IN THE COMMONWEALTH COURT OF PENNSYLVANIA

M. Diane Koken Insurance Commissioner of the Commonwealth of Pennsylvania Plaintiff, v. Villanova Insurance Company One Logan Square, Suite 1400 Philadelphia, PA 19103 Defendant.	: : : : : : : : : : : : :	Docket No. 182 M.D. 2002

ORDER

AND NOW, this _____day of _____, 2006, upon consideration of the Petition for Approval of Commutation, Settlement and Release Agreement by and between Villanova Insurance Company (In Liquidation) and Hannover Ruckversicherungs-Aktiengellschaft, Hannover, Germany, and Insurance Corporation of Hannover, Itasca, Illinois (the "Hannover parties") filed by M. Diane Koken, as Statutory Liquidator of Villanova Insurance Company (the "Liquidator"), and in which petition Hannover concurs, the Court GRANTS the Petition and approves the Commutation, Settlement and Release Agreement.

_____

MARY HANNAH LEAVITT, Judge

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LIQUIDATOR'S PETITION FOR APPROVAL OF COMMUTATION, SETTLEMENT AND RELEASE AGREEMENT BETWEEN THE LIQUIDATOR AND HANNOVER

Petitioner M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania in her official capacity as the Statutory Liquidator ("Liquidator") of Villanova Insurance Company (In Liquidation) ("Villanova"), respectfully requests that this Court enter an Order approving the Commutation, Settlement and Release Agreement ("Commutation ") between Villanova and Hannover Ruckversicherungs-Aktiengellschaft, Hannover, Germany and Insurance Corporation of Hannover, Itasca, Illinois (the Hannover reinsurer parties together "Hannover").

The Liquidator asks the Court to approve the Commutation for the reasons set forth below:

1. On July 25, 2003, this Court found Villanova insolvent and appointed the Commissioner as Liquidator of Villanova pursuant to Article V of the Insurance Department Act of 1921, 40 P.S. §§ 221.1 – 221.63 (hereinafter, the "Department Act").

2. The Act confers broad powers on the Liquidator to marshal the assets of Villanova's estate for eventual distribution to its policyholders and creditors.

3. Prior to receivership, Villanova entered into contracts of reinsurance (the "Contracts") with Hannover that obligated Hannover to accept from Villanova the cession of a certain percentage of Villanova's liabilities pertaining to business written on Villanova's behalf under a workers' compensation program referred to as the CompFirst Program. The Contracts are attached as Exhibit A to the Commutation which is attached as an Exhibit to this Petition.

4. Villanova and Hannover desire to terminate their business relationship and have agreed to commute all of their respective obligations under the Contracts.

5. Hannover's obligations to Villanova under the Contracts include obligations that may become payable in the future and that cannot be determined in an amount certain at this time.

6. Villanova believes that it is in its best interest to adjust and settle Hannover's obligations, including its future obligations, to Legion.

7. Accordingly, Villanova has negotiated the Commutation with Hannover, which is attached as Exhibit 1 to this Petition.

8. On 12/29/05, Legion received Hannover's approximately $30 million payment of outstanding balances on the CompFirst program. Pursuant to the Commutation agreement, Hannover will pay approximately $35.5 million to Legion. These numbers will be allocated to Legion and Villanova.

9. Pursuant to the Commutation Agreement, Villanova and Hannover will release each other from liability arising out of, or in connection with the Contracts.

10. Villanova entered into this Commutation in reliance on its independent investigation and analysis of the Contracts and Legion's rights and obligations under the Contracts.

11. The Liquidator believes that the Commutation is in the best interest of Villanova's policyholders, claimants, creditors and the public generally.

12. Particularly, the Liquidator believes that Legion's receipt of approximately $3.54 million dollars is reasonable and adequate consideration for the commutation of Hannover's obligations to Villanova under the Contracts.

13. Villanova currently estimates Hannover's current and future obligations under the Contracts to be approximately $3.7 million including but not limited to the discounted present value of outstanding reserves and incurred but not reported claims. The Liquidator believes that the agreed commutation payment of $3,545,857 in cash is reasonable given the time value of money, the results of arbitrations that Legion initiated against other reinsurers, the costs and fees that would have been expended in arbitrating due and owing balances from the reinsurer and the benefit of certain payment now versus potential payments in the future. The Liquidator also hopes that this Commutation will lead to additional commutations with other reinsurers and, as a result, the more timely and orderly liquidation of Villanova's estate for the ultimate benefit of the policyholders and creditors.

