UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	:	Case No. 01-13403 (AJG)
RELIANCE FINANCIAL SERVICES CORPORATION,	:	Chapter 11
Debtor.	:	

DISCLOSURE STATEMENT UNDER 11 U.S.C. § 1125 WITH RESPECT TO THE PLAN OF REORGANIZATION OF RELIANCE FINANCIAL SERVICES CORPORATION PROPOSED BY THE OFFICIAL UNSECURED CREDITORS' COMMITTEE

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TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)

Page

TABLE OF CONTENTS
(continued)

Page

TABLE OF CONTENTS
(continued)

Page

TABLE OF CONTENTS
(continued)

Page

INTRODUCTION AND SUMMARY

The following summary is intended only to highlight certain information contained elsewhere in this Disclosure Statement. This summary is qualified in its entirety by the more detailed information and the financial statements, including the notes thereto, appearing elsewhere in this Disclosure Statement, the Appendices hereto and the other documents referenced herein. You should carefully read the entire Disclosure Statement (including, in particular, the sections of this Disclosure Statement entitled "Risk Factors" and "Liquidation Analysis") and the other documents to which it refers before deciding whether to vote in favor of the Plan. The date of this Disclosure Statement is set forth on the cover page of this document. Unless otherwise defined herein, all capitalized terms used in this Disclosure Statement shall have the meanings ascribed to such terms in the Plan.

Background

On June 12, 2001 (the "*Petition Date*"), Reliance Financial Services Corporation ("*RFSC*" or the "*Debtor*") and its parent corporation, Reliance Group Holdings, Inc. (together with its successor, designee and/or any liquidating trustee appointed under the RGH Plan, "*RGH*" and together with RFSC and their subsidiaries, the "*Company*"), each filed a voluntary petition for relief under Chapter 11 of Title 11 of the United States Code, as amended (the "*Bankruptcy Code*"), with the United States Bankruptcy Court for the Southern District of New York (the "*Bankruptcy Court*"). On that same date, the bankruptcy case of RFSC (the *"Chapter 11 Case"*) and the bankruptcy case of RGH (the *"RGH Chapter 11 Case"* and, together with the Chapter 11 Case, the *"Cases"*) were consolidated for administrative and procedural purposes.

On June 22, 2001, the United States Trustee appointed the Official Unsecured Bank Committee (the "*Bank Committee*") and the Official Unsecured Creditors' Committee (the "*Creditors' Committee*" and together with the Bank Committee, the "*Committees*") in the Cases. The Bank Committee is comprised of holders of debt constituting a majority of the aggregate principal amount outstanding under the revolving credit facility and term loan agreement, dated as of November 1, 1993, amended and restated as of April 25, 1995 and as amended and/or modified through the Petition Date, among, *inter alia*, RFSC and certain financial institutions (as amended, the "*Bank Credit Agreement*"). See "Restructuring – The Chapter 11 Case." The Creditors' Committee is comprised of holders of debt of RGH and the Debtor.

This Disclosure Statement, the appendices hereto, and the accompanying forms of ballots are submitted by the Creditors' Committee pursuant to Section 1125 of the Bankruptcy Code.

This Disclosure Statement describes the terms of the restructuring of RFSC (the "Restructuring") to be accomplished through the proposed plan of reorganization described herein (the "Plan"). This is the first plan of reorganization filed by the Creditors' Committee, but a prior plan of reorganization was filed (along with amendments thereto) by the Bank Committee with the Bankruptcy Court . See "Bank Committee Plan and Disclosure Statement." A copy of the Plan is attached hereto as Appendix A.

Prior to proposing the Plan, on April 1, 2003, the Committees and M. Diane Koken, the Pennsylvania Commissioner of Insurance (the *"PA Insurance Commissioner"*), as the statutory Liquidator (in such capacity, the "*Liquidator*") of Reliance Insurance Company ("*RIC*"), a wholly-owned subsidiary of RFSC, entered into a global settlement agreement resolving various pending lawsuits and claims involving the Liquidator and RGH and RFSC and providing for the allocation of assets between the estates of RGH and RFSC on the one hand and RIC on the other (together with the related side letter, dated April 4, 2003, the "*PA Settlement Agreement*").

The PA Settlement Agreement was approved by the United States Bankruptcy Court for the Southern District of New York (the *"Bankruptcy Court"*) by an order dated May 28, 2003, and by the Commonwealth Court of Pennsylvania (the "*Commonwealth Court*") by an order dated June 19, 2003. See "Restructuring – PA Settlement Agreement."

On January 29, 2004, the Bank Committee and the Creditors Committee, on behalf of the estates of RFSC and RGH, respectively, reached an agreement resolving various disputes between them as to the division of assets between RFSC and RGH (the "*RGH/RFSC Settlement*"). In addition to allocating the assets remaining after deducting the Liquidator's portion pursuant to the PA Settlement Agreement, the RGH/RFSC Settlement provides for the funding of the Plan and of Reorganized RFSC (as hereinafter defined). The RGH/RFSC Settlement was approved by the Bankruptcy Court by an order dated February 27, 2004.[1] See "Restructuring – RGH/RFSC Settlement." The terms of the PA Settlement Agreement and the RGH/RFSC Settlement will be implemented through the Plan and through a plan of reorganization to be proposed by RGH or on behalf of the RGH estate (the "*RGH Plan*") and filed with the Bankruptcy Court on a later date.

Chapter 11 Case and the Plan of Reorganization

Chapter 11 Case

Chapter 11 of the Bankruptcy Code is the principal business reorganization chapter of the Bankruptcy Code. Under Chapter 11, a debtor is authorized to reorganize its business. In addition to permitting rehabilitation of the debtor, another goal of Chapter 11 is to promote equality of treatment of holders of claims and equity interests of equal rank with respect to the distribution of a debtor's assets. Formulation, and confirmation by a bankruptcy court, of a plan of reorganization is the principal objective of a Chapter 11 case.

On the Petition Date, RFSC filed its voluntary petition for relief under Chapter 11 of the Bankruptcy Code with the Bankruptcy Court, thereby commencing the Chapter 11 Case. Simultaneously therewith, RFSC also filed several motions seeking authorization to continue to conduct its business in the ordinary course, as well as to undertake certain activities which

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[1] Such order was subsequently appealed on March 5, 2004 by High River Limited Partnership (*"High River"*), a creditor in both Cases. The appeal was filed in the United States District Court for the Southern District of New York (Case No. 1:04-cv-02815-SAS), however, pursuant to an agreement with the Bank Committee, High River withdrew such appeal.

require approval of the Bankruptcy Court. These motions included, among others, motions seeking authorization for RFSC to (a) continue to utilize pre-petition bank accounts, business forms and investment practices, (b) pay pre-petition employee obligations and (c) retain various professionals. See "Restructuring – The Chapter 11 Case—First Day Motions", below, for a more detailed description of these motions.

Since the Petition Date, RFSC has continued to operate its business and manage its properties as a debtor-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code and subject to the supervision of the Bankruptcy Court.

The Plan

The Plan divides Holders of known Claims against, and known Equity Interests in, RFSC into seven (7) Classes, as follows:

Class 1	Classified Priority Claims
Class 2	Bank Claims
Class 3	Other Secured Claims
Class 4a	General Unsecured Claims
Class 4b	Liquidator Claims
Class 4c	D&O Unsecured Claims
Class 5	Equity Interests

In accordance with the Bankruptcy Code, Administrative Claims and Priority Tax Claims are not classified into Classes.

The following chart sets forth, in general, the treatment that Holders of Allowed Claims and Allowed Equity Interests will receive under the Plan, unless they agree to accept less favorable treatment by settlement or otherwise. With respect to General Unsecured Claims (Class 4a), the "Estimated Amount of Claims" set forth below is based upon the Creditors' Committee's best estimate of RFSC's maximum potential aggregate liability for such Claims. Although the Creditors' Committee has used its best estimate of RFSC's maximum potential liability in connection with these General Unsecured Claims for the preparation of the following chart, there is a possibility that the Allowed amount of these General Unsecured Claims will be substantially different than the Creditors' Committee's estimate of such Claims.

It should be noted that recoveries pursuant to the Plan are uncertain and, to the extent recovered, will be received over an extended period of time. Recoveries with respect to the Section 847 Refunds and other tax assets generally will not be available to Reorganized RFSC if Reorganized RFSC liquidates. Thus, if the Chapter 11 Case is converted to a case under Chapter 7 of the Bankruptcy Code, there generally would be no recovery by Reorganized RFSC with respect to the Section 847 Refunds and other tax assets. With respect to the D&O Litigation Proceeds, recoveries related thereto should be at least as great under the proposed Plan as they would be if the Chapter 11 Case were converted to a case under Chapter 7 of the Bankruptcy Code and should certainly not be less under the proposed Plan.

With respect to Claims in Classes 2 and 4a, on the Effective Date, Holders of Allowed Claims in such Classes shall be deemed to assign any Litigation Claims they may have to RGH if

such Holders do not elect to "opt-out" of such assignment on their Ballots. To the extent such Holders "opt-out" of assigning their Litigation Claims to RGH, such Holders shall not be entitled to receive any of the RFSC Litigation Proceeds pursuant to the Plan. Members of Classes 2 and 4a who do not possess any Litigation Claims will still share in any distribution of RFSC Litigation Proceeds to such classes unless such person has elected to "opt-out" on its Ballot.

Although the Creditors' Committee believes that the proposed Restructuring is reasonable and presents Holders of Claims against RFSC with the best opportunity for recovering any amounts from Reorganized RFSC, the estimated recoveries for each Class of Claims are uncertain. Holders of Allowed Claims in Classes 2 and 4a will receive RFSC Litigation Proceeds, and the Holder of the Allowed Claim in Class 4b will receive Liquidator D&O Litigation Proceeds, solely to the extent such proceeds are recovered. In addition, Holders of Claims in Class 2 will not receive any payment of Litigation Proceeds until Reorganized RFSC satisfies all of its required obligations under the RGH/RFSC Settlement and the Senior Secured Credit Agreement.

Furthermore, although Holders of Allowed Claims in Class 2 shall receive a *pro rata* share of the New RFSC Common Stock on the Effective Date, such Holders may not receive any dividends with respect to such shares. Finally, even if all or some of the estimated amounts are recovered by Reorganized RFSC, Holders of Claims in Class 2 will not receive such amounts as dividends until after Reorganized RFSC satisfies all of its required obligations under the RGH/RFSC Settlement and the Senior Secured Credit Agreement. For further information regarding the uncertain nature of RFSC's potential assets, see "Risk Factors".

Summary of Plan Treatment

Class and Type of Claim or Interest	Estimated Amount of Claims	Treatment
Class 1 Classified Priority Claims	Approximately $0 (However, pursuant to the PBGC Stipulation, the PBGC would receive an administrative claim against the RFSC estate in the amount of $3 million, which claim would be payable solely from fifty-percent (50%) of the first $6 million of certain non-litigation future proceeds otherwise available for distribution to the holders of equity of Reorganized RFSC.)	Under the Plan, except to the extent that a Holder of an Allowed Classified Priority Claim has been paid by the Debtor prior to the Effective Date or such Holder agrees to less favorable treatment, each Holder of a Classified Priority Claim shall receive, in full and complete settlement, satisfaction, release and discharge of its Allowed Classified Priority Claim, Cash in an amount equal to the unpaid portion of such Allowed Classified Priority Claim on the Effective Date or as soon thereafter as is practicable. Estimated Recovery: 100%
Class 2 Bank Claims	Approximately $252,944,097.27	Unless otherwise provided in the Plan, and except to the extent that a Holder of an Allowed Bank Claim agrees to less favorable

		treatment, on the Effective Date, or as soon thereafter as is practicable, each Holder of an Allowed Bank Claim (i) shall receive, in full and complete settlement, satisfaction, release and discharge of and in exchange for its Allowed Bank Claim, (A) its Pro Rata share of New RFSC Common Stock and (B) the right to a Pro Rata share (provided the Holder of such Claim(s) is not an Opt-Out Creditor) of the RFSC Litigation Proceeds and (ii) shall be deemed to have assigned its Litigation Claim(s) to RGH pursuant to the Plan; provided, however, that any Holder of a Bank Claim who is an Opt-Out Creditor (A) shall not be deemed to have assigned its Litigation Claim(s) to RGH and (B) shall not receive any rights to a Pro Rata share of the RFSC Litigation Proceeds. Estimated Recovery: Uncertain
Class 3 Other Secured Claims	Approximately $0	Unless otherwise provided in the Plan, and except to the extent that a Holder of an Allowed Other Secured Claim has been paid by the Debtor prior to the Effective Date or such Holder agrees to less favorable treatment, on the Effective Date, or as soon thereafter as is practicable, each Holder of an Allowed Other Secured Claim shall, in full and complete settlement, satisfaction, release and discharge of and in exchange for its Allowed Other Secured Claim, at the sole option of the Reorganized Debtor, (i) be reinstated and rendered Unimpaired, (ii) receive Cash in an amount equal to such Allowed Other Secured Claim, including any interest on such Allowed Other Secured Claim required to be paid pursuant to Section 506(b) of the Bankruptcy Code, or (iii) receive the Collateral securing its Allowed Other Secured Claim and any interest on such Allowed Other Secured Claim required to be paid pursuant to Section 506(b) of the Bankruptcy Code. Estimated Recovery: 100%
Class 4a General Unsecured Claims	Approximately $82.5 million	Unless otherwise provided in the Plan, and except to the extent that a Holder of an Allowed General Unsecured Claim agrees to less favorable treatment, on the Effective Date, or as soon thereafter as is practicable, each Holder of an Allowed General Unsecured Claim (i) shall receive, in full and complete settlement, satisfaction, release and discharge of and in exchange for its Allowed

		General Unsecured Claim, the right to a Pro Rata share (provided the Holder of such Claim(s) is not an Opt-Out Creditor) of the RFSC Litigation Proceeds and (ii) shall be deemed to have assigned its Litigation Claim(s) to RGH pursuant to the Plan; provided, however, that any Holder of a General Unsecured Claim who is an Opt-Out Creditor (A) shall not be deemed to have assigned its Litigation Claim(s) to RGH and (B) shall not receive any rights to a Pro Rata share of the RFSC Litigation Proceeds. Estimated Recovery: Uncertain
Class 4b Liquidator Claim	Approximately $288 million	Unless otherwise provided in the Plan, and except to the extent that the Holder of the Allowed Liquidator Claim agrees to less favorable treatment, on the Effective Date, or as soon thereafter as is practicable, the Holder of the Allowed Liquidator Claim shall be entitled to receive, in full and complete settlement, satisfaction, release and discharge of and in exchange for its Allowed Liquidator Claim, the payments provided under the Tax Sharing Agreement and the PA Settlement Agreement (which include, without limitation, fifty percent (50%) of the Section 847 Refunds and the Liquidator D&O Litigation Proceeds pursuant to Section 4 of the PA Settlement Agreement and, to the extent certain payments are provided for in both the Tax Sharing Agreement and the PA Settlement Agreement, shall not result in duplicate payments being made). Estimated Recovery: Uncertain
Class 4c D&O Unsecured Claims	Approximately $0	No Holder of a D&O Unsecured Claim shall assign, or shall be deemed to have assigned, its Litigation Claims to RGH or shall receive or retain any property on account of its D&O Unsecured Claim. Estimated Recovery: 0%
Class 5 Equity Interests	1,000 shares	On the Effective Date, the Equity Interests shall be canceled and extinguished and no Holder thereof shall be entitled to, or shall receive or retain any property on account of, its Equity Interests. Estimated Recovery: 0%

To the extent that the terms of this Disclosure Statement may vary from the terms of the Plan, the terms of the Plan will control. See "Plan—Summary of Distributions Under the Plan," below, for more detailed descriptions of the classification and treatment of Claims or Equity Interests under the Plan as well as for a description of the other terms of the Plan.

Voting on, and Confirmation of, the Plan

Voting on the Plan

This Disclosure Statement is being transmitted to Holders of Claims against, and Equity Interests in, RFSC for the purpose of providing adequate information to enable such Holders who are entitled to vote on the Plan to make a reasonably informed decision with respect to their vote on the Plan.

In order for the Plan to be confirmed (approved) by the Bankruptcy Court, other than through the "cramdown" provisions of Section 1129(b) of the Bankruptcy Code, the Debtor must, among other things, receive approval of the Plan from:

(i) Holders of at least two-thirds (⅔) in amount, and more than one-half (½) in number, of the Bank Claims actually voted on the Plan;

(ii) Holders of at least two-thirds (⅔) in amount, and more than one-half (½) in number, of the General Unsecured Claims actually voted on the Plan; and

(iii) Holders of at least two-thirds (⅔) in amount, and more than one-half (½) in number, of the Liquidator Claims actually voted on the Plan (collectively, the "*Requisite Acceptances*").

In addition, at least one of these Classes of Claims must vote to approve the Plan without including any acceptances of the Plan by any "insiders" (as defined in Section 101(31) of the Bankruptcy Code) contained in such Class.

As indicated above, however, the Plan can be confirmed, notwithstanding the failure to receive the Requisite Acceptances, pursuant to the "cramdown" provisions of Section 1129(b) of the Bankruptcy Code, as described in "Plan—Voting on, and Confirmation of, the Plan—Non-Acceptance and Cramdown."

Only those Holders of the Claims set forth above as of _____, 2004 (the "*Voting Record Date*") are being solicited hereby (each, a "*Voting Party*").

See "Plan—Voting on, and Confirmation of, the Plan" below for a complete description of the requirements for acceptance of the Plan.

By order dated [_____], the Bankruptcy Court approved this Disclosure Statement in connection with the Creditors' Committee's solicitation of acceptances of the Plan (the "*Solicitation*"). **This approval does not, however, constitute either a guaranty of the accuracy or completeness of the information contained herein or an opinion by the Bankruptcy Court regarding the fairness or merits of the Plan.**

THIS DISCLOSURE STATEMENT IS THE ONLY DOCUMENT AUTHORIZED BY THE BANKRUPTCY COURT TO BE USED IN CONNECTION WITH THE SOLICITATION OF VOTES ON THE PLAN.

Prior to voting, each Holder of an Allowed Claim that is entitled to vote to accept or reject the Plan is encouraged to read and consider carefully this Disclosure Statement (including the matters described under "Risk Factors") and the Plan in their entirety.

Voting Procedures

After carefully reviewing this Disclosure Statement, including the Appendices hereto, each Voting Party should vote using the enclosed form of ballot (the "*Ballot*"), check the box indicating whether it accepts or rejects the Plan, check the box indicating whether it wishes to elect to opt out of assigning its Litigation Claim(s) to RGH (if the Holder holds Claims in Classes 2 and/or 4a), and return the duly completed and executed Ballot in the pre-addressed envelope. Ballots must be submitted so that they are *actually received* by counsel to the Creditors' Committee, Orrick, Herrington & Sutcliffe LLP, on or before 4:00 p.m. (Prevailing Eastern time) on [_____], 2004 (unless extended by the Creditors' Committee in its sole discretion, subject to court approval, as necessary) (such time and date, as the same may be extended from time to time, the "*Voting Deadline*"), at the following address:

Orrick, Herrington & Sutcliffe LLP
666 Fifth Avenue
New York, NY 10103
Attention: Arnold Gulkowitz, Esq.

The Creditors' Committee will notify Bankruptcy Services LLC (the "*Voting Agent*") of any extension of the Voting Deadline by oral or written notice. The Voting Agent shall notify each Holder of a Claim who received a Ballot of any such extension. Any Voting Party may change its vote on the Plan at any time prior to the Voting Deadline. Thereafter, votes on the Plan may not be changed except to the extent authorized by the Bankruptcy Court.

To the extent that any Holder holds Claims in more than one Class, such Holder will receive a separate Ballot for each such Claim.

The Creditors' Committee does not intend to solicit votes on the Plan from Holders of Classified Priority Claims, Other Secured Claims, D&O Unsecured Claims and Equity Interests, because such Holders are either Unimpaired or deemed to reject the Plan. Therefore, Ballots are not being transmitted to such Holders.

Subject to any applicable order of the Bankruptcy Court, the Creditors' Committee will decide any and all questions affecting the validity of any Ballot submitted, which decision will be final and binding. To that end, the Creditors' Committee may reject any Ballots that are not in proper form or that the Creditors' Committee's counsel believes would be unlawful or were submitted in bad faith. Any Ballot that is executed by a Holder of Claims, but does not indicate an acceptance or rejection of the Plan or indicates both an acceptance and rejection of the Plan shall not be counted as a vote on the Plan. Any Holder of a Claim or Claims in Class 2 and/or Class 4a that executes a Ballot, but does not indicate on the Ballot that such Holder elects to opt

out of assigning its Litigation Claims to RGH shall be deemed to have consented to the assignment of its Litigation Claims to RGH as of the Effective Date.

In addition, all Holders of Claims (including any Holders in Classes 2 and 4a, whether or not such Holders elect to opt out of assigning their Litigation Claims to RGH) who expressly vote to accept the Plan shall be deemed to consent to the release provisions in Section 14.4 of the Plan.

ONLY ORIGINALLY SIGNED BALLOTS WILL BE COUNTED. NEITHER COPIES OF, NOR FACSIMILE OR EMAIL, BALLOTS WILL BE ACCEPTED. IF A BALLOT IS NOT ACTUALLY RECEIVED BY COUNSEL TO THE CREDITORS' COMMITTEE ON OR BEFORE THE VOTING DEADLINE, SUCH BALLOT WILL NOT BE COUNTED. IN NO CASE SHOULD A BALLOT BE DELIVERED TO THE DEBTOR. PLEASE FOLLOW THE DIRECTIONS CONTAINED ON THE ENCLOSED BALLOT CAREFULLY.

If a Holder has any questions about the Disclosure Statement, the Plan or the procedures for voting, did not receive a Ballot, received a damaged Ballot, or lost his or her Ballot, he or she should call, or contact by regular mail, messenger or overnight courier, the Voting Agent – Bankruptcy Services LLC, at Reliance Financial Services Corporation Balloting Center, c/o Bankruptcy Services LLC, 757 Third Avenue, 3rd Floor, New York, NY 10017-2072, or tel. 1-888-498-7765, or, from outside the United States, tel. +1-212-376-8998.

For further information on the procedures for voting on the Plan, see "Plan – Voting on, and Confirmation of, the Plan – Voting Procedures".

Confirmation of the Plan

In addition to the voting requirements set forth above, in order for a Chapter 11 plan of reorganization to be confirmed, the plan must meet certain statutory requirements set forth in the Bankruptcy Code, including, without limitation, that:

- the plan has classified claims and equity interests in a permissible manner;
- the contents of the plan comply with the requirements of the Bankruptcy Code;
- the proponent of the plan has proposed the plan in good faith;
- the proponent of the plan has made disclosures concerning the plan which are adequate and include information concerning all payments made or promised in connection with the plan and the Chapter 11 case;
- the plan is feasible; and
- the plan is in the "best interests" of all dissenting holders of claims and equity interests in impaired classes.

For a more detailed description of the requirements for the confirmation of the Plan, see "Plan—Conditions to Confirmation and Consummation of the Plan – Conditions Precedent to Confirmation" and "Plan—Voting on, and Confirmation of, the Plan—Confirmation of the Plan".

Thus, even if the Plan is approved by the Requisite Acceptances, the Bankruptcy Court is still required to make the findings set forth above before it can confirm the Plan. The Creditors' Committee believes that all of these conditions have been or shall be met with respect to the Plan.

However, as indicated above, if the Plan is not approved by the Requisite Acceptances, then the Plan can still be confirmed pursuant to the "cramdown" provisions of Section 1129(b) of the Bankruptcy Code, if the Bankruptcy Court also finds that:

- the Plan does not discriminate unfairly with respect to each non-accepting Impaired Class,
- the Plan is "fair and equitable" with respect to each non-accepting Impaired Class,
- at least one Impaired Class has accepted the Plan (without counting acceptances by insiders), and
- the Plan satisfies the requirements set forth in Section 1129(a) of the Bankruptcy Code other than Section 1129(a)(8).

The Creditors' Committee intends, if necessary, to request confirmation of the Plan pursuant to Section 1129(b) of the Bankruptcy Code. See "Plan—Voting on, and Confirmation of, the Plan—Non-Acceptance and Cramdown", below, for a more detailed description of the requirements for cramdown.

Confirmation Hearing

The Bankruptcy Court has scheduled a hearing to consider confirmation of the Plan (the "*Confirmation Hearing*") for [_____], 2004, at 9:30 a.m., Prevailing Eastern time, before the Honorable Arthur J. Gonzalez, United States Bankruptcy Judge, Courtroom 523, United States Bankruptcy Court, Southern District of New York, One Bowling Green, New York, NY 10004. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without notice other than an announcement of an adjournment date made at the Confirmation Hearing or at any subsequently adjourned Confirmation Hearing. See "Plan—Voting on, and Confirmation of, the Plan—Confirmation Hearing".

Any objections to confirmation of the Plan must be made in writing, specifying in detail the name and address of the person or entity objecting, the grounds for the objection and the nature and amount of the Claim or Equity Interest held by the objector, and must be served and filed as ordered by the Bankruptcy Court on or before 4:00 p.m. (Prevailing Eastern time) on [_____], 2004. **If an objection to confirmation is not timely served and filed, it may not be considered by the Bankruptcy Court.**

If the Plan is confirmed, even if a Holder of a Claim did not vote, or voted against the Plan, the terms of the Plan, including, without limitation, the transfers set forth therein, will be binding on such Holder as if such Holder had voted in favor of the Plan. Accordingly, all Holders of Claims against RFSC who are entitled to vote on the Plan are encouraged to read this Disclosure Statement and its Appendices carefully and in their entirety before deciding to vote to accept or to reject the Plan.

Pursuant to the Plan, the documents to be executed in connection with consummation of the Plan, including, but not limited to, the Amended and Restated Articles of Incorporation, the Amended and Restated By-Laws, the Tax Sharing Agreement and the Employment Agreement, as well as a specimen of the New RFSC Common Stock, the name(s) of the member(s) of the Board, the names of the members of the RFSC Advisory Committee, and the Schedule of contracts that are not rejected under Section 8.1 of the Plan, shall be filed with the Bankruptcy Court on or before [_____], 2004 as part of the Plan Supplement. A copy of the Senior Secured Credit Agreement, as well as the PA Settlement Agreement, the RGH/RFSC Settlement, the PBGC Stipulation and the Tax Order, will be filed with the Bankruptcy Court as part of the Plan Appendix on or before [_____] (although each of these documents other than the PBGC Stipulation and the Tax Order were filed with the Bankruptcy Court on June 25, 2004 as part of the plan appendix to the Bank Plan).

Copies of all such documents will be made available to all Holders of Claims entitled to vote on the Plan. Upon the filing of the Plan Supplement and the Plan Appendix with the Bankruptcy Court, copies of each may be inspected in the Office of the Clerk of the Bankruptcy Court during normal Court hours. The Clerk of the Bankruptcy Court's address is: Alexander Hamilton Custom House, One Bowling Green, New York, NY 10004-1408. Copies of the Plan Supplement and the Plan Appendix may also be obtained by accessing the Bankruptcy Court's website at http://www.nysb.uscourts.gov (registration and a password are required). In addition, Holders of Claims against, or Equity Interests in, RFSC may obtain copies of the Plan Supplement and the Plan Appendix upon written request to counsel for the Creditors' Committee in accordance with Section 14.15 of the Plan.

Recommendation

The Creditors' Committee supports the Plan and the transactions contemplated thereby and, accordingly, urges all Holders of Allowed Claims that are entitled to vote to submit Ballots indicating their acceptance of the Plan. However, each Holder of a Claim against RFSC must make its own decision as to whether to vote in favor of the Plan.

Since RFSC is not the proponent of the Plan, the Board of Directors of RFSC has not approved the Plan or the transactions contemplated thereby, and accordingly does not make any recommendation as to whether Holders of Allowed Claims that are entitled to vote should accept or reject the Plan.

New RFSC Common Stock

On the Effective Date, all existing equity in RFSC will be deemed cancelled. Also on the Effective Date, 100,000 shares of common stock of Reorganized RFSC (the *"New RFSC*

Common Stock"), at no par value per share, shall be issued and authorized pursuant to the Plan. All such shares of New RFSC Common Stock shall be distributed to Holders of Allowed Class 2 Claims pursuant to the Plan. All New RFSC Common Stock shall be subject to certain transfer restrictions. For further information regarding such restrictions, see "Reorganized RFSC – Description of New RFSC Common Stock – Restrictions on Transfer".

Tax Consequences

For a discussion of the tax considerations of the Restructuring, see "Federal Income Tax Consequences of the Plan."

DISCLAIMERS

This Disclosure Statement has been prepared pursuant to, and in accordance with, Section 1125 of the Bankruptcy Code and Rule 3016(b) of the Federal Rules of Bankruptcy Procedure in order to provide adequate information to enable Holders of Claims against RFSC who are entitled to vote on the Plan to make a reasonably informed decision with respect to their vote on the Plan. To that end, this Disclosure Statement describes the terms and provisions of the Plan, as well as the methods by which RFSC will implement the Plan. Persons or entities holding or trading in, or otherwise purchasing, selling or transferring, Claims against RFSC should evaluate this Disclosure Statement in light of the purpose for which it was prepared.

[This Disclosure Statement has been approved by order of the Bankruptcy Court as containing information of a kind and in sufficient detail to enable Holders of Claims to make an informed judgment with respect to voting to accept or reject the Plan. However, the Bankruptcy Court's approval of this Disclosure Statement does not constitute a recommendation or determination by the Bankruptcy Court with respect to the merits of the Plan.]

