately determined in favour of the claimant and would, but for the winding-up, have been eligible for pre-judgment interest for the period following commencement of the winding-up; and (iii) ordinary creditor claims that were payable at the commencement of the winding-up (collectively, "Over-limits Claimants").
- Interest payable to each of the Over-limits Claimants shall be calculated on unpaid amounts of the holder's claim, until payment of such amounts from time to time, at a simple (non-compounded) rate of 5% *per annum*, calculated from: (i) in the case of (i) above, the time the claim was settled and allowed; in the case of (ii) above, from the time since the commencement of the winding-up that it would have been eligible for pre-judgment interest, but for the winding-up, but not earlier than the commencement of the winding-up; or (iii) in the case of (iii) above, from the commencement of the winding-up.
- Any distributions or payments made on a settled and allowed claim during the course of the winding-up shall first be applied as if they had been paid on account of the interest payable on the claim, and then to reduction of the principal amount of the claim.
- The interest shall be payable in priority to any release of assets that the Court may ultimately authorize be made to Reliance Insurance Company, in liquidation.

Please note that the Post-liquidation Interest Motion is not a request or recommendation to the Court to authorize the making of a distribution by the Liquidator at this time. Depending on the Court's ruling, the Liquidator will seek authorization for any future distribution at the appropriate time.

Appointment of Representative Counsel

For the purposes of the Post-liquidation Interest Motion, the Court has appointed Elizabeth Pillon as counsel to represent the Under-limits Claimants, and James Grout as counsel to represent the Over-limits Claimants. The contact information for the respective representative counsel is:

For the Under-limits Claimants:

Elizabeth Pillon
Stikeman Elliott LLP
5300 Commerce Court West
199 Bay Street
Toronto, ON M5L 1B9
Tel.: 416-869-5623
Fax: 416-947-0866
E-mail: epillon@stikeman.com

For the Over-limits Claimants:

James Grout
ThorntonGroutFinnigan LLP
Suite 3200
Canadian Pacific Tower
100 Wellington St. West, P.O. Toronto-
Dominion Centre
Toronto, Canada, M5K 1K7
Tel.: 416-304-0557
Fax: 416-304-1313
E-mail: jgrout@tgf.ca

The members of each class are bound by the acts of their respective representative counsel.

This Notice is being given pursuant to the Order of the Ontario Superior Court of Justice dated the 14th day of January, 2009.

KPMG Inc., Liquidator
Reliance Insurance Company – Canadian Branch, in
Liquidation
199 Bay Street, Suite 3300
Toronto, Ontario
M5L 1B2

Attention: Ms. Janine Bradley
Fax: 416-777-3683
Tel: 416-777-8487
E-mail: jmbradley@kpmg.ca

THE ATTORNEY GENERAL OF CANADA
Applicant

RELIANCE INSURANCE COMPANY

and

Respondent

Court File No: 01-CL-4313

ONTARIO
SUPERIOR COURT OF JUSTICE
- COMMERCIAL LIST

Proceeding commenced at TORONTO

MOTION RECORD
(Motion returnable January 14, 2009)

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

Graham D. Smith\LSUC #26377D
Lauren Butti\LSUC #47083W
Tel: (416) 597-4161
Fax: (416) 979-1234

Solicitors for KPMG Inc.,
Liquidator of Reliance Canada

Our File No. 01.6699
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