14. Thus, based on the terms of the Commutation and the evaluation of the transaction as a whole by the Liquidator, her staff, and Villanova staff members familiar with the company's dealings with Hannover in connection with the CompFirst Program, the Liquidator has determined that the Commutation is a fair and reasonable commutation of Villanova's and Hannover's obligations to each other under the CompFirst Program. The Insurance Department Act authorizes the Liquidator to take such actions as she deems "necessary or expedient to . . . conserve or protect [the insolvent insurer's] assets or property [,]" including the power to "compromise" claims involving

assets of the insolvent insurer in order to accomplish or aid in achieving the purposes of liquidation. See 40 P.S. § 221.23(6), (9), and (23).

15. The Liquidator further believes that the Commutation will help her in achieving the objectives of liquidation under the Act, 40 P.S. §§ 221.1 – 221.63. The Commutation Agreement will assist the Liquidator in marshalling and maximizing Villanova's immediately available assets and minimize any unavoidable loss to policyholders, claimants and creditors resulting from Villanova's insolvency. See 40 P.S. § 221.1(c).

16. Hannover agrees to the Commutation as evidenced by its execution of the Commutation and concurs in requesting the Court's approval of this petition.

17. For all of these reasons, the Liquidator requests that the Court approve the Commutation Agreement.

Respectfully submitted,

Amy L. Weber, Special Funds Counsel
I.D. # 45447
Pennsylvania Insurance Department
Office of Liquidations, Rehabilitations
and Special Funds
901 N. 7th Street
Harrisburg, PA 17102
(717) 787-6009

Attorney for M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania, in her official capacity as Statutory Liquidator of Villanova Insurance Company (In Liquidation)

Dated:

COMMUTATION, SETTLEMENT AND RELEASE AGREEMENT

THIS COMMUTATION, SETTLEMENT AND RELEASE AGREEMENT (the "Agreement"), made effective and entered into this 12th day of January, 2006, by and between Insurance Corporation of Hannover, Itasca, Illinois (hereinafter known as the "Reinsurer") and M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania in her official capacity as the Statutory Liquidator of Legion Insurance Company (In Liquidation) and Villanova Insurance Company (In Liquidation) (hereinafter collectively known as the "Cedents").

RECITALS

A. WHEREAS, the Reinsurer and the Cedents entered into certain contracts of reinsurance as set forth and described in the attached Exhibit A (hereinafter "the Contracts") wherein the Reinsurer obligated itself to assume from the Cedents certain liabilities with respect to risks written or assumed by the Cedents and/or agents of the Cedents, regarding the CompFirst workers' compensation program, and;

B. WHEREAS, the Reinsurer and the Cedents desire to fully and finally settle, release, and commute all rights, obligations, and liabilities, both known and unknown, whether currently existing or arising in the future, of the Reinsurer and the Cedents under the Contracts pursuant to the terms of this Agreement, and;

C. WHEREAS, the Reinsurer and the Cedents agree that it is in each of their best interests and in the best interests of their respective policyholders and creditors to adjust and settle their differences and to enter into this Agreement.

NOW THEREFORE, in consideration of the mutual benefits to be received by the parties hereto and the mutual covenants and agreements herein contained, the parties hereto hereby agree as follows:

Commutation of Reinsurance Agreements

1. Subject to the receipt by the Cedents of the Consideration set out in Paragraph 4 , and in further consideration of the release contained in Paragraph 2 hereinbelow, the Cedents hereby irrevocably release the Reinsurer, and its predecessors, successors, assigns, shareholders, employees, officers, and directors, from One Hundred Percent (100%) of all liabilities, adjustments, obligations, offsets, actions, causes of action, proofs of claim, suits, debts, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, conversions, agreements, promises, damages, judgments, claims, and demands whatsoever, whether known, unknown or suspected, arising out of, or in connection with or in any manner related to the Contracts.

2. In consideration of the release set out in Paragraph 1 hereinabove, the Reinsurer hereby irrevocably releases the Cedents, and their respective predecessors, successors, assigns, shareholders, agents, employees, officers, directors, receivers, liquidators, and administrators, from One Hundred Percent (100%) of all liabilities, adjustments, obligations, offsets, actions, causes of action, proofs of claim, suits, debts, sums of money, accounts, reckonings, bonds, bills, covenants, contracts, conversions, agreements, promises, damages, judgments, claims, and demands whatsoever, whether known, unknown or suspected, arising out of, or in connection with or in any manner related to the Contracts.