THE CREDITORS' COMMITTEE IS RELYING ON SECTION 1145(a) OF THE BANKRUPTCY CODE TO EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAW THE ISSUANCE OF THE NEW SECURITIES TO BE ISSUED UNDER THE PLAN. SEE "REORGANIZED RFSC – ISSUANCE AND RESALE OF NEW RFSC COMMON STOCK".

The financial information provided about RFSC in this Disclosure Statement, as well as certain of the information contained under "The Company and Its Business," "Existing Management," "Corporate and Capital Structure" and "Restructuring," was obtained from documents filed with the Bankruptcy Court by the Company and other public filings prepared by the Company prior to and following the commencement of the Chapter 11 Case. That information was not prepared by the Creditors' Committee, which has no independent knowledge of, and makes no representations or warranties with respect to, its accuracy. The Creditors' Committee is relying on the disclosures made by the Company in such public filings. For further qualifications as to this information, see "Financial Information."

This Disclosure Statement will be made available in print to Holders of Claims.

This Disclosure Statement was prepared by, and under the direction of, the Creditors' Committee in good faith, based upon information available to it, including publicly available information, and is designed to provide adequate information to enable Holders of Claims against RFSC who are entitled to vote to make an informed judgment on whether to accept or reject the Plan. All Holders of Claims against RFSC who are entitled to vote are hereby advised and encouraged to read and carefully consider this Disclosure Statement and the Plan in their entirety before voting to accept or reject the Plan.

This Disclosure Statement may not be relied on for any purpose other than to determine how to vote on the Plan. Nothing contained herein shall constitute an admission of any fact or liability by any party, or be admissible in any proceeding involving RFSC or any other party.

In making a decision to accept or reject the Plan, each Holder of a Claim against RFSC who is entitled to vote must rely on its own examination of the Plan as described in this Disclosure Statement and the terms of the Plan, including the merits and risks involved. As such, all Holders of Claims against RFSC who are entitled to vote should read and consider carefully the matters described in this Disclosure Statement as a whole, including the section entitled "Risk Factors," prior to voting on the Plan.

The Creditors' Committee and RFSC are not (and shall not be construed to be) offering legal, business, financial or tax advice to any Holder of a Claim, and this Disclosure Statement should not be considered to contain any specific advice or instruction regarding such matters with respect to any Claim. You should consult with your legal, business, financial and tax advisors as to any matters concerning this Disclosure Statement and the Plan, and the transactions contemplated hereby or thereby.

The descriptions of the Plan, as well as of the exhibits and schedules to the Plan, the Plan Appendix, the Plan Supplement and the Appendices to this Disclosure Statement (collectively, the "*Plan Documents*") contained herein are intended as summaries only and are qualified in their entirety by reference to the Plan and the Plan Documents themselves. A copy of the Plan is attached to this Disclosure Statement as Appendix A. If any inconsistency exists between the Plan and the Plan Documents, on the one hand, and this Disclosure Statement, on the other hand, the terms of the Plan and the Plan Documents shall govern. This Disclosure Statement contains information supplementary to the Plan and the Plan Documents and is not intended to supplant or act as a substitute for the Plan or the Plan Documents themselves.

No party is authorized by RFSC or the Creditors' Committee to give any information or make any representations with respect to RFSC, RFSC's assets, the Plan, or the shares of New RFSC Common Stock to be issued under the Plan other than that which is contained in this Disclosure Statement and no representations or information concerning RFSC, RFSC's future business operations, the nature of RFSC's liabilities, RFSC's creditors' Claims or the value of its properties have been authorized by RFSC or the Creditors' Committee other than as set forth herein. As such, you should not rely upon any such representations or information other than as explicitly set forth in this Disclosure Statement (including the annexes and exhibits attached hereto and the information incorporated herein by reference).

Unless another time is expressly specified herein, the statements contained in this Disclosure Statement are made as of the date hereof and neither the delivery of this Disclosure Statement nor any exchange, redemption, restructuring, modification, or cancellation of any of the Bank Claims, Other Secured Claims, General Unsecured Claims, D&O Unsecured Claims, Liquidator Claim or Equity Interests made pursuant to the Plan will, under any circumstances, create any implication that there has been no change in the information contained herein at any time subsequent to the date hereof or that the information contained herein is correct at any time subsequent to the date hereof. There can be no assurance that the information and representations contained herein will continue to be accurate subsequent to the date hereof. Except as stated herein, all financial statements contained, or incorporated by reference, in this Disclosure Statement have been obtained from public documents prepared by the Company and other documents filed with the Bankruptcy Court by the Company. All of the financial statements contained herein are unaudited.

This Disclosure Statement and certain of the Appendices hereto may contain projections of, among other things, future results of operations. RFSC does not as a matter of course publicly disclose projections. However, it is anticipated that, starting in 2005, and most years thereafter for the next seven to ten years, RFSC will apply for an aggregate of at least $145 million of Section 847 Refunds (and possibly substantially in excess of such amount). There can be no assurance, however, that any or all of the Section 847 Refunds will be available. See "Financial Information – Assets of RFSC –Section 847 Refunds". In addition, the Creditors' Committee is providing a proposed operating budget for Reorganized RFSC (the *"Proposed Budget"*), a copy of which is annexed to the Disclosure Statement as Appendix E, among other things, for purposes of demonstrating that, as required by Section 1129(a)(11) of the Bankruptcy Code, confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of RFSC. This information was prepared by, or for, the Creditors' Committee and was not prepared with a view toward (a) compliance with the published guidelines of the Securities and Exchange Commission (the *"SEC"*), the American Institute of Certified Public Accountants or any other regulatory or professional agency or body, or generally accepted accounting principles or (b) consistency with audited financial statements. The Proposed Budget for funding Reorganized RFSC's post-Effective Date operating expenses (including any indemnification obligations) reflects extensive negotiations between the Bank Committee and the Creditors' Committee on behalf of the Debtor and RGH, respectively, and discussions with the Hon. James A. Goodman ("Goodman"), the contemplated Chief Executive Officer of Reorganized RFSC. Although the Creditors' Committee believes the Proposed Budget is reasonable and should be adequate, there can be no assurance that Reorganized RFSC will have sufficient funds to cover all operating expenses and, therefore, will be able to continue operating until any or all of the potential assets of the Debtor's estate can be recovered. See "Financial Information – Proposed Budget of Reorganized RFSC" and "Risk Factors".

Furthermore, the Proposed Budget and the anticipated recovery with respect to the Section 847 Refunds are based upon a number of assumptions and estimates presented

with numerical specificity and considered reasonable by the Creditors' Committee when taken as a whole. These assumptions and estimates, however, are subject to inherent uncertainties and to a wide variety of significant known and unknown business, economic and competitive risks that may cause RFSC's actual expenses and actual recovery with respect to the potential assets of its estate to be materially different from those projected. These and other risks arising in connection with the Restructuring include, among others, the following:

- **The Bankruptcy Court may sustain an objection to the classification of the Claims and Equity Interests.**
- **The Plan may not be accepted by the Requisite Acceptances.**
- **The Bankruptcy Court may not confirm the Plan.**
- **The Plan may not be consummated or there may be a delay in the consummation of the Plan.**
- **A competing plan may be proposed.**
- **An investment in New RFSC Common Stock involves significantly different risks from the holding of a Claim.**
- **To the extent permitted, any trading market in the New RFSC Common Stock will be severely limited by the restrictions on transfer contained in the Amended and Restated Articles of Incorporation and will likely be unstable and illiquid, each of which may have an adverse effect on market prices for the New RFSC Common Stock.**
- **Holders' ability to sell shares of New RFSC Common Stock may be limited if they are deemed to be underwriters.**
- **The Creditors' Committee cannot predict the timing of any payments by Reorganized RFSC of any dividend on the New RFSC Common Stock.**
- **The Liquidator, Reorganized RFSC and/or RGH or any other party may not be able to recover some or all of the D&O Litigation Proceeds and/or Other Litigation Proceeds.**
- **Reorganized RFSC's budgeted funds may be depleted prior to recovering any or all of the potential assets.**
- **The Tax Sharing Agreement may not be approved by the Bankruptcy Court and/or the Commonwealth Court.**
- **The Section 847 Refunds may not be available.**

- **Reorganized RFSC and its consolidated subsidiaries may owe significant amounts of Federal income tax.**

See "Risk Factors." Consequently, this Disclosure Statement should not be regarded as a representation by RFSC or any other person of results that will actually be achieved. These estimates and projections should be read together with the information contained under the heading "Risk Factors" in this Disclosure Statement. When used in this Disclosure Statement, the words "believe," "anticipate," "should," "intend," "plan," "will," "expects," "estimates," "projects" and similar expressions identify such forward-looking statements.

All forward-looking statements attributable to the Creditors' Committee or persons acting on their behalf are expressly qualified in their entirety by the cautionary statements contained herein. Except as required by applicable law, neither RFSC nor the Creditors' Committee undertakes any obligation to update any such statements, whether as a result of new information, future events or otherwise. Forward-looking statements are provided in this Disclosure Statement pursuant to the safe harbor established under Section 1125(e) of the Bankruptcy Code and should be evaluated in the context of the estimates, assumptions, uncertainties and risks described in this Disclosure Statement.

Consummation of the Plan is subject to conditions precedent that could lead to delays in consummation of the Plan. There can be no assurance that each of these conditions will be satisfied or waived, or that the Plan will be consummated. Even after the Effective Date, distributions under the Plan may be subject to substantial delays. See "Risk Factors".

This Disclosure Statement has not been filed with, or reviewed by, the SEC or by any state securities commission or similar public, governmental or regulatory authority and no such entity has passed upon the accuracy or adequacy of the statements contained herein. The shares of New RFSC Common Stock to be issued pursuant to the Plan will not have been the subject of a registration statement filed with the SEC or any state securities commission. This Disclosure Statement is not an offer to sell shares of New RFSC Common Stock or an offer to buy Bank Claims in any jurisdiction where such offer or sale is not permitted. This Disclosure Statement seeks only your consent to the Plan. The exchange of the Bank Claims for shares of New RFSC Common Stock pursuant to the Plan will occur only upon consummation of the Plan.

THE COMPANY AND ITS BUSINESS

General

RFSC, a holding company whose principal assets are its ownership interests in RIC, is a wholly-owned subsidiary of RGH. RFSC was incorporated under the laws of the State of Delaware on July 27, 1970.

RIC is one of the oldest property and casualty insurance companies in the United States. As a result of the rehabilitation and liquidation of RIC, RIC is being operated by the Liquidator. See "Restructuring – Events Leading to Bankruptcy."

Regulation

Regulation of Insurance Business

The insurance business of RIC is subject to regulation and supervision in the jurisdictions in which RIC and its subsidiaries do business. This regulation is primarily for the protection of policyholders rather than for the benefit of investors. Insurance laws grant broad powers to supervisory agencies or officials to examine companies and to enforce rules or exercise discretion touching almost every significant aspect of the conduct of the insurance business. These include the licensing of companies and agents to transact business, the imposition of monetary penalties for rule violations, varying degrees of control over premium rates, the forms of policies offered to customers, financial statements, periodic reporting, permissible investments and adherence to financial standards relating to surplus, dividends and other criteria of solvency intended to assure the satisfaction of obligations to policyholders. However, due to the liquidation of RIC and the assumption of control of RIC by an independent third-party (i.e., the PA Insurance Commissioner) acting as Liquidator, the Liquidator, rather than the Debtor, has control over RIC's compliance with these regulations. See "Restructuring—Events Leading to Bankruptcy."

State insurance laws also grant broad powers to supervisory agencies or officials to take control and possession of the properties and business of insurers and to seek the rehabilitation or liquidation of insurers under defined circumstances. The supervisory agencies can choose to limit, or require prior approval for, the distribution of dividends from a regulated insurer to an affiliated company. Due to the liquidation of RIC, there is no current ability for RIC to make any distribution of dividends to RFSC, nor is there any expectation that at the conclusion of such liquidation there will be any residual value for RFSC. See "Restructuring – Events Leading to Bankruptcy."

Regulation of Insurance Holding Companies

Section 9.1 of the Plan provides that all of the corporate governance provisions contained in the Plan are subject to all applicable regulatory requirements and approvals and to applicable state law, including provisions of the Pennsylvania Insurance Code (the *"PA Code"*) in respect of insurance holding companies. The PA Code includes, among other things, a requirement that any person attempting to gain "control" of a domestic insurer such as RIC receive the prior approval of the Pennsylvania Insurance Department (the *"PA Insurance Department"*).

Inasmuch as "domestic insurer" is defined to include any person directly or indirectly controlling such insurer, and "control" of one entity by a second entity is presumed to exist if the second entity holds 10% or more of the voting securities of the first, it is possible that any change of control of RFSC, including that contemplated in the Plan, would be subject to the prior approval of the PA Insurance Department. The Bank Committee requested that the PA Insurance Commissioner waive the initial change of control of RFSC resulting from the issuance and distribution of New RFSC Common Stock to the Holders of Bank Claims and, pursuant to a letter dated June 28, 2004, the PA Insurance Department has agreed to such waiver. Prior approval of the PA Insurance Department may still need to be obtained, however, for any subsequent changes of control of Reorganized RFSC.

The insurance holding company provisions of the PA Code also impose significant reporting requirements on insurers which are members of insurance holding company systems (defined as two or more affiliated persons, one of more of which is an insurer domiciled in Pennsylvania) and provide that all transactions between a domestic insurer and another member of its holding company system be "fair and reasonable." Certain specified transactions between or among members of a holding company system require the actual or constructive approval of the PA Insurance Department.

Due to the assumption of effective control over RIC exercised by the PA Insurance Commissioner acting as Liquidator, subject to the oversight of the Commonwealth Court insofar as required by the PA Code, some or all of the foregoing requirements may be deemed inapplicable by the PA Insurance Department. Nevertheless, the continued applicability of the insurance holding company provisions of the PA Code to the Plan allows the PA Insurance Department to significantly influence, and if it deems appropriate, to disapprove any sale or other disposition of RFSC, notwithstanding that such sale or other disposition may be acceptable to the creditors of RFSC and otherwise acceptable to the Bankruptcy Court. No assurance can be given that the PA Insurance Department will approve a sale or other disposition of RIC and/or RFSC under terms acceptable to the creditors of such entities.

Employees

RFSC currently has no employees. Paul W. Zeller, President and Chief Executive Officer of RGH, serves without additional compensation as President and Chief Executive Officer of RFSC. It is contemplated that, at the Effective Date, Goodman will become the President and Chief Executive Officer of Reorganized RFSC. See "Reorganized RFSC – Management of Reorganized RFSC".

Pension Plans

RFSC does not sponsor a pension plan. RGH and RIC each sponsor a defined benefit pension plan. The bankruptcy of RGH and the liquidation of RIC have resulted in potential liabilities of RFSC for pension obligations of RGH and RIC. The following is a description of these potential pension liabilities.

The Reliance Group Holdings, Inc. Pension Plan (the "*RGH Pension Plan*") sponsored by RGH for the benefit of its employees and the employees of participating affiliates was terminated by agreement as part of the PBGC Stipulation dated September 27, 2004.

The Reliance Insurance Company Employee Retirement Plan (the "*RIC Retirement Plan*") was terminated by the Pension Benefit Guaranty Corporation (the "*PBGC*") effective February 28, 2002.

The PBGC, a government organization, insures pension plans, including the RGH Pension Plan and the RIC Retirement Plan. RFSC and other members of RGH's and RIC's "controlled groups", as that term is used in applicable statutes, may be jointly and severally liable for certain liabilities with respect to the RGH Pension Plan and the RIC Retirement Plan under the Employee Retirement Income Security Act of 1974, as amended ("*ERISA*"), including claims for (i) unfunded benefit liabilities when the plan is terminated, (ii) unpaid minimum funding contributions under Section 412 of the Internal Revenue Code, as amended (the "*Code*"), and Section 302 of ERISA, and (iii) unpaid PBGC insurance premiums. Certain of these categories may overlap. Upon termination of an underfunded pension plan, all of the members of the ERISA controlled group of the plan sponsor become jointly and severally liable for the plan's underfunding. The PBGC can demand payment from one or more of the members of the controlled group. Absent bankruptcy, if payment is not made, a lien in favor of the PBGC automatically arises against all of the assets of that member of the controlled group, which lien is perfected if certain conditions are met. The amount of the lien is equal to the lesser of the underfunding or 30% of the aggregate net worth of all of the controlled group members. In addition, if the sponsor of a pension plan does not timely satisfy its minimum funding obligation to the pension plan, once the aggregate missed funding amounts exceed $1 million, a lien in favor of the plan in the amount of the missed funding automatically arises against the assets of every member of the controlled group, which lien can be perfected if certain conditions are met. In either case, the PBGC may file to perfect the lien and attempt to enforce it against the assets of members of the controlled group, but this may not be possible with respect to a company in bankruptcy. Due to its status as a debtor in a Chapter 11 case, these liens do not attach to the assets of RFSC.

In December 2001, the PBGC filed the following claims against RFSC in respect of the RGH Pension Plan: (i) $10.1 million for unfunded benefit liabilities, (ii) an unspecified amount for minimum funding contributions, and (iii) $48,258 for PBGC premiums. The PBGC has asserted that certain portions of these claims are entitled to administrative priority.

The PBGC has filed the following claims against RFSC and RGH in respect of the RIC Retirement Plan: (i) $124.2 million for unfunded benefit liabilities, (ii) $27.6 million for minimum funding contributions and (iii) $292,126.98 for PBGC premiums. The PBGC has also asserted that certain portions of these claims are entitled to administrative priority.

The Debtor, in conjunction with RGH, the Creditors' Committee, and the Bank Committee, reviewed the validity and amounts of the PBGC's claims in respect of the RGH Pension Plan and the RIC Retirement Plan. See "Settlement with the Pension Benefit Guaranty Corporation."

EXISTING MANAGEMENT

Existing Directors and Executive Officers of the Company

Set forth below are the names and positions of the directors and executive officers of RGH and RFSC as of the date of this Disclosure Statement, all of whom will cease to serve in such capacity as of the Effective Date. For a discussion of the management of Reorganized RFSC as of the Effective Date, see "Reorganized RFSC – Management of Reorganized RFSC".

Name	Position
Saul P. Steinberg	Chairman of the Board
George R. Baker	Director
George E. Bello	Director and Corporate Secretary
Jewell Jackson McCabe	Director
Irving Schneider	Director
Bernard L. Schwartz	Director
Richard E. Snyder	Director
Dr. Bruce E. Spivey	Director
Paul W. Zeller	President and Chief Executive Officer

Compensation

Paul W. Zeller receives no compensation from RFSC for his services as President and Chief Executive Officer of RFSC. Under the terms of Mr. Zeller's employment agreement with RGH, his current salary is $24,000 per month. RGH may terminate Mr. Zeller's employment with or without cause upon three business days' written notice and Mr. Zeller may terminate his employment at any time upon 30 days' written notice.

D&O Litigation

On June 24, 2002, the Liquidator commenced an action (the "*RIC D&O Action*") in the Commonwealth Court of Pennsylvania, captioned Koken v. Steinberg, et al., Case No. 421 M.D. 2002 (June 24, 2002), seeking damages against eighteen former directors and officers (the "*D&O Defendants*") of RIC. The Liquidator asserted several claims including, among others, breach of fiduciary duty, professional negligence, aiding and abetting, voidable preferences, and violations of the Pennsylvania Insurance Holding Company Act. The Liquidator alleged that the wrongdoing of the D&O Defendants led to the collapse of RIC and otherwise caused it harm. Under the terms of the PA Settlement Agreement, the Committees, RGH, RFSC, and their

respective successors, including a liquidating trustee to be appointed under the RGH Plan (the *"Liquidating Trustee"*), or any other estate representative (collectively, the "*Estate Representative*") have agreed that so long as the PA Settlement Agreement is in full force and effect, they will not commence any action against the D&O Defendants (except for claims of receipt of preferential payments, fraudulent transfers, or similar causes of action ("*Preference Actions*")) without the prior consent of the Liquidator, which shall include the Liquidator's consent as to the venue of such action. For a description of the agreement governing the allocation of proceeds from the RIC D&O Action, see "Restructuring—PA Settlement Agreement—Litigation Proceeds".

The former directors and officers of, among others, RFSC and RIC, including the D&O Defendants, are covered by certain insurance policies, including, but not limited to, those policies issued by (i) Syndicate 1212 at Lloyds London, No. 823/FD9701593, and several related excess policies, Nos. 832/f01201D96, 823/F01307D97, 823/FD9798178 and 823/FD9900896, (ii) Greenwich Insurance Company, No. ELU 82236-01 and ELU 82237-01, and (iii) Clarendon National Insurance Company, No. MAG 14 400579 40000 (collectively, the "*Insurance Policies*"). There is no named insured under the Insurance Policies; rather, the insured is the "Company" which is defined as RGH and its subsidiaries and includes RIC. The Insurance Policies provide the following coverage: Director and Officer and Company Liability, Fiduciary Liability, and Employment Practices Liability. Such policies provide aggregate coverage for these risks which may be in excess of $150 million.

CORPORATE AND CAPITAL STRUCTURE

Pre-Petition Equity

As of June 1, 2004, 1,000 shares of common stock of RFSC, par value $.10 per share (*"RFSC Common Stock"*), were outstanding. All of the RFSC Common Stock is owned by RGH. As of June 1, 2004, all of the shares of common stock of RIC (the *"RIC Common Stock"*) were outstanding. All of the RIC Common Stock is owned by RFSC.

On the Effective Date, all of the issued and outstanding RFSC Common Stock will be deemed cancelled pursuant to the Plan, without further act or action by any Person.

Existing Credit Agreement

On November 1, 1993, RFSC entered into the Bank Credit Agreement with certain financial institutions (the *"Banks"*). As of the commencement of the Chapter 11 Case, RFSC had borrowed $237,500,000 under the Bank Credit Agreement – $100,000,000 in revolving loans and $137,500,000 in term loans.

The principal amount of the loans under the Loan Agreement and all accrued but unpaid interest matured on November 10, 2000 but was not paid by RFSC. See "Restructuring – Events Leading to Bankruptcy."

RFSC's obligations under the Bank Credit Agreement are secured by a pledge of all of the RIC Common Stock. Simultaneously with the execution of the Bank Credit Agreement, RFSC and the Banks also executed a Pledge Agreement, dated as of November 1, 1993, made by RFSC in favor of United States Trust Company of New York (the *"Pledge Agreement"*), pursuant to which the Banks were granted a pledge of the RIC Common Stock as security for the loans made by the Banks to RFSC. Subsequently, the Banks obtained control of the RIC Common Stock by the delivery of a stock certificate and related stock transfer powers to JPMorgan Chase Bank (f/k/a The Chase Manhattan Bank), as successor stock collateral agent under the Pledge Agreement. As a result, the Banks have a properly perfected security interest in the RIC Common Stock.

Furthermore, under Section 2.1(e) of the Pledge Agreement, RFSC granted the Banks a security interest in "all Proceeds of any of the foregoing [collateral]." "Proceeds," which is defined in accordance with Section 9-102(64) of the UCC, includes "whatever is collected on, or distributed on account of, collateral". See UCC § 9-102(64)(B). Such payments or distributions include any dividends of cash or other property made on account of such investment property. Accordingly, any distributions made by RIC to RFSC, the sole parent of RIC, on account of the RIC Common Stock, including any dividend or proceeds of the NOLs, likely constitutes "Proceeds" and is likely part of the Banks' collateral package. Moreover, the Banks' security interest in such proceeds would be properly perfected pursuant to Section 9-315 of the UCC.

RFSC Intercompany Obligation to RGH

On the Petition Date, RFSC had an intercompany obligation to RGH in the aggregate amount of $52.4 million. No payments have been made by RFSC to RGH during the Chapter 11 Case.

Cash

On the Petition Date, RFSC had no Cash and, throughout the Chapter 11 Case, has been dependent upon RGH to fund the administrative expenses thereof. After the Effective Date, pursuant to the RGH/RFSC Settlement, RGH will be funding a portion of Reorganized RFSC's operating expenses and the rest will come from loans made by RGH to Reorganized RFSC, pursuant to the Senior Secured Credit Agreement, and from recovered assets of RFSC's estate. See "Plan—Summary of Other Provisions of the Plan—Post-Confirmation Funding".

RESTRUCTURING

Events Leading to Bankruptcy

The property and casualty insurance operations of the Company incurred a substantial operating loss in 1999, which reflected a substantial increase of net loss reserves for policies issued in prior years. This increase resulted from updated information and subsequent developments, and a substantial charge representing the cost of ceding to reinsurers losses under various stop loss treaties, all following review by an independent actuarial firm of the loss reserves. The 1999 operating loss also reflected substantial charges relating to the settlement of issues involving the Unicover Managers, Inc. workers' compensation reinsurance facility and to the consolidation of the automobile insurance operations of the Company.

On February 29, 2000, the Company announced a series of strategic and financial actions designed to strengthen the capital and credit ratings of the Company. These actions included an agreement to sell the operations of Reliance Surety (an operating division of RIC), an extension of the maturity of the Company's debt to August 31, 2000, a suspension of the Company's quarterly cash dividends, a consolidation of business units and changes in the Company's senior management team.

In addition, the Company explored various strategic alternatives, including raising capital to refinance its bank and public debt due in 2000 and the possible sale of the Company. On May 25, 2000, RGH and Leucadia National Corporation entered into an agreement for the possible acquisition of the Company, subject to certain conditions. The agreement expired by its terms on July 21, 2000.

During the second quarter of 2000, an additional substantial increase was made to net loss reserves related to policies issued in prior periods and substantial expenses were incurred representing the cost of ceding to reinsurers losses under various stop loss treaties. In addition, in the first half of 2000, in connection with its strategic and financial actions and other initiatives, the Company incurred a substantial restructuring charge for employee separations, a write off of previously capitalized systems that were in progress but would not be completed, and costs of exiting certain businesses.

On June 8, 2000, A.M. Best & Company (*"Best"*) downgraded the claims paying rating of RIC from "A-" (Excellent) to "B++" (Very Good). Best further downgraded RIC's claims paying rating to "B" (Fair) on July 14, 2000 and to "C" (Weak) on August 16, 2000. Among the factors Best cited for its downgrades were high operating leverage, reduced liquidity, unfavorable underwriting results, uncertainty related to loss reserve adequacy and Best's belief that the Company would not be able to refinance its indebtedness.

Following the downgrades of RIC's claims paying rating in the summer of 2000, insurance regulators in various states in which RIC and certain of its then subsidiaries were domiciled expressed concern about the potential impact of the downgrades on RIC's operating performance and the ability of the Debtor and RGH to meet their debt obligations. In response to the PA Insurance Department's desire to receive information and to review and approve certain transactions, RIC (which is domiciled in Pennsylvania) and the PA Insurance Department

entered into an agreement on August 17, 2000 pursuant to which RIC could not pay dividends or other distributions without the PA Insurance Department's approval. Certain subsidiaries of RIC entered into similar agreements with insurance regulators in the states in which such subsidiaries are domiciled. As a result of the absence of dividend payments from the insurance subsidiaries, the Debtor and RGH experienced liquidity problems and were unable to meet their debt obligations. The original maturity date for RFSC's debt obligations outstanding under the Bank Credit Agreement was extended until August 31, 2000 and was further extended to November 10, 2000, but RFSC was not able to repay the outstanding amount under the Bank Credit Agreement.

On December 1, 2000, Best further downgraded the claims paying rating of RIC to "D" (Poor). On January 29, 2001, the PA Insurance Department, with RIC's consent, entered a formal order of supervision with respect to RIC, and a new agreement, replacing the August 17, 2000 agreement, became effective.

The January 29, 2001 order of supervision and the new agreement expanded the information flow to, and required approvals of RIC's actions by, the PA Insurance Department. On May 29, 2001, the Commonwealth Court entered an order granting a petition of the PA Insurance Department for the rehabilitation of RIC (the *"Rehabilitation Order"*). Under the Rehabilitation Order, RIC was placed in rehabilitation pursuant to the Insurance Department Act and the PA Insurance Commissioner was directed to take possession of RIC's assets and business and to take such actions as the nature of the case and the interests of the policyholders, creditors or the public may require. All persons and entities in possession of assets of RIC were obligated to account for such assets and were enjoined from disposing of, encumbering or alienating them. The Rehabilitation Order granted the PA Insurance Commissioner, as rehabilitator of RIC (the *"Rehabilitator"*) discretion to pay expenses in the ordinary course of RIC's business in rehabilitation, the costs of preserving or recovering the assets of RIC and claims for losses under policies and contracts of insurance and loss adjustment expenses. In addition, by virtue of the order, all further actions against RIC were enjoined and all actions then pending against RIC were stayed.

