

**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**

**(Motion returnable June 25, 2014)**

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**JUNE 17, 2014**

**I. THE MOTION**

1. This report is respectfully filed in support of a motion by KPMG Inc., the liquidator (the “Liquidator”) of the insurance business in Canada of Reliance Insurance Company (“Reliance Canada”) for an Order:

- (a) approving the accounts and activities of the Liquidator for the period April 1, 2011 to March 31, 2014 (the “Period”), as reflected in this Report and the financial statements of Reliance Canada;

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- (b) approving the professional fees and costs of the Liquidator and of its counsel (the “Professional Fees”) for the Period;
- (c) authorizing a Claims Bar Date in order to facilitate the completion of the liquidation; and
- (d) authorizing the destruction of certain of the inactive pre-liquidation books and records of Reliance Canada.

## **II. OVERVIEW OF THE ESTATE**

### **A. Summary**

- 2. Copies of the Liquidator’s previous reports to this Court, including all Orders approved by this Court can be found on the Liquidator’s website at: [www.relianceinsurance.ca](http://www.relianceinsurance.ca). Attached as Schedule “A” is a list of all the Orders approved previously by this Court.
- 3. The Liquidator has continued the administration of the liquidation during the Period including:
  - (a) continuing to resolve loss claims (the “Policy Loss Claims”);
  - (b) collecting reinsurance;
  - (c) continuing to manage the assets, and reporting to the U.S. Liquidator on a quarterly basis;
  - (d) conducting the Disallowance of Policy Loss Claims Process (as defined hereafter);

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- (e) paying Policy Loss Claims and ordinary creditor claims at 100% of the valid and allowed claims amount plus any entitlement to post-liquidation interest; and
  - (f) considering alternative strategies for bringing the Liquidation to a close, including consulting with the U.S. Liquidator, who is the ultimate stakeholder.
4. The Liquidator has undertaken an extensive review of the policy liabilities including the proofs of claims filed in response to the call for Policy Loss Claims (the “POCs”), and causing a consulting actuary to provide both his best estimate of the policy liabilities and a probable maximum loss provision.
  5. The Liquidator remains of the view that the administration of the policy liabilities in a run-off mode, paying Policy Loss Claims and ordinary creditor claims at current levels, should continue, and that there is no realistic scenario under which policyholders and ordinary creditors will be prejudiced by this approach.
  6. Additionally, the Liquidator in consultation with the U.S. Liquidator believes it is now appropriate to pursue a final marketing program of the policy liabilities, as a transaction would expedite the completion of the liquidation and facilitate the release of any surplus to the U.S. Liquidator.
  7. In order to facilitate the transaction, the Liquidator is respectfully seeking a Claims Bar Date, in order to provide greater certainty as to the universe of potential claims.
  8. The Liquidator is also respectfully asking this Court to pass the accounts and approve the activities of the Liquidator for the Period as reflected in this Report and the financial

statements, and approve the professional fees. The Inspectors are not opposing, including the U.S. Liquidator who has a financial interest in any ultimate surplus in the estate.

**B. Policy Loss Payments**

9. Pursuant to Orders of this Court, the Liquidator has and continues to pay the following benefits: (a) defence and adjustment costs, (b) a cumulative total distribution rate on Policy Loss Claims of 100%, (c) a distribution on ordinary creditor claims of 100%, up to a cumulative total of \$100,000, and (d) a distribution of post-liquidation interest.

**C. Significant Developments Since Last Passing of Accounts**

10. The Liquidator has continued to make progress in the administration of the estate. 163 claims with a total value of \$24 million have been resolved during the Period.
11. During the Period, the Liquidator sought and obtained the approval of this Court on the process for the disallowance of claims which are disputed by the Liquidator (the “Disallowance of Claims Process”), including directions with respect to the form and manner of service of notices of disallowance of claims and for any appeal therefrom.
12. As a result of the Disallowance of Claims Process, the Liquidator has disallowed and settled or otherwise resolved 3,298 POCs, which had total policy limits of \$541 million, and for which no appeal was received by the Liquidator.
13. As at March 31, 2014, there were 39 claims that have been reported but not yet resolved or settled, and for which Reliance Canada had established an estimate of the amount to resolve or settle (the “Open Claims”) and 339 unresolved POCs. The 339 unresolved

POCs relate to 21 different policyholders, of which 41 relate to contingent claims filed by 6 different policyholders. Contingent claims include those which are with respect to a possible occurrence prior to the expiry of the policy, the specifics of which are not yet available or within the knowledge of the policyholder or claimant, and/or in respect of which no claim has yet been made against a policyholder or an insured thereunder.

**D. The Future of the Estate**

14. The Liquidator will continue the run-off of Reliance Canada's business in an orderly manner, dealing with policy liabilities and the collection of reinsurance on a commercially reasonable basis. The Liquidator previously reported that the consulting actuary it retained estimated that a run-off would continue to 2019 and that the number of payments would decline going forward. However, given the status of certain claims against the estate, it is the Liquidator's view that the run-off could continue well beyond 2019.
15. As previously reported, the Liquidator has on a number of occasions pursued marketing programs for the policy liabilities; however, these efforts did not result in a transaction. In light of the progress that has been made in the estate, the Liquidator believes it would be appropriate at this time to commence a final marketing program of the policy liabilities, which will be discussed further on in this report.

### III. BACKGROUND

#### A. Reliance Insurance Company

16. Reliance Insurance Company (“Reliance”) is a property and casualty insurer incorporated in the Commonwealth of Pennsylvania, in the United States of America. Reliance established Reliance Canada as a branch which carried on business in Canada.
17. In January 2001, the Insurance Commissioner for the Commonwealth of Pennsylvania (“Pennsylvania Commissioner”) put Reliance into formal supervision status. By this point, Reliance Canada had stopped issuing new policies and had begun “running off” (winding down) its existing business of already-written policies.
18. The Pennsylvania Commissioner determined that Reliance was insolvent and that there would be insufficient assets to pay all policyholders in full and on October 3, 2001 Reliance was ordered to be liquidated by the U.S. Liquidation court. The Pennsylvania Commissioner of Insurance was appointed liquidator of Reliance (“U.S. Liquidator”).
19. On October 5, 2001, pursuant to the Insurance Companies Act, the Superintendent of Financial Institutions of Canada (the “Superintendent”) took control of the assets in Canada of Reliance together with its other assets held in Canada under the control of its chief agent.
20. By Orders of this Court made December 3, 2001, the insurance business of Reliance Canada was ordered wound-up pursuant to the provisions of the Winding-up and Restructuring Act (“WURA”), and KPMG Inc. was appointed provisional liquidator. 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, and the two estates in liquidation are distinct.

21. In the Appointment Order, this Court appointed the U.S. Liquidator and PACICC as Inspectors. By Order dated January 30, 2002, this Court ordered that the Superintendent may attend meetings of inspectors, be included in the service list, and attend and be heard in matters before this Court.
22. The Inspectors are not opposing this motion. The Superintendent has advised that she takes no position on this motion.

**B. Reliance Canada's Insurance Business**

23. Reliance Canada wrote a very diverse set of policies, including comprehensive general liability, medical malpractice liability, directors' and officers' liability, engineers' and architects' liability, lawyers' errors and omissions liability, miscellaneous errors and omissions liability, auto liability, automobile warranty, marine cargo and liability, property loss and other programs.
24. While some of Reliance Canada's policies were "claims-made" policies, meaning that claims must be reported during the term of the policy or within a defined period thereafter, a substantial portion of its policies were "occurrence-based". Occurrence-based policies cover liabilities incurred during the policy period that may not become known or manifest for years. This latter business is known as "long tail" insurance. Much of Reliance Canada's insurance business was of a long tail nature.

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25. In addition, Reliance Canada acted as a reinsurer for other insurers. The resulting “assumed reinsurance” contracts or treaties are defined as policies under the *Insurance Companies Act*, and claims arising from the assumed reinsurance contracts are accorded the same priority as other claims of policyholders under the WURA. All but 16 of the reinsureds were reinsured in respect of property loss claims. The remaining 16 reinsureds were reinsured in respect of liability claims.
26. In British Columbia, Reliance Canada wrote, mainly on a group basis, a line of excess automobile coverage and homeowner’s property and liability coverage. This was written through Family Underwriting Management Limited (“Family”), a managing general agency. The Family policies written by Reliance Canada had risk inception between May 1, 1998 and August 31, 1999. The books and records for the Family business were and are still maintained by Family in British Columbia.
27. As referenced above, in 2000 Reliance Canada voluntarily stopped writing new policies, effectively beginning the winding down of its business. At the commencement of the Reliance Canada liquidation in December 2001, Reliance Canada had 16 policies still in force, excluding the warranty programs, with the policy term of all the other policies having expired. There were over 1,100 Open Claims, being claims which were reported to Reliance Canada and not yet resolved or settled, and for which Reliance Canada had established an estimate of the amount to resolve or settle (“Case Reserves”). In addition, Reliance Canada had “incurred but not reported” (“IBNR”) exposure, which includes (i) claims not yet reported for which Reliance Canada may ultimately be put on notice and to which it would have to respond, and (ii) potential development of Case Reserves.

**C. The Run-off of Reliance Canada's Business in Liquidation**

28. Since the commencement of the winding-up, the Liquidator has continued the run-off of Reliance Canada's business in an orderly manner, dealing with policy liabilities and the collection of reinsurance on a commercially reasonable basis. That is, there was no cancellation of policies ordered as a term of the winding-up and therefore claims have continued to be reported to, and adjusted by, Reliance Canada in the normal course to this day.
29. As at March 31, 2014 there were 39 Open Claims and 339 unresolved POCs. The 339 unresolved POCs relate to 21 different policyholders, of which 41 relate to contingent claims filed by 6 different policyholders.

**IV. FINANCIAL STATUS OF THE ESTATE****A. Distribution History**

30. This Court has approved six distributions to policyholders, resulting in a total recovery of 100% of their claims and a distribution of post-liquidation interest of 5%.
31. This Court further approved a distribution of 100% on ordinary creditor claims up to a cumulative total amount of \$100,000 by Order dated December 17, 2008.

**B. Passing of Accounts and Approval of Professional Fees**

32. In the distribution orders, this Court also passed and approved the accounts of the Liquidator and approved the professional fees of the Liquidator and its counsel for each of the respective periods. In addition, this Court approved the accounts of the Liquidator

and approved the professional fees of the Liquidator and its counsel for the period (i) from the date of the winding-up order to September 30, 2003, and (ii) from October 1, 2009 to March 31, 2011.

**C. Financial Status**

33. Attached as Schedule “B” are the unaudited financial statements for the estate as at March 31, 2014, prepared in a manner consistent with the financial statements before this Court as at March 31, 2011 and previously, and with the same system of internal controls to safeguard the accuracy and reliability of the financial reporting process. The accounting policies used in preparation of the financial statements have been selected with a view to reflecting the financial position of an insurance company that is in liquidation and are not necessarily in conformance with generally accepted accounting principles or international financial reporting standards.
34. In this Report, the Liquidator will generally compare the financial status of the estate at March 31, 2014 to its status at March 31, 2011, the date as of which this Court last reviewed the estate’s status for the purpose of passing accounts.
35. As noted in previous Reports, a key characteristic of the Reliance Canada claims profile has been its “lumpiness.” That is, a significant number of its policies do not have frequent claims but, if claims occur, they tend to be severe. As further progress is made in dealing with the claims and more information becomes available on which to assess them, the Liquidator adjusts the policy liabilities. In particular, where claims are resolved for amounts lower than the amounts reserved for them, the policy liabilities are reduced, and where more information becomes available to indicate a higher exposure than has

been reserved, the policy liabilities are increased. Increases normally also have the effect of increasing the reinsurance recoverables since these claims are generally reinsured at significant levels. Accordingly, fluctuations in the estimated level of surplus in the estate are to be expected, given the volatility of the portfolio.

36. During the Period, the Liquidator continued to make substantial progress in the resolution of claims and the disallowance of Policy Loss Claims.
37. The projected estate surplus has increased from approximately \$95.6 million as at March 31, 2011 to approximately \$104.6 million as at March 31, 2014. The principal reason for the change in the surplus is a favourable development in the estimated value of the total policy liabilities.

**(i) Assets**

*Cash and Investments*

38. As at March 31, 2014, cash and investments held by Reliance Canada totaled approximately \$116.3 million, with the market value being \$118.2 million.
  - Pursuant to this Court's Order dated November 22, 2004, Reliance Canada held the following two funds with RBC Asset Management as at March 31, 2014: the RBC Canadian Money Market Fund and the RBC Canadian Short-Term Income Fund.
  - Pursuant to this Court's Order dated December 15, 2011, Reliance Canada also held positions in the Phillips Hager & North Short Term Bond and Mortgage Fund as at March 31, 2014.

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39. The Liquidator reviews the allocation of funds regularly in order to rebalance Reliance Canada's holdings, taking into consideration such matters as expected cash flows, duration of the claim book, and market conditions. In addition, the Liquidator meets with RBC Asset Management periodically to assess results.

*Reinsurance*

40. The other major asset of Reliance Canada is reinsurance, consisting of:
- (a) reinsurance covering only the liabilities of Reliance Canada ("Canadian Reinsurance"); and
  - (b) reinsurance entered into through Reliance's head office ("International Reinsurance"), which reinsures both Reliance Canada policies as well as policies written through the U.S. operations.
41. The percentage of Reliance Canada's Case Reserves that is reinsured changes over time as the composition of the Case Reserves changes. As at March 31, 2011 approximately 31.6% of Reliance Canada's gross Case Reserves were reinsured. Of this amount, approximately 55.5% was Canadian Reinsurance and 44.5% was International Reinsurance. As at March 31, 2014, approximately 45.7% of Reliance Canada's gross Case Reserves were reinsured, approximately 64.6% of which was Canadian Reinsurance and 35.4% International Reinsurance. These percentages do not reflect estimates for uncollectible reinsurance due to credit, collection or contractual risk. Over 81.3% of the reinsurance on the gross reserves as at March 31, 2014 is with reinsurers rated "A" or higher.

42. By March 31, 2014, the Liquidator had collected approximately \$128.3 million in reinsurance since the beginning of the liquidation, with approximately \$9.9 million of this occurring during the Period (i.e., since March 31, 2011). Reinsurance receivables (amounts billed to reinsurers), net of a provision for uncollectible reinsurance, were approximately \$0.6 million at March 31, 2014, down from \$4.3 million at March 31, 2011. Reinsurance recoverables (being amounts referable to (i) reported claims not yet billed and (ii) IBNR, net of a provision for uncollectible reinsurance) were approximately \$2.6 million as at March 31, 2014, down from approximately \$10.3 million at March 31, 2011. (Since March 31, 2014 the Liquidator has collected an additional amount of reinsurance of approximately \$40,000).