Warranties

3. To the best information and belief of each of the parties to this Agreement, the following express warranties apply:

a. Except as disclosed in Paragraph 17 and expressly subject thereto, there are no pending agreements, transactions, negotiations, regulatory actions or lawsuits in which any of

the parties are involved nor are there any threatened regulatory actions or lawsuits or of which any of the parties are aware that would render this Agreement or any part thereof void, avoidable, or unenforceable; and

b. No party hereto has transferred, assigned, or contracted to transfer or assign to any person, corporation, company or entity any of its rights, title, benefit or obligations directly arising out of or in connection with the Contracts, including without limitation any balances, accounts, costs, claims, counterclaims or demands which are within the contemplation of this Agreement. The Reinsurer has not undertaken any action that would impede, prohibit or limit its ability to make payment under this Agreement.

Consideration

4. The Reinsurer agrees to pay the Cedents the total sum of US$3,382,427.00 ("the Consideration"). Said payment shall be made no later than **five (5)** days following notice to the Reinsurer by facsimile of the approval of the Agreement by the Commonwealth Court of Pennsylvania in accordance with Paragraph 17 herein ("the Completion Date"). Notwithstanding the foregoing, if the Completion Date expires on a weekend or a holiday, then the transfer must be completed by the end of the next business day. Reinsurer shall transfer the Consideration pursuant to the Cedents' wiring instructions.

Successors and Assigns

5. This Agreement shall inure to the benefit of and bind the Reinsurer and its successors and assigns and the Cedents and their respective successors and assigns.

Independent Investigation

6. Each of the parties acknowledges that it has entered into this Agreement in reliance upon its own independent investigation and analysis of the Contracts and its respective rights and obligations thereunder, and not on the basis of any representation by the other party

hereto. Each of the parties further acknowledges that it has read this Agreement, that it has had the opportunity to discuss it with legal counsel, and that it fully understands all of the terms herein.

No Third Party Beneficiary

7. This Agreement is intended to confer rights and benefits only upon, and shall inure only to the benefit of, the parties hereto and their respective successors and assigns. It shall not be deemed to confer any rights on any other third party, including any rights based upon a claim of collateral estoppel or res judicata.

Integration and Waiver

8. This Agreement shall constitute the entire agreement between the parties pertaining to the subject matter hereof, and supersedes any and all prior or contemporaneous understandings or agreements. No supplement, modification, waiver or termination hereof shall be binding or enforceable unless executed in writing by the parties to be bound thereby. No delay, omission or forbearance on the part of any party to this Agreement in exercising or enforcing any right, power or remedy under this Agreement shall impair such right, power or remedy or operate as a waiver thereof. The single or partial exercise or enforcement of such right, power or remedy shall not preclude any other or further exercise or enforcement thereof or of any other right, power or remedy. The rights, powers and remedies provided in this Agreement are cumulative and not exclusive of any rights, powers and remedies provided by law.

Cooperation

9. a. The Cedents hereby agree to use their best efforts to provide the Reinsurer with any and all documentation (in both paper and/or computer/electronic formats) at Reinsurer's expense (i) relating to the Contracts (including claims, underwriting and accounting files), and (ii) in the Cedents' possession or control (including in the possession or control of its agents or counsel), requested by the Reinsurer from time to time to the extent that the Reinsurer, acting

reasonably and in good faith, in its sole discretion, deems necessary or advisable in connection with any retrocessional billing or collection activities; and

b. The Cedents hereby agree to use their best efforts to allow access to the Reinsurer, upon reasonable notice, to inspect and make copies (at the Reinsurer's sole expense) of any such documentation requested by the Reinsurer from time to time that the Reinsurer, acting reasonably and in good faith, and in its sole discretion, deems necessary or advisable in connection with any billing or collection activities with retrocessionaires.

c. In addition, the Cedents will cooperate with and provide commercially reasonable assistance to the Reinsurer in all respects in the Reinsurer's efforts to recover from its retrocessionaires in connection with this Agreement. Such reasonable assistance and cooperation shall include, but not be limited to, providing appropriate personnel to assist the Reinsurer by explaining, or by providing testimony at deposition, trial or arbitration, about the business that is subject to this Agreement. In the event that the Cedents provide such personnel, the Reinsurer shall reasonably compensate the Cedents for the time expended by its personnel in assisting the Reinsurer.