On October 3, 2001, the Commonwealth Court entered an order (i) granting the petition by the PA Insurance Commissioner for the liquidation of RIC, (ii) finding and declaring RIC insolvent and (iii) terminating the rehabilitation of RIC (the *"Liquidation Order"*). The Liquidation Order superceded the Rehabilitation Order and provided in relevant part as follows:

- The PA Insurance Commissioner as Liquidator of RIC was vested with title to all property, assets, contracts and rights of action of RIC, whether held directly or indirectly, as of the date on which the Liquidator's petition was filed;

- The Commonwealth Court asserted that it had *in rem* jurisdiction over all of RIC's assets and exclusive jurisdiction over all determinations of the validity and claims against RIC, and exclusive jurisdiction over the determination of the distribution priority of all claims against RIC;

- All entities or persons having in their possession assets which were, or may be, the property of RIC, were required to deliver such assets to the Liquidator;

- All agents, brokers and other persons that have sold RIC insurance policies were required to account for and pay all unearned commissions and all premiums, collected and uncollected, to the Liquidator;

- RIC and its affiliates were required to surrender to the Liquidator the premises occupied by RIC and the assets and other property of RIC in their possession or control;

- All insurance policies in effect were to continue in force only with respect to risks in effect on October 3, 2001 until the first to occur of (a) 30 days from the date of the Liquidation Order, (b) the date on which the policy expired, (c) the date on which the insured replaced the insurance coverage with equivalent insurance with another insurer or otherwise terminated the policy, or (d) the date on which the Liquidator had effected a transfer of the policy obligation;

- The Liquidator was authorized to make arrangements for the continued payment of claims under workers' compensation policies and to personal injury protection claimants;

- The Liquidator had the discretion to pay the actual, reasonable and necessary costs of preserving or recovering the assets of RIC and the costs incurred during the period of rehabilitation that remain unpaid;

- RIC and its affiliates were enjoined from transacting business, transferring, selling, terminating, disbursing or disposing of any assets or property, interfering in any way with the liquidation of RIC, instituting or prosecuting any actions on behalf of or against RIC, negotiating any agreements that convey RIC's property, or otherwise taking any action that might lessen the value of RIC's assets or property or prejudice the rights and interests of policyholders and creditors;

- All actions pending against RIC were stayed and all actions against RIC or the Liquidator were to be submitted to the Commonwealth Court and considered as claims in the liquidation proceeding;

- All proceedings in which RIC was obligated to defend a party in any Pennsylvania court were stayed for 90 days from the date of the Liquidation Order; and

- All secured creditors or parties claiming interests in any property or assets of RIC were enjoined from taking any steps to transfer, sell, assign, encumber or exercise purported rights in or against any property or assets of RIC.

Pre-Petition Litigation with the Rehabilitator

Insurance Policy Action

On June 4, 2001, the Rehabilitator filed an "emergency petition" in the Commonwealth Court, seeking to enjoin RGH and others from consummating a settlement of a pending action or otherwise drawing upon the Insurance Policies (the *"Insurance Policy Action"*).

Specifically, the Rehabilitator claimed that the Insurance Policies with limits of liability in excess of $125 million issued by certain Lloyd's underwriters and various insurance companies, granting insurance coverage to the Company's officers and directors, were assets of RIC's estate and thus subject to the Rehabilitation Order. These policies provide comprehensive coverage for many types of claims, including claims for errors or omissions of any person or entity for whom the Debtor, RGH or RIC is legally liable. The Insurance Policies also provide coverage for claims brought by or on behalf of policyholders, regulatory agencies, creditors and employees.

In the Rehabilitator's petition in the Insurance Policy Action, the Rehabilitator alleged that, without the Rehabilitator's knowledge, RGH's Board of Directors had agreed to settle a class action lawsuit, captioned In re Reliance Group Holdings, Inc. Securities Litigation, Case No. 00-CV-4652 (TPG) (the *"Securities Class Action"*), filed in 2000 in the United States District Court for the Southern District of New York (the *"SDNY Court"*) against RGH and certain of its directors by creditors and shareholders of RGH. Under the terms of the MOU (as hereinafter defined), $17.4 million of the proceeds of the Insurance Policies would be paid to plaintiffs in return for releases of liability from the plaintiffs in the Securities Class Action and for the dismissal of a derivative action captioned Glen Leibowitz and Harvey Greenfield v. Saul Steinberg, et al., pending in the Supreme Court of the State of New York, Westchester County (Case No. 9869/00) (the *"Leibowitz Action"*).[2]

RGH opposed the Insurance Policy Action and on June 29, 2001, RGH removed the Insurance Policy Action to the Bankruptcy Court for the Eastern District of Pennsylvania (the *"PA Bankruptcy Court"*). Thereafter, on July 2, 2001, RGH moved to transfer the Insurance Policy Action to the Bankruptcy Court. On July 12, 2001, the PA Insurance Commissioner filed a motion asking the PA Bankruptcy Court to abstain from exercising jurisdiction and to remand the Insurance Policy Action to the Commonwealth Court. On February 22, 2002, the PA Bankruptcy Court transferred the Insurance Policy Action to the Bankruptcy Court. The Liquidator then filed an appeal with the United States District Court for the Eastern District of Pennsylvania (the *"EDPA Court"*) with respect to such transfer. Pending settlement discussions, the appeal was held in abeyance by the EDPA Court.

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[2] The proposed settlement was outlined in a memorandum of understanding (the *"MOU"*), as well as a funding agreement (the *"Funding Agreement"*) pursuant to which the underwriters of the Insurance Policies agreed to fund the contemplated settlement from the proceeds of the Insurance Policies.

As a result of the PA Settlement, disputes as to the proceeds of the Insurance Policies in connection with any litigation, claims or causes of action against any director or officer of the Debtor, RGH or RIC, including the D&O Litigation, have been resolved as between the Committees, RGH and the Debtor on the one hand, and the Liquidator on the other. However, the disputes regarding ownership of the proceeds of the Insurance Policies have not been settled with respect to other parties. In particular, the plaintiffs in the Securities Class Action recently moved before the SDNY Court to enforce the MOU and the Funding Agreement (and thereby the proposed settlement of the Securities Class Action). Syndicate 1212 at Lloyd's, London and the other underwriters of the Insurance Policies were joined as defendants to the Securities Class Action, and the plaintiffs' motion was opposed by the Insurance Policy underwriters and by the Liquidator, who was permitted to intervene in the action and who filed a motion to dismiss or stay the plaintiffs' actions. On April 30, 2004, the SDNY Court issued an order granting the Securities Class Action plaintiffs' motion and denying the Liquidator's motion for dismissal or a stay. However, despite the SDNY Court's order, it is uncertain whether the MOU and the Funding Agreement will become effective, since, prior to becoming so, among other things, the MOU must still be approved by the Bankruptcy Court and the Leibowitz Action must be dismissed or settled by final order. Prior to the SDNY Court's decision, the Liquidator filed a motion in the EDPA Court, claiming, among other things, that the EDPA Court has exclusive jurisdiction over the proceeds of the Insurance Policies and requesting that the EDPA Court reinstate the appeal and remand the Insurance Policy Action to the Commonwealth Court for determination. The Committees consented to the proposed remand of the Insurance Policy Action and some of the parties to the Securities Class Action opposed the motion. On July 1, 2004, the EDPA Court entered an order remanding the Insurance Policy Action to the Commonwealth Court for determination.

Constructive Trust Litigation

In a letter dated June 7, 2001, the Rehabilitator took the position that the cash held by RGH belonged to RIC and that any disbursement of such cash constituted a violation of the Rehabilitation Order. In addition, the Department filed a complaint, dated June 11, 2001, seeking to impose a constructive or resulting trust on cash held by RGH and to enjoin any disbursements of such cash (the *"Constructive Trust Action"*). RFSC and RGH disputed the Rehabilitator's assertions in the Constructive Trust Action, arguing that RIC only had an unsecured claim against RGH's estate.

The Constructive Trust Action has been settled pursuant to the PA Settlement Agreement.

For a further discussion of the Debtor's and RGH's post-petition litigation with the Rehabilitator, see "Restructuring—Further Litigation with the Rehabilitator/Liquidator".

The Chapter 11 Case

Brief Explanation of Chapter 11 Reorganization

Chapter 11 of the Bankruptcy Code is the principal business reorganization chapter of the Bankruptcy Code. Under Chapter 11, a debtor is authorized to reorganize its business. In

addition to permitting rehabilitation of the debtor, another goal of Chapter 11 is to promote equality of treatment of holders of claims and equity interests of equal rank with respect to the distribution of a debtor's assets. Formulation, and confirmation by a bankruptcy court, of a plan of reorganization is the principal objective of a Chapter 11 Case. In general, a Chapter 11 plan of reorganization

(i) divides claims and equity interests into separate classes,

(ii) specifies the property that each class is to receive under the plan, and

(iii) contains other provisions necessary or desirable for the reorganization of the debtor.

In general, there are two forms of treatment that may be provided to a holder of a claim or equity interest under a Chapter 11 plan of reorganization—"unimpaired" treatment and "impaired" treatment. Unimpaired treatment means that the legal, equitable and contractual rights of a holder of a claim or equity interest are unchanged under the plan. Impaired treatment means that the legal, equitable or contractual rights of a holder of a claim or equity interest are somehow changed under the plan and can include situations where a holder of a claim or equity interest does not receive or retain any property under a plan. Among other things, a plan of reorganization must be accepted by voters of at least one class of claims that is impaired without considering the votes of "insiders" within the meaning of the Bankruptcy Code. See "Plan" for a more detailed description of the treatment of Claims and voting procedures.

Commencement of the Case

On the Petition Date, the Debtor and RGH each filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code with the Bankruptcy Court. Simultaneously therewith, RFSC, jointly with RGH, also filed several motions, including those described below, seeking authorization to continue to conduct its business in the ordinary course as well as to undertake certain activities which require approval of the Bankruptcy Court. Since the Petition Date, RFSC has continued to operate its business and manage its properties as a debtor-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code and subject to the supervision of the Bankruptcy Court.

An immediate effect of the filing of the bankruptcy petition was the imposition of the automatic stay under the Bankruptcy Code, which, with limited exceptions, enjoins the commencement or continuation of all (i) collection efforts by holders of claims, (ii) enforcement of liens and (iii) litigation against RFSC. This injunction remains in effect, unless modified or lifted by order of the Bankruptcy Court, until consummation of a plan of reorganization.

First Day Motions

As mentioned above, on the Petition Date, RFSC, together with RGH, submitted numerous so-called "first day motions," along with corresponding orders, to the Bankruptcy Court. These motions included, among others: (i) a motion to jointly administer the Cases, (ii) a motion seeking authorization for the Debtor and RGH to continue to use their pre-petition bank accounts, business forms and books and records, and approving their investment practices, (iii) a

motion requesting additional time for each of the Debtor and RGH to file their bankruptcy schedules and statements of financial affairs, (iv) a motion requesting authorization to pay, among other things, accrued pre-petition salaries, wages, commissions and employee benefits, and (v) a motion to employ certain professionals utilized in the ordinary course of business.

Other than the order authorizing the Debtor and RGH to continue to use their pre-petition bank accounts, business forms and books and records, and approving their investment practices, which was granted by the Bankruptcy Court on June 13, 2001, all of the "first day motions" filed by the Debtor and RGH were granted by the Bankruptcy Court on June 12, 2001.

Retention of Professionals

On the Petition Date, RFSC, jointly with RGH, also requested that the Bankruptcy Court approve the retention of, among others, the following professionals:

- Debevoise & Plimpton LLP, as general insolvency counsel for RFSC, as well as RGH;

- Deloitte & Touche LLP, as accountants and auditor for RFSC, as well as RGH; and

- Bankruptcy Services LLC, as official notice, claims and solicitation agent for RFSC, as well as RGH.

On June 12, 2001, the Bankruptcy Court entered an order authorizing the retention of Bankruptcy Services LLC. On June 13, 2001, the Bankruptcy Court entered interim orders authorizing the retention of Debevoise & Plimpton LLP and Deloitte & Touche LLP. Final orders authorizing their retention were entered on August 1, 2001.

On October 12, 2001, the Debtor and RGH requested that the Bankruptcy Court approve the retention of Hangley Aronchick Segal and Pudlin P.C., as special Pennsylvania counsel to the Debtor and RGH. On October 24, 2001, the Bankruptcy Court entered an order authorizing such retention *nunc pro tunc* to June 15, 2001.

Copies of these and any other motions filed in the Chapter 11 Case may (a) be obtained over the internet at the Bankruptcy Court's website at *http://www.nysb.uscourts.gov* (registration and a password are required) or (b) reviewed at the office of the Clerk of the Bankruptcy Court, Alexander Hamilton Custom House, One Bowling Green, New York, New York 10004-1408.

Appointment of Committees

On June 22, 2001, the United States Trustee, pursuant to Section 1102 of the Bankruptcy Code, appointed the Bank Committee and the Creditors' Committee in the Cases. The members of the Bank Committee are: (a) ABN AMRO Bank N.V., (b) Bank of Montreal, (c) Calyon New York Branch (f/k/a Credit Lyonnais, New York Branch), (d) Sanwa Bank California (n/k/a Bank of the West), (e) First Union National Bank (n/k/a Wachovia Bank), (f) Firstrust Bank, (g) The Chase Manhattan Bank (n/k/a JPMorgan Chase Bank) and (h) Deutsche Banc Alex Brown, as an ex-officio member. The composition of the Bank Committee was substantially similar to that of

the pre-petition ad hoc bank committee that had been negotiating with the Debtor and RGH. On July 10, 2001, the Bank Committee filed an application to the Bankruptcy Court for an order authorizing the employment of White & Case LLP as counsel to the Bank Committee. This application was granted by the Bankruptcy Court on July 24, 2001.

The members of the Creditors' Committee are: (a) Wells Fargo Bank, N.A., as Indenture Trustee, (b) HSBC Bank USA, as Trustee, (c) Pacific Investment Management Company LLC, (d) 40/86 Advisors, Inc. (f/k/a Conseco Capital Management), (e) Pension Benefit Guaranty Corporation, (f) Mr. David C. Woodward and (g) Ms. Christine Howard. On July 17, 2001, the Creditors' Committee filed an application to the Bankruptcy Court for an order authorizing the employment of Orrick, Herrington & Sutcliffe, LLP as counsel to the Creditors' Committee. This application was granted by the Bankruptcy Court on July 25, 2001.

On August 27, 2001, the Committees filed an application to the Bankruptcy Court for an order authorizing the employment of PricewaterhouseCoopers LLP, as financial advisors for the Committees. Such application was granted by the Bankruptcy Court on October 2, 2001. In addition, on May 19, 2003, the Creditors' Committee filed an application to the Bankruptcy Court for an order approving the retention of Crossroads, LLC, as financial advisors to the Creditors' Committee, and on October 15, 2003, the Creditors' Committee filed an application for an order approving the retention of Altman and Cronin Benefit Consultants, LLC, as actuarial consultants. The application for retention of Crossroads, LLC was granted by the Bankruptcy Court on May 29, 2003 and the application for retention of Altman and Cronin Benefit Consultants, LLC was granted on October 29, 2003.

Bar Date

On November 16, 2001, the Bankruptcy Court entered an order establishing December 21, 2001 as the bar date for filing proofs of claim in the Cases (the "*Bar Date*"). Any person or entity required by the order to file a proof of claim before the Bar Date, but who failed to do so is forever barred from participating in the Debtor's and RGH's estates, voting on the Plan or any other plan of reorganization or liquidation, or receiving any distribution under the Plan or any other plan.

The Bar Date applies to all Claims against the Debtor's and RGH's estates that arose prior to the Petition Date, other than (i) Claims for which proofs of claim were already filed, (ii) Claims listed on the Debtor's schedules as neither "disputed," "contingent" nor "unliquidated" if the creditor agrees with the amount and classification set forth therein, (iii) administrative expense Claims, (iv) Claims between the Debtor and RGH and (v) Claims already allowed by the Bankruptcy Court. By stipulation and order approved by the Bankruptcy Court on December 21, 2001, the Debtor, RGH and the Bank Committee agreed upon an aggregate Claim of $252,944,097.27 for the Banks, representing the total principal and interest outstanding under the Bank Credit Agreement. Holders of Equity Interests in the Debtor were not required to file proofs of claim with respect to their Equity Interests, and the indenture trustee for the Senior Notes and the Senior Subordinated Debentures was allowed to file a proof of claim in the RGH Chapter 11 Case on behalf of all owners of those securities. Any person or entity whose claim arose from, or as a consequence of, the rejection of executory contracts or unexpired leases or the incurrence of certain taxes, pursuant to Sections 502(g) and 502(i) of the Bankruptcy Code,

respectively, was required to file a proof of claim within forty (40) days after the particular claim arose. Thus, each proof of claim would need to be filed within forty (40) days after entry of an order approving the rejection of an executory contract or unexpired lease or within forty (40) days after a tax claim arose under Section 502(i) of the Bankruptcy Code or by the Bar Date, whichever was later.

The order excepted the Liquidator from the Bar Date with respect to Claims of RIC, pending a ruling on the Liquidator's objection to the application of the Bar Date to such Claims. A hearing on the Liquidator's objection was held on November 27, 2001. The global settlement among the Committees and the Liquidator provides that the Liquidator does not need to file a proof of claim, rendering this issue moot.

Exclusive Periods

The Bankruptcy Code establishes an initial period of one hundred and twenty (120) days after the Petition Date during which only a debtor may file a plan of reorganization. The Bankruptcy Court extended this period for RFSC and RGH to March 30, 2004.[3] No further extensions were requested for RFSC.

Further Litigation with the Rehabilitator/Liquidator

The Debtor and RGH removed the Insurance Policy Action and the Constructive Trust Action to the PA Bankruptcy Court and moved to transfer both actions to the Bankruptcy Court. The Rehabilitator opposed the transfer motions and requested that the PA Bankruptcy Court either remand the Insurance Policy Action and the Constructive Trust Action to the Commonwealth Court or abstain from hearing such actions in favor of the Commonwealth Court.

By motion dated July 11, 2001, the Rehabilitator asked the Bankruptcy Court to abstain from entertaining the Cases or to dismiss them on the ground that all of the Debtor's and RGH's Cash is subject to a resulting or constructive trust in favor of RIC (the "*Dismissal Motion*") and objected to the Debtor's and RGH's joint motion for the establishment of procedures for the monthly compensation and expense reimbursement of their professionals and RGH's request for authorization to pay workers' compensation premiums that would, among other things, prevent a lapse of the workers' compensation coverage of RIC's employees. The Rehabilitator also sought to vacate the Bankruptcy Court's first-day order of June 12, 2001 authorizing the Debtor and RGH to employ professionals in the ordinary course of business and opposed the Committees' application for an order authorizing the retention of PricewaterhouseCoopers LLP as joint financial advisor to the Committees. The Rehabilitator withdrew these objections but reserved its right to renew them should RGH transfer, assign, encumber, distribute, dispose of or exercise rights in the funds with respect to which the Rehabilitator filed the Constructive Trust Action.

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[3] Such period was subsequently extended solely for RGH by order of the Bankruptcy Court, dated March 29, 2004, to and including July 28, 2004.

On February 22, 2002, the Pennsylvania Bankruptcy Court denied the Liquidator's motion to abstain and remand the Insurance Policy Action, and granted RGH's motion to transfer the action to the Bankruptcy Court. The Liquidator then moved the EDPA Court for leave to appeal the PA Bankruptcy Court's order with respect to the transfer of the Insurance Policy Action. See "—Pre-Petition Litigation with the Rehabilitator".

Also on February 22, 2002, the PA Bankruptcy Court granted in part the Liquidator's motion to abstain and remand the Constructive Trust Action, remanded certain issues to the Commonwealth Court, and purported to lift the automatic stay as to those issues. The PA Bankruptcy Court transferred certain remaining issues to the Bankruptcy Court. RGH and the Committees appealed the PA Bankruptcy Court's decision with respect to the Constructive Trust Action to the EDPA Court. On February 28, 2002, RGH moved before the PA Bankruptcy Court for a stay of the decision pending appeal. The PA Bankruptcy Court denied the stay at a hearing on March 1, 2002, and RGH then sought the same relief from the EDPA Court. By consent of the parties, the PA Bankruptcy Court's decision was temporarily stayed to allow the EDPA Court to consider RGH's motion for stay pending appeal.

On March 13, 2002, the Liquidator, RGH and the Committees agreed to a temporary standstill of litigation on the issues raised by the Constructive Trust Action and the Bar Date objection in order to attempt to reach a consensual resolution of the disputes among the parties. By subsequent agreements, the standstill period was extended, and the standstill was expanded to include the issues raised by the Insurance Policy Action.

As a result of the PA Settlement, the Constructive Trust Action has been settled, and disputes as to the proceeds of the Insurance Policies in connection with any litigation, claims or causes of action against any director or officer of the Debtor, RGH or RIC, including the D&O Litigation, have been resolved as between the Committees, RGH and the Debtor on the one hand, and the Liquidator on the other. See "—Pre-Petition Litigation with the Rehabilitator".

Negotiations Among the Liquidator and the Committees

Beginning in March 2002, the Liquidator and the Committees, on behalf of the RGH and RFSC estates, began discussions regarding the terms of a consensual resolution of the disputes among them. These complex discussions lasted approximately a year and culminated in the negotiation of a global settlement among the Liquidator and the Committees, which settlement is set forth in the PA Settlement Agreement. The PA Settlement Agreement, which sets forth the division of assets between RIC, on the one hand, and the Debtor and RGH, on the other hand, was entered into on or about April 1, 2003 and was approved by order of the Bankruptcy Court on May 28, 2003, and by order of the Commonwealth Court on June 19, 2003. A copy of the PA Settlement Agreement is annexed hereto as Appendix B. See "PA Settlement Agreement" for a more detailed description of the terms of the PA Settlement Agreement.

Shortly thereafter, the Committees resumed earlier discussions regarding the terms of a consensual resolution of certain disputes between the Debtor and RGH. These discussions culminated in the negotiation of a settlement between the Committees with respect to the assets of the Debtor's and RGH's estates and the funding of Reorganized RFSC, which settlement is set forth in the RGH/RFSC Settlement. The RGH/RFSC Settlement, which (a) settles certain claims

of RFSC and RGH with respect to the division of assets between them and (b) provides for post-confirmation funding of Reorganized RFSC, was entered into by the Committees on or about January 29, 2004 and was approved by order of the Bankruptcy Court dated February 27, 2004.[4] A copy of the RGH/RFSC Settlement is annexed hereto as Appendix C. See "—RGH/RFSC Settlement" for a more detailed description of the terms of the RGH/RFSC Settlement.

PA Settlement Agreement

Among other things, the PA Settlement Agreement addresses the following issues:

Section 847 Refunds

The RGH Tax Group has designated or will designate certain tax payments as "special estimated tax payments" under Section 847 of the IRC. Such payments may become available for refund pursuant to Section 847 of the IRC (the "*Section 847 Refunds*"). Each of the RGH Tax Group (until its termination), the RFSC Tax Group (upon its formation) and the Committees have agreed to take all steps necessary to maximize the receipt of Section 847 Refunds. See "Federal Income Tax Consequences of the Plan – Description of Tax Sharing Agreement".

It is anticipated that, starting in 2005, and most years thereafter for the next seven to ten years, RFSC will apply for an aggregate of at least $145 million of Section 847 Refunds (and possibly substantially in excess of such amount). However, there can be no assurance that any or all of the Section 847 Refunds will be available. See "Federal Income Tax Consequences of the Plan – Consequences to Debtor – Section 847 Refunds".

Any Section 847 Refunds recovered will be paid fifty percent (50%) to the Liquidator and twenty-five percent (25%) to each of RGH and RFSC. (Under the terms of the Tax Sharing Agreement, any contest expenses incurred by RFSC to obtain the Section 847 Refunds will be charged exclusively against RGH's and RFSC's share of the Section 847 Refunds.)

Net Operating Losses

The RGH Tax Group has substantial net operating losses for federal income tax purposes and may generate additional such losses prior to its termination. The RFSC Tax Group will inherit substantial portions of such losses from the RGH Tax Group and may generate additional net operating losses in the future (together, all such RGH Tax Group losses inherited by the RFSC Tax Group and all subsequent losses generated by the RFSC Tax Group, the "*RFSC Group NOLs*").

On or prior to the Effective Date, RGH, RFSC, RIC and the Liquidator will enter into a Tax Sharing Agreement to govern the sharing of the group's consolidated tax liability and

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[4] The Bankruptcy Court order approving the RGH/RFSC Settlement was subsequently appealed by High River on March 5, 2004. The appeal was pending in the District Court for the Southern District of New York (Case No. 1:04-cv-02815-SAS), however, pursuant to an agreement with the Bank Committee, High River withdrew such appeal.

various other tax matters. For a full description of the Tax Sharing Agreement, see "Federal Income Tax Consequences of the Plan – Description of Tax Sharing Agreement".

The parties to the PA Settlement Agreement have agreed that:

- RFSC Group NOLs attributable to the operations of RIC of not less than $1.25 billion (the "*Base NOLs*") will be made available for RFSC;

- RFSC Group NOLs attributable to the operations of RIC, whether then existing or thereafter created, in excess of the Base NOLs, will remain available to be used by RIC to offset income generated in connection with the liquidation of RIC, including its ongoing insurance operations (the "*RIC NOLs*"); and

- in the event that RIC, in its reasonable sole discretion, determines that it no longer requires all or a portion of the RIC NOLs, RIC will make such excess NOLs (the "*Excess NOLs*") available to RFSC.

The actual use of the Base NOLs and Excess NOLs will be determined by RGH and RFSC in consultation with RIC.

For additional information regarding the RFSC Group NOLs, see the PA Settlement Agreement, annexed hereto as Appendix B and the form of the Tax Sharing Agreement, a copy of which will be filed no later than fourteen (14) days prior to the date first scheduled for the confirmation hearing. The Bankruptcy Court and Commonwealth Court will be asked to approve the terms of the Tax Sharing Agreement and, assuming such approval is granted, the Tax Sharing Agreement will control in the case of a conflict between the terms of the Tax Sharing Agreement and those of the PA Settlement Agreement. Pursuant to the Tax Sharing Agreement, amounts realized (other than the Section 847 Refunds) from utilization of the Base NOLs and Excess NOLs, if any, generally will be shared equally between RIC and Reorganized RFSC.

Litigation Proceeds

On June 24, 2002, the Liquidator commenced the RIC D&O Action against the D&O Defendants. For a discussion of the RIC D&O Action, see "Existing Management – D&O Litigation". While the PA Settlement Agreement remains in full force and effect, the parties thereto have agreed that neither the Committees nor any other Estate Representative shall be permitted to commence any action against the D&O Defendants (except for a preference action) without the prior written consent of the Liquidator, including consent regarding the venue of such action.

In addition, pursuant to the PA Settlement Agreement, any proceeds realized by the Liquidator or any Estate Representative arising out of any litigation, including the RIC D&O Action, against any director or officer of RFSC, RGH or RIC that is covered by the Insurance Policies, or received from such directors and officers, including any D&O Defendant, will be divided (i) sixty percent (60%) to the Liquidator and (ii) forty percent (40%) to the Estate Representative, with all expenses, legal or otherwise, allocated completely to the Liquidator's

share. In the event an Estate Representative initiates an action consistent with the PA Settlement Agreement, all proceeds will be split sixty percent (60%) to the Liquidator and forty percent (40%) to the Estate Representative, as set forth above, if the Liquidator exercises its option to pay for any fees and expenses in connection therewith. If she does not exercise such option, however, the net proceeds (after deduction of litigation fees and expenses) shall instead be split fifty percent (50%) to the Liquidator and fifty percent (50%) to the Estate Representative. However, any proceeds derived from preference actions (so long as they are not derived from or received through any of the Insurance Policies) brought in any forum against any D&O Defendant, either in their capacity as officers and directors of RGH, RFSC, or RIC, or as individuals or otherwise, are specifically excluded from division or allocation and will be retained by the party who brings the action.

In the event the Liquidator wishes to settle the RIC D&O Action, the PA Settlement Agreement requires that the Liquidator first seek the consent of the Committees, or, upon confirmation of the RGH Plan, the Liquidating Trustee to any such settlement of the RIC D&O Action. Individual members of the Committees shall have no right to consent or withhold consent. The Liquidator must also provide to the Committees or the Liquidating Trustee notice in writing setting forth the material terms of the proposed settlement. In that event, the Committees or the Liquidating Trustee must provide consent or refusal to consent to any such settlement within 48 hours of receipt of the notice. A refusal to consent must set forth (i) each reason for the refusal to consent; and (ii) alternative terms to which consent would be given. The Liquidator may then either abandon such settlement or submit the reasonableness of the settlement to a dispute resolution proceeding that shall be commenced and concluded in no more than 48 hours. In any such proceeding, the Committees or the Liquidating Trustee shall bear the burden of proving, by clear and convincing evidence, that the proposed settlement is, when taken as a whole, unreasonable and inadequate. If that burden is met, and the refusal to consent is sustained by the arbitrator, the arbitrator shall determine what monetary or other terms would be reasonable and adequate. Such determination will be binding on the Liquidator, the Committees, and the Liquidating Trustee, and all parties will be bound to take all actions necessary to effectuate the settlement.

For a further discussion of the litigation proceeds, see "Existing Management – D&O Litigation".

RGH Cash

As of March 1, 2004, RGH held $105,844,000 in Cash. Pursuant to the PA Settlement Agreement, on or about March 31, 2004 and April 1, 2004, $45 million plus interest, totaling $45,347,000, was distributed to the Liquidator, leaving RGH with total Cash of approximately $56,855,000.00 as of September 30, 2004.

New Cash

Pursuant to the PA Settlement Agreement, RFSC and its creditors will not receive any portion of the New Cash (as defined in the PA Settlement Agreement) that may be received (which, with respect to assets in a form other than Cash, means the receipt of the cash proceeds upon conversion of such assets to Cash).

Claims of the Liquidator

Pursuant to the PA Settlement Agreement, the Liquidator shall have (i) a $288 million Allowed Claim in the Cases, which Claim is settled in full against the Debtor and RGH by the terms of the PA Settlement Agreement and (ii) a priority claim of $45 million in Cash held by RGH, which was paid on or about March 31, 2004. The parties to the PA Settlement Agreement acknowledged that the Liquidator contends that her Claims are or may be far in excess of $288 million, but that the Liquidator has agreed not to further assert other Claims against the Debtor or RGH or their respective subsidiaries, the Committees or the Committees' representatives and the Committees' counsel; it being agreed, however, that such Claims would nevertheless survive and could be asserted by the Liquidator against any other parties who may be liable with respect thereto.