#### *Summary*

43. As at March 31, 2011, the book value of Reliance Canada's assets was approximately \$148.2 million, and cumulative unpaid claims and related expenses totalled \$45.7 million. As at March 31, 2014, the book value of Reliance Canada's assets was approximately \$124.6 million and cumulative unpaid claims and related expenses totalled approximately \$13.3 million. Below is a summary breakdown for the estate as of March 31, 2014 and March 31, 2011:

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	<b>March 31, 2014</b> <b>(in millions)</b>	<b>March 31, 2011</b> <b>(in millions)</b>
Cash or Investments (market value: \$118.2 at March 31, 2014; \$130.2 at March 31, 2011)	\$116.3	\$128.4
Reinsurance receivables and recoverables net of estimate for uncollectible reinsurance	\$3.3	\$14.7
Miscellaneous	\$5.0	\$5.1
Total	<u>\$124.6</u>	<u>\$148.2</u>
Cumulative unpaid claims and related expenses	<u>\$13.3</u>	<u>\$45.4</u>

**(ii) Liabilities**

44. At March 31, 2011, the estimated value of the policy liabilities was \$45.4 million. As at March 31, 2014, the estimated value was \$13.3 million, determined as described in more detail below.
45. The Liquidator has undertaken a call for Policy Loss Claims, which was completed on December 17, 2010. The Liquidator has taken the results of the call for Policy Loss Claims into account in estimating the value of the policy liabilities and these results are discussed in more detail further on in this Report.
46. The Liquidator has relied on, and continues to rely on, actuarial projections to reach a view as to the total claims exposure of the estate.



*Policy Loss Claims*

47. There are basically four categories of Policy Loss Claims:

- (a) claims that are settled or otherwise resolved. During the Period, the Liquidator has resolved approximately 163 claims having a total approximate value of \$24 million. As at March 31, 2014, approximately 18,600 Policy Loss Claims, with a total value of approximately \$179.5 million, have been resolved, through settlement or otherwise, since the beginning of the liquidation. These have all been paid in full;
- (b) claims that have been reported but not yet resolved, and for which Reliance Canada had established a Case Reserve (the "Open Claims"). As at March 31, 2014, there were 39 Open Claims outstanding, down from 183 as at March 31, 2011, with outstanding gross Case Reserves decreasing by approximately \$15.1 million, from approximately \$24.3 million to \$9.2 million. (Case reserves are adjusted as additional information on the estimated amount of a claim becomes known during the course of its settlement);
- (c) the provision for IBNR and for development in Open Claims, and
- (d) contingent claims, which are claims with respect to a possible occurrence prior to the expiry of the policy, the specifics of which are not yet available or within the knowledge of the policyholder or claimant and/or in respect of which no claim has yet been made against a policyholder or an insured thereunder.

*Non-Booked Claims*

48. As described in previous reports, there was the potential that certain claims that were not reported in the books of Reliance Canada may be valid claims against Reliance Canada (“Non-Booked Claims”). The Non-Booked Claims would arise from policies written outside Canada, and which were not reported in the books of Reliance Canada.
49. Based on the call for Policy Loss Claims, the ongoing review of the books and records of Reliance Canada by the Liquidator and information provided by the U.S. Liquidator, the Liquidator is of the view that there are no Non-Booked Claims.

*Liability Claims Projection Process*

50. The Liquidator has applied the same methodology in projecting the policy liabilities for the purpose of this Report as was done for the previous reports. The Liquidator has undertaken an extensive review of the policy liabilities. Counsel on instructions of the Liquidator, retained the services of the consulting actuary who acted for Reliance Canada before it was ordered to be wound up. Representatives of the U.S. Liquidator have also reviewed the actuarial projections and selected case reserves.
51. Actuarial projections typically consider:
- (a) the current level of reserves;
  - (b) the history of claims development;
  - (c) the nature of the liabilities underwritten and the terms of the policies;

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- (d) industry experience and current developments with respect to similar kinds of policies and liabilities; and
  - (e) the potential for adverse deviation.
52. Actuaries then reach a view as to the total policy liabilities to which the insurer will be exposed, including a provision for unreported claims, and upward adjustment for reported claims (IBNR). While the actuaries generally provide a single best estimate, there is clearly a range for valuing the total liabilities, depending on the degree of conservatism to be achieved.
53. The consulting actuary was instructed to confirm his best estimate of the policy liabilities including any potential liability for contingent claims as at November 30, 2013. Standard actuarial techniques were not effective to evaluate such a few claims over multiple years and multiple lines of business. As a result, the consulting actuary reviewed each claim individually and determined a range of probable settlement values of each claim. In addition, discounts to reflect the time value of money were not used. The Liquidator then reviewed the analysis underlying the actuarial estimates and carried forward the estimates from November 30, 2013 to March 31, 2014. The estimate of \$13.3 million for policy liabilities, including contingent claims, as at March 31, 2014 is based upon the actuarially determined best estimate.

## **V. MAJOR ACTIVITIES OF THE LIQUIDATOR**

54. A detailed description of the major activities of the Liquidator for the Period, is attached to this Report as Schedule "C".

**A. Summary of Activities**

55. In summary, the Liquidator's major activities for the Period included:

- (a) Claims adjudication and administration including:
  - (i) overseeing payment of defence and adjustment costs;
  - (ii) overseeing a comprehensive review of all claims including estimating range of possible outcomes;
  - (iii) engaging in discussions with policyholders, claimants and their counsel concerning the estate;
  - (iv) settling or otherwise resolving, and paying, approximately 163 claims having a total value of approximately \$24 million; and
  - (v) implementing the Disallowance of Claims Process, which resulted in 3,265 POCs being resolved.
  
- (b) Reinsurance, including:
  - (i) reconciling accounts;
  - (ii) enforcing liquidation clauses;
  - (iii) collecting receivables, including direct communication with reinsurers, and cooperative efforts with the U.S. Liquidator;
  - (iv) reviewing and amending as necessary the investment policy and managing investments in consultation with its investment manager;

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- (v) reporting regularly to PACICC and the U.S. Liquidator;
- (vi) performing an extensive review of policy liabilities as at November 30, 2013 and March 31, 2014;
- (vii) receiving a tax clearance certificate for the period up to December 31, 2010;
- (viii) maintaining the external website;
- (ix) monitoring of the U.S. liquidation, and discussions with the U.S. Liquidator, with respect to cross border issues and other matters that impact the Canadian estate, including the significant issues with respect to reinsurance collections; and
- (x) considering alternative strategies for bringing the Liquidation to a close, including consulting with the U.S. Liquidator, who is the ultimate stakeholder.

## **VI. CALL FOR POLICY LOSS CLAIMS**

### **A. Call for Policy Loss Claims Order**

56. On August 3, 2010, this Court granted an Order approving a process in respect of Policy Loss Claims which fixed December 17, 2010 as the last day on which Policy Loss Claims could be sent to the Liquidator.

**B. Results of Call for Policy Loss Claims**

57. As described in detail in the Liquidator's June 29, 2011 report, the following were the results of the Call for Policy Loss Claims:

- (a) A total of 3,592 POCs were received, which the Liquidator determined related to 239 claims for 48 policyholders. These 239 claims were subject to total aggregate policy limits of approximately \$1.2 billion.
- (b) Of the 239 claims, 146 related to Open Claims and 93 related to contingent claims.
- (c) POCs were not filed in respect of 37 Open Claims that were on the books and records of Reliance Canada at the commencement of the Call for Policy Loss Claims (the "Non-Filed Open Claims"). The Liquidator has continued to finalize these claims and make any required payments thereunder, notwithstanding that a POC was not filed in accordance with the Call for Policy Loss Claims Order.
- (d) 26 POCs were filed past the December 17, 2010 deadline. Since June 29, 2011, an additional 12 POCs were filed with the Liquidator (collectively the "Late Filed Claims"). The Liquidator has determined that the Late Filed Claims will be afforded the same treatment as timely filed POCs.

**C. Disallowance of Claims Process**

58. The Liquidator determined that a Disallowance of Claims Process was appropriate and would advance the resolution of a significant number of Policy Loss Claims and the

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ultimate wind-up of the estate. By Order dated March 2, 2012, the Disallowance of Claims Process was approved.

59. As at March 31, 2014, the Liquidator had sent 3,089 Notices of Disallowances to Policyholders having Policy Loss Claims that the Liquidator disputed. In total, 24 Notices of Appeal of Disallowance of Claim were received. Additionally, the Liquidator has settled or otherwise resolved claims with respect to an additional 200 POCs.
60. As at March 31, 2014, a total of 339 POCs remain (the “Remaining POCs”). Various parties filed duplicate POCs with respect to the same Policy Loss Claim. After reviewing the Remaining POCs, the Liquidator determined that the Remaining POCs relate to 84 claims for 21 policyholders. The 84 claims are subject to total aggregate policy limits of approximately \$733 million.
61. Of the 84 claims, 41 relate to contingent claims for 6 policyholders subject to total aggregate policy limits of approximately \$331.8 million.

Summary of POCs

Total POCs received as at June 29, 2011	3,592
Plus, late filed POCs since June 29, 2011	12
Less, disallowed POCs	(3,089)
Plus, appealed POCs	24
Less, settled or otherwise resolved POCs	(200)
<b>Total Remaining POCs</b>	<b>339</b>

62. The Liquidator will be seeking directions from this Honourable Court at a later date, with respect to a process for dealing with the Notices of Appeal of Disallowance of Claim filed, either on an ad hoc or general basis.

## **VII. LIQUIDATOR AND ACTUARIAL REVIEW**

### **A. Actuarial Review**

63. Taking into account full policy limits and aggregate policy limits for all Remaining POCs (including Late Filed Claims and Non-Filed Open Claims), the removal of duplicate filed POCs, the removal of POCs which have been disallowed and for which no appeal was received, and resolved POCs, the total gross claim exposure to Reliance Canada is approximately \$733 million as at March 31, 2014, down from \$1.2 billion at June 29, 2011.
64. Further, if all Remaining POCs asserted against Reliance Canada were settled at their full aggregate policy limits, the total claim exposure to Reliance Canada, net of reinsurance, would be approximately \$53 million, assuming all reinsurance associated with those claims were collectable.
65. The Liquidator has undertaken an extensive review of the remaining claim exposure, including causing an actuarial review to be undertaken. As described earlier in this Report, the consulting actuary was instructed to confirm his best estimate of the policy liabilities except that discounts to reflect the time value of money should not be used.
66. In order to further ensure that a 100% distribution is still prudent, the Liquidator also caused the consulting actuary to prepare a probable maximum loss provision, which is



defined as the maximum amount of loss that can be expected under normal circumstances. The probable maximum loss provision does not take into consideration potential reinsurance recoveries.

67. A probable maximum loss provision is judgmentally selected taking into consideration the following factors:

- (a) policy limits;
- (b) defense expenses, if they are additional to the policy limit;
- (c) coverage issues;
- (d) degree of negligence;
- (e) the policyholder;
- (f) case reserves established;
- (g) plaintiffs' demands;
- (h) result of mediation;
- (i) potential settlement value as determined by Reliance Canada's claims staff; and
- (j) quantum of the damages, if available.

68. The consulting actuary estimated the probable maximum loss provision for the policy liabilities, including any potential liability for contingent claims to be approximately \$34.7 million as at November 30, 2013. The Liquidator reviewed the analysis underlying the actuarial estimates, which the Liquidator then carried forward to March 31, 2014.

69. The consulting actuary also performed a modified simulation analysis to test the reasonableness of the probable maximum loss provision, using conservative but reasonable assumptions. The modified simulation was applied to the Open Claims and the contingent claims, in which the consulting actuary selected the 99th percentile of each claim and the simulated results for each policyholder as the most probable outcomes for the probable maximum loss provision.
70. By the very nature of insurance liabilities, there is always an element of uncertainty in any estimate because of unknown future events which could negatively or positively affect the ultimate claim payments. However, standard actuarial techniques and assumptions were employed, which the Liquidator considers are appropriate, and the conclusions, given the information currently available, are reasonable.

**B. Liquidator's Determination**

71. Accordingly, the Liquidator has applied the same methodology in projecting and analysing the policy liabilities for the purpose of this Report as for previous reports. Having completed the call for Policy Loss Claims, obtaining the above described actuarial analysis, performing its own analysis and taking into account the conservative nature of the probable maximum loss provision (as it does not take into consideration any potential reinsurance collections), the Liquidator remains of the view and has determined that it should continue to administer Reliance Canada's policy liabilities in the "run-off" mode that began prior to the commencement of the liquidation. It will therefore continue to pay Policy Loss Claims (and ordinary creditor claims, to the aggregate amount

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authorized) at the Court authorized rate of 100% of the valid and allowed claim amount, plus any entitlement to post-liquidation interest.

72. The Liquidator is of the view that there is no realistic scenario under which this course of action would prejudice any policyholder.
73. Additionally, the Liquidator has continued to consider ways in which the Liquidator can expedite the completion of the estate and release the surplus to the U.S. Liquidator.
74. As discussed in further detail below, the Liquidator intends to pursue a final marketing effort in order to complete a transfer of the policy liabilities and will report back to this Court, the results of that effort, including any other options that may be available in order to expedite the completion of the estate.

## **VIII. CLAIMS BAR DATE**

### **A. Overview**

75. As set out above, the Liquidator has continued the run-off of Reliance Canada's business in an orderly manner, dealing with policy liabilities and collection of reinsurance on a commercially reasonable basis. Given the nature of Reliance Canada's business, a complete run-off process is expected to take many more years. As also discussed, the U.S. Liquidator is entitled to any surplus funds in the Reliance Canada estate. He has worked closely with the Liquidator, providing oversight, sharing information concerning areas of common concern and considering strategies to expedite the completion of the liquidation to facilitate the release of surplus.