Cedents' Remedies

10. In the event that the Reinsurer fails to pay the Consideration to the Cedents by the Completion Date, the Cedents shall have all rights and remedies available at law or in equity. In addition, the Cedents shall have the express right to

a. deem the entire Agreement null and void by notice in writing to the Reinsurer per Paragraph 13 herein and to seek recovery of all sums due or to become due under the Contracts; or

b. bring suit to enforce, or otherwise on the Agreement including interest on the agreed-upon but unpaid amount as set out in Paragraph 10(c) hereinbelow.

c. Without prejudice to the Cedents' rights to rescind this Agreement pursuant to Article 10(a) above, if Reinsurer does not pay all of the Consideration recited herein

to the Cedents by the Completion Date, the Reinsurer shall pay interest on any unpaid sums at a rate which is equal to one percentage point (1.00%) over the Prime Rate (the base rate on corporate loans at large U.S. money center commercial banks) as published in *The Wall Street Journal*, but in no event shall said interest be calculated at less than six percent (6%) per annum.

Expenses of Collection

11. Subject to the provisions of Article 10(c) herein, if the Reinsurer fails to pay the Consideration to the Cedents by the Completion Date, Reinsurer agrees to reimburse the Cedents for all reasonable expenses including, without limitation, attorney fees which are incurred by the Cedents in the enforcement of this Agreement and collection of the consideration together with any interest accrued upon such reasonable expenses from the date of payment of such expenses at the rate set out in Article 10(c) above.

Choice of Laws

12. The performance and interpretation of this Agreement shall be governed by the laws of the Commonwealth of Pennsylvania, exclusive of the rules with respect to conflict of laws, with respect to any dispute arising under this Agreement between the Reinsurer and the Cedents.

Notices

13. All notices required under this Agreement shall be as follows:

a. Any notice or other communication under or in connection with this Agreement shall be in writing and shall be delivered personally or sent by first class post/mail (or by air mail if overseas) or by overnight courier service, to the addresses of the parties as set out in Exhibit B attached hereto or to such other person or address as any party may specify by notice in writing to the others.

b. In the absence of evidence of earlier receipt, any notice or other communication shall be deemed to have been duly served if (i) sent by first class post on the second business day after posting; (ii) sent by overnight courier on the next business day after mailing (iii) sent by air mail, six (6) days after posting, and; (iv) if delivered personally, when left during normal business hours at the address set out in Exhibit B or any alternative address specified by the receiving party.

Interpretation

14. The language of this Agreement is the result of negotiation between all parties hereto, and any ambiguities in said language shall not be construed against or in favor of any party or parties hereto.

Execution and Approval

15. Except as disclosed in Paragraph 17, each party to this Agreement represents that it is authorized to enter into this Agreement and the transactions contemplated herein.

16. Except as disclosed in Paragraph 17, each signatory to this Agreement represents that said signatory is authorized and empowered to execute this Agreement and the transactions contemplated herein and that any and all required corporate approval on behalf of the Reinsurer has been properly executed and that the Agreement is entered into voluntarily.

17. This Agreement is subject to approval by the Commonwealth Court of Pennsylvania (the "Court"), which has jurisdiction over the liquidation of the Cedents. Upon execution by all parties hereto, the Liquidator of the Cedents shall promptly make application to the Court to secure said approval. In the event the Court does not approve this Agreement, then upon such notice of disapproval, the Liquidator of the Cedents shall notify the Reinsurer and this Agreement will become null and void and have no further force or effect as between the Reinsurer and the Cedents.

18. This Agreement may be signed and exchanged in counterpart by facsimile and this Agreement as so signed and exchanged will constitute the binding Agreement of the parties.

IN WITNESS WHEREOF, the parties have hereunto set their hands as of the dates set forth.

M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania in her official capacity as the Statutory Liquidator of LEGION INSURANCE COMPANY (In Liquidation) and VILLANOVA INSURANCE COMPANY (In Liquidation)

By: _____

Printed: Bruce M. Daley

Title: Chief, Takeover Management Division

Date:

Insurance Corporation of Hannover

By: _____

Printed: Juergen Lang

Title: Senior Vice President

Date: Jan 23, 2006

EXHIBIT A

Description	Effective Date	Contract ID	Agency Code
Primary Quota Share	01/01/01 – 01/01/02	QS8635	863005

EXHIBIT B

NOTICE TO CEDANTS

Marti Little, General Counsel
Legion Insurance Company (In Liquidation)
One Logan Square Suite 1400
Philadelphia, PA 19103

Gregg C. Frederick
Senior Vice President, Reinsurance
Legion Insurance Company (In Liquidation)

NOTICE TO REINSURERS

Juergen Lang
Senior Vice President
Insurance Corporation of Hannover
c/o Clarendon Insurance Group, Inc.
7 Times Square
New York, NY 10036