Implementation of the PA Settlement Agreement

The Liquidator and the Committees have agreed to do everything reasonably necessary to implement the terms of the PA Settlement Agreement. The terms of the PA Settlement Agreement have been implemented on the part of the Committees and the Liquidator through motions filed with the Bankruptcy Court and the Commonwealth Court, respectively, to approve the PA Settlement Agreement. It is anticipated that such terms will also be implemented, by the Committees, through the Plan and the RGH Plan, and, by the Liquidator, through a plan of rehabilitation or liquidation for RIC. For additional information regarding the orders approving the PA Settlement Agreement, see "Introduction and Summary – Background".

For more information on the terms of the PA Settlement Agreement, see the PA Settlement Agreement attached to this Disclosure Statement as Appendix B.

RGH/RFSC Settlement

As indicated above, in addition to the PA Settlement Agreement, a global agreement was also reached by the Committees, which agreement is set forth in the RGH/RFSC Settlement, (a) settling certain claims of RFSC and RGH with respect to the division of assets between them and (b) providing for the post-confirmation funding of RFSC.

Notwithstanding the settlement of all outstanding disputes between RIC, on the one hand, and the Debtor and RGH, on the other, pursuant to the PA Settlement Agreement, a number of inter-debtor disputes between the RGH and RFSC estates remained outstanding since each of the Debtor and RGH had a claim, at least in part, to the portion of each of the assets remaining after allocating to the Liquidator her portion of such assets pursuant to the PA Settlement Agreement. Accordingly, shortly after entering into the PA Settlement Agreement, the Committees commenced discussions in an attempt to resolve the issues created by the Debtor's and RGH's intertwined corporate structures. After many months of complex negotiations, the Committees agreed to resolve the disputes between the Debtor and RGH on the terms set forth in the RGH/RFSC Settlement. As was the case when the Committees sought approval of the PA Settlement Agreement, and in light of the inherent conflict faced by the common management of the Debtor and RGH in resolving inter-debtor issues, the Committees assumed the roles of representing each of their discrete groups of constituents. In such capacity, they negotiated the

RGH/RFSC Settlement, which defined the rights of the estates of each of RGH and RFSC to their assets and provided for the funding of Reorganized RFSC.

The principal terms of the RGH/RFSC Settlement are the following:

- On the Effective Date, each of RGH and RFSC will fund Reorganized RFSC in the amount of $2,537,000, for a total initial funding of $5,074,000. RFSC's portion of the initial funding, as well as certain additional amounts, will be obtained by RFSC pursuant to a secured credit facility provided by RGH. For a discussion of RGH's funding obligations, see "Plan – Summary of Other Provisions of the Plan – Post-Confirmation Funding".

- Each of Reorganized RFSC and RGH will have a fifty percent (50%) undivided interest in the Section 847 Refunds (net of (i) first, any payment to the Liquidator pursuant to the PA Settlement Agreement and (ii) then, any other expenses). In addition, Reorganized RFSC will have a 27.5%, and RGH will have a 72.5%, undivided interest in any Non-Liquidator D&O Litigation Proceeds plus any Other Litigation Proceeds. RGH will retain all cash remaining after (i) any distributions to RIC pursuant to the PA Settlement Agreement, (ii) funding of the RFSC expenses in confirming the Plan and (iii) providing for Reorganized RFSC's initial funding of $5,074,000. All of the equity interests in Reorganized RFSC will be owned by Holders of the Bank Claims.

- Reorganized RFSC may, from time to time, adjust its budgets and the amount in its reserves to satisfy any ongoing operational requirements and any indemnification obligations. However, in the event of a Change of Control, substantially all of Reorganized RFSC's liquid assets will be distributed pursuant to the distribution priorities set forth in the RGH/RFSC Settlement.

- Reorganized RFSC will be required to provide periodic financial statements to, among others, RGH, the members of the RFSC Advisory Committee, counsel to the Creditors' Committee and the co-chairs of the Creditors' Committee.

- Reorganized RFSC shall indemnify its Chief Executive Officer (*"CEO"*) to the maximum extent permitted by Delaware law. In addition, Reorganized RFSC shall indemnify each member of the RFSC Advisory Committee, subject to certain limitations set forth in the RGH/RFSC Settlement.

An order approving the RGH/RFSC Settlement was entered by the Bankruptcy Court on February 27, 2004. Such order was subsequently appealed on March 5, 2004 by High River. The appeal was filed in the District Court for the Southern District of New York (Case No. 1:04-cv-02815-SAS), however, pursuant to an agreement with the Bank Committee, High River withdrew such appeal.

For more information on the terms of the RGH/RFSC Settlement, see the RGH/RFSC Settlement attached to this Disclosure Statement as Appendix C.

Bank Committee Plan and Disclosure Statement

On April 27, 2004 the Bank Committee filed its Plan of Reorganization of Reliance Financial Services Corporation Under Chapter 11 of the Bankruptcy Code (as subsequently modified or amended, the "Bank Plan")[5] and related Disclosure Statement Under 11 U.S.C. §1125 with Respect to the Plan of Reorganization of Reliance Financial Services Corporation proposed by the Official Unsecured Bank Committee (as subsequently modified or amended, the "Bank Disclosure Statement").

The Bank Committee filed a motion with the Bankruptcy Court on June 2, 2004 that sought approval of (i) the adequacy of the Disclosure Statement and (ii) approval of the Bank Committee's proposed procedures for soliciting approval of the Bank Plan. The Bankruptcy Court approved the Bank Disclosure Statement, as modified, and an order (i) approving the adequacy of the disclosure statement and (ii) the proposed solicitation procedures was ultimately entered on July 8, 2004.

The Bank Committee thereafter commenced solicitation of the related Bank Plan. Of the three classes of creditors entitled to vote on the Bank Plan, creditors in Class 2 (Bank Claims) and Class 4b (Liquidator Claim) of the Bank Plan voted to accept the Bank Plan. No creditors in Class 4a (General Unsecured Claims) voted on the Bank Plan, either affirmatively or negatively. Although the Bank Committee did not receive votes from creditors in Class 4a, and certain classes of creditors were deemed to reject the Bank Plan, it is the Creditors' Committee's understanding that the Bank Committee intended to seek Bankruptcy Court approval of the Bank Plan pursuant to certain provisions of the Bankruptcy Code that permit approval of a plan even without acceptance by all classes of creditors.

The Creditors' Committee supports the Bank Plan and supports its confirmation. However, the Bank Committee has not yet asked the Bankruptcy Court to confirm the Bank Plan and has adjourned scheduled hearings before the Bankruptcy Court requesting same. Since the Creditors' Committee believes the terms of the Bank Plan are in the best interests of the Debtor's Estate and the Bank Committee is not moving the Bank Plan to confirmation, the Creditors' Committee is proposing its Plan which is substantially identical to the Bank Plan modified to implement the terms of the PBGC Stipulation. See "The Settlement with the Pension Benefit Guaranty Corporation".

Motion to Approve Tax Determinations

On August 2, 2004, the Committees filed a motion requesting that the Bankruptcy Court issue certain findings and make certain conclusions (the "Tax Determinations") pursuant to Section 505 of the Bankruptcy Code. After conducting a hearing, the Bankruptcy Court issued an order (the "Tax Order") on September 27, 2004 with respect to the Tax Determinations which included the following:

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[5] The Bank Committee amended the Bank Plan before and during the solicitation process.

1. The principal purpose of the Bank Plan, as proposed and confirmed, is not the avoidance or evasion of Federal income tax within the meaning of Section 269 of the IRC and the Treasury Regulations promulgated thereunder.

2. At all times subsequent to the Petition Date, RFSC has carried on more than an insignificant amount of an active trade or business within the meaning of Treasury Regulation Section 1.269-3(d).

3. The first sentence of Section 847(6)(A) of the IRC, which applies to a company that liquidates or otherwise terminates its insurance business, does not apply to RIC due to its ongoing insurance activities.

4. RIC has been, and continues to be, subject to the tax imposed by Section 831 of the IRC.

5. On the date following the Effective Date, the RFSC Tax Group (as a result of the inclusion of RIC in the affiliated group of corporations filing a consolidated Federal income tax return having Reorganized RFSC as the common parent) will succeed to all special estimated tax payments (within the meaning of Section 847 of the IRC) made by RGH.

6. As a result of the application of Section 382(l)(5) of the IRC, the NOL limitations of Section 382(a) do not apply to any ownership change resulting from the Bank Plan (as confirmed, assuming receipt of penalty of perjury statements from each of the Banks, executed as of the Effective Date and in substantially similar form as that described in Exhibits 1-7 offered into evidence at the hearing with respect to the Tax Order, and no relevant changes to the Bank Plan subsequent to the date of entry of the Tax Order).

7. RGH was not required to designate on an originally-filed tax return any estimated tax payments as "special estimated tax payments" under Section 847 of the IRC in order for such tax payments to be treated as special estimated tax payments refundable pursuant to Section 847 of the IRC

For a further discussion of the Tax Determinations, see "Federal Income Tax Consequences of the Plan – Tax Determinations".

Although the Tax Determinations were made with respect to the Bank Plan, since the Creditor's Committee believes that the Plan is substantially identical to the Bank Plan, the Creditors' Committee will seek to have the Bankruptcy Court find that the Tax Determinations are applicable to the Plan as well.

"Settlement with the Pension Benefit Guaranty Corporation"

PBGC filed certain proofs of claim (the "PBGC Claims") against the Debtor and RGH in respect of the RIC Retirement Plan and the RGH Pension Plan. See "The Company and Its Business – Pension Plans". On July 16, 2004, the Committees jointly filed with the Bankruptcy Court an objection (the "PBGC Claims Objection") to the claims filed by the PBGC against both

the Debtor and RGH, which disputed both the priority and amount of all claims asserted by PBGC.

The PBGC filed with the Bankruptcy Court on August 16, 2004 an objection (the "PBGC Plan Objection") to the Bank Plan on the basis, among other things, that the Banks were not entitled to all of the value of Reorganized RFSC.

The PBGC commenced an action against RGH and Paul Zeller, in his capacity as member of the Benefit Plans Committee of RGH (the "PBGC District Court Action") in the United States District Court for the Southern District of New York on July 21, 2004, which sought to terminate the RGH Pension Plan.

After extensive negotiations among the Committees, the Debtor, RGH, Paul Zeller and the PBGC, a global agreement was reached, which agreement is set forth in the PBGC Stipulation, which addressed: (a) the claims of the PBGC against the Debtor and RGH, (b) the PBGC's objection to the Bank Plan, and (c) an action commenced by the PBGC in the United States District Court for the Southern District of New York.regarding the PBGC Claims, the PBGC Claims Objection, the PBGC Plan Objection, and the PBGC District Court Action, the Committees, the Debtor, RGH, Paul Zeller, and PBGC agreed that the disputes regarding all of these issues would be resolved on the terms set forth in the PBGC Stipulation.

The principal terms of the PBGC Stipulation include the following:

- The PBGC Claims would be amended or deemed amended such that PBGC Claims would consist of (i) a general unsecured claim against the RFSC estate in the amount of $82.5 Million and (ii) an allowed general unsecured claim against the RGH estate in the amount of $81 Million); provided, however, that the total recovery by PBGC from both Debtors' estates shall not, in the aggregate, exceed $82.5 Million.

- The PBGC would also receive an administrative claim against the RFSC estate in the amount of $3 Million, which claim would be payable solely from fifty-percent (50%) of the first $6 Million of certain non-litigation future proceeds otherwise available for distribution to the holders of equity of Reorganized RFSC.

- RGH would immediately execute a trusteeship agreement terminating the RGH Pension Plan, which the PBGC would hold in escrow pending Bankruptcy Court approval of the PBGC Stipulation.

- The PBGC District Court Action would be dismissed as soon as practicable after Bankruptcy Court approval of the PBGC Stipulation.

- The Bank Plan would be amended to exempt from release certain causes of action under ERISA.

- The PBGC Plan Objection would be dismissed.

An order approving the PBGC Stipulation was entered by the Bankruptcy Court on October 15, 2004. The order provides that it is without prejudice to High River Limited Partnership ("High River"), a creditor of the Debtor, respecting whether revisions to the Bank Plan contemplated by the PBGC Stipulation would be in violation of the terms of an agreement between and among High River and the Bank Committee. The Creditors' Committee is not a signatory to that agreement. The terms of the PBGC Stipulation have been incorporated into the Plan.

PLAN

The Plan is a plan of reorganization of RFSC. The Plan, together with the RGH Plan to be filed with the Bankruptcy Court on a later date, implements the terms of the PA Settlement Agreement, the RGH/RFSC Settlement and the PBGC Stipulation (together, the *"Settlements"*). The Plan sets forth in detail the terms of the Restructuring and provides for its implementation.

The following discussion of the Plan is qualified in its entirety by reference to the provisions of the Plan, a copy of which is attached to this Disclosure Statement as Appendix A. In the event of any inconsistency between the provisions of the Plan and this Disclosure Statement, the provisions of the Plan are controlling. Holders of Claims and Equity Interests should carefully read the Plan in its entirety for a full understanding of its terms.

Classification of Claims and Equity Interests Under the Plan

Section 1123 of the Bankruptcy Code provides that a plan of reorganization must classify claims against and equity interests in a debtor. Under Section 1122 of the Bankruptcy Code, a plan must classify each right to payment against the debtor and each right to an equitable remedy for breach of performance which gives rise to a right to payment, as well as any interest in the debtor represented by an equity security, into a category or class that contains substantially similar claims or equity interests. The Bankruptcy Code also requires that a plan of reorganization provide the same treatment for each claim or equity interest of a particular class, unless the holder of a particular claim or equity interest agrees to less favorable treatment of its claim or equity interest.

The Plan divides Holders of known Claims against, and known Equity Interests in, RFSC into Classes and sets forth the treatment offered each Class. See "—Summary of Distributions Under the Plan" below. The Creditors' Committee believes it has classified all Claims and Equity Interests in compliance with the provisions of Section 1122 of the Bankruptcy Code, but it is possible that a Holder of a Claim or Equity Interest may challenge the classification of Claims and Equity Interests and that the Bankruptcy Court may find that a different classification is required for the Plan to be confirmed. In such event, it is the Creditors' Committee's present intention, to the extent permitted by the Bankruptcy Code and the provisions of the Plan, to make modifications to the classification scheme set forth in the Plan as required by the Bankruptcy Court for confirmation.

Except as otherwise provided in the Plan, a Claim or an Equity Interest will be deemed classified in a particular Class only to the extent that such Claim or Equity Interest qualifies

within the description of that Class and will be deemed classified in a different Class to the extent that any remainder of such Claim or Equity Interest qualifies within the description of such different Class. Further, a Claim or Equity Interest will not be classified in any Class for distribution purposes until such Claim or Equity Interest becomes an Allowed Claim or Allowed Equity Interest and then only to the extent that such Claim or Equity Interest has not been paid, released or otherwise satisfied prior to the Effective Date.

Except to the extent that a modification of classification adversely affects the treatment of a Holder of a Claim and requires resolicitation, acceptance of the Plan by any Holder of a Claim pursuant to this solicitation will be deemed to be a consent to the Plan's treatment of such Holder of a Claim regardless of the Class as to which such Holder of a Claim is ultimately deemed to be a member.

The Plan divides Holders of known Claims against, and known Equity Interests in, RFSC into seven (7) Classes, as follows:

Class 1	Classified Priority Claims
Class 2	Bank Claims
Class 3	Other Secured Claims
Class 4a	General Unsecured Claims
Class 4b	Liquidator Claims
Class 4c	D&O Unsecured Claims
Class 5	Equity Interests

Pursuant to the Plan, any Class that does not contain, as of the date of the commencement of the Confirmation Hearing, any Allowed Claims or Allowed Equity Interests or any Claims or Equity Interests temporarily allowed for voting purposes under Bankruptcy Rule 3018 shall be deemed to have been deleted from the Plan for purposes of (i) voting to accept or reject the Plan and (ii) determining whether it has accepted or rejected the Plan under Section 1129(a)(8) of the Bankruptcy Code.

In accordance with the Bankruptcy Code, Administrative Claims and Priority Tax Claims are not classified into Classes.

Summary of Distributions Under the Plan

Only Claims (or portions thereof) against the Debtor

(a) for which a Proof of Claim in a liquidated amount has been timely filed with the Bankruptcy Court, pursuant to the Bankruptcy Code, Final Order of the Bankruptcy Court or other applicable law, or which has been or hereafter is Scheduled by RFSC in a liquidated amount and neither disputed nor contingent and which, in either case, is a Claim as to which (i) no objection to the allowance thereof has been filed within the applicable period of limitations (if any) fixed by the Plan, the Bankruptcy Code, the Bankruptcy Rules or the Bankruptcy Court or (ii) any objection to the allowance has been settled, withdrawn or denied by a Final Order; or

(b) that are expressly allowed (i) in a liquidated amount in the Plan or (ii) by a Final Order

("*Allowed Claims*") are entitled to receive distributions under the Plan. Unless otherwise specified in the Plan or in the final order allowing such claim, "Allowed Claim" does not include interest on the amount of such Claim maturing or accruing from and after the Petition Date, or any punitive or exemplary damages, or any fine, penalty or forfeiture.

If the Plan is confirmed by the Bankruptcy Court, each Holder of an Allowed Claim in a particular Class will receive the same treatment as the other Holders of Allowed Claims in such Class, whether or not such Holder voted to accept the Plan. Such treatment will be in full satisfaction, settlement, release, extinguishment and discharge of such Holder's Claim, except as otherwise provided in the Plan or the order confirming the Plan. Upon confirmation, the Plan will be binding on all Holders of RFSC's Claims and Equity Interests regardless of whether such Holders voted to accept the Plan.

If an objection to a Claim is made, the validity and amount of such Claim will be resolved as described under "Plan – Summary of Other Provisions of the Plan – Distributions to Holders of Disputed Claims".

The following describes the Plan's classification of Claims against and Equity Interests in RFSC, and the treatment that Holders of Allowed Claims will receive under the Plan, unless they were to agree to accept less favorable treatment by settlement or otherwise. The following summary of the proposed distributions under the Plan does not purport to be complete and is subject to, and qualified in its entirety by, the Plan.

Administrative Expense Claims

Administrative Expense Claims are Claims constituting a cost or expense of administration of the Chapter 11 Case under Sections 503, 507(a)(1), 507(b) or 1114(e)(2) of the Bankruptcy Code. Administrative Expense Claims include, without limitation, (a)(i) any actual and necessary post-petition cost or expense of preserving the Estate or operating the businesses of RFSC, (ii) any payment to be made under the Plan to cure a default on an assumed executory contract or unexpired lease, (iii) any post-petition cost, indebtedness or contractual obligation duly and validly incurred or assumed by RFSC in the ordinary course of its businesses, (iv) compensation or reimbursement of expenses of Professionals to the extent Allowed by the Bankruptcy Court under Section 330(a) or Section 331 of the Bankruptcy Code, and (v) all Allowed Claims that are entitled to be treated as Administrative Claims pursuant to a Final Order of the Bankruptcy Court under Section 546(c)(2)(A) of the Bankruptcy Code; and (b) any fees or charges assessed against the Estate under Section 1930 of title 28 of the United States Code. In accordance with Section 1123(a)(1) of the Bankruptcy Code, Administrative Claims are not classified and are excluded from the Classes designated in the Plan.

Pursuant to the Plan, except to the extent that any Holder of an Allowed Administrative Expense Claim (other than a Professional Compensation and Reimbursement Claim) agrees to less favorable treatment, such Holder shall receive, in full and complete settlement, satisfaction, release and discharge of such Allowed Administrative Expense Claim, Cash in an amount equal

to such Allowed Administrative Expense Claim on the Effective Date or as soon thereafter as is practicable; provided, however, that Allowed Administrative Expense Claims (other than Professional Compensation and Reimbursement Claims) representing liabilities incurred in the ordinary course of business by RFSC or liabilities arising under loans or advances to or other obligations incurred by the RFSC shall be paid in full and performed by Reorganized RFSC in the ordinary course of business in accordance with the terms and subject to the conditions of any agreements governing, instruments evidencing or other documents relating to such transactions. Unless otherwise agreed to by a Holder of an Allowed Administrative Expense Claim, Distributions on account of Allowed Administrative Expense Claims (other than Professional Compensation and Reimbursement Claims), if any, will be made from Available Cash (i.e., Cash held by RGH on the Effective Date, excluding any proceeds from RGH's fifty percent (50%) undivided interest in the Net 847 Refunds).

Assuming that neither significant litigation nor objections are filed with respect to the Plan and assuming the Plan is confirmed by December 31, 2004, the Creditors' Committee estimates that there will be no unpaid Administrative Expense Claims as of the Effective Date, other than the claim of PBGC, which has agreed to a lesser treatment and subordinated payment terms. See "Settlement With the Pension Benefit Guaranty Corporation."

Professional Compensation and Reimbursement Claims

Each Entity seeking an award by the Bankruptcy Court of compensation for services rendered or reimbursement of expenses incurred through and including the Effective Date under Sections 330(a), 503(b)(2), 503(b)(3), 503(b)(4) or 503(b)(5) of the Bankruptcy Code ("*Professional Compensation and Reimbursement Claims*") shall file its respective final application for allowance of compensation for services rendered and reimbursement of expenses incurred through the Effective Date by no later than the date that is seventy-five (75) days after the Effective Date, or such other date as may be fixed by the Bankruptcy Court. Each Holder of an Allowed Professional Compensation and Reimbursement Claim shall receive, in full and complete settlement, satisfaction, release and discharge of such Allowed Professional Compensation and Reimbursement Claim, Cash in an amount equal to such Allowed Professional Compensation and Reimbursement Claim (i) on the date of such allowance, or as soon thereafter as is practicable, or (ii) upon such other terms as may be mutually agreed upon between such Holder of an Allowed Professional Compensation and Reimbursement Claim and the Reorganized Debtor. Distributions on account of Allowed Professional Compensation and Reimbursement Claims, if any, will be made from Available Cash.

Assuming that neither significant litigation nor objections are filed with respect to the Plan and assuming the Plan is confirmed by December 31, 2004, the Creditors' Committee estimates that unpaid Professional Compensation and Reimbursement Claims as of the Effective Date will not exceed approximately $860,000, exclusive of any holdbacks.

Priority Tax Claims

Certain Claims for unpaid taxes are entitled to priority in right of payment under Section 507(a)(8) of the Bankruptcy Code. In accordance with Section 1123(a)(1) of the Bankruptcy

Code, Priority Tax Claims are not classified and are excluded from the Classes designated in the Plan.

Under the Plan, except to the extent that any Holder of an Allowed Priority Tax Claim has been paid by RFSC prior to the Effective Date or agrees to less favorable treatment, such Holder shall receive, in full and complete settlement, satisfaction and discharge of such Allowed Priority Tax Claim, Cash in an amount equal to such Allowed Priority Tax Claim on the Effective Date or as soon thereafter as is practicable, provided, however, that any Priority Tax Claim that is not an Allowed Claim, including any Priority Tax Claim that is not due and owing on the Effective Date, will be paid when such Claim becomes an Allowed Claim. Distributions on account of Allowed Priority Tax Claims, if any, will be made from Available Cash.

Currently, the Creditors' Committee believes that there are no Priority Tax Claims.

Classified Priority Claims – Class 1

Class 1 consists of all Claims against RFSC entitled to priority under Section 507(a) or (b) of the Bankruptcy Code, other than Administrative Claims and Priority Tax Claims. Under the Plan, except to the extent that a Holder of an Allowed Classified Priority Claim has been paid by RFSC prior to the Effective Date or such Holder agrees to less favorable treatment, each Holder of an Allowed Classified Priority Claim shall receive, in full and complete settlement, satisfaction, release and discharge of its Allowed Classified Priority Claim, Cash in an amount equal to the unpaid portion of such Allowed Classified Priority Claim on the Effective Date or as soon thereafter as is practicable. Distributions on account of Classified Priority Claims, if any, will be from Available Cash.

Class 1 is Unimpaired and the Holders of Classified Priority Claims are conclusively presumed to have accepted the Plan pursuant to Section 1126(f) of the Bankruptcy Code and are not entitled to vote to accept or reject the Plan.

Currently, the Creditors' Committee believes that there are no Priority Claims.

Bank Claims – Class 2

Class 2 Consists of the Allowed Claims of the Banks arising from the Bank Credit Agreement. Under the Plan, unless otherwise provided therein, and except to the extent that a Holder of an Allowed Bank Claim agrees to less favorable treatment, on the Effective Date, or as soon thereafter as is practicable, each Holder of an Allowed Bank Claim (i) shall receive, in full and complete settlement, satisfaction, release and discharge of and in exchange for its Allowed Bank Claim, (A) its Pro Rata share of New RFSC Common Stock and (B) its Pro Rata share (provided the Holder of such Claim(s) is not an Opt-Out Creditor) of the RFSC Litigation Proceeds and (ii) shall be deemed to have assigned its Litigation Claim(s) to RGH pursuant to the Plan; provided, however, that any Holder of a Bank Claim who is an Opt-Out Creditor (A) shall not be deemed to have assigned its Litigation Claim(s) to RGH and (B) shall not receive a Pro Rata share of the RFSC Litigation Proceeds. If the Holders of Allowed Bank Claims vote to reject the Plan as a Class, the Creditors' Committee shall seek to confirm the Plan pursuant to Section 1129(b) of the Bankruptcy Code.

Class 2 is Impaired and the Holders of the Allowed Bank Claims are entitled to vote to accept or reject the Plan and to make the Opt-Out Election on the Ballot.

The Bank Claims shall be deemed Allowed in the aggregate amount of $252,944,097.27 and shall not be subject to defense, setoff or counterclaim.

Prior to agreeing to Allow the Bank Claims in full, the Debtor undertook an investigation of the validity of the liens and claims of the Banks. Such review did not reveal any defects in such claims and liens and, as such, the Debtor believes it appropriate to allow such claims in their full amount.

Other Secured Claims – Class 3

Class 3 consists of all secured Claims against RFSC (other than the Bank Claims) or Claims against RFSC that are subject to set-off under Section 553 of the Bankruptcy Code, to the extent of such set-off. Under the Plan, unless otherwise provided therein, and except to the extent that a Holder of an Allowed Other Secured Claim has been paid by RFSC prior to the Effective Date or such Holder agrees to less favorable treatment, on the Effective Date, or as soon thereafter as is practicable, each Holder of an Allowed Other Secured Claim shall, in full and complete settlement, satisfaction, release and discharge of and in exchange for its Allowed Other Secured Claim, at the sole option of Reorganized RFSC, (i) be reinstated and rendered Unimpaired, (ii) receive Cash in an amount equal to such Allowed Other Secured Claim, including any interest on such Allowed Other Secured Claim required to be paid pursuant to Section 506(b) of the Bankruptcy Code, or (iii) receive the Collateral securing its Allowed Other Secured Claim and any interest on such Allowed Other Secured Claim required to be paid pursuant to Section 506(b) of the Bankruptcy Code. Distributions on account of Other Secured Claims, if any, will be from Available Cash.

Class 3 is Unimpaired and the Holders of Other Secured Claims are conclusively presumed to have accepted the Plan pursuant to Section 1126(f) of the Bankruptcy Code and are not entitled to vote to accept or reject the Plan.

Currently, the Creditors' Committee believes that there are no Other Secured Claims.

General Unsecured Claims – Class 4a

Class 4a consists of all pre-petition Allowed Claims against RFSC other than Administrative Expense Claims (including Professional Compensation and Reimbursement Claims), Priority Tax Claims, Classified Priority Claims, Bank Claims, Other Secured Claims, the Liquidator Claim or D&O Unsecured Claims. Under the Plan, unless otherwise provided herein, and except to the extent that a Holder of an Allowed General Unsecured Claim agrees to less favorable treatment, on the Effective Date, or as soon thereafter as is practicable, each Holder of an Allowed General Unsecured Claim (i) shall receive, in full and complete settlement, satisfaction, release and discharge of and in exchange for its Allowed General Unsecured Claim, its Pro Rata share (provided the Holder of such Claim(s) is not an Opt-Out Creditor) of the RFSC Litigation Proceeds and (ii) shall be deemed to have assigned its Litigation Claim(s) (other than those covered by Section 14.4(c)(v)(2) of the Plan, which relate to certain possible ERISA actions) to RGH pursuant to the Plan; provided, however, that any Holder of a General

Unsecured Claim who is an Opt-Out Creditor (A) shall not be deemed to have assigned its Litigation Claim(s) to RGH and (B) shall not receive a Pro Rata share of the RFSC Litigation Proceeds. If the Holders of Allowed General Unsecured Claims vote to reject the Plan as a Class, the Creditors' Committee shall seek to confirm the Plan pursuant to Section 1129(b) of the Bankruptcy Code.

Class 4a is Impaired and the Holders of Allowed General Unsecured Claims are entitled to vote to accept or reject the Plan and to make the Opt-Out Election on the Ballot.

Claims totaling in excess of $461,479,985.88 have been asserted in the Chapter 11 Case, however, the Bank Committee and/or the Creditors' Committee have objected to all such claims and the Creditors' Committee believes that the sole General Unsecured Claim allowed by the Court is the Claim held by the PBGC in the amount of $82,500,000.00 pursuant to the PBGC Stipulation.

Liquidator Claim – Class 4b

Class 4b consists of the Claim of the Liquidator against RFSC. Under the Plan, unless otherwise provided therein, and except to the extent that the Holder of the Allowed Liquidator Claim agrees to less favorable treatment, on the Effective Date, or as soon thereafter as is practicable, the Holder of the Allowed Liquidator Claim shall be entitled to receive, in full and complete settlement, satisfaction, release and discharge of and in exchange for its Allowed Liquidator Claim, the payments provided under the Tax Sharing Agreement and the PA Settlement Agreement (which include, without limitation, fifty percent (50%) of the Section 847 Refunds and the Liquidator D&O Litigation Proceeds pursuant to Section 4 of the PA Settlement Agreement and, to the extent certain payments are provided for in both the Tax Sharing Agreement and the PA Settlement Agreement, shall not result in duplicate payments being made).