76. The Liquidator has consulted with the U.S. Liquidator with respect to structuring a transaction to transfer the policy liabilities to another insurer/reinsurer that would assume liability for them (an "Assumption Reinsurance Transaction") as one means to expedite the completion of the liquidation and facilitate the release of surplus.
77. The Liquidator has pursued an Assumption Reinsurance Transaction on several occasions, with no resulting transaction, because of, among other things, uncertainties concerning potential liabilities given Reliance Canada is a branch including the possibility that Non-Booked Claims would arise.
78. The Liquidator in consultation with the U.S. Liquidator believes it is now appropriate to pursue a final effort to achieve an Assumption Reinsurance Transaction, in light of the significant progress in the estate's administration and claims resolution process. In the Liquidator's view, renewed marketing efforts may result in a successful transaction due to the reduced uncertainty in the remaining policy liabilities.
79. The Liquidator believes the introduction of one other element of certainty would be helpful. As discussed, the call for Policy Loss Claims fixed December 17, 2010 as the last day for sending those claims to the Liquidator. However, the Liquidator has been advised by counsel that section 77 of WURA provides that claims "sent to the liquidator after any partial distribution of assets of the company.. shall rank with other claims of creditors in any future distribution of assets of the company". Section 77 is in Part I of the act and it is not clear how it interacts with Part III, which governs insurance companies and how it would be interpreted in the context of an Assumption Reinsurance Transaction. Generally, uncertainty surrounding the policy liabilities was an impediment to the prior efforts to secure an Assumption Reinsurance Transaction.

80. Therefore, before it markets the policy liabilities, the Liquidator is seeking a court-ordered policy claims bar date, after which no further claim may be filed. The Liquidator believes that a claims bar date would enhance the potential for a successful transaction for these reasons:

- (a) A claims bar date would provide greater certainty as to the universe of potential claims, which would facilitate (a) the Liquidator's marketing efforts, (b) valuation of the liabilities, and (c) negotiations with potential purchasers;
- (b) A claims bar date would provide comfort for potential purchasers in the context of an unusually active estate with open and contingent claims and a long-tail book; and
- (c) The U.S Liquidator, as Reliance Canada's major stakeholder strongly supports the establishment of a bar date as one of the steps towards the completion of the Canadian estate. The U.S. Liquidator has made significant progress in its own estate and has finalized approximately 98% of the proofs of claims filed in its estate.

81. Further, even if no Assumption Reinsurance Transaction is completed, the certainty brought by a claims bar date will facilitate the completion of the liquidation, including potential commutations of reinsurance arrangements as well as a claims determination process.

**B. Publications**

82. As part of the Call for Policy Loss Claims in 2010, the Liquidator sent individual notices to the last known address set out in the books and records of Reliance Canada to the following:

- (a) those policyholders or claimants with Open Claims;
- (b) holders of occurrence-based policies (including Family policies) written by Reliance Canada;
- (c) Liability Reinsureds; and
- (d) Brokers and managing general agents that brokered or managed insurance programs for Reliance Canada's business.

83. Of the approximately 107,000 notices sent by ordinary mail on August 16, 2010 approximately 20,000 were returned.

84. The Liquidator also gave notice of the Call for Policy Loss Claims by way of these public notices:

- (a) two publications of an English language notice (the "General English Publication") in the national edition of *The Globe and Mail* newspaper and in *The Toronto Star*;
- (b) two publications of a French language notice (the "General French Publication") in *La Presse*;

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- (c) two publications of a notice in respect of the Family line of business (the “Family Publication”) in the *Vancouver Sun* and one publication in the British Columbia Gazette;
  - (d) one publication of the General English Publication in the *Canada Gazette* and the official Gazette of each of the Provinces, other than Quebec;
  - (e) one publication of the General French Publication in the *Canada Gazette* and the official Gazette of each of the Provinces; and
  - (f) one publication of the General English Publication, the General French Publication and the Family Publication in the *Canadian Underwriter* (an insurance industry publication).
85. All notices were posted on the website maintained by the Liquidator ([www.relianceinsurance.ca](http://www.relianceinsurance.ca)). The Liquidator also advised Family of the Call for Policy Loss Claims and provided it with copies of the POC packages in case policyholders contacted it directly. Further, at the beginning of the Call for Policy Loss Claims, the Liquidator set up a call centre to assist with questions regarding the process. The Liquidator also set up a direct email address so that inquiries could be sent directly to the Liquidator.
86. Given the extensive, costly and thorough Call for Policy Loss Claims undertaken in 2010, the Liquidator is proposing that a claims bar date be established and these notices be given:

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- (a) publication of an English notice (attached as Schedule “D”) in the national edition of *The Globe and Mail* newspaper and in *The Toronto Star*, twice: once on or before July 9, 2014, and once after August 1, 2014 but on or before August 15, 2014;
- (b) publication of a French language notice (attached as Schedule “E”) in, *La Presse*, twice: once on or before July 9, 2014, and once after August 1, 2014 but on or before August 15, 2014;
- (c) publication of an English notice in the *Canada Gazette* and the official Gazette of each of the Provinces, other than in the province of Quebec, on or before August 15, 2014; and
- (d) publication of a French notice in the *Canada Gazette* and the official Gazette of each of the Provinces on or before August 15, 2014.

87. The Liquidator intends to post these notices on the website it maintains for Reliance Canada at [www.relianceinsurance.ca](http://www.relianceinsurance.ca).

**C. Recommendation**

88. The potential for prejudice to policyholders of a claims bar date being established with the proposed notices is low because:

- (a) the last in-force claims-made policy expired in March 2007 (with an extended reporting period expiring May 30, 2007) and so, any claims under claims-made policies can no longer be reported.



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- (b) the last in-force occurrence-based policy expired in March 2004 and since the long-tail exposure under Reliance Canada's occurrence-based policies are sufficiently matured such that the likelihood that any asserted claims or prospective or potential claims under those policies would be known to insureds has significantly increased, along with the likelihood that there would be significantly fewer future or contingent claims;
  - (c) the liquidation began over 13 years ago and has been widely publicized;
  - (d) the date fixed by this Court for filing POC's was over three years ago;
  - (e) as detailed above, the Call for Policy Loss Claims was widely publicized and POCs were actively solicited; and
  - (f) there were no unexpected claims filed in response to the Call for Policy Loss Claims.
89. The Liquidator is of the view that advertisements are appropriate but the expense of an additional mailing is not warranted in these circumstances, given the number of returned letters, the extensive notification in 2010 and the unlikelihood of prejudice to policyholders. The Liquidator is also of the view that the timing is appropriate and not prejudicial given that the policyholders are all businesses and not individuals.
90. The Liquidator is of the view that the proposed advertisements will afford a fair and reasonable opportunity for all those who have not filed Policy Loss Claims to file their claims.

91. The Liquidator recommends that September 30, 2014 be fixed as the last day on which Policy Loss Claims may be sent in (i.e. that any POC for Policy Loss Claims must be post-marked by midnight, September 30, 2014) and any Policy Loss Claim filed after September 30, 2014, shall be forever extinguished, waved and barred from the estate (the “Claims Bar Date”).
92. The Liquidator also recommends that the process for disallowing and resolving disputed Policy Loss Claims as set out in the Order of this Court on March 2, 2012 should continue.

#### **IX. DESTRUCTION OF RECORDS**

93. At the commencement of the liquidation of Reliance Canada, the Liquidator took possession and control of the books and records of Reliance Canada (the “Records”). The Records were located at Reliance Canada’s head office as well as offsite storage facilities, and include, among other things:
- (a) Records used in Reliance Canada’s liquidation, including all expired policy files (the “Retained Records”). The Liquidator is not proposing to destroy any Retained Records at this time; and
  - (b) Records relating to past business and non-business activities, none of which have been required by the Liquidator for purposes of the winding-up of Reliance Canada (the “Inactive Records”). The Inactive Records predate the commencement of the liquidation of Reliance Canada and consist of administration and accounting records and closed claim files.

94. There are approximately 1,750 bankers boxes containing Records which were being stored by Reliance Canada at the date of liquidation and which have continued to be stored by the Liquidator. Of these, approximately 800 boxes contain the Inactive Records.
95. In recommending the destruction of the Inactive Records, the Liquidator considered the following:
- (a) the liquidation began over 13 years ago and has been widely publicized;
  - (b) the date fixed by this Court for filing of POCs was three years ago;
  - (c) there have been no requests for access to the Inactive Records;
  - (d) the Inactive Records are not necessary for the administration of the liquidation;
  - (e) but for the liquidation, the Inactive Records would likely have been destroyed in the ordinary course of Reliance Canada's business; and
  - (f) the cost of storage of these records, including insurance is approximately \$5,000 per year.
96. As part of the Liquidator's ongoing process as the estate winds-up, the Liquidator will consider the relevance of the balance of the Retained Records and will seek further authorization from this Court to destroy Records that are not necessary for the administration of the liquidation.
97. The Liquidator respectfully requests that this Court approve the destruction of the Inactive Records.

**X. LIQUIDATOR'S ACCOUNTS AND PROFESSIONAL FEES****A. Financial Statements**

98. As in the past, the Liquidator does not consider that a traditional statement of receipts and disbursements would provide a meaningful and informative reflection of the financial position of the estate. The Liquidator has therefore prepared the financial statements (unaudited), attached as Schedule "B".

99. The financial statements have been prepared in a manner consistent with the statements approved previously by this Court. The Liquidator maintains a system of internal controls to safeguard the accuracy and the reliability of the financial reporting process.

**B. Professional Fees**

100. The Liquidator retains professional advisors to assist in the administration of the liquidation from time to time. The Liquidator is familiar with the services provided by each of the professional advisors and has reviewed their invoices. Detailed invoices were timely received and carefully reviewed in detail by senior administrative and management level members of the Liquidator's staff. The invoices were reviewed for accuracy, adequate detailed information describing the work performed and by whom, the time spent and when it was spent, the rate and amount billed, possible redundant charges, reasonableness and overall compliance with the terms of retention. Clarifications and adjustments of items included in the invoices were requested where it appeared appropriate.

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101. The Liquidator believes that the Professional Fees of its advisors are proper, fair and reasonable and were incurred in furtherance of the best interests of the estate of Reliance Canada.

*Goodmans LLP*

102. Goodmans LLP (“Goodmans”) has acted as counsel to the Liquidator from the commencement of the liquidation and has acted or advised on all matters described in this report. The Liquidator is familiar with their services and has reviewed their invoices in detail and with the care described above.
103. At the commencement of the liquidation, Goodmans agreed to a discount from its then current market rates of approximately 15% to 20%, with rates not to be increased for one year. In fact, rates were not increased for the first two years of the liquidation, but were raised by 4.79%, effective October 1, 2003, reflecting the change in the Consumer Price Index over the two year period, and a further 5.6% effective January 1, 2008, reflecting the change in the Consumer Price Index from January 1, 2006. Effective July 1, 2008, rates were increased to 90% of current market rates as they are set from time to time as a result of the 100% distribution. The discount from Goodmans’ current market rates is approximately 10%.
104. Attached as Schedules “F”, “G” and “H”, respectively, are:
- (a) a summary invoice from Goodmans to the Liquidator for the Period;
  - (b) a summary of the hours and average hourly rates of each of Goodmans’ personnel who dedicated more than 30 hours to the estate for the Period; and

- (c) a brief description of the areas of concentration of each of Goodmans' personnel who dedicated more than 30 hours to the estate for the Period.
105. Detailed supporting records, including time sheets, are available should this Court wish them produced. An affidavit attesting to the accuracy of the fees and disbursements is also being filed.
106. The Liquidator is satisfied that Goodmans' fees are proper, fair and reasonable, that time was appropriately spent and that Goodmans' fees were incurred in furtherance of the best interests of the estate.

*KPMG Inc.*

107. The Liquidator has kept careful and detailed records of all time spent by Liquidator personnel on the estate. The Liquidator has instituted internal controls to ensure no redundant or inappropriate charges are made. The Liquidator applied the same standard for review to its accounts as to accounts of other professionals, described above. As discussed above, the Liquidator maximized efficiency and reduced costs by retaining former Reliance Canada employees and third party administrators where prudent and appropriate.
108. At the commencement of the liquidation, the Liquidator agreed to a discount from its then current market rates of approximately 15% to 20%, with rates not to be increased for one year. In fact, rates were not increased for the first two years of the liquidation, but were raised by 4.79%, effective October 1, 2003, and an additional 2.4% effective October 1, 2004, 3.4% effective October 1, 2005, 3% effective October 1, 2006, and 2.6% effective October 1, 2007, reflecting the changes in the Consumer Price Index.

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Effective July 1, 2008, rates were increased to 90% of current market rates as they are set from time to time as a result of the 100% distribution. The discount from current market rates is approximately 10%.

109. Attached as Schedules "I", "J" and "K", respectively, are:

- (a) an invoice from the Liquidator to the estate for the Period;
- (b) a summary of the hours and average hourly rates of each of the Liquidator's personnel who dedicated more than 30 hours to the estate for the Period; and
- (c) a brief description of the areas of concentration of each of such of the Liquidator's personnel for the Period.

110. Detailed supporting records, including time sheets, are available should this Court wish them produced. An affidavit attesting to the accuracy of the fees and disbursements is also being filed.

111. The Liquidator respectfully requests that this Court pass the accounts of the Liquidator, as reflected in the financial statements, and approve the Professional Fees.

## **XI. RECOMMENDATION**

112. The Liquidator is of the view that the proposed Claims Bar Date will afford a fair and reasonable opportunity for all those with Policy Loss Claims to file their late claims.