Class 4b is Impaired and the Holder of the Allowed Liquidator Claim is entitled to vote to accept or reject the Plan.

The Liquidator Claim shall be deemed Allowed in the aggregate amount of $288 million and shall not be subject to defense, setoff or counterclaim.

D&O Unsecured Claims – Class 4c

Class 4c consists of all unsecured Claims against RFSC held at any time by a Former Officer or Former Director. Under the Plan, no Holder of a D&O Unsecured Claim shall assign, or shall be deemed to have assigned, its Litigation Claim to RGH or shall receive or retain any property on account of its D&O Unsecured Claim.

Class 4c is Impaired, and the Holders of D&O Unsecured Claims are deemed to have rejected the Plan pursuant to Section 1126(g) of the Bankruptcy Code and are not entitled to vote to accept or reject the Plan.

Currently, the Creditors' Committee believes that there are no D&O Unsecured Claims.

Equity Interests – Class 5

Class 5 consists of all shares of common stock or other instruments evidencing an ownership interest in RFSC, whether or not transferable, and any option, warrant or right, contractual or otherwise, to acquire any such interest. Under the Plan, on the Effective Date, the Equity Interests shall be canceled and extinguished and no Holder thereof shall be entitled to, or shall receive or retain any property on account of, its Equity Interests.

Class 5 is Impaired, and the Holders of Equity Interests are deemed to have rejected the Plan pursuant to Section 1126(g) of the Bankruptcy Code and are not entitled to vote to accept or reject the Plan.

Summary of Other Provisions of the Plan

Means for Implementation of the Plan

Issuance of New RFSC Common Stock. The Plan authorizes the issuance of the New RFSC Common Stock under Section 1145 of the Bankruptcy Code as of the Effective Date. Pursuant to the Plan, such issuance shall be exempt from registration requirements under the Securities Act and applicable state and local laws. In addition, the New RFSC Common Stock will not be listed on any securities exchange or quotation system.

Charter Amendments. The charter of RFSC will be amended and restated substantially in the form contained in the Plan Supplement, for the purpose of, among other things, authorizing the issuance of the New RFSC Common Stock, including a provision that prohibits the issuance of nonvoting equity securities as required by Section 1123(a)(6) of the Bankruptcy Code and provisions imposing restrictions on the transfer of shares of New RFSC Common Stock.

Litigation Claims. On the Effective Date, the Litigation Claims held by Holders of Claims in Classes 2 and 4a who are not Opt-Out Creditors will be deemed to have been assigned to RGH, without further action by any Person to be managed by the Creditors' Committee or the Liquidating Trustee, as applicable. "Litigation Claims" is deemed to have the broadest possible definition so as to include any and all claims or causes of action that a creditor in either Class 2 (Bank Claims) or Class 4a (General Unsecured Claims) may have against, among others, the former officers and directors of RFSC, RGH and RIC (subject to the limits in the Plan). The Plan contemplates that all possible claims and causes of action held by a particular creditor will be deemed to be assigned by such creditor unless such creditor decides to opt-out, in which case such creditor will retain all such claims and causes of action. Except with respect to claims under Section 14.4(c)(v)(2) of the Plan, the Plan does not contemplate that a creditor will be able to assign certain claims or causes of action while retaining others. Upon the assignment of the Litigation Claims, RGH will obtain all rights previously held by such Holders to litigate their Litigation Claims. Litigation Claims held by Opt-Out Creditors shall not be deemed assigned and Holders of Claims in Classes 2 and 4a who are Opt-Out Creditors shall not receive Litigation Proceeds Cash and their Claims shall not be counted for purposes of determining the amounts of the Litigation Distributions to Holders of Claims in such Classes. In the event RGH recovers any Litigation Proceeds on account of such Litigation Claims or receives any Litigation Proceeds on account of the D&O Litigation, RGH will pay the RFSC Litigation Proceeds to Reorganized

RFSC, to be held in trust for the benefit of the Litigation Proceeds Claimants entitled to Litigation Distributions. To the extent that a particular Class 2 or Class 4a Creditor does not possess any Litigation Claims, such Creditor will still share in any distribution of RFSC Litigation Proceeds to such Class unless such creditor has elected to "opt-out" on its Ballot. After the Effective Date, any Holder of Claims in Class 2 and/or 4a who is entitled to receive Litigation Proceeds pursuant to the Plan may transfer its right to receive Litigation Proceeds by providing written notice of such transfer to Reorganized RFSC. The right of any Litigation Proceeds Claimant to receive Litigation Proceeds may be transferred solely in its entirety, as a single right, and may not be divided or partitioned in any way.

Joint Venture. On or after the Effective Date, Reorganized RFSC may enter into a joint venture with a third party for the purpose of utilizing certain tax assets of the Debtor.

Management of RFSC On and After the Effective Date

Board of Directors of Reorganized RFSC. On and after the Effective Date, the Board of the Reorganized Debtor shall be composed of one director (the "*Board Member*"). The initial member of the Board will be James A. Goodman, who will also serve as the sole officer of Reorganized RFSC. Prior to the Confirmation Date, in accordance with Section 1129(a)(5) of the Bankruptcy Code, the Creditors' Committee will disclose (a) the background and affiliations of Goodman, and (b) the identity of any "insider" (as defined in Section 101(31) of the Bankruptcy Code) who will be employed and retained by Reorganized RFSC and the nature of any compensation for such insider. On the Effective Date, the management, control and operation of the Reorganized Debtor shall become the general responsibility of the Board Member. The Board Member shall serve in accordance with the Amended and Restated Articles of Incorporation and the Amended and Restated By-laws, as the same may be amended from time to time. See "Reorganized RFSC – Management of Reorganized RFSC – The Board".

Chief Executive Officer of Reorganized Debtor. The Bank Committee has selected James A. Goodman to serve as the CEO of the Reorganized Debtor on and after the Effective Date in accordance with the Employment Agreement, the RGH/RFSC Settlement and applicable nonbankruptcy law. See "Reorganized RFSC – Management of Reorganized RFSC –The Board".

Waiver of Conflicts. Pursuant to the RGH/RFSC Settlement, the Debtor and the Reorganized Debtor will have waived, and will be deemed to have waived, any conflict of interest of any counsel, director or officer of Reorganized RFSC or RGH arising from (i) the employment of an Indemnified CEO as a director of Reorganized RFSC; (ii) the employment of an Indemnified CEO as a director or officer of RGH and the participation of such Indemnified CEO in the negotiations leading to such employment; and (iii) the participation of counsel to RGH as co-counsel or lead counsel in the pursuit or defense of Section 847 Refunds.

Reorganized RFSC Advisory Committee. On and after the Effective Date, the RFSC Advisory Committee will be composed of representatives of one or more shareholders of the Reorganized Debtor, with the initial members thereof appointed by the Bank Committee. The Board will consult with the RFSC Advisory Committee in the exercise of the authority granted to the Board under the Amended and Restated Articles of Incorporation, the Amended and Restated

By-laws and the Plan; provided, however, that ultimate decision-making authority shall reside in the Board. See "Reorganized RFSC – Management of Reorganized RFSC – RFSC Advisory Committee".

Directors and officers of Reorganized RFSC and members of the RFSC Advisory Committee will be indemnified to the extent set forth, and as provided, in the Amended and Restated Articles of Incorporation, the Amended and Restated By-laws and the RGH/RFSC Settlement. See "Reorganized RFSC – Management of Reorganized RFSC – Indemnification of the Board" and "—RFSC Advisory Committee".

Post-Confirmation Funding

On the Effective Date, (i) RGH will contribute funds in the amount of $2,537,000 to the Primary Reserve and (ii) Reorganized RFSC shall borrow funds from RGH in the aggregate principal amount of $2,537,000, pursuant to the Senior Secured Credit Agreement, to be deposited into the Primary Reserve, in each case in satisfaction of RGH's and Reorganized RFSC's respective obligations with respect to the initial Primary Reserve Requirement.

Thereafter, if, on any Distribution Date, the reported Primary Reserve Requirement exceeds the reported Primary Reserve balance, each of RGH and Reorganized RFSC will make additional deposits into the Primary Reserve in the amounts necessary to satisfy their obligations with respect to the Primary Reserve Requirement. If, on any such Distribution Date, the RFSC Available Funds are insufficient for Reorganized RFSC to satisfy all or part of its obligations with respect to the Primary Reserve Requirement, Reorganized RFSC shall borrow funds from RGH, pursuant to the Senior Secured Credit Agreement, in the amount of any shortfall, to be deposited into the Primary Reserve in satisfaction of Reorganized RFSCs obligations with respect to the Primary Reserve Requirement.

Expenses (including any postpetition indemnification expenses) incurred by Reorganized RFSC in respect of the operation of its business after the Effective Date and implementation of the Plan, except for Reimbursable Expenses, obligations under the Senior Secured Credit Agreement, and funding obligations relating to the Primary Reserve, the Development Reserve and the Discretionary Reserve, will be paid from Reorganized RFSC's Operating Funds (i.e., RGH Contributions, RGH Loans and RFSC Available Funds in the Primary Reserve).

Nothing contained in the Plan, the RGH/RFSC Settlement, the Amended and Restated By-laws or the Amended and Restated Articles of Incorporation is intended, or shall be interpreted, to in any way bind, require or otherwise create any obligation requiring any shareholder of Reorganized RFSC to provide any funds or other property to or on behalf of, or otherwise invest in, Reorganized RFSC or RGH.

Payment Priorities

Pursuant to the terms of the RGH/RFSC Settlement, any RFSC Available Funds received will be applied by Reorganized RFSC in the following order: (i) first, to satisfy all of Reorganized RFSC's obligations to RGH pursuant to the Senior Secured Credit Agreement and in connection with the Reimbursable Expenses, (ii) second, to satisfy its obligation to fund fifty percent (50%) of the Primary Reserve Requirement; (iii) third, to satisfy its obligation to fund the

Development Reserve; (iv) fourth, to reimburse any members of the RFSC Advisory Committee for indemnification obligations, if any, pursuant to the Plan; (v) fifth, to fund the Discretionary Reserve and (vi) sixth, to pay dividends to holders of New RFSC Common Stock. It should be noted, however, that Reorganized RFSC might be obligated to make payments pursuant to the Tax Sharing Agreement prior to paying dividends to holders of New RFSC Common Stock. Moreover, it should also be noted that the PBGC shall be entitled to a portion of the RFSC Available Funds, if any, (other than Litigation Proceeds) that would otherwise be available for distribution to holders of New RFSC Common Stock. See "Settlement with the Pension Benefit Guaranty Corporation".

Reorganized RFSC will be required to satisfy all required obligations under the RGH/RFSC Settlement prior to making any Cash Distributions to Holders of Claims treated under Section 5.2 of the Plan, or any assignees thereof.

Security Interest

Pursuant to the RGH/RFSC Settlement, all amounts owing under the Senior Secured Credit Agreement and the RGH/RFSC Settlement will be secured by a first priority perfected security interest in all assets of RFSC and/or Reorganized RFSC, other than (i) any interests (excluding proceeds thereof paid to RFSC) in any joint venture of Reorganized RFSC with a third party for the purpose of utilizing certain tax attributes and (ii) all funds invested by, or contributions of, a third party (x) to any such joint venture or (y) to Reorganized RFSC in connection with such joint venture.

Reserves

Pursuant to the RGH/RFSC Settlement and the Plan, Reorganized RFSC shall establish the following reserve accounts for the purposes set forth below:

Primary Reserve. The Primary Reserve shall contain the Operating Funds. On the Effective Date, such funds shall consist of the $5,074,000 contributed by each of RGH and Reorganized RFSC on the Effective Date. Thereafter, on each Distribution Date, (i) if the reported Primary Reserve balance exceeds the reported Primary Reserve Requirement, then funds from the Primary Reserve will be distributed as if such funds were (x) RFSC Available Funds distributable pursuant to Section 2(b) of the RGH/RFSC Settlement and (y) RGH Available Funds distributable pursuant to Section 2(c) of the RGH/RFSC Settlement, in each case in an amount equal to fifty percent (50%) of such excess; and (ii) if the reported Primary Reserve Requirement exceeds the reported Primary Reserve balance, then, the Primary Reserve balance will be funded by RGH Contributions, proceeds from the RGH Revolving Loans and RFSC Available Funds.

Development Reserve. Reorganized RFSC will fund the Development Reserve with RFSC Available Funds, provided that it may only do so in compliance with the required distribution priorities set forth in the Plan. See "—Payment Priorities" above. Funds in the Development Reserve will be used (i) prior to any Change of Control or dissolution of Reorganized RFSC, to pay (or establish an escrow to pay) all Development Expenses coming due (or reasonably expected to come due) during a Development Period to (and including) the

date of any Change of Control or dissolution of Reorganized RFSC; and (ii) upon any Change of Control or dissolution of Reorganized RFSC, to pay (or reserve against) all Development Expenses due and payable (or actually incurred) through the date of such Change of Control or dissolution of Reorganized RFSC, if same occurs during a Development Period, with any remaining funds to be distributed pursuant to Section 9.22 of the Plan, governing the liquidation of the reserves.

Discretionary Reserve. Reorganized RFSC may fund the Discretionary Reserve with RFSC Available Funds to pay future expenses, provided, that it may only do so in compliance with the required distribution priorities set forth in the Plan. See "—Payment Priorities" above. Upon the occurrence of a Change of Control, 847 Termination Date or the dissolution of the Reorganized Debtor, all funds in the Discretionary Reserve shall be distributed pursuant to Section 9.22 of the Plan, governing the liquidation of the reserves.

Liquidation of Reserves. At the times and to the extent provided in Section 9.21(a), (b) and (c) of the Plan, governing the establishment and requirements of the reserves, all funds remaining in the Primary Reserve, Development Reserve and Discretionary Reserve, respectively, will be distributed: (i) first, if any indemnification obligations to the CEO, pursuant to the Plan, could reasonably be expected to become payable, to a trust or trusts established to maintain such funds for the benefit of the respective Indemnified CEOs in an aggregate amount not exceeding the Indemnification Requirement. Notwithstanding any other provision of the RGH/RFSC Settlement, neither Reorganized RFSC nor such trusts will be obligated to distribute such funds to RGH, or to Holders of Equity Interests in Reorganized RFSC pursuant to the Plan, until all litigation and claims giving rise to such indemnification obligations have been settled, paid or otherwise finally resolved, at which time any remaining trust funds will be distributed as set forth in (ii); and (ii) second, (A) in the case of funds from the Primary Reserve, fifty percent (50%) to RGH or its successors and fifty percent (50%) to (I) satisfy any Reimbursement Obligations, (II) reimburse the members of the RFSC Advisory Committee for indemnified expenses, if any, incurred in their capacity as such and (III) pay dividends to Holders of New RFSC Common Stock, and (B) in the case of funds from the Development Reserve or the Discretionary Reserve, one hundred percent (100%) to (I) satisfy any Reimbursement Obligations, (II) reimburse the members of the RFSC Advisory Committee for indemnified expenses, if any, incurred in their capacity as such and (III) pay dividends to Holders of New RFSC Common Stock.

Intercompany Obligations

Except as otherwise provided in the PA Settlement Agreement, the RGH/RFSC Settlement, the Senior Secured Credit Agreement, the Tax Sharing Agreement or the Plan, on and after the Effective Date, the Reorganized Debtor and its subsidiaries and RGH and its subsidiaries will be permanently enjoined from taking any action on account of any and all obligations or claims between and among the Debtor or its subsidiaries and RGH or its subsidiaries, other than such obligations or claims arising under or explicitly provided for under the PA Settlement Agreement, the RGH/RFSC Settlement, the Tax Sharing Agreement or the Plan.

Treatment of Executory Contracts and Unexpired Leases

The Bankruptcy Code gives a debtor the power, after the commencement of a Chapter 11 case, subject to the approval of the bankruptcy court, to assume or reject executory contracts and unexpired leases. Generally, an executory contract is a contract under which material performance (other than the payment of money) is still due by each party. The Plan provides for the rejection by RFSC of all executory contracts and unexpired leases as of the Effective Date, except for any executory contract or unexpired lease (i) that has been assumed pursuant to an order of the Bankruptcy Court entered prior to the Confirmation Date, (ii) as to which a motion for approval of the assumption of such executory contract or unexpired lease has been filed and served prior to the Confirmation Date, or (iii) that is set forth in Schedule 8.1 in the Plan Supplement; provided, however, that the Creditors' Committee reserves the right, on or prior to the Confirmation Date, to amend Schedule 8.1 to delete any executory contract or unexpired lease therefrom or add any executory contract or unexpired lease thereto, in which event such executory contract(s) or unexpired lease(s) shall be deemed to be, respectively, assumed or rejected by RFSC. The Creditors' Committee shall provide notice of any amendment to Schedule 8.1 to the parties to the executory contracts and unexpired leases affected thereby. The listing of a document on Schedule 8.1 shall not constitute an admission by the Creditors' Committee or RFSC that such document is an executory contract or an unexpired lease or that RFSC has any liability thereunder.

Claims arising from the rejection of an executory contract or unexpired lease pursuant to Section 8.1(a) of the Plan must be asserted by a Proof of Claim filed with the Bankruptcy Court and served upon the Debtor or Reorganized Debtor no later than forty (40) days after the Effective Date. In the absence of a timely filed Proof of Claim, any such Claims shall be forever barred and shall not be enforceable against the Debtor, the Reorganized Debtor, the Debtor's Estate or its property and the Holder thereof shall not receive any Distributions under the Plan on account of such rejection Claims. Unless otherwise ordered by the Bankruptcy Court, Claims arising from the rejection of an executory contract or unexpired lease will be treated, to the extent they are Allowed Claims, as Allowed General Unsecured Claims.

Entry of the Confirmation Order will, subject to and upon the occurrence of the Effective Date, constitute approval (i) pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code, of the assumption of the executory contracts and unexpired leases assumed pursuant to Section 8.1(a) of the Plan, (ii) of the extension of time, pursuant to Section 365(d)(4) of the Bankruptcy Code, within which the Debtor may assume, assume and assign or reject the unexpired leases specified in Section 8.1(a), if any, through the date of entry of an order approving the assumption or assumption and assignment of such unexpired leases and (iii) pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code, of the rejection of the executory contracts and unexpired leases rejected pursuant to Section 8.1(a). Except as otherwise agreed to by the parties, within thirty (30) days after the Effective Date, the Reorganized Debtor will cure any and all undisputed defaults under any executory contract or unexpired lease assumed by the Debtor pursuant to Section 8.1(a), in accordance with Section 365(b)(1) of the Bankruptcy Code. Any cure payments required to be made by the Debtor in connection therewith will be made from Available Cash.

Provisions Governing Distributions Under the Plan

Distributions Under the Plan. The Debtor, through the Disbursing Agent[6], will make all Distributions required by the Plan and will be authorized to make Distributions required in connection with consummation of the Plan. On the Effective Date, the Disbursing Agent will distribute New RFSC Common Stock and Litigation Proceeds Cash, if any, as applicable, to the Holders of Allowed Claims in accordance with Article V of the Plan governing the treatment of Claims and Equity Interests, subject to Section 9.9 of the Plan requiring Reorganized RFSC to satisfy all required obligations under the RGH/RFSC Settlement prior to making any Cash Distributions to Holders of Class 2 Claims, or any assignees thereof. After the Effective Date, Distributions may be made from time to time, pursuant to the terms of the Plan; provided, however, that notwithstanding any other provision of the Plan, no Distributions shall be made to any Holder of a Claim unless and until such Claim is an Allowed Claim.

The Disbursing Agent will have no obligation to recognize the transfer of, or the sale of any participation in, any Allowed Claim that occurs after the close of business on the Confirmation Date, and will be entitled to recognize, and make Distributions to, only those Holders of Allowed Claims who are Holders of such Claims, or participants therein, as of the close of business on the Confirmation Date. In addition, except as otherwise expressly provided in the Plan, any Claim which is not deemed filed pursuant to Section 1111(a) of the Bankruptcy Code, or for which a Proof of Claim is not timely filed pursuant to the Bankruptcy Code, the Bankruptcy Rules or any order of the Bankruptcy Court setting a Bar Date, will not be treated as an Allowed Claim and shall be expunged from the Claims register in the Chapter 11 Case without need for any further notice, motion, objection or order.

Any Cash payments to be made pursuant to the Plan may be made by Cash, draft, check, wire transfer, or as otherwise required or provided in any relevant agreements or applicable law at the option of the Reorganized Debtor. However, Reorganized RFSC will not be required to distribute Cash to any entity, if the amount of such distribution is less than $25.00. Additionally, the Disbursing Agent will not be required to make distributions of fractions of dollars. Whenever any payment or distribution of a fraction of a dollar under the Plan would otherwise be called for, the actual payment or distribution shall reflect a rounding of such fraction to the nearest whole dollar (up or down) with half dollars or less being rounded down.

All Distributions in respect of Claims will be allocated first to the original principal amount of such Claims (as determined for U.S. federal income tax purposes), with any excess allocated to any remaining amounts due with respect to such Claims. Subject to Section 9.9 of the Plan and except as otherwise provided therein or ordered by the Bankruptcy Court, Distributions under the Plan on account of Allowed Claims shall be made on the later to occur of (a) the Effective Date (or as soon thereafter as practicable) or (b) when such Claim becomes an Allowed Claim, or as otherwise provided by the Plan. Any payments due on a day other than a Business Day will be made, without interest, on the next Business Day.

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[6] Reorganized RFSC will be the Disbursing Agent under the Plan.

Delivery of Distributions. Subject to Bankruptcy Rule 9010, Distributions to Holders of Allowed Claims shall be made by the Disbursing Agent (a) at the last known address of such Holders or (b) at the address set forth in any written notices of address changes delivered to the Disbursing Agent. If any Holder's Distribution is returned as undeliverable, no further Distribution to such Holder shall be made unless and until the Disbursing Agent is notified of such Holder's then current address, at which time all missed Distributions shall be made to such Holder without interest and without any dividends that would have been payable on any equity securities to be distributed. The Reorganized Debtor or the Disbursing Agent shall not be required to attempt to locate any Holder of an Allowed Claim other than by reviewing the records of the Reorganized Debtor.

Failure to Negotiate Checks. Checks issued in respect of Distributions under the Plan shall be null and void if not negotiated within ninety (90) days after the date of issuance. Any amounts returned to the Reorganized Debtor in respect of such non-negotiated checks will be held by the Reorganized Debtor and any requests for the reissuance of any such checks must be made directly to the Reorganized Debtor by the Holders of the Allowed Claims with respect to which such checks were originally issued. All amounts represented by any voided check will be held until nine (9) months after such voided check was issued, and all requests for reissuance by the Holder of the Allowed Claim in respect of a voided check must be made prior to such date. Thereafter, all such amounts will be deemed to be Unclaimed Distributions and all Claims in respect of void checks and the underlying Distributions will be forever barred, estopped and enjoined from being asserted in any manner against the Debtor, the Debtor's estate or the Reorganized Debtor.

Unclaimed Distributions. Any Unclaimed Distributions, and all interest, dividends, and other earnings thereon, will be held and segregated in an account or accounts by the Disbursing Agent for the benefit of the Holders of Allowed Claims entitled to such Distributions under the terms of the Plan. All such Unclaimed Distributions will be held for a period of one (1) year following the applicable Distribution Date and during such period will be released and delivered to the Holders of Allowed Claims entitled to such Unclaimed Distributions only upon presentation of proper proof by such Holders of such entitlement. At the end of one (1) year following the relevant Distribution Date of any Unclaimed Distributions, the Holders of Allowed Claims previously entitled to such Unclaimed Distributions will cease to be entitled thereto and the Unclaimed Distributions for each such Holder of an Allowed Claim will then be distributed on a Pro Rata basis to the Holders of Allowed Claims in the applicable Class(es) who previously received and claimed Distributions and who are otherwise entitled to further Distributions pursuant to the Plan. If no such Holders of Allowed Claims in the applicable Class(es) exist at such time, such Unclaimed Distributions will vest in Reorganized RFSC and will no longer be subject to distribution to any Holders of Allowed Claims.

Distributions to Holders of Disputed Claims

Resolution of Disputed Claims. Unless otherwise ordered by the Bankruptcy Court, each of the Bank Committee, the Creditors' Committee, the Debtor, the Reorganized Debtor and RGH shall have the right to make and file objections to Claims and to settle, compromise or otherwise resolve, subject to notice and a hearing, all such objections previously made or filed. Any objections to Claims will be filed as soon as practicable, but in no event later than (i) ninety (90)

days after the later to occur of the Effective Date or the applicable Bar Date, or (ii) such other time as may be fixed or extended by order of the Bankruptcy Court. All such objections to Claims will be filed and resolved in accordance with all applicable provisions of the Bankruptcy Code and the Bankruptcy Rules and, after the Effective Date, the Bankruptcy Court will retain jurisdiction to resolve such objections pursuant to Section 502 of the Bankruptcy Code.

Reserves for Disputed Claims. On each applicable Distribution Date, the Debtor or the Reorganized Debtor, as applicable, will reserve in an account or account(s), for the benefit of Holders of Disputed Claims, the Distributions to which the Holders of such Disputed Claims would be entitled under the Plan if such Disputed Claims were Allowed Claims. Such amounts will be determined by reference to the full stated amount claimed by the Holder of such Disputed Claim in any Proof(s) of Claim filed with the Bankruptcy Court as of such date or such lesser amount determined by (i) agreement between the Debtor, the Creditors' Committee, and such Holder or (ii) Final Order of the Bankruptcy Court. Reorganized RFSC will maintain a register of all Disputed Claims and the amounts of such Claims, upon which to base the Distribution reserves for such Disputed Claims.

Reorganized RFSC will pay, or will cause to be paid, out of the funds held in any such Distribution reserve account(s), all taxes imposed by any federal, state and local taxing authorities, and any foreign taxing authorities, on the income generated by the funds held in such account(s). Reorganized RFSC will also file, or cause to be filed, any tax or information return related to any such account. All property held in such account(s) will be invested in accordance with Section 345 of the Bankruptcy Code, as modified by the relevant orders of the Bankruptcy Court for investments made by the Debtor during the Chapter 11 Case. The earnings on such investments will be held in trust as an addition to the balance of the accounts for the benefit of the Holders of Disputed Claims on whose behalf the reserve was created (to the extent such Disputed Claims become Allowed), and will not constitute property of Reorganized RFSC.

Distributions Upon Allowance of Disputed Claims. The Holder of a Disputed Claim that becomes an Allowed Claim subsequent to the Distribution Date will receive Distributions previously reserved on account of such Claim (including any earnings thereon), as soon as reasonably practicable following the allowance of any such Claim. Such Distributions will be made in accordance with the Plan based upon the Distributions that would have been made to such Holder under the Plan if the Disputed Claim had been an Allowed Claim on or prior to the Effective Date; provided, however, that if an insufficient amount was reserved for such Disputed Claim, the Distribution may be limited to the amount reserved, if the additional amount is unavailable and was distributed to Holders of Allowed Claims.

Excess Reserves. Upon any Disputed Claim becoming a Disallowed Claim, in whole or in part, the property, if any, previously reserved for the payment of, or Distribution on, the Disallowed portion of such Disputed Claim will be distributed on a Pro Rata basis to the Holders of Allowed Claims in the applicable Class(es) who have received and have claimed Distributions and who are otherwise entitled to further Distributions pursuant to the Plan. If no such Holders of Allowed Claims then exist, such property previously reserved for the payment of or Distribution on the Disallowed portion of such Disputed Claim shall vest in the Reorganized Debtor and will no longer be subject to distribution to any Holders of Allowed Claims.

Estimation of Claims

The Debtor, the Reorganized Debtor, the Bank Committee or the Creditors' Committee, as the case may be, may request that the Bankruptcy Court estimate any Claim subject to estimation under Section 502(c) of the Bankruptcy Code and for which the Debtor may be liable under the Plan, including any Claim for taxes, to the extent permitted by Section 502(c) of the Bankruptcy Code, regardless of whether any party in interest previously objected to such Claim. The Bankruptcy Court will retain jurisdiction to estimate any Claim pursuant to Section 502(c) of the Bankruptcy Code at any time during litigation concerning any objection to any Claim.

All of the Claims objection, estimation and resolution procedures described in the Plan are cumulative and not necessarily exclusive of one another. Claims may be estimated and subsequently objected to, compromised, settled, withdrawn or resolved by any mechanism set forth in the Plan, the Bankruptcy Code, or otherwise approved by the Bankruptcy Court.

Setoffs

The Debtor or the Reorganized Debtor, as applicable, may, but will not be required to, set off against any Claims and the payments or Distributions to be made pursuant to the Plan in respect of such Claims, any and all debts, liabilities and claims of every type and nature whatsoever which the Debtor's estate, the Debtor or the Reorganized Debtor may have against the Holders of such Claims; provided, however, that neither the failure to do so nor the allowance of any such Claims, whether pursuant to the Plan or otherwise, will constitute a waiver or release by the Debtor or the Reorganized Debtor of any such claims the Debtor or the Reorganized Debtor may have against such creditors, and all such claims will be reserved to and retained by the Reorganized Debtor.

Legal Effect of Confirmation of the Plan

Vesting of Assets

Except as provided in the Plan and the Plan Documents, on the Effective Date, all assets of the bankruptcy estate of RFSC will vest in Reorganized RFSC, free and clear of all liens, claims and interests of Holders of Claims and Equity Interests and free of any restrictions imposed under the Bankruptcy Code.

Discharge

The Plan provides that the rights afforded under the Plan, the PA Settlement Agreement, the RGH/RFSC Settlement, the PBGC Stipulation, the Tax Sharing Agreement, the Confirmation Order or a separate order of the Bankruptcy Court, and the treatment of all Claims and Equity Interests therein, will be in exchange for, and in complete satisfaction, discharge and release of, all Claims and Equity Interests of any nature whatsoever, including any interest accrued on such Claims from and after the Petition Date, against the Debtor or any of its assets or properties. The Plan also provides that, except as otherwise provided therein (including, without limitation, Section 9.24 of the Plan) and in the PA Settlement Agreement, the RGH/RFSC Settlement, the Tax Sharing Agreement, the PBGC Stipulation, the Confirmation Order or a separate order of the Bankruptcy Court, as of the Effective Date (a) all such Claims against and Equity Interests in the

Debtor shall be satisfied, discharged and released in full and (b) all Persons and governmental entities shall be precluded from asserting against the Debtor, its successors, or its assets or properties any other or further Claims or Equity Interests based upon any act, omission, transaction or other activity of any kind or nature that occurred prior to the Confirmation Date.

Injunction

The Plan provides that, except as otherwise expressly provided therein (including, without limitation, Section 9.24 of the Plan) and in the PA Settlement Agreement, the RGH/RFSC Settlement, the PBGC Stipulation, the Confirmation Order or a separate order of the Bankruptcy Court, all Persons who have held, hold or may hold Claims against or Equity Interests in the Debtor, are permanently enjoined, on and after the Effective Date, from directly or indirectly (a) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Claim or Equity Interest, (b) enforcing, attaching, collecting or recovering by any manner or means any judgment, award, decree or order against the Debtor on account of any such Claim or Equity Interest, (c) creating, perfecting or enforcing any encumbrance of any kind against the Debtor or against the property or interests in property of the Debtor on account of any such Claim or Equity Interest, (d) asserting any right of setoff, subrogation or recoupment of any kind against any obligation due from the Debtor or against the property or interests in property of the Debtor on account of any such Claim or Equity Interest and (e) commencing or continuing in any manner any action or other proceeding of any kind with respect to any claims and Causes of Action which are extinguished, dismissed or released pursuant to the Plan, including the Causes of Action released pursuant to Sections 14.4 and 14.5 of the Plan. The Plan further provides that such injunction shall extend to successors of the Debtor, including the Reorganized Debtor and its properties and interests in property.

Corporate Action

On the Effective Date, all matters provided for under the Plan that would otherwise require approval of the stockholders or directors of the Debtor or Reorganized Debtor will be deemed to have been approved by the necessary entities and to be in effect from and after the Effective Date pursuant to the applicable general corporation law of the State of Delaware, without any requirement of further action by the stockholders or directors of the Debtor or Reorganized Debtor. It should be noted, however, that this does not affect any existing obligations of RFSC to comply with the PA Code.

Exemption from Transfer Taxes

Pursuant to the Plan, the issuance, transfer or exchange of notes or issuance of debt or equity securities under the Plan, the creation of any mortgage, deed of trust or other security interest, the making or assignment of any lease or sublease, or the making or delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with the Plan, including any merger agreements or agreements of consolidation, deeds, bills of sale or assignments executed in connection with any of the transactions contemplated under the Plan, will not be subject to any stamp, real estate transfer, mortgage recording or other similar tax, or to any fees for filing documents to perfect a security interest. All sale transactions consummated by the Debtor and approved by the Bankruptcy Court on and after the Petition Date through and

including the Effective Date, including the sale, if any, by the Debtor of owned property or assets pursuant to Section 363(b) of the Bankruptcy Code, the assumptions, assignments and sales, if any, by the Debtor of unexpired leases of non-residential real property pursuant to Section 365(a) of the Bankruptcy Code, and the transactions effected pursuant to the RGH/RFSC Settlement, the PA Settlement Agreement and the PBGC Stipulation, will be deemed to have been made under, in furtherance of, or in connection with the Plan and, therefore, shall not be subject to any stamp, real estate transfer, mortgage recording or other similar tax.

Payment of Statutory Fees

All fees payable pursuant to Section 1930 of Title 28 of the United States Code, as determined by the Bankruptcy Court at the Confirmation Hearing, will be paid on the Effective Date, or as soon as reasonably practicable thereafter.

Continuation of Bank Committee

The Bank Committee will not be dissolved until the later of (i) the Effective Date or (ii) the RGH Effective Date or, in the event the RGH Chapter 11 Case is converted to a case under Chapter 7 of the Bankruptcy Code, until the closing of such Chapter 7 case; provided, however, that, if the Effective Date occurs prior to the RGH Effective Date, after the Effective Date, with respect to the RGH Chapter 11 Case, the Bank Committee will continue in existence solely in a limited capacity, and its duties will be limited to (i) reviewing and commenting on documents prepared and/or filed in connection with the RGH Chapter 11 Case, (ii) participating in the plan confirmation process in the RGH Chapter 11 Case, (iii) participating in the Claims objection process and (iv) otherwise being involved with respect to any motion to appoint an examiner in the RGH Chapter 11 Case or conversion of the RGH Chapter 11 Case to a case under Chapter 7 of the Bankruptcy Code.

Releases

Releases by Debtor. The Plan provides that, effective as of the Confirmation Date, but subject to the occurrence of the Effective Date, and except as otherwise provided in the Plan or the Confirmation Order, for good and valuable consideration, the adequacy of which is thereby confirmed, each of the Debtor and the Reorganized Debtor, in its individual capacity and as a debtor in possession, will be deemed to have forever released, waived and discharged (i) the Bank Committee, the Creditors' Committee and each of the Banks, and, solely in their capacity as such, any of their current or former officers, directors, subsidiaries, affiliates, members, shareholders, partners, representatives, employees, attorneys, financial advisors, accountants, consultants and agents, (ii) the directors, officers and employees of the Debtor, the Reorganized Debtor and RGH who continue in such positions subsequent to the Effective Date, (iii) the former directors, officers and employees of the Debtor and RGH, and (iv) the current and former representatives, attorneys, financial advisors, accountants, consultants and agents of the Debtor, the Reorganized Debtor and RGH from any and all claims (including Avoidance Claims), obligations, suits, judgments, damages, demands, debts, rights, Causes of Action and liabilities (other than the rights of the Debtor, the Reorganized Debtor and the Creditors' Committee to enforce the Plan and the contracts, instruments, releases, indentures and other agreements or documents delivered thereunder), whether for tort, fraud, contract, violations of federal or state

securities laws, or otherwise, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or part on any act, omission, transaction, event or other occurrence taking place on or prior to the Effective Date in any way relating to the Debtor, the Reorganized Debtor, RGH, the Debtor's restructuring, RGH's restructuring, the Chapter 11 Case, the RGH Chapter 11 Case, the PA Settlement Agreement, the RGH/RFSC Settlement, the PBGC Stipulation, the Senior Secured Credit Agreement or the Plan.

Releases by Holders of Claims. The Plan provides that, effective as of the Confirmation Date, but subject to the occurrence of the Effective Date, and except as otherwise provided in the Plan or the Confirmation Order, to the fullest extent permitted under applicable law, in consideration for the obligations of the Persons set forth below under the Plan and, as applicable, the PA Settlement Agreement, the RGH/RFSC Settlement, the PBGC Stipulation, and the Senior Secured Credit Agreement, and the Cash, securities, contracts, releases and other agreements or documents to be delivered in connection with the Plan, each Holder (as well as any trustee or agent on behalf of such Holder) of a Claim and any affiliate of such Holder shall be deemed to have forever waived, released and discharged (i) the Debtor, (ii) RGH, (iii) the Reorganized Debtor, (iv) the Bank Committee, the Creditors' Committee and each of the Banks, and, solely in their capacity as such, any of their current or former officers, directors, subsidiaries, affiliates, members, shareholders, partners, representatives, employees, attorneys, financial advisors, accountants, consultants and agents, (v) the directors, officers and employees of the Debtor, the Reorganized Debtor and RGH who continue in such positions subsequent to the Effective Date, (vi) the former directors, officers and employees of the Debtor and RGH, and (vii) the current and former representatives, attorneys, financial advisors, accountants, consultants and agents of the Debtor, the Reorganized Debtor and RGH from any and all claims (including Avoidance Claims), obligations, suits, judgments, damages, demands, debts, rights, Causes of Action and liabilities, whether for tort, fraud, contract, violations of federal or state securities laws, or otherwise, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or part on any act, omission, transaction, event or other occurrence taking place on or prior to the Effective Date in any way relating to the Debtor, the Reorganized Debtor, RGH, the Debtor's restructuring, RGH's restructuring, the Chapter 11 Case, the RGH Chapter 11 Case, the PA Settlement Agreement, the RGH/RFSC Settlement, the PBGC Stipulation, the Senior Secured Credit Agreement or the Plan; provided, however, that only those Holders of Class 1, 2, 3, 4a, and 4b Claims who timely vote to accept the Plan on their Ballots, or are deemed to accept the Plan, shall be deemed to have granted a release to any person identified in subclauses (iv)-(vii) above pursuant to Section 14.4(b) of the Plan.

Limitations. Notwithstanding the provisions of Sections 14.4(a) and (b) of the Plan or any other provisions in the Plan regarding releases:

(i) nothing in the Plan shall release (A) the directors, officers and employees of the Debtor, the Reorganized Debtor and RGH who continue in such positions subsequent to the Effective Date, (B) the current and former directors, officers and employees of the Debtor and RGH, or (C) the current and former representatives, attorneys, financial advisors, accountants, consultants and agents of the Debtor, the Reorganized Debtor and RGH, in each case with respect to any act, omission, transaction,

event or other occurrence taking place prior to the Petition Date, including, without limitation, with respect to any such claims in connection with, or referred to in, the Reliance D&O Action or any other actions by the Liquidator against the foregoing persons; and

(ii) nothing in the Plan shall effect a release in favor of any released party from any liability arising under (i) the IRC, or any state, city or municipal tax code, (ii) the environmental laws of the United States or any state, city or municipality, or (iii) any criminal laws of the United States or any state, city or municipality; nor shall anything in the Plan enjoin the United States government or any state, city or municipality, as applicable, from bringing any claim, suit, action or other proceeding against any released party for any liability arising under (i) the IRC, or any state, city or municipal tax code, (ii) the environmental laws of the United States or any state, city or municipality, or (iii) any criminal laws of the United States or any state, city or municipality;

(iii) nothing in the Plan shall effect a release in favor of any released party (a) from any liability arising as a result of such party's willful misconduct, gross negligence, intentional fraud, or breach of fiduciary duty that results in a personal profit (other than fees and expenses approved by the Bankruptcy Court) at the expense of the Estate, and (b) for the knowing misuse of confidential information;

(iv) nothing in the Plan shall limit the liability of the Debtor's, RGH's or the Committees' professionals to their respective clients pursuant to DR 6-102 of the Code of Professional Responsibility; provided, however, that this limitation shall not in any way derogate from the res judicata or collateral estoppel effect, if any, of any Final Order approving any final fee applications filed in the Chapter 11 Case and the RGH Chapter 11 Case; and

(v) nothing in the Plan shall release (1) any Person (whether or not incorporated), other than the Debtor, that would be treated together with the Debtor as members of a controlled group as defined by Section 4001(a)(14) of ERISA, from any liability arising under Title IV of ERISA or (2) any Person from liability arising as a result of such Person's breach of fiduciary duty under ERISA;

provided, however, that Section 14.4(c) of the Plan shall in no way affect or limit the discharge granted to the Debtor under Chapter 11 of the Bankruptcy Code and pursuant to Section 11.4 of the Plan.

Exculpation

The Plan provides that none of the Debtor, the Reorganized Debtor, RGH, the Bank Committee, the Creditors' Committee or the Banks, or any of their current or former officers, directors, subsidiaries, affiliates, members, shareholders, partners, representatives, employees, attorneys, financial advisors, accountants, consultants and agents, shall have or incur any liability to any Person, including, without limitation, any Holder of a Claim or Equity Interest or any other party in interest, or any of their respective agents, employees, members, representatives, financial advisors, attorneys or affiliates or any of their successors or assigns, for any act taken or

omission made in good faith in connection with, relating to or arising out of the Debtor's restructuring, RGH's restructuring, the Chapter 11 Case, the RGH Chapter 11 Case, the solicitation of acceptances of the Plan, filing, negotiating, prosecuting, administrating, formulating, implementing, confirming or consummating the Plan, the PA Settlement Agreement, the RGH/RFSC Settlement, the PBGC Stipulation, the Senior Secured Credit Agreement or the property to be distributed under the Plan, including all prepetition activities leading to the promulgation and confirmation of the Plan, the Disclosure Statement (including any information provided or statement made in the Disclosure Statement or omitted therefrom), or any contract, instrument, release or other agreement or document created in connection with or related to the Plan or the administration of the Debtor, RGH, the Chapter 11 Case or the RGH Chapter 11 Case; provided, however, that consistent with Section 14.4(c) of the Plan, the foregoing shall not apply to (i) any prepetition activities, prepetition acts or prepetition omissions of the Debtor or RGH, or any of their current or former officers, directors, subsidiaries, affiliates, members, shareholders, partners, representatives, employees, attorneys, financial advisors, accountants, consultants and agents or (ii) any released party's (a) willful misconduct, gross negligence, intentional fraud, breach of fiduciary duty resulting in a personal profit (other than fees and expenses approved by the Bankruptcy Court) at the expense of the Estate or (b) knowing misuse of confidential information; and further provided, that the foregoing shall not be interpreted or construed to limit the liability of the Debtor's, RGH's or the Committees' professionals to their respective clients pursuant to DR 6-102 of the Code of Professional Responsibility (provided, however, that the limitation set forth in the foregoing proviso shall not in any way derogate from the res judicata or collateral estoppel effect, if any, of any Final Order approving any final fee applications filed in the Chapter 11 Case and the RGH Chapter 11 Case).

The Creditors' Committee submits that the release provisions of the Plan are carefully tailored, legally permissible and that the Plan is fully confirmable under Section 1129 of the Bankruptcy Code. First, the Plan does not provide for any nonconsensual releases of non-debtor parties. Second, the releases have been carefully crafted so as to preserve any potential valuable pre-petition claims against, inter alia, the Debtor, RGH and their respective current and former directors, officers and employees which have been identified by various parties in interest, including the Liquidator. In particular, the releases do not cover, among others, the former and current directors, officers and employees of the Debtor, the Reorganized Debtor and RGH with respect to any act, omission, transaction, event or other occurrence taking place prior to June 12, 2001, including, without limitation, any claims in connection with, or referred to in, the Reliance D&O Action or any other actions pending as of May 26, 2004 by the Liquidator against such persons. Due in part to such carve-outs, the Creditors' Committee believes that all claims or causes of action of value have been preserved under the Plan. Moreover, the releases are supported by adequate consideration. The releases are being provided to only those parties who have been intimately involved in the Chapter 11 Cases and whose efforts have preserved the ability of RFSC to reorganize rather than simply liquidate. Finally, the release and exculpation provisions constitute an essential part of the proposed restructuring as, for example, such provisions are critical to the Creditors' Committee's willingness to sponsor the Plan.

Conditions to Confirmation and Consummation of the Plan

Conditions Precedent to Confirmation

The Plan shall not be confirmed unless and until the following conditions shall have been satisfied or waived pursuant to Section 12.4 of the Plan:

(a) The Disclosure Statement, in form and substance reasonably acceptable to the Creditors' Committee, shall have been approved by the Bankruptcy Court;

(b) The Holders of at least a majority in dollar amount of the Allowed Bank Claims (Class 2) shall have voted to accept the Plan;

(c) One Impaired Class shall have voted to accept the Plan by the requisite statutory majorities provided in Section 1126(c) of the Bankruptcy Code; and

(d) The Bankruptcy Court shall have entered one or more orders that shall be in full force and effect and not stayed and which shall:

(i) provide that, pursuant to Section 1146(c) of the Bankruptcy Code, the issuance, transfer or exchange of any security under the Plan or the making or delivery of any instrument of transfer or sale of any real or personal property of the Debtor, the Reorganized Debtor or the Estate pursuant to, in implementation of, or as contemplated by the Plan, shall not be taxed under any state or local law imposing a stamp tax, a transfer tax or similar tax or fee;

(ii) provide that, pursuant to Section 1145(a) of the Bankruptcy Code, Section 5 of the Securities Act of 1933 and any State or local law requiring registration for offer or sale of a security or registration or licensing of an issuer of, underwriter of, or broker or dealer in, a security do not apply to the issuance and distribution of the New RFSC Common Stock on the Effective Date;

(iii) confirm the Plan and authorize the implementation of the Plan in accordance with its terms, including the execution and delivery of the agreements and instruments entered into pursuant to the Plan (including each of the documents in the Plan Appendix and the Plan Supplement);

(iv) issue the injunction and authorize the issuance of the releases and exculpations as set forth in the Plan, effective on the Effective Date;

(vi) decree that, on the Effective Date, the transfers of assets by the Debtor contemplated by the Plan (a) are or will be legal, valid and effective transfers of property, (b) vest or will vest in the transferee good title to such property free and clear of all claims, interests and Liens, except those provided for in the Plan or the Confirmation Order, (c) do not or will not constitute fraudulent transfers or conveyances under any applicable law

and (d) do not and will not subject the Debtor, the Reorganized Debtor or the property so transferred to any liability by reason of such transfer under applicable law or any theory of law, including any theory of successor or transferee liability.

Conditions Precedent to Effectiveness

The Plan shall not become effective unless and until the following conditions shall have been satisfied or waived pursuant to Section 12.4 of the Plan:

(a) the Confirmation Order, in form and substance reasonably acceptable to the Committees, shall have been approved and entered and not stayed or overturned by a court of competent jurisdiction;

(b) there shall not be in force any order, decree or ruling of any court or governmental body having jurisdiction, restraining, enjoining or staying the consummation of, or rendering illegal the transactions contemplated by, the Plan;

(c) the Effective Date shall have occurred on or before December 31, 2004;

(d) the Tax Sharing Agreement shall have been executed and delivered by all parties thereto and an order approving the Tax Sharing Agreement shall have been entered by each of the Bankruptcy Court and the Commonwealth Court;

(e) the RGH/RFSC Settlement Order shall have been approved and entered and not stayed or overturned by a court of competent jurisdiction;

(f) the Senior Secured Credit Agreement shall have been entered into and executed by RGH and the Debtor;

(g) all other funding arrangements and mechanisms required to implement the RGH/RFSC Settlement shall be fully established and implemented;

(h) an order approving the distribution or use of any property of RGH under the Plan, including with respect to any funding obligations of RGH under the Plan and all mechanisms required to satisfy such funding obligations (other than any funding obligations or mechanisms previously approved pursuant to the RGH/RFSC Settlement Order), shall have been approved and entered and not stayed or overturned by a court of competent jurisdiction;

(i) the Debtor shall have received all authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions or other documents necessary to implement the Plan;

(j) any amended, modified or supplemented Tax Determinations deemed appropriate by the Committees shall have been sought from, and final, non-appealable rulings substantially to the same effect shall have been granted by, the Bankruptcy Court;

(k) each Exhibit and Schedule, as well as the Plan Appendix and the Plan Supplement, shall be in form and substance reasonably acceptable to the Committees; and

(l) there shall not be in excess of One Hundred Thousand Dollars ($100,000.00), in the aggregate, of Allowed Administrative Expense Claims (other than Professional Compensation and Reimbursement Claims) to be paid from Available Cash.

Effect of Failure of Conditions to Effectiveness

In the event that any condition to effectiveness does not occur or is not waived pursuant to Section 12.4 of the Plan (as set forth in "Waiver of Conditions to Confirmation or Effectiveness" below), on or before December 31, 2004, (a) the Confirmation Order will be vacated, (b) no Distributions under the Plan will be made, (c) the Debtor and all Holders of Claims and Equity Interests will be restored to the status quo as of the day immediately preceding the Confirmation Date as though the Confirmation Date had never occurred and (d) the Debtor's obligations with respect to Claims and Equity Interests will remain unchanged and nothing contained in the Plan will constitute or be deemed a waiver or release of any Claims or Equity Interests by or against the Debtor or any other Person or Entity or to prejudice in any manner the rights of the Debtor or any Person or Entity in any further proceedings involving the Debtor.

Waiver of Conditions to Confirmation or Effectiveness

The Creditors' Committee may in its sole discretion waive, in whole or in part, any condition precedent to the Confirmation Date or the Effective Date (other than (1) conditions (a), (b), (e) and (k) to the Effective Date and (2) condition (j) to the Effective Date, which may be waived by either the Bank Committee or the Creditors' Committee), by a writing signed by an authorized representative of the Creditors' Committee and subsequently filed with the Bankruptcy Court, without notice to other parties in interest and without a hearing. The failure to satisfy or waive any condition to the Confirmation Date or the Effective Date may be asserted by the Creditors' Committee (or by the Bank Committee regarding condition (j) to the Effective Date) in its sole discretion regardless of the circumstances giving rise to such failure of such condition to be satisfied (including any action or inaction by the Creditors' Committee in its sole discretion). The failure of the Creditors' Committee in its sole discretion to exercise any of the foregoing rights will not be deemed a waiver of any rights, and each right shall be deemed an ongoing right, which may be asserted at any time.

Retention of Jurisdiction

Notwithstanding the Confirmation Order being entered or the Effective Date having occurred, the Plan provides for the retention of jurisdiction by the Bankruptcy Court over the Chapter 11 Case for the purposes of:

(a) hearing and determining pending motions, if any, for the assumption or rejection of executory contracts or unexpired leases, if any are pending, and the allowance of cure amounts and Claims resulting therefrom;

(b) hearing and adjudicating any and all adversary proceedings, applications and contested matters;

(c) hearing and determining any applications for and/or objections to payment of Claims entitled to priority under Section 507(a)(1) of the Bankruptcy Code, including Administrative Expense Claims, Professional Compensation and Reimbursement Claims, Priority Tax Claims or other Claims;

(d) hearing and determining any and all objections to the allowance or estimation of Claims filed, before and after the Confirmation Date, including any objections to the classification of any Claim, and any and all motions to allow or disallow any Claim, in whole or in part;

(e) entering and implementing such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified and/or vacated;

(f) issuing orders in aid of execution, implementation and consummation of the Plan, to the extent authorized by Section 1142 of the Bankruptcy Code;

(g) considering any amendments to or modifications of the Plan and any and all motions to cure any defect or omission, or to reconcile any inconsistency, in any order of the Bankruptcy Court, including the Confirmation Order;

(h) hearing and determining disputes arising in connection with the interpretation, implementation and enforcement of the Plan, including disputes arising under agreements, documents or instruments executed in connection with the Plan; provided, however, that with respect to any disputes relating to or arising under Section 9.29 of the Plan, the Bankruptcy Court shall not have exclusive jurisdiction, but shall have concurrent jurisdiction with the Commonwealth Court;

(i) recovering all assets of the Debtor and property of the Estate, wherever located;

(j) hearing and determining matters concerning state, local and federal taxes in accordance with Sections 346, 505 and 1146 of the Bankruptcy Code;

(k) hearing and determining any issues or disputes regarding the Bello Litigation;

(l) adjudicating any dispute in respect of the implementation of or arising out of the PA Settlement Agreement, subject to any arbitration provisions set forth therein; provided, however, that with respect to any such disputes, the Bankruptcy Court shall not have exclusive jurisdiction, but shall have concurrent jurisdiction with the Commonwealth Court;

(m) adjudicating any dispute in respect of the implementation of or arising out of the RGH/RFSC Settlement;

(n) Adjudicating any dispute in respect of the implementation of or arising out of the PBGC Stipulation;

(o) adjudicating any dispute in respect of the implementation of or arising out of the Tax Sharing Agreement, subject to any arbitration provision set forth therein, provided, however,

that with respect to any such disputes, the Bankruptcy Court shall not have exclusive jurisdiction, but shall have concurrent jurisdiction with the Commonwealth Court;

(p) entering a final decree closing the Chapter 11 Case;

(q) hearing all matters arising out of, and related to, the Chapter 11 Case and the Plan, pursuant to, and for the purposes of, Sections 105(a) and 1142 of the Bankruptcy Code, and for the purposes set forth in Section 13.1 of the Plan; and

(r) hearing any other matter not inconsistent with the Bankruptcy Code.

Amendments to or Modifications of the Plan

Section 1127 of the Bankruptcy Code allows the Creditors' Committee to amend the Plan at any time prior to the Confirmation Date. The Plan provides that alterations, amendments or modifications of or to the Plan may be proposed in writing by the Creditors' Committee at any time prior to the Confirmation Date, provided that the Plan, as altered, amended or modified, is consistent with the terms of the RGH/RFSC Settlement and satisfies the conditions of Sections 1122 and 1123 of the Bankruptcy Code, and that the Creditors' Committee shall have complied with Section 1125 of the Bankruptcy Code. The Plan may be altered, amended or modified by the Creditors' Committee at any time after the Confirmation Date and before substantial consummation, provided that the Plan, as altered, amended or modified, is consistent with the terms of the PA Settlement Agreement, the RGH/RFSC Settlement and the Tax Sharing Agreement and satisfies the requirements of Sections 1122 and 1123 of the Bankruptcy Code, and that the Bankruptcy Court, after notice and a hearing, confirms the Plan, as altered, amended or modified, under Section 1129 of the Bankruptcy Code and the circumstances warrant such alterations, amendments or modifications to remedy any defect or omission or reconcile any inconsistencies in the Plan with respect to the Disclosure Statement or the Confirmation Order, or such matters as may be necessary to carry out the purposes and effects of the Plan. A determination by the Bankruptcy Court that the Plan is not confirmable pursuant to Section 1129 of the Bankruptcy Court shall not limit or affect the Creditors' Committee's ability to modify the Plan to satisfy the confirmation requirements of Section 1129 of the Bankruptcy Code. A Holder of a Claim that has accepted the Plan shall be deemed to have accepted the Plan, as altered, amended or modified, if the proposed alteration, amendment or modification does not materially and adversely change the treatment of the Claim of such Holder.

After the Confirmation Date, the Creditors' Committee or any other party in interest may institute proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistency in the Plan or the Confirmation Order in such manner as may be necessary to carry out the purposes and intent of the Plan so long as the Holders of Claims and Equity Interests are not adversely affected and prior notice of such proceeding is served in accordance with Bankruptcy Rules 2002 and 9014.

Revocation or Withdrawal of the Plan

The Creditors' Committee has reserved the right to revoke or withdraw the Plan at any time prior to the Effective Date. If the Creditors' Committee revokes or withdraws the Plan prior to the Effective Date or if the Confirmation Date or the Effective Date does not occur, then the

Plan, any settlement or compromise embodied in the Plan, the assumption or rejection of executory contracts or leases effected by the Plan or any document or agreement executed pursuant to the Plan, will be deemed null and void. In such event, nothing contained in the Plan and no acts taken in preparation for consummation of the Plan will constitute or be deemed a waiver or release of any claims by or against the Debtor, the Reorganized Debtor, or any other Person or Entity, to prejudice in any manner the rights of Debtor, the Reorganized Debtor, the Creditors' Committee or any Person or Entity in any further proceedings involving the Debtor or the Reorganized Debtor, or to constitute an admission of any sort by the Creditors' Committee, the Debtor, the Reorganized Debtor, or any other Person.

Miscellaneous Provisions

Reorganized RFSC Retention of Professionals

Reorganized RFSC will be able to retain counsel and other professionals solely pursuant to the provisions of Section 9 of Appendix A of the RGH/RFSC Settlement.

Post-Effective Date Fees and Expenses

From and after the Effective Date, the Reorganized Debtor will, in the ordinary course of business and without the necessity for any approval by the Bankruptcy Court, pay the reasonable fees and expenses of professional persons thereafter retained by the Reorganized Debtor, including those fees and expenses incurred in connection with the implementation and consummation of the Plan; provided, however, that to the extent that the Bank Committee renders certain limited services in connection with the RGH Plan, as set forth in Section 14.14 of the Plan, such fees and expenses incurred in connection therewith, will be paid out of Available Cash by RGH, subject to the Professional Compensation Procedures Order and any other order of the Bankruptcy Court.

Further Funding of Reorganized RFSC

Nothing contained in the Plan, the RGH/RFSC Settlement, the Amended and Restated By-laws or the Amended and Restated Articles of Incorporation shall, or shall be interpreted to, in any way bind, require or otherwise create any obligation requiring any shareholder of Reorganized RFSC to provide any funds or other property to or on behalf of, or otherwise invest in, Reorganized RFSC or RGH.

Binding Effect of PA Settlement Agreement and RGH/RFSC Settlement

All parties identified under, and bound by, the RGH/RFSC Settlement and the PA Settlement Agreement shall, subject to the Tax Sharing Agreement, now and forever be bound to abide by the terms and provisions therein and nothing in the Plan will in any way act as a release, waiver or discharge of any obligation under the PA Settlement Agreement, the RGH/RFSC Settlement or the Tax Sharing Agreement, or the orders approving the PA Settlement Agreement and the RGH/RFSC Settlement, all of which shall survive confirmation of the Plan and shall not be affected by Section 11.4 or 11.5 of the Plan.