113. The U.S. Liquidator supports the Liquidator's recommendation in this motion.

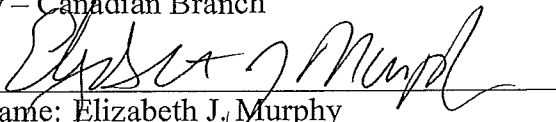
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114. For all the foregoing reasons, the Liquidator therefore respectfully recommends that this Court authorize the proposed Claims Bar Date, and grant the related relief, as sought in the Notice of Motion herein.
115. The Liquidator also respectfully recommends that this Court approve the accounts and activities of the Liquidator for the Period and approve the professional fees and costs of the Liquidator and its counsel for the Period.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED,**

**KPMG INC.**, the Liquidator of Reliance Insurance  
Company – Canadian Branch

Per:

  
Name: Elizabeth J. Murphy  
Title: Vice-President



## **SCHEDULE "A"**

**SCHEDULE "A"**

## LIST OF COURT ORDERS PREVIOUSLY APPROVED BY COURT

<b>Date of Order</b>	<b>Ordered By</b>	<b>Description of Order</b>
December 3, 2001	Justice Farley	Order approving the Winding-Up of Reliance Canada
December 3, 2001	Justice Farley	Order approving the appointment of KPMG Inc. as Liquidator of Reliance Canada. As well as authorizing the payment of all valid policyholder claims, including in respect to unearned premiums, to the amount of \$25,000 or the amount if any of the voluntary compensation payment of PACICC (which was \$250,000). Payment of valid claims including claims of unearned premiums under the Meridian and other warranty and surety programs to the amount of \$5,000. Payment of all reasonable legal and other costs incurred to January 31, 2002.
January 30, 2002	Justice Farley	Order extending the Appointment Order from January 31, 2002 to April 30, 2002.
April 29, 2002	Justice Farley	Order extending the Appointment Order from April 30, 2002 to May 6, 2002.
May 8, 2002	Justice Farley	Order extending the Appointment Order from May 6, 2002 to December 31, 2002.
December 06, 2002	Justice Farley	Order extending the Appointment Order from December 31, 2002 to March 31, 2003.
March 26, 2003	Justice Farley	Order extending the Appointment Order from March 31, 2003 to June 30, 2003.
June 2, 2003	Justice Farley	Order appointing independent claims administrators for two separate loss claims.
June 26, 2003	Justice Farley	Extension of the Appointment Order from June 30, 2003 to December 31, 2003 and approving and authorizing a first interim payment to policyholders and claimants of 25% on their valid and allowed policyholder loss claims.
December 18, 2003	Justice Farley	Order approving the accounts and activities of the Liquidator for the periods from December 3, 2001 to December 31, 2002 and January 1, 2003 to September 30, 2003, including the fees of the

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Date of Order	Ordered By	Description of Order
		Liquidator's counsel from the commencement of the liquidation to September 30, 2003. As well as authorizing the Liquidator to pay claims settled in foreign currencies, in Canadian currency at the noon spot rate on November 8, 2001. Extension of distribution payments from December 31, 2003 to June 30, 2004.
June 30, 2004	Justice Farley	Order amending the December 18, 2003 Order, authorizing the Liquidator to pay claims payable in foreign currencies either in the foreign currency or in Canadian currency at the noon spot rate of November 8, 2001.
September 2, 2004	Justice Farley	Order approving the accounts and activities of the Liquidator for the period from October 1, 2003 to June 30, 2004, including the fees of the Liquidator's counsel. Approving and authorizing a second interim distribution to policyholders and claimants in the amount of 25% on their valid and allowed loss claims for a cumulative distribution rate of 50%. As well as authorizing payments of up to \$25,000 on valid claims under the Meridian Warranty Program.
November 22, 2004	Justice Farley	Order approving the purchase by Reliance Canada of units of four mutual funds managed by RBC Asset Management.
December 21, 2005	Justice Farley	Order approving the accounts and activities of the Liquidator for the period from July 1, 2004 to September 30, 2005, including the fees of the Liquidator's counsel. Approving and authorizing a third interim distribution to policyholders and claimants in the amount of 15% on their valid and allowed loss claims for a cumulative distribution rate of 65%.
December 15, 2006	Justice Cumming	Order approving the accounts and activities of the Liquidator for the period from October 1, 2005 to September 30, 2006, including the fees of the Liquidator's counsel. Approving and authorizing a fourth interim distribution to policyholders and claimants in the amount of 15% on their valid and allowed loss claims for a cumulative distribution rate of 80%.
October 5, 2007	Justice Pepall	Order dismissing an action by reinsurers with respect to set-off issues.

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<b>Date of Order</b>	<b>Ordered By</b>	<b>Description of Order</b>
April 8, 2008	Justice Morawetz	Order approving the accounts and activities of the Liquidator for the period from October 1, 2006 to December 31, 2007, including the fees of the Liquidator's counsel. Approving and authorizing a fifth interim distribution to policyholders and claimants in the amount of 20% on their valid and allowed loss claims for a cumulative distribution rate of 100%.
June 24, 2008	Justice Campbell	Order authorizing a Call for Ordinary Creditor Claims.
December 17, 2008	Justice Campbell	Order authorizing the Liquidator to pay a distribution in the amount of 100% of valid and allowed ordinary creditor claims up to a cumulative total amount of \$100,000 and authorizing a payment to PACICC as remuneration for PACCIC's inspectorship.
January 29, 2009	Justice Campbell	Liquidator seeking the Court's advice and directions by way of the Post-Liquidation Motion.
December 16, 2009	Justice Cumming	Order approving the accounts and activities of the Liquidator for the period from January 1, 2008 to September 30, 2009 including the fees of the Liquidator's counsel, as well as the approval and authorization of the payment of Post-Liquidation Interest.
August 3, 2010	Justice Lederman	Order directing the terms of a Call for Policy Loss Claims.
June 29, 2011	Justice Campbell	Order approving the accounts and activities of the Liquidator for the period from October 1, 2009 to March 31, 2011, including the fees of the Liquidator's counsel.
December 15, 2011	Justice Campbell	Order authorizing Reliance Canada to purchase units of two additional mutual funds managed by RBC Asset Management.
March 2, 2012	Justice Morawetz	Order approving the Notice of Disallowance Process

## **SCHEDULE "B"**

Unaudited Financial Statements of

**RELIANCE INSURANCE COMPANY**  
Canadian Branch (in liquidation)

In our capacity as Liquidator, we have prepared the Balance Sheet of Reliance Insurance Company, Canadian Branch (in liquidation) as at March 31, 2014, March 31, 2011, September 30, 2009, December 31, 2007, September 30, 2006, September 30, 2005, June 30, 2004, September 30, 2003 and December 31, 2001, the Statement of Earnings and Changes in Surplus for the thirty-six months ended March 31, 2014, eighteen months ended March 31, 2011, twenty-one months ended September 30, 2009, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004, and twenty-two months ended September 30, 2003, and the Statement of Cash Flows for the thirty-six months ended March 31, 2014, eighteen months ended March 31, 2011, twenty-one months ended September 30, 2009, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004, and twenty-two months ended September 30, 2003 in our capacity as liquidator. These financial statements have not been audited or reviewed.

In view of the uncertainties surrounding a branch in liquidation, the ultimate realization of the assets and liabilities will differ from the recorded amounts and the differences may be material (see notes).

Readers are cautioned that these statements may not be appropriate for their purposes.

KPMG Inc., Liquidator.  
Reliance Insurance Company, Canadian Branch

April 29, 2014

**RELiance INSURANCE COMPANY**  
Canadian Branch (in liquidation)

Balance Sheet

As at March 31, 2014, March 31, 2011, September 30, 2009, December 31, 2007, September 30, 2006, June 30, 2004, September 30, 2003 and December 31, 2001

	March 31, 2014	March 31, 2011	September 30, 2009	December 31, 2007	September 30, 2006	September 30, 2005	June 30, 2004	September 30, 2003	December 31, 2001
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(Unaudited - see cover page)

**Assets**

Cash and short term investments (note 4)	\$ 1,029	\$ 1,216	\$ (29)	\$ 2,694	\$ 1,101	\$ 916	\$ 155,078	\$ 156,277	\$ 56,165
Investments (note 4)	115,296	127,167	136,062	138,240	147,761	141,308	-	-	108,949
(market value: Mar/14 - \$117,180; Mar/11 - \$129,003; Sep/09 - \$139,111; Dec/07 - \$138,632; Sep/06 - \$148,049; Sep/05 - \$140,919; Jun/04 - \$0; Sep/03 - \$0; Dec/01 - \$114,392)									
Receivable from other insurers/reinsurers	662	4,337	5,054	9,649	11,965	26,863	27,576	13,908	6,090
Income and premium taxes recoverable	-	-	-	-	-	-	-	3,070	3,446
Receivable from Reliance US (note 7)	4,848	4,848	4,848	4,848	4,848	4,848	4,848	4,181	-
Receivable from Reliance US - current balance due (note 7)	-	-	35	-	159	222	870	-	-
Other receivables	129	337	386	348	361	621	600	958	1,978
Reinsurers' share of provision for unpaid claims	2,615	10,326	22,730	22,942	34,928	42,172	71,704	51,761	57,536
Unearned premiums	-	-	-	-	306	2,564	4,847	5,430	9,670
Estimate for deductibles on unpaid claims	-	-	-	-	-	78	106	1,444	2,527
<b>Total assets</b>	<b>\$ 124,579</b>	<b>\$ 148,231</b>	<b>\$ 169,086</b>	<b>\$ 178,721</b>	<b>\$ 201,429</b>	<b>\$ 219,592</b>	<b>\$ 265,629</b>	<b>\$ 237,029</b>	<b>\$ 246,361</b>

**Liabilities and Surplus**

Policy liabilities:									
Unpaid claims (note 5)	\$ 13,279	\$ 45,390	\$ 64,661	\$ 63,905	\$ 92,190	\$ 111,980	\$ 171,544	\$ 145,815	\$ 135,088
Unearned premiums (note 6)	-	-	-	-	421	3,989	8,216	9,177	15,189
Allowed claims (note 8)	-	-	-	12,802	20,340	24,163	33,106	17,269	-
Interest distribution (note 12)	-	-	5,200	-	-	-	-	-	-
Other liabilities	67	290	608	857	605	567	841	2,158	1,917
	13,346	45,680	70,469	77,564	113,556	140,699	213,707	174,419	152,194
Payables:									
Due to Reliance US (note 7)	4,848	4,848	4,848	4,848	4,848	4,848	4,848	4,848	-
Due to other insurers/reinsurers	1,051	849	1,101	539	576	260	142	189	192
Brokers	-	-	6	2,388	2,573	2,656	2,916	2,924	3,389
Taxes and other creditors	751	1,208	954	1,150	1,096	1,034	1,031	1,653	1,826
Reinsurance deposits	10	10	10	10	10	10	10	10	3,494
<b>Total liabilities</b>	<b>20,006</b>	<b>52,595</b>	<b>77,388</b>	<b>86,499</b>	<b>122,659</b>	<b>149,507</b>	<b>222,654</b>	<b>184,043</b>	<b>161,095</b>
Surplus (note 9)	104,573	95,636	91,698	92,222	78,770	70,085	42,975	52,986	85,266
Contingent liabilities (note 13)	-	-	-	-	-	-	-	-	-
<b>Total liabilities and surplus</b>	<b>\$ 124,579</b>	<b>\$ 148,231</b>	<b>\$ 169,086</b>	<b>\$ 178,721</b>	<b>\$ 201,429</b>	<b>\$ 219,592</b>	<b>\$ 265,629</b>	<b>\$ 237,029</b>	<b>\$ 246,361</b>

The accompanying notes are an integral part of the financial statements

(Unaudited - See Cover Page)

**RELIANCE INSURANCE COMPANY**  
Canadian Branch (in liquidation)

**Statements of Earnings and Changes in Surplus**

For the thirty-six months ended March 31, 2014, the twenty-one months ended September 30, 2009, the fifteen months ended December 31, 2007, the twelve months ended September 30, 2005, the fifteen months ended June 30, 2004, and twenty-two months ended September 30, 2003 (\$'000)

	April 1, 2011 to March 31, 2014	October 1, 2009 to March 31, 2011	January 1, 2008 to September 30, 2009	October 1, 2006 to December 31, 2007	October 1, 2005 to September 30, 2006	July 1, 2004 to September 30, 2005	October 1, 2003 to June 30, 2004	December 3, 2001 to September 30, 2003
<b>Revenue</b>								
Gross premiums written	\$ -	\$ -	\$ -	\$ -	\$ (5)	\$ (6)	\$ (12)	\$ (508)
Less: reinsurance ceded	-	-	1,113	-	938	323	(9)	(509)
<b>Net written premiums</b>	<b>-</b>	<b>-</b>	<b>(1,113)</b>	<b>-</b>	<b>(943)</b>	<b>(331)</b>	<b>(3)</b>	<b>1</b>
<b>Net premiums earned</b>	<b>-</b>	<b>-</b>	<b>(1,113)</b>	<b>116</b>	<b>366</b>	<b>1,613</b>	<b>375</b>	<b>1,772</b>
<b>Expenses</b>								
Claims incurred	(2,205)	(4,683)	4,534	(12,514)	(8,722)	(19,974)	12,539	42,317
Post liquidation interest	0	506	5,200	-	-	-	-	-
Commissions and premium taxes	0	-	-	(10)	20	49	21	5,115
General expenses (note 10)	1,417	4,309	1,264	4,963	2,022	2,789	1,212	6,656
Foreign exchange (net claims)	471	182	(951)	1,054	2,806	(3,466)	(656)	(62)
Brokers payables writeoff	0	-	(2,712)	-	-	-	-	-
	(317)	314	7,335	(6,507)	(3,874)	(20,602)	13,116	54,026
<b>Investment income</b>								
Interest on cash and short term investments	6	-	125	120	80	1,991	2,807	5,188
Write-down of investments (note 4)	0	-	-	(444)	(1,658)	-	-	-
Interest on investments	10,031	4,855	8,730	8,363	6,219	3,031	-	7,752
Investment expenses	(588)	(272)	(293)	(220)	(187)	(123)	(36)	(74)
Realized gain (loss) on disposal of investments	1	54	65	(246)	-	-	-	7,245
	9,450	4,637	8,627	7,573	4,454	4,899	2,771	20,111
<b>Income (loss) before capital taxes</b>	<b>9,767</b>	<b>4,323</b>	<b>179</b>	<b>14,196</b>	<b>8,694</b>	<b>27,114</b>	<b>(9,970)</b>	<b>(32,143)</b>
<b>Capital and other taxes</b>	<b>830</b>	<b>385</b>	<b>703</b>	<b>744</b>	<b>9</b>	<b>4</b>	<b>41</b>	<b>137</b>
<b>Net income (loss)</b>	<b>8,937</b>	<b>3,938</b>	<b>(524)</b>	<b>13,452</b>	<b>8,685</b>	<b>27,110</b>	<b>(10,011)</b>	<b>(32,280)</b>
<b>Surplus beginning of period</b>	<b>95,636</b>	<b>91,698</b>	<b>92,222</b>	<b>78,770</b>	<b>70,085</b>	<b>42,975</b>	<b>52,986</b>	<b>85,266</b>
<b>Surplus end of period</b>	<b>\$ 104,573</b>	<b>\$ 95,636</b>	<b>\$ 91,698</b>	<b>\$ 92,222</b>	<b>\$ 78,770</b>	<b>\$ 70,085</b>	<b>\$ 42,975</b>	<b>\$ 52,986</b>

The accompanying notes are an integral part of the financial statements



(Unaudited - See Cover Note)

**RELIANCE INSURANCE COMPANY**  
Canadian Branch (in liquidation)

**Statement of Cash Flows**

For the thirty-six months ended March 31, 2014, eighteen months ended March 31, 2011, the twenty-one months ended September 30, 2009, the fifteen months ended December 31, 2007, the twelve months ended September 30, 2006, the fifteen months ended September 30, 2005, the nine months ended June 30, 2004, and the twenty-two months ended September 30, 2003