Withholding and Reporting Requirements

In connection with the consummation of the Plan, the Debtor or Reorganized Debtor, as the case may be, will comply with all withholding and reporting requirements imposed by any federal, state, local or foreign taxing authority, including filing any required information returns with the Internal Revenue Service (*"IRS"*) and providing any required statements in connection therewith to the recipients of any distribution or effecting any withholding and depositing all moneys so withheld as required by law. All distributions will be subject to such withholding and reporting requirements and, with respect to any Holder of an Allowed Claim from whom a tax identification number, certified tax identification number or other tax information required by law to avoid withholding has not been received by the Reorganized Debtor within thirty (30) days from the date a request for such information is made, the Reorganized Debtor may, at its option, withhold the amount required from the property to be distributed and distribute the balance to such Holder of an Allowed Claim or decline to make such distribution until the information is received.

Bello Litigation

The Bankruptcy Court will continue to retain jurisdiction over the action captioned George E. Bello, et al. v. Syndicate 1212 at Lloyd's London, et al., pending in the Bankruptcy Court (Case No. 01-03572).

Distributions from RIC

As of the Effective Date, RGH will have a twenty percent (20%) undivided interest in all distributions of Cash made from RIC to Reorganized RFSC, other than any distributions, whether in the form of dividends or otherwise, which are directly attributable to Reorganized RFSC's share of the Section 847 Refunds or Development, pursuant to the RGH/RFSC Settlement.

Books and Records

So long as RGH retains an undivided interest in the Net 847 Refunds, Reorganized RFSC shall permit RGH, at reasonable intervals, upon reasonable notice and during regular business hours, at the sole expense of RGH, to examine and make copies of all books, records and documents, including computer tapes and disks, in the possession or under the control of Reorganized RFSC. On and after the Effective Date, the CEO shall have the authority to, in his or her reasonable discretion, (i) use and (ii) subject to reasonable prior notice being given to RGH and the Liquidator, dispose of the books and records of the Debtor and Reorganized Debtor. The CEO will not, however, dispose of books and records without first (a) filing a motion authorizing the CEO to dispose of such books and records, on notice to (i) counsel to RGH, (ii) the Liquidator, (iii) the Creditors' Committee or any liquidating trustee appointed under the RGH Plan, as applicable, and (iv) any parties with pending formal discovery requests, and any other persons who have delivered written notice to the Debtor or Reorganized Debtor identifying a legal interest in preserving such books and records, or (b) obtaining the consent of such parties and/or persons to dispose of such books and records. To the extent that the Liquidator at any time requires such books and records for its own purposes or determines that

any or all of them should not be disposed, the Liquidator shall be allowed the reasonable opportunity to take possession of any or all such books and records.

Voting on, and Confirmation of, the Plan

Overview of Voting in Chapter 11

In Chapter 11, the right to vote on a plan of reorganization is determined by the treatment that a particular holder of a claim or equity interest receives under the plan. If the holder of a claim or equity interest is unimpaired under a plan, the holder is deemed to accept the plan and it is therefore unnecessary to solicit such holder's vote on the plan. Similarly, it is not necessary to solicit a vote from a holder of a claim or equity interest who is not entitled to receive or retain any property under a plan and such holder is deemed to reject the plan under the Bankruptcy Code. However, if an impaired holder of a claim or equity interest is entitled to receive property under the plan, then such holder is not deemed to automatically accept or reject the plan and is entitled to vote thereon.

Chapter 11 of the Bankruptcy Code, however, does not require each holder of a claim or equity interest in a voting class to vote in favor of a plan of reorganization in order for a bankruptcy court to confirm the plan. Instead, acceptance or rejection of a plan is determined based on whether classes of claims or equity interests vote to accept or reject the plan. In order for a plan to be confirmed (a) absent a "cramdown" (as discussed below), each class of claims or interests must either (i) be unimpaired under the plan or (ii) vote to accept the plan and (b) at least one class of claims that is impaired must vote to accept the plan, determined without including any acceptance of the plan by any insider in such class of impaired claims. In turn, in order for a particular class to accept a plan, acceptances must be received:

- if such class is a class of claims against a debtor, from the holders of claims constituting at least two-thirds (⅔) in dollar amount of the allowed claims actually voted in such class and more than one-half (½) in number of the allowed claims actually voted in such class, or

- if such class is a class of equity interests in a debtor, from the holders of at least two-thirds (⅔) in amount of the allowed equity interests actually voted in such class.

Under the Bankruptcy Code, only the votes actually cast to accept or reject the plan will be counted for purposes of determining the acceptance or rejection of the plan by an impaired class of claims or equity interests. Accordingly, a plan could be approved by an impaired class of claims with the affirmative vote of significantly less than two-thirds in dollar amount and one-half in number of the allowed claims in that class, or by an impaired class of equity interests with the affirmative vote of significantly less than two-thirds in amount of the allowed equity interests in that class.

Parties Entitled to Vote on the Plan

Unimpaired Classes. Class 1 (Classified Priority Claims) and Class 3 (Other Secured Claims) are not impaired under the Plan and, pursuant to Section 1126(f) of the Bankruptcy Code, are conclusively deemed to have accepted the Plan without the necessity of a solicitation of the members of such Classes.

Non-Voting Impaired Classes. Class 4b (D&O Unsecured Claims) and Class 5 (Equity Interests) are deemed to reject the Plan without the necessity of a solicitation of the members of such Classes pursuant to Section 1126(g) of the Bankruptcy Code because the Holders in such Classes will not receive or retain any property under the Plan on account of their Claims and/or Equity Interests in such Classes.

Voting Impaired Classes. Class 2 (Bank Claims), Class 4a (General Unsecured Claims) and Class 4c (Liquidator Claims) are the only Impaired Classes under the Plan from whom the Creditors' Committee believes the solicitation of votes on the Plan is required. As discussed above, Section 1129(a)(10) of the Bankruptcy Code provides that if any classes of claims are impaired under a plan, the plan cannot be confirmed unless at least one such impaired class of claims has voted to accept the plan (without counting any acceptances of the plan by any insiders in such class). Because Class 2 (Bank Claims), Class 4a (General Unsecured Claims) and Class 4c (Liquidator Claims) are the only Impaired Classes of Claims under the Plan, the affirmative vote of the Holders of at least one such Class of Claims (without counting any acceptances of the Plan by any insiders in such Class) is necessary for confirmation of the Plan.

Voting Procedures

Each Voting Party received with this Disclosure Statement a Ballot for the purpose of voting to accept or reject the Plan. After carefully reviewing this Disclosure Statement, including the Appendices hereto, each such Voting Party that wishes to vote on the Plan should complete and execute its Ballot, check the box indicating whether it accepts or rejects the Plan, check the box indicating whether it wishes to elect to opt out of assigning its Litigation Claim(s) to RGH (if the Holder holds Claims in Classes 2 and/or 4a) and, except as set forth below, return such Ballot in the pre-addressed envelope. Ballots must be submitted so that they are *actually received* by counsel to the Creditors' Committee, Orrick, Herrington & Sutcliffe LLP, on or before the Voting Deadline ([_____], 2004 at 4:00 p.m. (Prevailing Eastern time) (unless extended by Creditors' Committee, subject to court approval as necessary)) at the following address:

Orrick, Herrington & Sutcliffe LLP
666 Fifth Avenue
New York, NY 10103
Attention: Arnold Gulkowitz, Esq.

The Creditors' Committee will notify the Voting Agent of any extension of the Voting Deadline by oral or written notice. The Voting Agent shall notify each Holder of a Claim who received a Ballot of any such extension. Any Voting Party may change its vote on the Plan at

any time prior to the Voting Deadline. Thereafter, votes on the Plan may not be changed except to the extent authorized by the Bankruptcy Court.

On the Effective Date, each Holder of a Class 2 and/or a Class 4a Claim shall be deemed to have assigned its Litigation Claim(s) to RGH, unless such Holder elects on its Ballot to be an Opt-Out Creditor. See "Summary of Other Provisions of the Plan – Means for Implementation of the Plan – Litigation Claims".

To the extent that any Holder of Claims holds Claims in two or more Classes entitled to vote on the Plan, such Holder will receive a separate Ballot for each voting Class in which it holds Claims.

The Creditors' Committee does not intend to solicit votes on the Plan from Holders of Classified Priority Claims, Other Secured Claims, D&O Unsecured Claims and Equity Interests because such Holders are either unimpaired or deemed to reject the Plan. Therefore, Ballots are not being transmitted to such Holders.

Subject to any applicable order of the Bankruptcy Court, the Creditors' Committee will decide any and all questions affecting the validity of any Ballot submitted, which decision will be final and binding. To that end, the Creditors' Committee may reject any Ballots that are not in proper form or that the Creditors' Committee's counsel believes would be unlawful or were submitted in bad faith. Any Ballot which is executed by a Holder of Claims but does not indicate an acceptance or rejection of the Plan or indicates both an acceptance and rejection of the Plan shall not be counted as a vote on the Plan.

ONLY ORIGINALLY SIGNED BALLOTS WILL BE COUNTED. NEITHER COPIES OF, NOR FACSIMILE OR EMAIL, BALLOTS WILL BE ACCEPTED. IF A BALLOT IS NOT ACTUALLY RECEIVED BY COUNSEL TO THE CREDITORS' COMMITTEE ON OR BEFORE THE VOTING DEADLINE, SUCH BALLOT WILL NOT BE COUNTED. IN NO CASE SHOULD A BALLOT BE DELIVERED TO THE DEBTOR. PLEASE FOLLOW THE DIRECTIONS CONTAINED ON THE ENCLOSED BALLOT CAREFULLY.

If a Holder has any questions about the Disclosure Statement, the Plan or the procedure for voting, did not receive a Ballot, received a damaged Ballot, or lost his or her Ballot, he or she should call or contact, by regular mail, messenger or overnight courier, the Voting Agent – Bankruptcy Services LLC, Reliance Financial Services Corporation Balloting Center, c/o Bankruptcy Services LLC, 757 Third Avenue, 3rd Floor, New York, NY 10017-2072, or tel. 1-888-498-7765, or, from outside the United States, tel. +1-212-376-8998.

It is important that all Voting Parties vote because, under the Bankruptcy Code, for purposes of determining whether the requisite acceptances of a particular class have been received, only Holders in such class who actually vote will be counted. Accordingly, failure by a Voting Party to submit a duly completed and signed Ballot will be deemed to constitute an abstention by such Voting Party with respect to the vote on the Plan. Abstentions, either as a result of submitting a Ballot that has not been fully completed or signed or by not submitting a Ballot on a timely basis, shall not be counted as a vote on the Plan.

Confirmation of the Plan

To confirm the Plan, the Bankruptcy Court is required to hold, after notice, a confirmation hearing. At such hearing, for the Plan to be confirmed, in addition to receipt of the necessary acceptances of the Plan, the Bankruptcy Court must find that all of the requirements for confirmation set forth in Section 1129 of the Bankruptcy Code have been met. These requirements include, among others, that:

(i) the Plan has classified Claims and Equity Interests in a permissible manner;

(ii) the contents of the Plan comply with the requirements of the Bankruptcy Code;

(iii) the Creditors' Committee has proposed the Plan in good faith; and

(iv) the Creditors' Committee has made disclosures concerning the Plan which are adequate and include information concerning all payments made or promised in connection with the Plan and the Chapter 11 Case.

The Creditors' Committee believes that all of these conditions have been or shall be met.

In addition, the Bankruptcy Court must find, among other things, that the Plan is feasible and is in the "best interest" of all dissenting Holders of Claims and Equity Interests in Impaired Classes. Thus, even if the Plan is duly accepted by the Voting Parties, the Bankruptcy Court will be required to make an independent finding respecting, among other things, the Plan's feasibility and whether the Plan is in the best interests of certain Holders of Claims and Equity Interests before it can confirm the Plan.

Feasibility. The Bankruptcy Code requires that the confirmation of a plan not be likely to be followed by liquidation or the need for further financial reorganization of the debtor. For purposes of determining whether the Plan meets this requirement, the Creditors' Committee has analyzed the ability of RFSC to meet its obligations under the Plan. Reorganized RFSC will continue to be a holding company whose subsidiary is being managed and funded by the Liquidator. As such, Reorganized RFSC will have limited operations and limited operating expenses. All expenses of Reorganized RFSC will be funded initially from contributions and loans from RGH, pursuant to the RGH/RFSC Settlement and the Senior Secured Credit Agreement, and thereafter from recoveries from assets of the Debtor's estate and RGH. The Proposed Budget in connection with the Plan has been prepared for purposes of, among other things, demonstrating that, as required by Section 1129(a)(11) of the Bankruptcy Code, confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of RFSC. The Proposed Budget for Reorganized RFSC is the product of extensive, good-faith negotiations between the Committees to determine the amount of funding necessary to continue the operations of Reorganized RFSC and, after reviewing the Proposed Budget with the proposed CEO/President of Reorganized RFSC, the Creditors' Committee believes that, subject to the risks disclosed in this Disclosure Statement, the Plan satisfies the feasibility requirements of the Bankruptcy Code.

For a description of the Proposed Budget, see "Financial Information – Proposed Budget of Reorganized RFSC". A copy of the Proposed Budget is attached hereto as Appendix E. For a

description of the potential recoveries under the Plan, see "Financial Information – Assets of RFSC".

Best Interests Test. Under the Bankruptcy Code, confirmation of a plan requires that each creditor or equity holder in an impaired class either (a) accept the plan or (b) receive or retain under the plan property of a value, as of the effective date of the plan, that is not less than the value that such creditor or equity holder would receive or retain if the Debtor were liquidated under Chapter 7 – the so-called "best interests" test. To determine what the Holders of Claims and Equity Interests in each Impaired Class would receive if RFSC were liquidated, the Bankruptcy Court must determine the dollar amount that would be generated from a liquidation of the assets and properties of RFSC in the context of a hypothetical liquidation case under Chapter 7. Such determination must take into account the fact that secured claims, the costs and expenses of the liquidation case, and any cost and expense resulting from the original reorganization case would have to be paid in full from the liquidation proceeds before the balance of those proceeds were made available to pay pre-petition unsecured claims and equity interests.

To determine if the Plan is in the best interests of each impaired class, the present value of the distributions from the proceeds of the hypothetical liquidation of the assets and properties of RFSC (after subtracting the amounts attributable to secured claims and costs and expenses of the Chapter 11 Case) must be compared with the present value of the consideration offered to such classes under the Plan.

After consideration of the effects that a Chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors and equity holders of RFSC, including (a) the increased costs and expenses of liquidation under Chapter 7 arising from fees payable to a bankruptcy trustee and attorneys and other professional advisors to such trustee, (b) the additional expenses and claims (some of which would be entitled to priority) which would be generated during the liquidation, (c) the destruction of the tax-related assets potentially available through the Chapter 11 process, (d) the cost attributable to the time value of money resulting from what is likely to be a more protracted proceeding and (e) the application of the rule of absolute priority to distributions in a Chapter 7 liquidation, the Creditors' Committee believes that the Plan satisfies the best interests test since, among other things, (i) if the Chapter 11 Case were converted to a case under Chapter 7 of the Bankruptcy Code, there generally would be no recovery by the Debtor or Reorganized RFSC with respect to the Section 847 Refunds and other tax attributes because the Section 847 Refunds and other tax assets generally would not be available to the Debtor or Reorganized RFSC; (ii) with respect to the D&O Litigation Proceeds, recoveries related thereto should be at least as great under the proposed Plan as they would be if the Chapter 11 Case were converted to a case under Chapter 7 of the Bankruptcy Code and should certainly not be less under the proposed Plan; and (iii) the administrative costs of a Chapter 7 liquidation would likely be higher since a Chapter 7 trustee would be required.

Non-Acceptance and Cramdown

Pursuant to Section 1129(b) of the Bankruptcy Code, a bankruptcy court may confirm a plan, at the request of the proponent of the plan, notwithstanding the lack of acceptance of the plan by one or more impaired classes if the bankruptcy court finds that:

(i) at least one class of impaired claims has accepted the plan (with such acceptance determined without including the acceptance of any "insider" in that class),

(ii) the plan does not "discriminate unfairly" with respect to each class of claims or equity interests that is impaired under, and has not accepted, the plan (the so-called "unfair discrimination" test"),

(iii) the plan is "fair and equitable" with respect to each class of claims or equity interests that is impaired under, and has not accepted, the plan, and

(iv) the plan satisfies the requirements set forth in Section 1129(a) of the Bankruptcy Code other than Section 1129(a)(8).

This procedure is commonly referred to as "cramdown." The Creditors' Committee intends to seek confirmation of the Plan under Section 1129(b) of the Bankruptcy Code with respect to Classes 4c and 5. Holders of Claims and Equity Interests in those Classes are deemed to reject the Plan because they will not receive any distribution nor retain any property under the Plan on account of such Claims and Equity Interests. In addition, if any of Classes 2, 4a or 4b votes to reject the Plan, the Creditors' Committee intends to seek confirmation of the Plan under Section 1129(b) with respect to such Class.

"Unfair Discrimination" Test. The "unfair discrimination" test requires, among other things, that a plan recognize the relative priorities among unsecured creditors and equity holders. A plan does not discriminate unfairly within the meaning of the Bankruptcy Code if a rejecting impaired class is treated equally with respect to other classes of equal rank, or if no class receives more than it is legally entitled to receive for its claims or equity interests. The Creditors' Committee believes that the Plan does not unfairly discriminate against any Class.

"Fair and Equitable" Standard. The Bankruptcy Code establishes a different "fair and equitable" test for secured creditors, unsecured creditors and equity interests. The respective tests, in relevant part, are as follows:

(i) Secured Creditors. With respect to a class of secured claims that does not accept a plan of reorganization, the debtor must demonstrate to the bankruptcy court that either (i) the holders of such claims are retaining the liens securing such claims and that each holder of a claim in such class will receive on account of such claim deferred cash payments totaling at least the allowed amount of such claim, of a value, as of the effective date, of at least the value of such holder's interest in its collateral, or (ii) the holders of such claims will realize the indubitable equivalent of such claims under the plan.

(ii) Unsecured Creditors. With respect to a class of unsecured claims that does not accept a plan of reorganization, the debtor must demonstrate to the bankruptcy court that either (i) each holder of an unsecured claim in the dissenting class will receive or retain under the plan property of a value, as of the effective date, equal to the allowed amount of its unsecured claim or (ii) no holder of a claim or equity interest that is junior to the claims of the holders of the dissenting class will

receive or retain any property under the plan on account of such junior claim or equity interest.

(iii) Equity Interests. With respect to a class of equity interests that does not accept a plan of reorganization, the debtor must demonstrate to the bankruptcy court that either (i) each holder of an equity interest in the dissenting class will receive or retain on account of such equity interest property of a value equal to the greatest of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled or the value of such interest or (ii) no holder of any equity interest that is junior to the equity interests of the holders of the dissenting class of equity interests will receive or retain any property under the plan on account of such junior equity interest.

The Creditors' Committee believes that the Plan is fair and equitable with respect to each Class.

Confirmation Hearing

Section 1128(a) of the Bankruptcy Code requires that the bankruptcy court, after notice, hold a hearing to confirm the Chapter 11 plan (the "*Confirmation Hearing*"). Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of a Chapter 11 plan.

The Bankruptcy Court has scheduled the Confirmation Hearing for [_____], 2004, at 9:30 a.m. (Prevailing Eastern time), before the Honorable Arthur J. Gonzalez, United States Bankruptcy Judge, United States Bankruptcy Court, Alexander Hamilton Custom House, One Bowling Green, Courtroom 523, New York, New York, 10004. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without notice other than an announcement of an adjournment date made at such Confirmation Hearing or at any subsequently adjourned Confirmation Hearing. The "Confirmation Date" means the date on which the Clerk of the Bankruptcy Court enters the Confirmation Order on the docket.

The Bankruptcy Court has directed that any objections to confirmation of the Plan be filed with the Bankruptcy Court on or before [_____], 2004, at 4:00 p.m. (Prevailing Eastern time), and served upon: (a) counsel to the Creditors' Committee, Orrick, Herrington & Sutcliffe LLP, 666 Fifth Avenue, New York, New York 10103, Attention: Arnold Gulkowitz, Esq.; (b) the Debtor's bankruptcy counsel, Debevoise & Plimpton LLP, 919 Third Avenue, New York, New York 10022, Attention: Steven R. Gross, Esq.; (c) counsel to the Bank Committee, White & Case LLP, 1155 Avenue of the Americas, New York, New York 10036, Attention: Andrew DeNatale, Esq.; (d) counsel to the Liquidator, Blank Rome LLP, One Logan Square, Philadelphia, PA 19103-6998, Attention: Raymond L. Shapiro, Esq., and (e) the Office of the United States Trustee, 33 Whitehall Street, Suite 2100, New York, New York 10004, Attention: Mary Tom, Esq., so as to be received by [_____], 2004 at 4:00 p.m. (Prevailing Eastern time). **If an objection to confirmation is not timely served and filed, it may not be considered by the Bankruptcy Court.**

If the Plan is confirmed, even if a Holder of a Claim or Equity Interest did not vote, or voted against the Plan, the terms of the Plan, including, without limitation, the transfers set forth therein, will be binding on such Holder as if such Holder had voted in favor of the Plan.

Pursuant to the Plan, the documents to be executed in connection with consummation of the Plan, including, but not limited to, the Amended and Restated Articles of Incorporation, the Amended and Restated By-Laws, the Tax Sharing Agreement and the Employment Agreement shall be filed on or before [_____], 2004 as part of the Plan Supplement. The Senior Secured Credit Agreement will be filed with the Bankruptcy Court on or before [ ], as part of the Plan Appendix (although a copy was previously filed with the Bankruptcy Court on June 25, 2004 as part of the plan appendix to the Bank Plan).

Copies of all such documents will be made available to all Holders of Claims or Equity Interests entitled to vote on the Plan. For further information regarding the availability of such documents, see "Introduction and Summary – Voting on, and Confirmation of, the Plan—Confirmation Hearing".

Notice of the date and time of the Confirmation Hearing, as well as the procedures for filing objections thereto, is included with this Disclosure Statement.

Consequences of Failure to Confirm the Plan

Although the Creditors' Committee believes that the Plan meets all of the statutory requirements for confirmation thereof, there is no guarantee that the Bankruptcy Court will agree. Failure of the Bankruptcy Court to confirm the Plan would likely result in creditors of RFSC receiving significantly reduced or no recoveries, since any recoveries potentially received from the Debtor's tax attributes, would no longer be available.[7] At best, the failure of the Bankruptcy Court to confirm the Plan would likely result in a more protracted bankruptcy proceeding, which could have adverse consequences on RFSC. Thus, if the Plan is not confirmed, there is a significant likelihood that Holders of Claims and Equity Interests would ultimately receive far less than what they would receive under the terms of the Restructuring. See "Risk Factors".

Alternatives to Confirmation and Consummation of the Plan

If the Plan is not confirmed and consummated, the alternatives to the Plan include (i) the proposal of an alternative plan under Chapter 11 of the Bankruptcy Code or (ii) the liquidation of RFSC under the Bankruptcy Code.

[7] Recoveries related to the D&O Litigation Proceeds should not necessarily be affected if the Plan is not confirmed, however, they should not be any greater than they would be if the Plan were confirmed.

Alternative Plan of Reorganization

If the Plan is not confirmed, RFSC, the Bank Committee, or any other party in interest, could attempt to formulate a different plan under Chapter 11 of the Bankruptcy Code. With respect to an alternative plan, the Creditors' Committee has explored various other alternatives in connection with the extensive process involved in the formulation and development of the Plan. The Creditors' Committee believes that the Plan, as described herein, enables Holders of Claims to realize the most value under the circumstances and, as compared to any alternative plan of reorganization, has the greatest chance to be confirmed and consummated. In addition, prior to the Petition Date, RGH explored opportunities to sell the Company's business but was not successful in finding a willing buyer. Given the liquidation of RIC, such a sale is no longer an alternative. Given the fact that (i) the assets of RFSC have been determined and quantified pursuant to the PA Settlement Agreement and the RGH/RFSC Settlement and (ii) there are certain restrictions inherent in effectively utilizing the assets of RFSC, the plan options are extremely limited. See "Restructuring — Events Leading to Bankruptcy."

Liquidation

The Creditors' Committee believes that in the event of a liquidation under Chapter 7 of the Bankruptcy Code, the full value of RFSC's assets would not be realized. This is particularly the case because of the need for RFSC to continue operations in order to realize the value of its tax-related assets. The resulting loss of these assets in a liquidation under Chapter 7 would mean a smaller, or potentially no, return for RFSC's creditors. Furthermore, with respect to the remaining potential assets, the D&O Litigation Proceeds, the recoveries should be at least as great under the proposed Plan as they would be if the Chapter 11 Case were converted to a case under Chapter 7 of the Bankruptcy Code and should certainly not be less under the proposed Plan. Finally, a liquidation under Chapter 7 would likely involve greater administrative expenses than the Chapter 11 Case. Consequently, the Creditors' Committee believes that liquidation under Chapter 7 is a less attractive alternative to RFSC's creditors than the Plan because the Plan should provide a greater return to RFSC's creditors than what would likely be realized in a liquidation.

Recommendation

The Creditors' Committee supports the Plan and the transactions contemplated thereby and, accordingly, urges all Holders of Allowed Claims that are entitled to vote to submit Ballots indicating their acceptance of the Plan. However, each Holder of a Claim against RFSC must make its own decision as to whether to vote in favor of the Plan.

Since RFSC is not the proponent of the Plan, the Board of Directors of RFSC has not approved the Plan or the transactions contemplated thereby, and accordingly does not make any recommendation as to whether Holders of Allowed Claims that are entitled to vote should accept or reject the Plan.

FINANCIAL INFORMATION

RFSC has not filed its own reports with the SEC, nor have financial statements been prepared with respect to RFSC alone, since 1997. The latest Annual Report of RGH on Form 10-K for the fiscal year ended December 31, 1999 was filed on March 30, 2000 (with amendments thereto filed on May 1, 2000 and June 23, 2000). The latest Quarterly Report of RGH on Form 10-Q for the quarter ended September 30, 2000 was filed on November 14, 2000, and the latest Definitive Proxy Statement of the Company on Form DEF 14A was filed on June 5, 2000. The Creditors' Committee believes that these public reports are therefore of limited value, however, copies of such reports may be accessed on the SEC website at *www.sec.gov*.

The Creditors' Committee offers the following information concerning the Proposed Budget of Reorganized RFSC and the assets of RFSC, as qualified herein. Additionally, the Creditors' Committee notes that the claimholders voting on the Plan are sophisticated entities capable of their own analysis of RFSC's financial condition and of the value of its assets.

Proposed Budget of Reorganized RFSC

A budget in the amount of approximately $5,074,000 was developed by the Committees with respect to the funding of Reorganized RFSC's operating expenses (including any indemnification obligations). For a list of the expenditures that the funds are allocated to, see the "Proposed Budget" annexed to the Disclosure Statement as Appendix E.

The Proposed Budget reflects extensive negotiations between the Bank Committee and the Creditors' Committee on behalf of the Debtor and RGH, respectively, discussions with the James A. Goodman, the contemplated CEO of Reorganized RFSC, and the Committees' good faith determinations regarding the amount of funding that will be required by Reorganized RFSC to continue operating. However, although the Creditors' Committee believes the Proposed Budget is reasonable and should be adequate, there is no guarantee that Reorganized RFSC will have sufficient funds to cover all of its operating expenses and, as such, will be able to continue operating until such time as any or all of the following assets of the Debtor's estate can be recovered.

See, "Proposed Budget" annexed to the Disclosure Statement as Appendix E.

Assets of RFSC

As explained more fully below, on the Effective Date, the only assets of RFSC will consist of (i) the RFSC Litigation Proceeds, (ii) a portion of the Section 847 Refunds, (iii) a portion of any benefit derived from certain NOLs, and (iv) all of the RIC Common Stock. On the Effective Date, RFSC will not hold any Cash (disregarding any Cash that Reorganized RFSC receives from RGH pursuant to the Plan).

Section 847 Refunds

Beginning in the 1988 tax year, RGH, as parent of a consolidated group of companies for federal income tax purposes that includes RFSC and RIC (the "*RGH Tax Group*"), became entitled to designate tax payments made in that year and in subsequent tax years as special

estimated tax payments pursuant to Section 847 of the IRC, a provision of the IRC governing tax returns of insurance companies. The RGH Tax Group proceeded to make such designations. In the case of the RGH Tax Group or any new consolidated group that includes RIC, including the RFSC Tax Group, it is expected that these special estimated tax payments will begin generating Section 847 Refunds after the sixteenth (16th) year following the year for which the special estimated tax payments were made, provided that RIC is still in the insurance business. It is anticipated that starting in 2005, and most years thereafter for the next seven to ten years, RFSC will apply for an aggregate of at least $145 million of Section 847 Refunds (and possibly substantially in excess of such amount). RFSC will retain fifty percent (50%) of any Section 847 Refunds actually received after deducting any distributions required to be made to RIC under the Tax Sharing Agreement, and such retained fifty percent (50%) of the Section 847 Refunds (net of certain expenses) will be split evenly between RFSC and RGH, subject to the RGH/RFSC Settlement, for a net recovery to RFSC of twenty-five percent (25%) of any net Section 847 Refunds.

See, "Federal Income Tax Consequences of the Plan – Consequences to Debtor – Section 847 Refunds" for a further description of the Section 847 Refunds.

NOLs

Due to losses incurred in the operation of the Debtor, RGH and RIC, the RGH Tax Group has substantial NOLs for federal income tax purposes. It is estimated that the RGH Tax Group will have total NOLs of approximately $3.1 billion through the end of 2003. Pursuant to the PA Settlement Agreement and the Tax Sharing Agreement, RIC has agreed or will agree that the Debtor will have the right to utilize no less than $1.25 billion in NOLs, subject to certain restrictions and limitations resulting in at least approximately $500 million of NOLs for RFSC, after deducting from such $1.25 billion the amounts that will be lost as a result of "cancellation of indebtedness" income and the amount that will be needed in order to obtain the Section 847 Refunds. RFSC is generally entitled to retain fifty percent (50%) of any amounts received relating to the utilization of these NOLs (other than Section 847 Refunds), with the other fifty percent (50%) belonging to RIC.