(Unaudited - see cover page)	April 30, 2011 to March 31, 2014	October 1, 2009 to March 31, 2011	January 1, 2008 to September 30, 2009	October 1, 2006 to December 31, 2007	October 1, 2005 to September 30, 2006	July 1, 2004 to September 30, 2005	October 1, 2003 to June 30, 2004	December 3, 2001 to September 30, 2003
<b>Operating activities</b>								
Premiums received	9,863	14,560	14,388	16,957	25,090	32,692	6,163	8,601
Reinsurance collected	508	1,481	168	578	355	1,545	578	2,332
Salvage, subrogation & deductibles received	264	212	316	(12)	42	31	481	897
Reduction in other receivables	10,635	16,253	14,872	17,523	25,487	34,251	7,223	11,548
Total sources	23,951	33,513	30,074	35,472	50,974	68,469	14,465	23,381
Gross claims paid	3,366	2,628	2,218	2,623	2,661	3,406	8,663	23,073
Claim expenses paid	-	5,706	-	-	-	-	3,136	8,393
Post liquidation interest on claims paid	465	282	130	-	-	-	-	-
Assumed Payable	-	-	-	-	-	-	-	(96)
Uncashed claim/expense cheques	-	-	-	-	41	23	(14)	(108)
Reinsurance premiums paid	-	-	-	-	-	-	-	-
Agents balance payable	-	6	-	-	-	-	-	-
General expenses	1,555	892	1,200	839	748	943	1,364	3,109
Salaries	473	486	678	311	228	351	369	641
Office expenses	58	57	170	135	135	306	138	273
Legal/professional	441	221	297	217	172	244	210	465
Head office services	-	-	-	-	-	-	-	770
Sale of business expense	-	-	-	-	-	-	-	-
Liquidation expenses	1,062	690	762	771	339	1,013	818	3,121
KPMG Inc.	242	224	749	664	182	497	266	885
Goodmans LLP	-	-	144	-	-	-	-	-
Legal - Post-Liquidation interest	-	12	-	509	-	-	-	-
Legal - Reinsurance collections	-	177	-	0	-	-	-	-
Call for claims expenses	-	-	-	-	-	-	-	-
PAC/ICC expenses	(758)	2,505	(1,605)	2,943	845	624	624	56
Foreign exchange (gain)/loss	820	234	951	352	6	(13)	(3,405)	(22)
Income & premium taxes (incl interest paid/rec'd)	471	182	192	1,054	2,808	(273)	(273)	(62)
Foreign exchange (gain)/loss/net claims	32,146	28,541	28,359	33,212	23,309	52,025	11,191	40,498
Total uses	(21,511)	(12,288)	(13,487)	(15,689)	2,176	(17,774)	(3,968)	(28,950)
Net cash provided by (used) in operating activities	11,435	21,225	16,587	19,783	48,803	86,243	18,463	52,441
<b>Investing activities</b>								
Sale (purchase) of investments	11,873	8,949	2,243	8,978	(8,111)	(141,308)	-	113,225
Investment expenses	(685)	(271)	(334)	(179)	(178)	(95)	(36)	(74)
Interest received	10,036	4,855	8,866	8,471	6,236	5,349	2,895	15,812
Investment income	-	-	(11)	12	-	(334)	(90)	99
Cash provided by (used in) investing activities	21,324	13,533	10,764	17,282	(1,993)	(136,388)	2,769	129,062
<b>Increase in cash and short term investments</b>	(976)	1,245	(2,723)	1,593	165	(54,162)	(1,199)	100,112
<b>Cash and short term investments, at beginning of period</b>	1,216	(29)	2,694	1,101	916	155,078	156,277	56,165
<b>Cash and short term investments, at end of period</b>	1,029	1,216	(29)	2,694	1,101	916	155,078	156,277
Cash consists of:								
Cash	1,029	341	(29)	1,053	1,101	916	2,856	420
Short term investments (note 4)	-	875	-	1,641	-	-	152,222	155,857
Total	1,029	1,216	(29)	2,694	1,101	916	155,078	156,277

The accompanying notes are an integral part of the financial statements

**RELIANCE INSURANCE COMPANY**  
**Canadian Branch (in liquidation)**

**Notes to March 31, 2014 Financial Statements filed with the Court**

**(unaudited – \$000)**

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**1. Nature of the business:**

The Canadian Branch of Reliance Insurance Company, which was primarily engaged in the writing of commercial property and liability insurance in Canada, commenced a voluntary wind down of its operations in Canada effective August 2000. In May 2001, Reliance Insurance Company's U.S. operations ("**Reliance US**") were placed under an order of rehabilitation. On October 3, 2001, Reliance US was put into liquidation and declared insolvent by the Court of Pennsylvania.

On December 3, 2001, the Ontario Superior Court of Justice (the "**Court**"), on the application of the Attorney General of Canada, granted an order appointing KPMG Inc. as provisional liquidator (the "**Liquidator**") of the insurance business in Canada of Reliance Insurance Company, including the assets in Canada of Reliance Insurance Company, together with its other assets held in Canada under the control of its chief agent ("**Reliance Canada**"). By further order of the same date, the Court ordered that Reliance Canada be wound up.

Since August 2000, existing insurance policies in force have been allowed to expire and Reliance Canada has neither renewed nor cancelled existing policies, nor has it written any new business. As of March 31, 2007, there were no policies in force.

The Court has approved several interim distributions on policy loss claims which have been settled and admitted by the Liquidator ("**Allowed Policy Loss Claims**"). The fifth interim distribution approved by the Court on April 8, 2008 brought the total Court authorized level of distributions to 100% of any Allowed Policy Loss Claims. With reference to Note 12, pursuant to an Order of the Court dated July 14, 2009 the Court approved the payment of post-liquidation interest ("**PLI**") by the Liquidator in December 2009.

On August 3, 2010, the Ontario Superior Court of Justice approved an order authorizing the Liquidator to undertake a call for policy loss claims ("**Call for Policy Loss Claims Process**"). The Court Order required that any proof of claims submitted pursuant to the Call for Policy Loss Claims Process be postmarked no later than midnight, December 17, 2010. Further to the Policy Loss Claims Process, claimants filed Proofs of Claim (POCs) with the Liquidator. These POCs includes some "**Contingent Claims**". Contingent claims include claims which are respect to a possible occurrence prior to the expiry of the policy, the specifics of which are not yet available or within the knowledge of the policyholder or claimant, and/or in respect of which no claim has yet been made against a policyholder or an insured.

Reliance Canada continues to run off the existing policy and claim liabilities in an orderly fashion, dealing with policy liabilities and the collection of reinsurance on a commercially reasonable basis. The Liquidator continues to pay policy holders and claimants 100% of their Allowed Policy Loss Claims.

In the normal course of business, Reliance Canada sought to reduce the loss that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers. Reliance Canada is not

Notes to March 31, 2014 Financial Statements filed with the Court

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relieved of its primary obligation to policyholders as a result of its third party reinsurance. Failure of reinsurers to honour their obligations could result in losses to Reliance Canada. Reliance Canada's reinsurance program includes both reinsurance placed by Reliance Canada directly with Canadian licensed reinsurers and reinsurance entered into by Reliance US which reinsures both Reliance (Canada) policies and policies of Reliance US and other companies in the Reliance group (the latter are referred to as the "International Reinsurance Treaties"). Certain reinsurance contracts are subject to reinstatement premiums.

**2. Basis of preparation:**

These financial statements are prepared in a manner consistent with the financial statements prepared by the Liquidator since its appointment.

The accounting policies used in the preparation of these financial statements have been selected with a view to reflecting the financial position of an insurance company that is in liquidation, and are not intended to and may not comply with Canadian generally accepted accounting principles or International Financial Reporting Standards. Readers are cautioned that these financial statements may not be suitable for their purposes.

The preparation of these financial statements includes the use of estimates and assumptions that affect the reported assets and liabilities as at the date of the financial statements and the reported amount of revenue and expenses for the reporting period. The actual results will differ from these estimates and, in view of the additional uncertainties surrounding a company in liquidation, the differences may be material. Changes in estimates are recorded in the accounting period in which they are determined. Significant estimates are described in notes 5, 6, 9, and 13.

No provision has been made for future liquidation costs.

**3. Significant accounting policies:**

(a) Investments and investment income:

Short-term investments are readily convertible into cash and have maturities of less than 12 months.

Investments in RBC funds (see note 4) are carried at book value equal to the net invested proceeds. Income distributions and any interest received are reinvested back into the funds. When the carrying amount is greater than the fair value and the market rate valuation is considered temporary in nature, the carrying amount of these financial instruments is not reduced to fair value. Where the carrying amount is greater than the fair value, and after considering such factors as the length of time the carrying value has exceeded the fair value and the significance of the difference in the values, and if the market rate valuation is considered to be other than temporary in nature, the investment is written down to its fair value.

RELIANCE INSURANCE COMPANY  
Canadian Branch (in liquidation)

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Investments in term deposits and treasury bills (see note 4) are carried at cost plus accrued interest of \$11 at December 31, 2007, \$334 at June 30, 2004, \$424 at September 30, 2003 and \$325 at December 3, 2001.

Bonds, including accrued interest of \$3,128 at December 3, 2001 (see note 4), are carried at amortized cost, providing for the amortization of the discount or premium on an effective yield basis to maturity.

Investment income is recorded as it is earned. Gains and losses arising on disposal of investments are on a settlement date basis, and are calculated on the basis of amortized cost.

(b) Premium revenue and unearned premiums:

Unearned premiums represent the amount of premiums written which are applicable to the unexpired terms of the policies in force or to the remaining terms of certificates issued as part of program business. Accordingly, premiums written are taken into income when earned. Although policies were generally issued for one year, Reliance Canada also wrote some multi-year policies and some program business with underlying certificates which are multi-year.

If unearned premiums are not sufficient to pay expected claims and expenses, a premium deficiency is said to exist. Any changes in estimates of premium deficiencies recorded as net premium earned in the period in which they are determined.

The reinsurers' share of any unearned premiums, net of a provision for doubtful amounts, is recognized as amounts recoverable from reinsurers at the same time using principles consistent with the method for determining the unearned premium liability.

(c) Provision for Unpaid Claims:

The provision for unpaid claims ("**Unpaid Claims**") includes loss adjustment expenses and represents undiscounted estimates of the ultimate claim costs associated with claims occurring prior to but still outstanding as of the balance sheet date. The provision estimates do not take into account the time value of money or make explicit provision for adverse deviation.

The Liquidator has taken the results of the Call for Policy Loss Claims Process into account in estimating the provision for Unpaid Claims.

The provision includes estimates for (i) outstanding Policy Loss Claims, being claims which have been reported to Reliance Canada and not yet resolved or settled and for which Reliance Canada has established an estimate of the amount to resolve or settle ("**Case Reserves**"); estimates for "incurred but not reported" ("**IBNR**") exposure, which includes claims not yet reported for which Reliance Canada may ultimately be put on notice and to which would have to respond, and potential development on the Case Reserves; and Contingent Claims.

RELIANCE INSURANCE COMPANY  
Canadian Branch (in liquidation)

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All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the period in which they are determined.

On a periodic basis, the Liquidator or its legal counsel instruct external actuaries to confirm their best estimate of policy liabilities and premium liabilities in accordance with accepted actuarial standards of practice except that time value of discount is not used and there is no explicit provision for adverse deviation. The actuarial analysis is performed on both a gross and net of reinsurance basis. The most recent actuarial reviews were performed as at November 30, 2013, December 31, 2010 and June 30, 2009. With respect to the November 30, 2013 actuarial review, standard actuarial techniques were not effective to evaluate the reduced number of claims. As a result, the external actuary reviewed each claim individually and determined a range of probable settlement values of each claim. In addition, discounts to reflect the time value of money were not used.

In the normal course of settling claims, Reliance Canada acquires rights to subrogate its claims against other parties and, in some cases, recover a portion of the loss from the policyholder as a deductible amount. Salvage and subrogation are deemed not to be material and, as such, are recorded as received. Deductible amounts, which are recoverable on liability claims, have been recognized as assets.

*Uncertainties*

Considerable judgement is required to evaluate claims and establish claim liabilities. These estimates of future loss activity are based on known facts and interpretation of circumstances, and are selected from a wide range of possible outcomes. These estimates are subject to variability, and the process of determining the provision necessarily involves risks that the variability could be material. The variability arises because all events affecting the ultimate settlement of claims have not yet taken place and may not take place for some time. Additional factors affecting the variability include receipt of additional claim information, the continually evolving and changing regulatory and legal environment, court decisions, economic conditions, public attitudes, claims management practices, actuarial studies, the quality of the data used for projection purposes, the effect of inflationary trends on future claims handling and settlement practices, and significant changes in the severity or frequency of claims from historical trends.

It is also not possible to estimate the impact of the additional uncertainties surrounding a company in liquidation on the estimation process. In addition to underwriting direct insurance risks, Reliance Canada accepted certain insurance risks that other insurance companies have underwritten ("**Assumed Reinsurance**"). Because of the necessary reliance on the ceding companies for information regarding reported claims, and the resulting reporting lag between the dates of occurrence and the time Reliance Canada is notified of the claims, the inherent uncertainties of estimating reserves is greater for Assumed Reinsurance than for direct insurance.

Notes to March 31, 2014 Financial Statements filed with the Court

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(d) Ceded Reinsurance:

Claims incurred are recorded net of amounts ceded to, and recoverable from, reinsurers. To indicate the extent of the credit, collection and contractual risks related to third party reinsurance, estimates of amounts recoverable from reinsurers are recorded separately from the estimated provisions for unearned premiums and unpaid claims.

Amounts recoverable from reinsurers, net of a provision for doubtful amounts, are estimated and recognized at the same time and using principles consistent with Reliance Canada's method for establishing the related liability.

Reliance Canada makes specific provisions against reinsurance receivables and recoverables from companies who are in liquidation or run-off, with whom balances are in dispute or where the reinsurer is not settling balances due to Reliance Canada for reasons related to Reliance US. In addition, the Reliance Canada records a general allowance against reinsurance receivables and recoverables based upon the level of allowance already in place and management's judgement. The general allowance reflects the view that a company in liquidation or run-off has a greater collection risk than a going concern company.

Reinstatement premiums are set up as amounts due to other insurers and reinsurers on the balance sheet and are included in reinsurance ceded on the Statement of Earnings.

*Uncertainties*

Reliance Canada is exposed to disputes on, and defects in, contracts with reinsurers and the possibility of default by its reinsurers. The establishment of the allowances for doubtful accounts for reinsurance recoverable involves judgement and therefore creates a degree of uncertainty as to adequacy at each reporting date.

(e) Foreign Exchange:

Realized gains and losses on foreign exchange transactions and unrealized gains and losses on the translation of certain monetary assets and liabilities are recognized in the statement of earnings. Certain monetary assets and liabilities are denominated in US dollars (e.g. cash and investments and facultative reinsurance payable/receivable) are translated to Canadian dollars using the applicable period end rate of exchange. These gains and losses are included in general expenses as are any realized gain/loss arising from transfers between Canadian and US dollar bank accounts.

Policyholder liability reserves and related reinsurance, excluding facultative reinsurance, are translated to U.S. dollars at a fixed rate. Further to an order from the Court, dated December 18, 2003 and amended on June 30, 2004, the Liquidator is authorized to pay claims payable in foreign currencies either in the applicable foreign currency or in Canadian currency converted at the Bank of Canada noon spot rate of exchange on November 8, 2001, which was \$1.5981 ("Liquidation FX Rate"). Further to this, case reserves or claims payable (and related reinsurance, excluding facultative reinsurance) denominated in U.S. dollars are set up using the Liquidation FX Rate.

**RELIANCE INSURANCE COMPANY**  
**Canadian Branch (in liquidation)**

**Notes to March 31, 2014 Financial Statements filed with the Court**

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**4. Short term investments and investments:**

Composition of the cash and short term investments:

	March 31, 2014	March 31, 2011	September 30, 2009	December 31, 2007	September 30, 2006
Cash	\$ 1,029	\$ 341	\$ (29)	\$ 1,053	\$ 1,101
Short term investments (including term deposits and treasury bills)	-	875	-	1,641	-
<b>Total</b>	<b>\$ 1,029</b>	<b>\$ 1,216</b>	<b>\$ (29)</b>	<b>\$ 2,694</b>	<b>\$ 1,101</b>

	September 30, 2005	June 30, 2004	September 30, 2003	December 3, 2001
Cash	\$ 916	\$ 2,856	\$ 420	\$ 1,263
Short term investments (including term deposits and treasury bills)	-	152,222	155,857	54,902
<b>Total</b>	<b>\$ 916</b>	<b>\$ 155,078</b>	<b>\$ 156,277</b>	<b>\$ 56,165</b>

Due to their short-term nature, the carrying value of the short-term investments approximates their fair value.

**RELIANCE INSURANCE COMPANY**  
**Canadian Branch (in liquidation)**

**Notes to March 31, 2014 Financial Statements filed with the Court**

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Composition of investment portfolio:

	March 31, 2014		March 31, 2011		September 30, 2009		December 31, 2007	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
RBC Cdn Money Market fund	\$ 13,387	\$13,387	\$ 30,332	\$ 30,332	\$ 39,803	\$ 39,803	\$ 49,031	\$ 49,031
RBC Short Term Income fund	80,460	82,449	73,160	74,996	72,910	75,959	69,812	70,204
RBC US Money Market fund	-	-	23,675	23,675	23,349	23,349	19,397	19,397
PH&N Short Term Bond & Mortgage fund	21,449	21,344						
Bonds - Cdn Government	-	-	-	-	-	-	-	-
Bonds - Cdn Corporate	-	-	-	-	-	-	-	-
<b>Total investments</b>	<b>\$115,296</b>	<b>\$117,180</b>	<b>\$ 127,167</b>	<b>\$ 129,003</b>	<b>\$ 136,062</b>	<b>\$ 139,111</b>	<b>\$ 138,240</b>	<b>\$ 138,632</b>

	September 30, 2006		September 30, 2005		June 30, 2004		September 30, 2003	
	Book Value	Market Value	Book Value	Book Value	Book Value	Market Value	Book Value	Market Value
RBC Cdn Money Market fund	\$ 53,243	\$ 53,243	\$ 61,506	\$ 61,506	\$ -	\$ -	\$ -	\$ -
RBC Short Term Income fund	77,845	78,173	71,007	70,618	-	-	-	-
RBC US Money Market fund	16,673	16,673	8,795	8,795	-	-	-	-
Bonds - Cdn Government	-	-	-	-	-	-	99,959	105,415
Bonds - Cdn Corporate	-	-	-	-	-	-	8,990	8,977
<b>Total investments</b>	<b>\$ 147,761</b>	<b>\$ 148,089</b>	<b>\$ 141,308</b>	<b>\$ 140,919</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 108,949</b>	<b>\$ 114,392</b>

	December 3, 2001	
	Book Value	Market Value
RBC Cdn Money Market fund	\$ -	\$ -
RBC Short Term Income fund	-	-
RBC US Money Market fund	-	-
Bonds - Cdn Government	99,959	105,415
Bonds - Cdn Corporate	8,990	8,977
<b>Total investments</b>	<b>\$ 108,949</b>	<b>\$ 114,392</b>

The carrying value of the Short Term Income Fund was written down to fair value as at March 31, 2006 and September 30, 2007. The amounts of the adjustments were \$1,658 at March 31, 2006 and \$444 at September 30, 2007.



**RELIANCE INSURANCE COMPANY**  
**Canadian Branch (in liquidation)**

**Notes to March 31, 2014 Financial Statements filed with the Court**

**(unaudited – \$000)**

**5. Provision for Unpaid Claims:**

The changes in the unpaid claim provisions recorded in the balance sheet as at March 31, 2014, March 31, 2011, September 30, 2009, December 31, 2007, September 30, 2006, September 30, 2005, June 30, 2004 and September 30, 2003 and their impact on the claims and adjustment expenses for the thirty-six months ended March 31, 2014, eighteen months ended March 31, 2011, twenty-one months ended September 30, 2009, fifteen months ended December 31, 2007, twelve months ended September 30, 2006, fifteen months ended September 30, 2005, nine months ended June 30, 2004, and twenty-two months ended September 30, 2003, are as follows:

	<u>Apr 1, 2011 to Mar 31, 2014</u>	<u>Oct 1, 2009 to Mar 31, 2011</u>	<u>Jan 1, 2008 to Sep 30, 2009</u>	<u>Oct 1, 2006 to Dec 31, 2007</u>
Unpaid claims at beginning of period	\$ 45,390	\$ 64,661	\$ 63,905	\$ 92,190
Recoverable from reinsurers at beginning of period	<u>10,326</u>	<u>22,730</u>	<u>22,942</u>	<u>34,928</u>
Net unpaid claims at beginning of period	<u>35,064</u>	<u>41,931</u>	<u>40,963</u>	<u>57,262</u>
Increase(decrease) in estimated losses and Expenses for claims occurring in prior years	(2,205)	(4,683)	4,534	(12,514)
Increase(decrease) in outstanding deductibles	-	-	-	-
Paid on claims (net) occurring during current year (Gap Programs)	-	-	-	(283)
Paid on claims (net) occurring during prior years	<u>(22,195)</u>	<u>(2,184)</u>	<u>(3,566)</u>	<u>(3,502)</u>
Net reserves at end of period	10,664	35,064	41,931	40,963
Ceded reserves at end of period	<u>2,615</u>	<u>10,326</u>	<u>22,730</u>	<u>22,942</u>
Gross reserves at end of period	<u>\$ 13,279</u>	<u>\$ 45,390</u>	<u>\$ 64,661</u>	<u>\$ 63,905</u>
	<u>Oct 1, 2005 to Sep 30, 2006</u>	<u>Jul 1, 2004 to Sep 30, 2005</u>	<u>Oct 1, 2003 to Jun 30, 2004</u>	<u>Dec 3, 2001 to Sep 30, 2003</u>
Unpaid claims at beginning of period	\$ 111,980	\$ 171,544	\$ 145,815	\$ 135,088
Recoverable from reinsurers at beginning of period	<u>42,172</u>	<u>71,704</u>	<u>51,761</u>	<u>57,536</u>
Net unpaid claims at beginning of period	<u>69,808</u>	<u>99,840</u>	<u>94,054</u>	<u>77,552</u>
Increase(decrease) in estimated losses and Expenses for claims occurring in prior years	(8,722)	(19,974)	12,539	42,317
Increase(decrease) in outstanding deductibles	(60)	(30)	(65)	(1,090)
Paid on claims (net) occurring during current year (Gap Programs)	(171)	(278)	(577)	(1,377)
Paid on claims (net) occurring during prior years	<u>(3,593)</u>	<u>(9,750)</u>	<u>(6,111)</u>	<u>(23,348)</u>
Net reserves at end of period	57,262	69,808	99,840	94,054
Ceded reserves at end of period	<u>34,928</u>	<u>42,172</u>	<u>71,704</u>	<u>51,761</u>
Gross reserves at end of period	<u>\$ 92,190</u>	<u>\$ 111,980</u>	<u>\$ 171,544</u>	<u>\$ 145,815</u>

**RELIANCE INSURANCE COMPANY**  
**Canadian Branch (in liquidation)**

**Notes to March 31, 2014 Financial Statements filed with the Court**

**(unaudited – \$000)**

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**6. Unearned premium:**

The provisions for unearned premiums include actuarially determined estimates for premium deficiencies. The process for estimating any provisions for premium deficiency involves the use of estimates concerning factors such as expected claims and expenses and future payout patterns. Any provisions are necessarily subject to uncertainty.

The provision estimates do not take into account the time value of money or make explicit provision for adverse deviation.

**7. Reliance US:**

(a) Payable to Reliance US:

As at March 31, 2014, \$4,848 is recorded in Reliance Canada's books as due to Reliance US for underwriting commissions paid to ECS Managers (the "**ECS Commission Payable**"); at March 31, 2011, the payable to head office was \$4,848; at September 30, 2009 \$4,848, at December 31, 2007 \$4,848; at September 30, 2006 \$4,848; at September 30, 2005 \$4,848; at June 30, 2004 \$4,848 at September 30, 2003 \$4,848 and at December 3, 2001 the payable was nil.

The liquidator for Reliance US (the "**US Liquidator**"), subsequent to the date of liquidation, advised Reliance Canada that Reliance US had settled the ECS Commission Payable with ECS Managers on behalf of Reliance Canada prior to the respective and separate liquidations of Reliance Canada and Reliance US. Additionally Reliance US receives reinsurance proceeds on behalf of Reliance Canada pursuant to the International Reinsurance Treaties. The US Liquidator has taken the position that it wishes to withhold payment to the Canadian Liquidator of reinsurance collected by Reliance US on behalf of Reliance Canada on the International Reinsurance Treaties ("**Canadian Reinsurance Proceeds**") up to the amount of the ECS Commission Payable of \$4,848 or US\$3,034. The Canadian Liquidator disputes that the US Liquidator is entitled to do this; however, the parties have agreed that, without prejudice, Reliance US will pay to Reliance Canada any Canadian Reinsurance Proceeds in excess of the ECS Commission Payable. The US Liquidator and the Canadian Liquidator have agreed to fix the Canadian dollar balance due to Reliance US for the ECS Commission Payable using the exchange rate of 1.5981 (see note 3).

(b) Receivable from Reliance US:

As at March 31, 2014, Reliance US has collected and is holding Canadian Reinsurance Proceeds of \$4,848, pending payment or resolution of the disagreement regarding the ECS Commission Payable. At March 31, 2011 the balance was \$4,848; September 30, 2009 \$4,848, December 31, 2007 \$4,848; September 30, 2006 \$4,848; at September 30, 2005 \$4,848; at June 30, 2004 \$4,848; at September 30, 2003 \$4,181; and at December 3, 2001 nil. While Reliance Canada has generally billed its reinsurance in Canadian dollars, Reliance US has generally collected the Canadian Reinsurance Proceeds in US dollars.

**RELIANCE INSURANCE COMPANY**  
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**Notes to March 31, 2014 Financial Statements filed with the Court**

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The US dollar amount due from the Reliance US to Reliance Canada has been fixed at a rate of 1.5981 (see note 3). The resulting foreign exchange gain was booked through the income statement in June 2004.

(c) Receivable from Reliance US – Current Balance Due:

Any Canadian Reinsurance Proceeds collected by Reliance US in excess of the amount of the ECS Commission Payable (the “**Excess Canadian Reinsurance Proceeds**”), are to be remitted to Reliance Canada within a reasonable timeframe. As at March 31, 2014 the Excess Canadian Reinsurance Proceeds were nil; at March 31, 2011 the balance was nil; at September 30, 2009 \$35, at December 31, 2007 nil; at September 30, 2006 \$159; at September 30, 2005 \$222; at June 30, 2004 \$870 at September 30, 2003 nil; and at December 3, 2001 nil. While Reliance Canada has generally billed its reinsurance in Canadian dollars, Reliance US has generally collected its reinsurance recoveries in US dollars. Reliance Canada will recognize a foreign exchange gain or loss upon the receipt of any reinsurance collections related to Reliance Canada claims collected by Reliance US.

(d) Protocol Agreement:

Further to a protocol agreement between the Liquidator and the US Liquidator, Reliance US provides various services to Reliance Canada, particularly in the areas of data processing, claims and reinsurance. For the thirty-six months ended March 31, 2014 the cost of the services was \$497. From October 1, 2009 to March 31, 2011 the cost of the services was \$243; January 1, 2008 to September 30, 2009 \$287; October 1, 2006 to December 31, 2007 \$223; October 1, 2005 to September 30, 2006 \$175; July 1, 2004 to September 30, 2004 \$262; October 1, 2003 to June 30, 2004 \$187; and December 3, 2001 to September 30, 2003 \$505.

**8. Allowed Policy Loss Claims not fully paid:**

As at March 31, 2014, the Allowed Policy Loss Claim balances due on claims which have been settled and admitted by the Liquidator, in excess of the Court authorized payments, were nil; at March 31, 2011 the Allowed Policy Loss Claim balances were nil; at September 30, 2009 nil; at December 31, 2007 \$12,802; at September 30, 2006 \$20,340; at September 30, 2005 \$24,163; at June 30, 2004 \$33,106; September 30, 2003 \$17,269; and December 3, 2001 nil. Pursuant to the fifth interim distribution approved by the Court in April 2008, the Liquidator is paying policy holders and claimants 100% of their valid and allowed loss claims.

RELIANCE INSURANCE COMPANY  
Canadian Branch (in liquidation)

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Notes to March 31, 2014 Financial Statements filed with the Court

(unaudited – \$000)

9. Surplus:

As at March 31, 2014, Reliance Canada's estimated surplus was \$104,573; at March 31, 2011 \$95,636; at September 30, 2009 \$91,698; at December 31, 2007 \$92,222; at September 30, 2006 \$78,770; at September 30, 2005 \$70,085; at June 30, 2004 \$42,975; at September 30, 2003 \$52,986; and at December 3, 2001 \$85,266. This estimate is subject to revision. In view of the uncertainties surrounding a company in liquidation, the ultimate realization of the assets and liabilities will differ from the estimated results as at March 31, 2014 and the difference may be material. The *Winding-up and Restructuring Act* ("**WURA**") provides that the Liquidator may, with the approval of the Court, release to Reliance US any balance of the assets remaining after the payment of claims in the order of priority prescribed by *WURA*.

10. General and claims expense information:

	April 1, 2011 to March 31, 2014			October 1, 2009 to March 31, 2011			January 1, 2008 to September 30, 2009		
	Total	Other	Claims	Total	Other	Claims	Total	Other	Claims
Salaries	\$ 1,262	\$ 429	\$ 833	\$ 893	\$ 291	\$ 602	\$ 1,187	\$ 460	\$ 727
Office Expenses	445	215	230	333	165	168	371	178	193
Legal/Professional Services	97	53	44	24	14	10	117	61	56
Allowance for bad debts	2	2	-	(1)	(1)	-	1	1	-
Head Office Services	497	248	249	243	122	121	287	144	143
Interest (Income)/expense	(27)	(27)	-	(3)	(3)	-	(65)	(65)	-
Foreign exchange (gain)/loss	(744)	(744)	-	2,489	2,489	-	(1,232)	(1,232)	-
Sale of Business Expense:									
KPMG Corporate Finance	-	-	-	-	-	-	-	-	-
Scotia Capital	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Liquidation Expenses:									
KPMG Inc.	1,007	1,007	-	808	808	-	726	726	-
Goodmans LLP	234	234	-	232	232	-	696	696	-
Legal-Post Liquidation Interest	-	-	-	-	-	-	144	144	-
Legal-Reinsurance collections	-	-	-	15	15	-	22	22	-
PACICC expenses	-	-	-	-	-	-	129	129	-
Call for claims expenses	-	-	-	177	177	-	-	-	-
Total Expenses	\$ 2,773	\$ 1,417	\$ 1,356	\$ 5,210	\$ 4,309	\$ 901	\$ 2,383	\$ 1,264	\$ 1,119

**RELIANCE INSURANCE COMPANY**  
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	October 1, 2006 to December 31, 2007			October 1, 2005 to September 30, 2006			July 1, 2004 to September 30, 2005		
	Total	Other	Claims	Total	Other	Claims	Total	Other	Claims
Salaries	\$ 745	\$ 246	\$ 499	\$ 664	\$ 289	\$ 375	\$ 945	\$ 473	\$ 472
Office Expenses	273	106	167	247	122	125	342	171	171
Legal/Professional Services	87	35	52	135	67	68	311	155	156
Allowance for bad debts	(1)	(1)	-	(1)	(1)	-	(3)	(3)	-
Head Office Services	223	94	129	175	88	87	262	130	132
Interest (Income)/expense	19	19	-	14	14	-	27	27	-
Foreign exchange (gain)/loss	2,579	2,579	-	764	764	-	482	482	-
Sale of Business Expense:									
KPMG Corporate Finance	-	-	-	-	-	-	-	-	-
Scotia Capital	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Liquidation Expenses:									
KPMG Inc.	730	730	-	478	478	-	869	869	-
Goodmans LLP	632	632	-	201	201	-	485	485	-
Legal-Reinsurance collections	523	523	-	-	-	-	-	-	-
Total Expenses	<u>\$ 5,810</u>	<u>\$ 4,963</u>	<u>\$ 847</u>	<u>\$ 2,677</u>	<u>\$ 2,022</u>	<u>\$ 655</u>	<u>\$ 3,720</u>	<u>\$ 2,789</u>	<u>\$ 931</u>

	October 1, 2003 to June 30, 2004			December 3, 2001 to September 30, 2003		
	Total	Other	Claims	Total	Other	Claims
Salaries	\$ 1,079	\$ 539	\$ 540	\$ 2,663	\$ 1,331	\$ 1,332
Office Expenses	318	159	159	567	275	292
Legal/Professional Services	111	56	55	310	155	155
Allowance for bad debts	6	6	-	(108)	(108)	-
Head Office Services	187	93	94	505	262	243
Interest (Income)/expense	(406)	(406)	-	80	80	-
Foreign exchange (gain)/loss	(31)	(31)	-	(306)	(306)	-
Sale of Business Expense:						
KPMG Corporate Finance	-	-	-	227	227	-
Scotia Capital	-	-	-	214	214	-
Other	-	-	-	329	329	-
Liquidation Expenses:						
KPMG Inc.	622	622	-	3,180	3,180	-
Goodmans LLP	174	174	-	1,017	1,017	-
Legal-Reinsurance collections	-	-	-	-	-	-
Total Expenses	<u>\$ 2,060</u>	<u>\$ 1,212</u>	<u>\$ 848</u>	<u>\$ 8,678</u>	<u>\$ 6,656</u>	<u>\$ 2,022</u>

The claims expenses are included in Claims incurred on the statement of earnings and changes in surplus.

Notes to March 31, 2014 Financial Statements filed with the Court

(unaudited – \$000)

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11. Capital and other taxes:

Reliance Canada is required to pay a 15% withholding tax on certain of its income from the RBC Funds. Reliance Insurance is a US incorporated insurance company that carries on business in Canada through a registered branch. For Canadian income tax purposes Reliance Canada can designate some of its assets as insurance investment properties. Investment income from these properties are included in Reliance Canada taxable income from its business. Any investment income included in taxable income is offset by available non-capital losses; as a result Reliance Canada does not pay any corporate income tax. For any investment income on any investment properties which Reliance Canada is not able to designate as insurance investment properties, such as trust distributions (in the case of Reliance, income received on the RBC funds), Reliance Canada must remit a 15% withholding tax. In 2006 and 2007 Reliance Canada was not able to include all of its investments in RBC funds as designated investment properties as defined in the Income Tax Regulations. In 2007 Reliance Canada expensed and paid \$341 in withholding tax for the 2006 taxation year. The accrued withholding tax was \$943 for the thirty-six months ending March 31, 2014, \$448 for the eighteen months ending March 31, 2011, \$703 for the twenty-one months ending September 30, 2009 and \$410 for the twelve months ending December 31, 2007. The 2006 financial statements have not been restated, as the amount for 2006 is not material.

12. Post Liquidation Interest:

In 2009 the Liquidator sought the advice and direction of the Court on the complex issue of PLI by way of a contested proceeding, with representative counsel for designated classes of stakeholders. By Order dated July 14, 2009 (the "**PLI Order**"), the Court provided its advice and directions with respect to the entitlement to PLI and the calculation methodology to be applied under subsection 95(2) of the *WURA*. Based on the PLI Order, the amount of PLI due to policyholders as at September 30, 2009 was approximately \$5,200, calculated on the basis that PLI accrues on the unpaid portion of the policyholder settlement amount from the date the claim is settled until the date that the policyholder is paid in full, using an interest rate of 5%.

The Court approved the distribution of PLI (the "**Interest Distribution**") by the Liquidator in December 2009. An Interest Distribution of \$5,454 was paid in December 2009, with an additional amount of \$252 being paid in the first quarter of 2010.

For all Allowed Policy Loss Claims that have been paid in full, including any PLI amounts, PLI no longer continues to accrue.

**RELIANCE INSURANCE COMPANY**  
**Canadian Branch (in liquidation)**

**Notes to March 31, 2014 Financial Statements filed with the Court**

**(unaudited – \$000)**

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**13. Contingent liabilities:**

(a) Post-liquidation Interest:

Refer to note 12. Assuming that PLI was payable and accruing on the unpaid portion of each policyholder's settlement amount from the date the claim was settled until the date that the policyholder was paid in full, and using an interest rate of 5%, the Liquidator estimated the accrued PLI as at December 31, 2007 to be approximately \$4,200. After receiving the Court directions in 2009, an amount for PLI was booked as a payable on the September 30, 2009 financial statements.

(b) Brokers Payable:

At December 31, 2007, the brokers payable balance was \$2,400. In the third quarter of 2008, the Liquidator conducted a court approved call for claims for ordinary creditors. Only one claim was filed and allowed for the Canadian equivalent of \$7 and was paid out in December 2009. The balance of the brokers payable balance has been written off.

## **SCHEDULE "C"**



**SCHEDULE "C"****MAJOR ACTIVITIES OF THE LIQUIDATOR****A. Administration**

1. On being appointed, the Liquidator considered Reliance Canada's complex array of claims and coverage, and the seniority and reputation of its employees, and consulted with the U.S. Liquidator and PACICC. The Liquidator determined that the best interests of the estate would be served by maintaining continuity, to the extent possible, through retaining existing Reliance Canada staff, and that this would result in cost savings. At the beginning of the liquidation there were 17 employees. As at March 31, 2014, one full-time and one part-time employee remained.
2. Reliance Canada employees perform day-to-day administration, including instructing defence counsel and outside adjusters, dealing with counsel on coverage issues, administering reinsurance collections, performing accounting and financial reporting with respect to claims and reinsurance functions, and liaising with PACICC and staff of the U.S. estate.
3. The Liquidator maintains responsibility for the conduct of the liquidation. The Liquidator is responsible for all strategic initiatives and major decisions and, as appropriate, is involved in supervising and augmenting, where necessary, the day-to-day activities performed by former Reliance Canada employees.
4. The Liquidator performs the functions specific to the liquidation, including the development of policies and procedures for claims handling and authorities, the institution of internal controls, reporting to the Court and stakeholders, supervising and

coordinating legal counsel, monitoring developments in the U.S. liquidation, and providing insureds with information. Additionally, the Liquidator has sole control over all cash and investments of Reliance Canada and signs all cheques. The Liquidator reviews all claims decisions involving claims that meet criteria established in cooperation with PACICC and the U.S. Liquidator, performs the financial reporting, is actively involved in reinsurance collections, makes all investment decisions, instructs and consults with the consulting actuary, and assists on an as-needed basis with the process of resolving claims. A further summary of the Liquidator's activities is set out in the Report.

**B. Third Party Administrators**

5. Reliance Canada continues to have arrangements with third party administrators who were responsible for the administration of claims in a number of programs, the major ones including:
  - (i) Family Program, a personal lines program in British Columbia; and
  - (ii) Environmental Program, administered by ECS Inc. in the U.S.
  
6. As previously reported, the Liquidator determined that it was appropriate to maintain the relationships, but introduced additional controls and reporting requirements, as it considered necessary, and regularly reviews the status of the administrations.

**C. Stakeholders***PACICC*

7. The Liquidator entered into a loan and services agreement with PACICC on December 3, 2001, approved by this Court in the Appointment Order. Pursuant to the loan and service agreement, the loan terminated upon the cumulative distribution on policy claims reaching 100%.
8. The Liquidator regularly consults with PACICC, which remains an Inspector, concerning the progress of the estate.

*U.S. Liquidator*

9. By virtue of ss. 161(9) of the *Winding-up and Restructuring Act*, the U.S. Liquidator has an on-going interest in the administration of Reliance Canada. Furthermore, before the liquidation, Reliance Canada depended on Reliance for many services, including information services and technology. In addition, Reliance underwrote insurance policies which were later allocated to Reliance Canada, entered into reinsurance treaties which also covered Reliance Canada liabilities, collected reinsurance proceeds on its behalf, and had ultimate decision-making power for setting Reliance Canada's claims reserves and for settlements.
10. Accordingly, to prevent disruption to the administration of Reliance Canada and in recognition of the U.S. Liquidator's interest in the Canadian estate, the U.S. Liquidator, the Superintendent and the Liquidator entered into a protocol, dated November 28, 2001, providing for cooperation with respect to use of information systems, collection of

reinsurance, administration of claims and the sale process for the policy liabilities. The protocol remains in force and close co-operation between the two Liquidators has continued. However, the Liquidator remains cognizant at all times of balancing the interests of all stakeholders.

*Policyholders*

11. The Liquidator has maintained contact with policyholders, third party claimants and relevant counsel concerning the status of the estate. The Liquidator also maintains an informative website for the convenience of policyholders and other stakeholders .

*Ordinary Creditors*

12. As referenced above, this Court authorized (up to a certain total) payment at 100% of ordinary creditor claims. To date, only one such claim has been filed, in a nominal amount, and it was allowed and paid.

**D. Reinsurers**

13. With respect to its efforts to collect reinsurance proceeds, the Liquidator has also been in regular contact with reinsurers, either directly, through Reliance or through reinsurance brokers.
14. As evidenced by the increase in reinsurance collections discussed in this Report, the Liquidator has continued to make progress in reinsurance collections.

**E. Taxation Issues**

15. For Canadian income tax purposes, Reliance Canada is a US incorporated insurance company that carries business through a registered branch. Consistent with the pre-liquidation tax policy, Reliance Canada continues to file as a licensed non-resident insurer for tax purposes.
16. Since the commencement of the liquidation, the Liquidator has filed all required federal and provincial tax returns. The last tax returns filed were for the period up to December 31, 2013.
17. For Canadian income tax purposes, Reliance Canada can designate some of its assets as insurance investment properties. Investment income from these properties are included in Reliance Canada's taxable income from its business. Any investment income included in taxable income is off-set by available non-capital losses; as a result, Reliance Canada does not pay any corporate income tax.
18. In April 2012, the Liquidator requested that the Canada Revenue Agency (the "CRA") issue a certificate under subsection 159(2) of the *Income Tax Act* (the "Act") certifying that all the taxes owed by Reliance Canada for December 31, 2010 and preceding taxation years had been paid (a "Tax Clearance Certificate").
19. Commencing in September 2012, CRA conducted an on-site review and on June 27, 2013, the Liquidator received a Tax Clearance Certificate for the period ending December 31, 2010.

20. The Liquidator will be seeking similar Tax Clearance Certificates for the period subsequent to December 31, 2010.

## **SCHEDULE "D"**

**IN THE MATTER OF THE WINDING-UP OF THE INSURANCE BUSINESS IN  
CANADA OF RELIANCE INSURANCE COMPANY- CANADIAN BRANCH (“Reliance  
Canada”)**

**IMPORTANT NOTICE TO POLICYHOLDERS, INSUREDS AND CLAIMANTS WITH  
POLICY LOSS CLAIMS**

On December 3, 2001, the Ontario Superior Court of Justice (the “Court”) ordered the winding-up of Reliance Canada, under the provisions of the *Winding-up and Restructuring Act*, and appointed KPMG Inc. as liquidator (the “Liquidator”).

The Liquidator of Reliance Canada hereby gives notice that the Court has now fixed September 30, 2014 as the last day on which notice may be given of any claims under policies issued by Reliance Canada. If you have any claims for loss under or arising out of a policy of Reliance Canada (including any existing, new, future, contingent, known or unknown, reported or unreported, liquidated or unliquidated claims), you must complete a Proof of Claim for Policy Loss Claim (“POC”) and submit it to the Liquidator in accordance with the procedure set by the Court by Order made August 3, 2010.

**ANY CLAIM SUBMITTED AFTER SEPTEMBER 30, 2014 WILL BE FOREVER  
BARRED, WAIVED AND EXTINGUISHED AND WILL NOT PARTICIPATE IN ANY  
FUTURE DISTRIBUTIONS.**

For further information or for a POC package, please contact KPMG Inc. as set out below, or visit [www.relianceinsurance.ca](http://www.relianceinsurance.ca).

This Notice is being given pursuant to the Order of the Court made June 25, 2014.

KPMG Inc., Liquidator  
Reliance Insurance Company – Canadian Branch, in  
Liquidation  
Bay Adelaide Centre  
333 Bay Street  
Suite 4600  
Toronto, ON M5H 2S5

General Inquiry Line: (416) 323-7632  
Email Inquiry: [Ian.McConnell@reliancenational.com](mailto:Ian.McConnell@reliancenational.com)



## **SCHEDULE "E"**

**EN L'AFFAIRE DE LA LIQUIDATION DE LA FILIALE CANADIENNE DE LA  
COMPAGNIE D'ASSURANCE RELIANCE INSURANCE COMPANY  
(« Reliance Canada »)**

**AVIS IMPORTANT À L'INTENTION DES TITULAIRES DE POLICE, DES ASSURÉS  
ET DES DEMANDEURS AYANT PRÉSENTÉ DES RÉCLAMATIONS D'ASSURANCE**

Le 3 décembre 2001, la Cour supérieure de justice de l'Ontario (la « Cour ») a ordonné la liquidation de Reliance Canada, en vertu des dispositions de la *Loi sur les liquidations et les restructurations*, et a nommé KPMG Inc. à titre de liquidateur (le « liquidateur »).

Le liquidateur de Reliance Canada informe par la présente que la Cour a fixé au 30 septembre 2014 la date limite pour soumettre au liquidateur une demande d'indemnisation relative à une police émise par Reliance Canada. Si vous avez de telles demandes d'indemnisation (y compris toute demande existante, nouvelle, à venir ou éventuelle, connue ou inconnue, déclarée ou non déclarée, d'un montant déterminé ou indéterminé), vous devez remplir une preuve de réclamation pour réclamation d'assurance (« PR ») et la soumettre au liquidateur selon la procédure établie par ordre de la Cour le 3 août 2010.

**TOUTE RÉCLAMATION SOUMISE APRÈS LE 30 SEPTEMBRE 2014 SERA À  
JAMAIS PROSCRITE, ALIÉNÉE ET ÉTEINTE ET SERA EXCLUE DE TOUTE  
DISTRIBUTION FUTURE.**

Pour obtenir de plus amples renseignements ou les documents relatifs à la preuve de réclamation, prière de communiquer avec KPMG Inc., dont les coordonnées figurent ci-dessous, ou vous rendre au [www.relianceinsurance.ca](http://www.relianceinsurance.ca).

Le présent avis est publié par suite d'une ordonnance rendue par la Cour le 25 juin 2014.

KPMG Inc., liquidateur  
Reliance Insurance Company – filiale canadienne en  
liquidation  
Bay Adelaide Centre  
333, rue Bay  
Bureau 4600  
Toronto (Ontario) M5H 2S5

Demande par téléphone : 416-323-7632  
Demande par courriel : Ian.McConnell@reliancenaional.com

## **SCHEDULE "F"**

April 1, 2014

KPMG Inc.  
Suite 3300, Commerce Court West  
Stn. Commerce Court  
Toronto, Ontario  
M5L 1B2

**Attention: Elizabeth J. Murphy**

OUR FILE NO. KPMG/016699

Re: Reliance Insurance Company, in Liquidation

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**TO OUR PROFESSIONAL SERVICES RENDERED** in connection with the above-noted matter for the period April 1, 2011 to March 31, 2014, including the following:

Attendances with respect to claims and liabilities issues, including review and settlement of claims, including late claims, contingent claims issues, preparation of settlement documents and releases, bar date issues, structured settlement issues, release and withdrawal issues, settlement of defence costs, communication with policyholders, adjusters, defence and plaintiff's counsel, call for claims issues, issues re: disallowance of claims, action by the Liquidator against a primary insurer, preparation of Notices of Disallowance of claims and attendances with respect to retention of actuarial expert, including privilege issues and preparation of retainer letter;

Attendances with respect to general liquidation issues, including preparation of motion materials and attendance at Ontario Superior Court of Justice re: passing of accounts for the period ending March 31, 2011, preparation of court materials and attendance at Ontario Superior Court of Justice on motion for disallowance of claims, preparation of materials and attendance at Ontario Superior Court of Justice re: amendment of order re: arrangements with RBC Asset Management, liaison with inspectors, meetings with respect to strategy issues, research and preparation of memorandum re: third party claims against an insurer under a liability policy, preparation of motion materials re: passing of accounts for the period ending March 31, 2014, and strategy and estate completion issues; and

Attendances with respect to U.S. issues, including U.S. claims process and meetings with the U.S. Liquidator.

<b>OUR FEE:</b>	\$203,078.60
<b>DISBURSEMENTS:</b>	\$3,972.56
<b>HST:</b>	<u>\$26,867.26</u>
<b>TOTAL:</b>	<u><b>\$233,918.42</b></u>

**GOODMANS LLP**

E. & O. E.

6220481

## **SCHEDULE "G"**

**RELIANCE (CANADA)**  
**(in Liquidation)**

**LISTING OF GOODMAN'S LLP PERSONNEL  
HOURS AND AVERAGE HOURLY RATES  
FOR THE PERIOD APRIL 1, 2011 TO MARCH 31, 2014**

<u>Name</u>	<u>Rank</u>	<u>Area</u>	<u>HOURS</u>	<u>AVG. HRLY RATE</u>
Rubenstein, Gale	Partner	Insolvency	50.4	\$774
Smith, Graham	Partner	Litigation	123.8	\$723
Costa, Cathy	Associate	Research	54.7	\$568
Paquette, Fanny	Law Clerk	Insolvency	88.9	\$263
Individuals with less than 30 hours			<u>35.0</u>	<u>\$576</u>
			<b><u>352.8</u></b>	<b><u>\$576</u></b>

## **SCHEDULE "H"**



**GENERAL LIQUIDATION RESPONSIBILITY**

**GALE RUBENSTEIN** is a partner in the insolvency area. She oversees all legal matters and is involved in all major areas of the liquidation. Her particular areas of concentration included strategy issues, communications with various stakeholders and with the U.S. Liquidator. She advised with respect to claims and liabilities issues, including the disallowance of claims and contingent claims issues. She also advised on an action by the Liquidator against a primary insurer, and on issues relating to the passing of accounts and the retention of an actuarial expert.

**CATHY COSTA** is an associate in the research area, previously in the insolvency area. Her primary responsibilities included preparing materials in connection with motions by the Liquidator to the Ontario Court of Justice. She also advised provided research on third party claims against an insurer under a liability policy.

**FANNY PAQUETTE** is a senior law clerk in the insolvency area. She drafted court documents and prepared materials in connection with motions to the Ontario Superior Court of Justice and attended to service of motion materials. She also had responsibility for internal accounting control and meeting the requirements of the Liquidator with respect to accounting and billings.

**LITIGATION**

**GRAHAM SMITH** is a partner in the litigation section. He dealt with litigation and acted as liaison with policyholders, adjusters, defence counsel and plaintiffs' counsel, provided advice and prepared settlement documentation on the settlement of various claims. He represented the Liquidator on motions before the Ontario Superior Court of Justice. He also advised on claims issues, including late claims, bar date issues, structured settlement issues, release and withdrawal of claims, and call for claims and disallowance of claims issues.

## **SCHEDULE "T"**

May 6, 2014

Reliance Insurance Company, in Liquidation  
Suite 1100, 393 University Ave  
Toronto ON M5G 2N9

GST/HST #122363153

### BILL OF COSTS

To our professional services rendered in connection with the above-noted matter for the period April 1, 2011 to March 31, 2014:

- Review and approval of financial statements and related analysis for the quarters ending June 30<sup>th</sup>, 2011, September 30<sup>th</sup>, 2011, December 31<sup>st</sup>, 2011, March 31<sup>st</sup> 2012, June 30<sup>th</sup>, 2012, September 30<sup>th</sup>, 2012, December 31<sup>st</sup>, 2012, March 31<sup>st</sup> 2013, June 30<sup>th</sup>, 2013, September 30<sup>th</sup>, 2013, December 31<sup>st</sup>, 2013 and March 31<sup>st</sup> 2014;
- Review and approval of Management Reports for the quarters ending June 30<sup>th</sup>, 2011, September 30<sup>th</sup>, 2011, December 31<sup>st</sup>, 2011, March 31<sup>st</sup> 2012, June 30<sup>th</sup>, 2012, September 30<sup>th</sup>, 2012, December 31<sup>st</sup>, 2012, March 31<sup>st</sup> 2013, June 30<sup>th</sup>, 2013, September 30<sup>th</sup>, 2013, December 31<sup>st</sup>, 2013 and March 31<sup>st</sup> 2014;
- Review and approval of investment transactions;
- Ongoing liaison with the U.S. Liquidator, including the potential return of surplus funds from the Canadian estate to the U.S. estate, discussions as to the status of the financial position of the estate including reinsurance collections and investment alternatives, IT systems administration, runoff models, and obtaining additional information required for the proper administration and strategy of the Canadian estate, and matters of mutual interest;
- Receipt, review, discussion and attendance at meetings with estate legal counsel to review ongoing matters, reinsurance collections issues including setoff issues, claims settlement issues and various other estate matters as required;
- Continued monitoring of the Reliance staff, including providing appropriate direction and assistance, and approvals;
- Meetings, discussions, review of assumptions and analysis of runoff scenarios projecting the runoff of the estate;
- Continuing to deal with policyholder and claimants' telephone calls, e-mails and correspondence requesting specific information pertaining to the liquidator or their specific claims;
- Performing a number of detailed claims review, discussion of potential outcomes with claims staff and attendance at meetings with the U.S. Liquidator's claims staff to review same;
- Attendance at meetings with actuarial consultant to perform an extensive review of policy liabilities as at November 30, 2013;

- Receipt, review and discussion with the actuarial consultant, the results of his extensive review as performed above;
- Continued to review existing claims bordereaux in order to stratify claims as to dollar amounts and lines of business;
- Review of new reported claims, discussions with claims adjudication staff and approving set up of appropriate reserves;
- Continued review and approval of defense and adjustment costs and authorizing payment of same;
- Continued monitoring and supervision of claims adjudication staff, approval of reserve changes, approval of claims settlements, approval of claims settlement costs and authorization of payment of same;
- Continued follow-up on reinsurance billings and collections;
- Oversight of the administration and completion of a call for policyholder loss claims;
- Responding to requests of reinsurers to perform claims audits and for commutations, development of and execution of confidentiality agreements, obtaining requested claim files from storage and responding to their queries;
- Continued liaison with U.S. Liquidator as to international reinsurance collections and commission expenses associated therewith;
- Providing information and analysis for the Inspectors as required;
- Preparation of appropriate accounting information and filing of appropriate non-tax statutory returns;
- Preparation of the December 31<sup>st</sup>, 2011 and December 31<sup>st</sup>, 2012, and December 31<sup>st</sup>, 2013 tax returns and tax accrual estimations for the financial statements;
- Respond to request for an audit by the Canada Revenue Agency with respect to a tax clearance certificate for the period up to and including December 31, 2010;
- Updating of the Reliance Canada website for the benefit of policyholders, claimants and creditors to enable them to obtain access to current information as to the status of the liquidation and their claims therein;
- Performed detailed reviews of internal controls to ensure that the financial and operational controls are functioning as set forth in the Policies and Procedures;
- Preparation, filing and arguing a motion before the Ontario Superior Court of Justice with respect to a disallowance process for policyholder loss claims;
- Preparation of Notice of Disallowance of Claims and review of Notice of Appeals filed;
- Meetings and discussions with legal counsel and inspectors with respect to the potential process for dealing with Notice of Appeals;
- Ongoing discussions and meetings with policyholders;

- Overall administration of the estate and the Reliance staff, dealing with day-to-day administrative issues, responding to policyholder, claimants and creditor inquiries and attendance at all meetings, proceedings and/or Court appearances as required.

Our fee	\$ 885,589.55
Disbursements	<u>5,423.74</u>
	891,013.29
HST	<u>115,831.74</u>
Total	<u>\$1,006,845.03</u>

## **SCHEDULE "J"**

RELIANCE INSURANCE COMPANY  
(in liquidation)

LISTING OF KPMG INC. PERSONNEL  
HOURS AND AVERAGE HOURLY RATE  
THIRTY-SIX MONTH PERIOD FROM APRIL 1, 2011 TO MARCH 31, 2014

<u>Name</u>	<u>Rank</u>	<u>Area</u>	<u>HOURS</u>	<u>AVG. HRLY RATE</u>
E. Murphy	Associate Partner	Oversight/Reinsurance	269.80	\$728
J. Bradley	Senior Manager	Insolvency/Claims/Financial Reporting/Reinsurance	920.70	\$649
F. Jin	Accountant	Financial Reporting	39.20	\$293
A. Rzhovsky	Technican	Admin	33.80	\$244
Individuals with less than 30 hours			139.15	\$498
			<u>1,402.65</u>	<u>\$623</u>

## **SCHEDULE "K"**



**KPMG Inc.**

(For the Period from April 1, 2011 to March 31, 2014)

ELIZABETH J. MURPHY – is a Vice President of KPMG Inc. and a Chartered Accountant. Ms Murphy has general responsibility for all reinsurance matters, management of the investment portfolio and determination of actuarial liabilities. Additionally, commencing November 1, 2008, Ms. Murphy took over the primary responsibility for the liquidation as a whole.

JANINE M. BRADLEY – is a Senior Manager of KPMG Inc. She is responsible for overseeing the claims adjudication staff, reviewing and approving all significant reserve adjustments and liaising with PACICC and Reliance US concerning claims matters. Within the period, Ms Bradley oversaw a motion before the Ontario Superior Court of Justice with respect to the disallowance of policyholder loss claims. She is also responsible for financial reporting and overseeing the accounting department. Ms. Bradley assists with the general administration of the liquidation, including oversight of all financial and internal controls, liaising with the U.S. Liquidator, human resources and office management.

FLORA JIN – was a specialist in the Tax department of KPMG LLP. She assisted with preparing documents and schedules for the audit performed by the Canada Revenue Agency.

ASYA RZHEVSKY – is a Technician of KPMG Inc. She assisted with general administrative matters.