Possible Proceeds from Litigation

The Insurance Policies and their proceeds represent another asset of the Debtor's and RGH's estates (individually, the "*D&O Proceeds*"). There is no named insured under the Insurance Policies; rather, the insured is the "Company" which is defined as RGH and its subsidiaries, and includes RFSC and RIC. The Insurance Policies provide the following coverage: Directors and Officers and Company Liability, Fiduciary Liability, and Employment Practices Liability. The Insurance Policies provide in the aggregate coverage for these risks which may be considerably in excess of $150 million. Pursuant to the PA Settlement Agreement, the Liquidator will, with limited exceptions, be responsible for all expenses associated with obtaining the D&O Proceeds and shall be entitled to receive sixty percent (60%) of the D&O Proceeds, leaving forty percent (40%) of the D&O Proceeds to be divided between the estates of RGH and RFSC. Pursuant to the RGH/RFSC Settlement, this forty percent (40%) shall be split 27.5% to RFSC and 72.5% to RGH. In addition, RFSC shall receive 27.5% of any proceeds derived from any litigation relating to causes of action, direct or derivative, against third parties for any

wrongful or illegal actions or for damages suffered by the Debtor and/or RGH or their creditors, other than any D&O Litigation, net of legal fees and expenses (the "*Other Litigation Proceeds*"). For a further discussion of the D&O Proceeds and the Other Litigation Proceeds, see "Existing Management – D&O Litigation" and "PA Settlement – Restructuring – Litigation Proceeds".

Common Stock of RIC

Although RFSC owns all of the RIC Common Stock, the RIC Common Stock is of uncertain value given the insolvency of RIC. On the Effective Date, Reorganized RFSC will own all of the RIC Common Stock. Pursuant to the Plan, RGH will have a 20% undivided interest in any equity distributions in cash made from RIC to Reorganized RFSC on account of Reorganized RFSC's ownership of such stock (other than distributions, whether in the form of equity or otherwise, which are directly attributable to Reorganized RFSC's share of the Section 847 Refunds or the RFSC Group NOLs, pursuant to the RGH/RFSC Settlement). For additional information regarding the RIC Common Stock, see "Corporate and Capital Structure – Pre-Petition Equity".

REORGANIZED RFSC

RFSC was incorporated in the State of Delaware on July 27, 1970 (originally under the name Leaseco Financial Services Corporation). On the Effective Date, RFSC will file with the Secretary of State of the State of Delaware, an Amended and Restated Certificate of Incorporation changing the name of the corporation to RFS Corporation ("*Reorganized RFSC*"). Upon consummation of the Plan, Reorganized RFSC shall own 100% of the outstanding RIC Common Stock and act as the holding company for RIC and its subsidiaries. For a description of the share capital of Reorganized RFSC, see "—Description of New RFSC Common Stock" below.

The statutory purpose of Reorganized RFSC is to engage, directly or indirectly, in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware, as set out in the third section of its Amended and Restated Certificate of Incorporation. The registered office of Reorganized RFSC is located at Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, County of New Castle. The name of its registered agent in the State of Delaware at such address is The Corporation Trust Company.

Description of New RFSC Common Stock

On the Effective Date, Reorganized RFSC's authorized capital stock shall consist of 100,000 shares of New RFSC Common Stock.

Each holder of New RFSC Common Stock will be entitled to one vote (in person or by proxy) for each share owned of record on all matters submitted to a vote of the shareholders, including the election of directors. There are no cumulative voting rights. Holders of New RFSC Common Stock will be entitled to receive any dividends ratably, whether payable in Cash or otherwise, only when permitted pursuant to the RGH/RFSC Settlement. Upon a liquidation, dissolution or winding up of Reorganized RFSC, and after payment of all prior claims and obligations of Reorganized RFSC pursuant to the terms provided in the RGH/RFSC Settlement, the holders of New RFSC Common Stock will be entitled to share ratably in the net assets legally available for distribution to shareholders after the payment of all of the debts and other liabilities of Reorganized RFSC.

Shares of New RFSC Common Stock will not be freely transferable and may only be transferred in accordance with the Amended and Restated Articles of Incorporation. Such transfer(s) may take place only with the prior written consent of the board of directors of Reorganized RFSC (the "*Board*"), which consent may be withheld only on the basis that a proposed transfer would contravene Articles 9, 10, 11 or 12 of the Amended and Restated Articles of Incorporation. For further information regarding the Board, see "Plan – Summary of Other Provisions of the Plan – Management of RFSC On and After the Effective Date". The Board, however, shall be without authority to consent to a transfer in violation of Articles 9, 10, 11 or 12 of the Amended and Restated Articles of Incorporation and any such transfer in contravention of Articles 9, 10, 11 or 12 of the Amended and Restated Articles of Incorporation shall be deemed null and void. For further information regarding such restrictions, see "—Restrictions on Transfer" below.

Restrictions on Transfer

The transfer of shares of New RFSC Common Stock will be restricted by the Amended and Restated Articles of Incorporation to protect the potential tax attributes of Reorganized RFSC. The Amended and Restated Articles of Incorporation will contain the following restrictions[8]:

- Transfers of New RFSC Common Stock will be absolutely prohibited for one (1) year following the Effective Date.

- Any transfer of New RFSC Common Stock that would cause an "ownership change" for tax purposes (i.e., a transfer of fifty percent (50%), in the aggregate, of the New RFSC Common Stock in a rolling three (3) year period) will be prohibited (including any transfer pursuant to the mandatory offer or permitted offer provisions described below). Any stockholder of Reorganized RFSC proposing to transfer shares of New RFSC Common Stock or any tender offeror proposing to purchase shares of New RFSC Common Stock will be required to obtain, at its own expense, a legal opinion to be issued to, and from counsel satisfactory to, the Board, stating that the proposed transfer would not result in such "ownership change". Such opinion shall not be dispositive of the issue, however, if the Board, in its reasonable good faith and upon advice of counsel, concludes that, notwithstanding such opinion, there is a risk that the proposed transfer could result in an "ownership change".

- There shall be no transfer of shares of New RFSC Common Stock where such transfer would result in Reorganized RFSC becoming a member of an affiliated group of corporations of which Reorganized RFSC would not be the common parent (all within the meaning of Section 1504(a) of the IRC).

- All redemptions or cancellations of New RFSC Common Stock (other than in connection with the replacement of damaged certificates and similar contingencies) will be subject to the prior written approval of the Board, and the Board will not be permitted to authorize a redemption or cancellation that could reasonably be expected to result in an "ownership change" for tax purposes.

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[8] Transfers of shares of New RFSC Common Stock may also be subject to the insurance holding company provisions of the PA Code. In connection with the Bank Plan, the Bank Committee previously requested that the PA Insurance Commissioner waive the initial change of control of RFSC resulting from the issuance and distribution of New RFSC Common Stock to the Holders of Bank Claims and, pursuant to a letter dated June 28, 2004, the PA Insurance Department has agreed to such waiver. Prior approval of the PA Insurance Department may still need to be obtained, however, in connection with the Plan and for any subsequent changes of control of Reorganized RFSC. For a further discussion of such provisions, see "The Company and its Business – Regulation of Insurance Holding Companies".

- If any proposed buyer of shares of New RFSC Common Stock would end up with less than fifty percent (50%) of the total issued and outstanding shares of New RFSC Common Stock upon the completion of its purchase of such shares, each existing holder of New RFSC Common Stock will be able to participate in the transfer pro rata (i.e., each existing holder will be able sell its shares to the purchaser on the same terms as the proposed seller, up to such holder's pro rata portion of the transferred shares).

- Mandatory Offer: if a proposed buyer of shares of New RFSC Common Stock would end up with fifty percent (50%) or more of the total issued and outstanding shares of New RFSC Common Stock upon the completion of its purchase of such shares, each existing holder of New RFSC Common Stock will be able to sell nearly its entire holdings (i.e., the proposed buyer shall be required to purchase up to approximately 99.9% of the issued and outstanding shares of New RFSC Common Stock less the number of shares held by the proposed purchaser and its affiliates); provided, however, that if such purchase would otherwise result in an "ownership change" for tax purposes, then upon, inter alia, the prior written agreement of the holders of record of 66⅔% of the shares of New RFSC Common Stock issued and outstanding (and not beneficially owned by the proposed buyer, the selling holder or any of their respective affiliates), the proposed buyer shall instead be required to purchase from the existing holders the maximum number of shares of RFSC Common Stock that may be transferred at such time without causing such "ownership change", provided further, that such number of shares shall not be less than eighty percent (80%) of the total number of shares of New RFSC Common Stock outstanding less the number of shares held by the proposed purchaser and its affiliates. To the extent such transfer cannot take place in either form without an "ownership change" occurring, it shall not be permitted at all.

- Permitted Offer: during the first thirty-five (35) day period after the first anniversary of the Effective Date (as such period may be extended only once for an additional period of twenty-five (25) days, pursuant to the terms of the Amended and Restated Articles of Incorporation, the *"High River Exclusive Period"*), shares of New RFSC Common Stock may only be transferred pursuant to a tender offer by High River and/or its affiliates to all holders of New RFSC Common Stock to purchase any and all shares of New RFSC Common Stock tendered by such holders, up to a maximum of 49.9% of the then outstanding shares of New RFSC Common Stock. To the extent more than 49.9% of the then outstanding shares of New RFSC Common Stock are properly tendered, such shares shall be purchased on a pro rata basis, based upon the number of shares properly tendered by each tendering holder. Notwithstanding the foregoing, if, upon the transfer of all properly tendered shares, High River and its affiliates would beneficially own less than eighty percent (80%) of the issued and outstanding shares of New RFSC Common Stock, such tender offer shall be deemed withdrawn, all tendered shares shall be returned to the respective holders and no transfer pursuant to such tender offer shall be permitted.

- If a Mandatory Offer or Permitted Offer (as described above) is consummated by the first anniversary of the termination of Goodman as President/CEO and Secretary/Treasurer of Reorganized RFSC, each selling stockholder will remit to Goodman, within one business day of receipt, a fee equal to such stockholder's pro rata portion of (i) the lesser of (x) $1,000,000 and (y) 3.0% of the aggregate net proceeds of the Mandatory Offer or Permitted Offer less (ii) the aggregate amount of incentive compensation paid or to be paid to Goodman under the Employment Agreement. For this purpose, "pro rata portion" means the ratio of the proceeds to be received by such stockholder to the proceeds received by all selling stockholders in the Mandatory Offer or Permitted Offer.

- The provisions discussed in the preceding three bulletpoints will also apply to purchases and holdings by any affiliates of a stockholder.

- There shall be no transfers of New RFSC Common Stock without prior written approval of the Board, which consent may be withheld only on the basis that a proposed transfer would contravene Articles 9, 10, 11 or 12 of the Amended and Restated Articles of Incorporation.

- The Board shall not be permitted to approve a transfer of shares of New RFSC Common Stock that would violate any of the above restrictions. In addition, none of the provisions of the Amended and Restated Articles of Incorporation are intended to be construed to permit a transfer resulting in an "ownership change" for tax purposes. Any purported transfer in contravention of the restrictions shall be deemed void ab initio.

Pursuant to the Amended and Restated By-Laws, a conspicuous reference to such transfer restrictions shall appear on any certificates evidencing shares of New RFSC Common Stock.

Issuance and Resale of New RFSC Common Stock

The Creditors' Committee is relying on Section 1145 of the Bankruptcy Code to exempt the issuance of the New RFSC Common Stock from the registration requirements of the Securities Act of 1933 (the "*Securities Act*") and any state securities or "blue sky" laws. Section 1145 exempts from registration the sale of the securities of a debtor, a successor to a debtor or an affiliate of a debtor under a Chapter 11 plan if such securities are offered or sold in exchange for a claim against, an equity interest in, or a claim for an administrative expense in a case concerning, such debtor. The Creditors' Committee believes that the issuance to the Holders of Claims in Class 2 of the New RFSC Common Stock will satisfy Section 1145 of the Bankruptcy Code because (a) the issuance of the New RFSC Common Stock is expressly contemplated under the Plan, (b) the recipients are Holders of "claims" against RFSC, (c) the recipients will obtain the New RFSC Common Stock in exchange for their pre-petition claims or interests, and (d) Reorganized RFSC is a "successor" to RFSC within the meaning of Bankruptcy Code Section 1145.

In reliance upon this exemption, the shares of New RFSC Common Stock issued in exchange for certain Allowed Claims against RFSC generally should be exempt from the

registration requirements of the Securities Act. Accordingly, recipients should be able to resell their shares of New RFSC Common Stock without registration under the Securities Act or other federal securities laws, unless the recipient is an "underwriter" with respect to such securities, within the meaning of Section 1145(b) of the Bankruptcy Code. Section 1145(b) of the Bankruptcy Code defines four types of "underwriters":

(i) an entity that purchases a claim, equity interest or administrative expense claim with a view to distribution of any security to be received in exchange for the claim or equity interest,

(ii) an entity that offers to sell securities issued under a plan for the holders of such securities,

(iii) an entity that offers to buy securities issued under a plan from persons receiving such securities, if the offer to buy is made with a view to distribution, or

(iv) an entity that is a control person of the issuer of the securities.

Notwithstanding the foregoing, statutory underwriters may be able to sell securities without registration pursuant to the resale limitations of Rule 144 under the Securities Act, which, in effect, permits the resale of securities received by statutory underwriters pursuant to a Chapter 11 plan, subject to applicable volume limitations, notice and manner of sale requirements, and certain other conditions. Parties who believe they may be statutory underwriters as defined in Section 1145 of the Bankruptcy Code are advised to consult with their own counsel as to the availability of the exemption provided by Rule 144 under the Securities Act.

Because of the complex, subjective nature of the question of whether a particular holder may be an underwriter, the Creditors' Committee does not make any representation concerning the ability of any person to dispose of the shares of New RFSC Common Stock to be distributed under the Plan. The Creditors' Committee cannot assure holders of shares of New RFSC Common Stock that they will not be deemed to be a statutory underwriter and they are advised to consult with their own counsel as to the availability of exemptions under the Securities Act. Furthermore, the ability of a recipient to resell its shares of New RFSC Common Stock is restricted by the stock transfer restrictions set forth above. See "Reorganized RFSC – Description of New RFSC Common Stock – Restrictions on Transfer".

Amended and Restated Articles of Incorporation and Amended and Restated By-Laws of Reorganized RFSC

On the Effective Date, Reorganized RFSC's Amended and Restated Articles of Incorporation or Amended and Restated By-Laws will provide, among other things, that:

- the business of Reorganized RFSC will be managed under the direction of the Board in consultation with the RFSC Advisory Committee;

- the Board of Reorganized RFSC will consist of one member and such director will hold office until his or her successor has been elected and has qualified, unless sooner displaced;

- the director may be removed with or without cause by the vote of at least a majority of the shares of New RFSC Common Stock issued and outstanding and entitled to vote, and the director shall be deemed removed by the stockholders if the director ceases to be employed as the President/CEO of Reorganized RFSC;

- the director may resign upon written notice to the stockholders and to Reorganized RFSC's counsel, which resignation shall be effective at the time specified therein, or immediately if no time is specified therein;

- any vacancy on the Board will be filled by stockholder vote, by written ballot;

- one director will constitute a quorum for the transaction of business;

- the Board shall have the maximum rights and powers permitted under the General Corporation Law of the State of Delaware, provided, however, that neither the Board, nor any officer of Reorganized RFSC, will have authority (i) without prior approval of the stockholders, (w) to agree to a settlement of litigation naming as a defendant any person who is a director or officer of Reorganized RFSC at the time of such settlement, (x) to enter into any agreement for the purpose of directly or indirectly selling, transferring or disposing of, or for the purpose or exploitation of the monetization or conversion to cash of, certain of Reorganized RFSC's existing assets (except for (1) agreements contemplated by the Plan, this Disclosure Statement, the Plan Appendix or the Plan Supplement and taking effect on or about the Effective Date, (2) agreements necessary in connection therewith or to perform Reorganized RFSC's obligations under the RGH/RFSC Settlement Term Sheet and the PA Settlement Agreement and (3) any agreement entered into in the ordinary course of business for consideration not exceeding $50,000), (y) to issue any shares of New RFSC Common Stock, other than pursuant to the Plan, or (z) to select any professional advisor to be retained by Reorganized RFSC charging annual fees exceeding $20,000 in the aggregate or charging a contingency fee, provided, however, that an Indemnified CEO may select a lead counsel (not charging a contingency fee) in respect of any discrete issue or litigation related solely to the pursuit or defense of Section 847 Refunds or (ii) without the prior approval of stockholders holding a majority of the shares represented at the meeting of stockholders at which a quorum was present, to participate in or approve any transaction, settlement or agreement in which the director or any officer of Reorganized RFSC has any direct or indirect pecuniary interest (other than indirectly through Reorganized RFSC), and any purported approval, agreement or transaction in violation of the foregoing will be deemed null and void;

- the Board shall deliver to each member of the RFSC Advisory Committee notice of any matter requiring the approval of the stockholders of Reorganized RFSC at

least seven (7) days prior to submitting such matter to the stockholders and, if feasible, the RFSC Advisory Committee will meet to review such matters promptly thereafter.;

- in general, the affirmative vote of the holders of record of at least a majority of the shares of New RFSC Common Stock issued and outstanding and entitled to vote will be required for any action requiring the consent or approval of Reorganized RFSC's stockholders pursuant to the Amended and Restated Articles of Incorporation or the Amended and Restated By-Laws;

- however, (i) the affirmative vote of holders of record of at least 66⅔% of the shares of New RFSC Common Stock issued and outstanding and entitled to vote will be required for any amendment of the Amended and Restated Articles of Incorporation (except for any amendment to Article 9 or the second proviso to Article 13 of the Amended and Restated Articles of Incorporation, which will require (x) 10 days' notice to each of RGH and RIC of such amendment and (y) if the rights of RGH or RIC (if any) under the RGH/RFSC Settlement Term Sheet, the Tax Sharing Agreement, the Senior Secured Credit Agreement and the PA Settlement Agreement are adversely affected in any manner by such amendment, the prior written consent of RGH and/or RIC, as the case may be, unless arrangements have been put into effect that fully protect such rights); (ii) prior written agreement of the holders of record of 66⅔% of the shares of New RFSC Common Stock issued and outstanding (and not beneficially owned by a proposed buyer, selling holder or any of their respective affiliates) will be required to authorize the purchase of less than the number of issued and outstanding shares of New RFSC Common Stock otherwise required to be purchased in the event a proposed buyer of shares of New RFSC Common Stock, upon the completion of his or her purchase of shares of New RFSC Common Stock, would end up with approximately fifty percent (50%) or more, but less than approximately 99.9%, of the total issued and outstanding shares of New RFSC Common Stock; (iii) the affirmative vote of the holders of record of at least 66⅔% of the shares of New RFSC Common Stock issued and outstanding and entitled to vote shall be required to approve any merger, consolidation or reorganization of Reorganized RFSC by or with any other entity (except as set forth in Article 13 of the Amended and Restated Articles of Incorporation); and (iv) no amendment to the Amended and Restated Articles of Incorporation may retroactively eliminate or limit any right to indemnification under the Amended and Restated Articles of Incorporation or the Amended and Restated By-Laws;

- special meetings of stock holders may be called by the Board or the President/CEO and must be called by President/CEO or the Secretary/Treasurer upon the written request of holders of five percent (5%) or more of the shares of New RFSC Common Stock issued and outstanding and entitled to vote;

- a quorum of stockholders shall be constituted when the holders of record of a majority of shares of the New RFSC Common Stock issued and outstanding and entitled to vote, are present in person or by proxy;

- no person or entity will have any obligation to provide funds or other property to Reorganized RFSC, or to otherwise invest in or make contributions to Reorganized RFSC, solely by virtue of such person's or entity's status as a stockholder of Reorganized RFSC;

- pursuant to the Amended and Restated Articles of Incorporation and the Amended and Restated By-Laws, to the extent any provisions of the Amended and Restated Articles of Incorporation or the By-Laws conflict with any provisions of the RGH/RFSC Settlement, the provisions of the RGH/RFSC Settlement will govern; and

- the Board will not be permitted to make, alter or repeal the Amended and Restated By-Laws.

Management of Reorganized RFSC

The Board

On and after the Effective Date, Reorganized RFSC's Board will consist of James A. Goodman, who will be the sole director and officer of Reorganized RFSC. In such capacity, he will serve as a director of the Board, as well as the President/CEO and Secretary/Treasurer of Reorganized RFSC.

James A. Goodman was appointed, and served as, a U.S. Bankruptcy Judge for the District of Maine from 1981 until 2001. He served as the Chief Judge of the U.S. Bankruptcy Court for the District of Maine from 1990 until 1997. Goodman has also served, and continues to serve, as a member of the Bankruptcy Appellate Panel for the First Circuit since 1996.

Goodman shall receive no compensation for his role as a director of the Board. Pursuant to that certain employment agreement between Goodman and Reorganized RFSC, a copy of which shall be included in the Plan Supplement (the "*Employment Agreement*"), Goodman shall receive the following compensation for his services as President/CEO and Secretary/Treasurer of Reorganized RFSC: (i) a one-time starting bonus, payable upon commencement of employment, in the amount of $40,000; (ii) a base salary, payable in equal bi-weekly installments, in an annual amount of $100,000 (the "*Base Salary*") and hourly compensation in the amount of $600 per hour worked in excess of 230 hours of service per calendar year, payable monthly commencing with the month in which Goodman first exceeds 230 hours of service for such calendar year (the "*Hourly Compensation*"); provided, however, that the total compensation he shall be paid in any calendar year with respect to his Base Salary and Hourly Compensation shall not exceed $250,000, before deductions for withholding and other applicable taxes; and (iii) certain incentive compensation, as set forth in the Employment Agreement.

Goodman, in his capacity as a director and as President/CEO and Secretary/Treasurer of Reorganized RFSC shall have the following business address: RFS Corporation, c/o Hon. James A. Goodman, 7776 Lakeside Blvd., Unit G504, Boca Raton, FL 33434.

Indemnification of the Board

Pursuant to the Amended and Restated By-Laws, Reorganized RFSC may, under certain circumstances, indemnify any director, officer, employee or agent of Reorganized RFSC or any person that is or was serving at the request of Reorganized RFSC as a director, officer, employee, agent of or participant in another corporation, partnership, joint venture, trust or other enterprise. Reorganized RFSC shall indemnify each of its present and former directors and each present and former President/CEO of Reorganized RFSC to the fullest extent permitted under the Amended and Restated By-Laws; provided, however, that Reorganized RFSC shall not indemnify any director or President/CEO (a) for any action determined by a final order of a court of competent jurisdiction to have been grossly negligent or taken in bad faith (unless greater indemnification is available under Delaware law) or (b) for any action or incident occurring at a time such person was not serving as the director or President/CEO of Reorganized RFSC. Reorganized RFSC will be able to reserve funds in the Primary Reserve to satisfy any indemnification requirements with respect to the President/CEO.

RFSC Advisory Committee

Beginning on the Effective Date, Reorganized RFSC's Amended and Restated Articles of Incorporation will establish an advisory committee (the "*RFSC Advisory Committee*") consisting of up to three (3) members, who shall consult with the Board in the exercise of its authority and who shall be permitted to attend all Board and stockholder meetings. The RFSC Advisory Committee members, however, will not be members of the Board or the management of Reorganized RFSC and will not owe any fiduciary duty to Reorganized RFSC or its stockholders. The RFSC Advisory Committee members shall receive no compensation for their roles as members of the RFSC Advisory Committee.

Reorganized RFSC will be required to provide each member of the RFSC Advisory Committee with all notices, reports and other information distributed by the Reorganized RFSC to the director or the stockholders and the members of the RFSC Advisory Committee will have access to all stock records and all other books, records and papers of Reorganized RFSC upon request. The Board will also be required to confer with the RFSC Advisory Committee in the exercise of Board authority, however, failure by the RFSC Advisory Committee or any of its members to consult with the Board or attend a Board or stockholder meeting will not affect the legitimacy of any actions taken by the Board, unless the Board fails to notify the RFSC Advisory Committee or any member thereof of any such meeting or refuses to consult with the RFSC Advisory Committee or any member thereof at such meeting. At least seven (7) days prior to submitting a matter requiring the approval of the stockholders of Reorganized RFSC to the stockholders, the Board will be required to deliver notice of such matter to each member of the RFSC Advisory Committee and, if feasible, the RFSC Advisory will meet to review such matter promptly thereafter.

The members of the RFSC Advisory Committee will be selected by the stockholders of Reorganized RFSC, although the initial members of the RFSC Advisory Committee will have been selected by the Bank Committee or pursuant to the RGH/RFSC Settlement. The initial members of the RFSC Advisory Committee will be: designees of JPMorgan Chase Bank, High River and potentially one additional member selected pursuant to the procedures set forth below.

Candidates for RFSC Advisory Committee membership must be nominated by a written notice to the Secretary/Treasurer of Reorganized RFSC, delivered in advance of the selection of new members and signed by a stockholder or stockholders then holding five percent (5%) or more of the shares of New RFSC Common Stock issued and outstanding and entitled to vote.

Members of the RFSC Advisory Committee will be able to resign without penalty upon written notice to the Board and the stockholders of Reorganized RFSC. A member of the RFSC Advisory Committee may also be removed, with or without cause, by the stockholders of Reorganized RFSC, at which time the term of such member will terminate. Designees of High River may from time to time be removed and replaced by High River, upon notice to the Board (while High River and its affiliates remain the beneficial owners of at least seventy-five percent (75%) of the shares of New RFSC Common Stock originally issued to High River and its affiliates pursuant to the Plan) and designees of JPMorgan Chase Bank may from time to time be removed and replaced by JPMorgan Chase Bank upon notice to the Board (while the Banks[9] collectively own at least 33-1/3% of the shares of New RFSC Common Stock originally issued to the Banks and their affiliates pursuant to the Plan). If at any time, High River or the Banks fail to own the requisite minimum percentages set forth above, High River's or JPMorgan Chase Bank's designee, as applicable, will be deemed removed from the RFSC Advisory Committee and the vacancy created by such removal will be filled pursuant to the procedures described above.

Reorganized RFSC shall be able to satisfy any indemnification requirements with respect to members of the RFSC Advisory Committee only after satisfying (i) its Reimbursement Obligations; (ii) its obligation to fund fifty percent (50%) of the Primary Reserve Requirement; and (iii) its obligation to fund the Development Reserve.

[9] For purposes of this discussion regarding the RFSC Advisory Committee, "Banks" shall mean all of the Banks excluding High River.

RISK FACTORS

Holders of Claims should carefully consider the factors set forth below, as well as the other information set forth in this Disclosure Statement or incorporated herein by reference, prior to determining whether to vote to accept the Plan. The risks and uncertainties described below include all of the risks and uncertainties which the Creditors' Committee believes to be material at this time but are not the only ones facing RFSC. Additional risks and uncertainties about which the Creditors' Committee does not currently know or that the Creditors' Committee currently deems immaterial may also impair RFSC's or the Company's business, operations, financial condition, operating results or ability to successfully consummate the Restructuring. If any of the following risks actually occur, they could materially adversely affect RFSC's or the Company's business, operations, financial condition, operating results or ability to successfully consummate the Restructuring.

Bankruptcy-Related Factors

The Bankruptcy Court may sustain an objection to the classification of the Claims and Equity Interests.

Section 1122 of the Bankruptcy Code provides that a plan may place a claim or an interest in a particular class only if such claim or interest is substantially similar to the other claims or equity interests such class. The Creditors' Committee believes that the classification of the Claims and Equity Interests under the Plan complies with the requirements set forth in the Bankruptcy Code. However, there can be no assurance that the Bankruptcy Court will reach the same conclusion. To the extent that the Bankruptcy Court disagrees with the classification scheme in the Plan, the Creditors' Committee intends to modify the Plan to reclassify the Claims and Equity Interests as necessary for confirmation. However, there can be no assurance that any such reclassification would not adversely affect one or more classes under the Plan. Accordingly, there can be no assurance that the Bankruptcy Court would confirm the Plan, as modified, without a resolicitation of votes of any such adversely affected Holders of Claims. If the Bankruptcy Court were to require such a resolicitation, this would delay consummation of the Restructuring. See "Plan—Classification of Claims and Equity Interests Under the Plan."

Confirmation without acceptance by all Impaired Classes.

In order for the Plan to be confirmed, under Section 1129(a)(8) of the Bankruptcy Code, each Impaired Class of Claims and Equity Interests must approve the Plan by the applicable Requisite Acceptances, absent a "cramdown" pursuant to Section 1129(b) of the Bankruptcy Code. In addition, under Section 1129(a)(10) of the Bankruptcy Code, since the Plan contains an Impaired Class of Claims, the Plan cannot be confirmed unless at least one such Impaired Class of Claims has voted to accept the Plan (without counting any acceptance of the Plan by any insiders in such Class). The Creditors' Committee intends to seek confirmation of the Plan despite the fact that the Equity Interests and certain Impaired Classes of Claims will not be entitled to vote and will be deemed to reject the Plan. Because Class 2 (Bank Claims), 4a (General Unsecured Claims) and 4b (Liquidator Claim) are the only Impaired Classes of Claims entitled to vote on the Plan, the affirmative vote of the Holders of at least one such Class of Claims (without counting any acceptances of the Plan by any insiders in such Class) is necessary

for confirmation of the Plan, however, there can be no assurance that sufficient Holders of Claims in such Classes will vote to accept the Plan.

The Creditors' Committee believes that the Plan complies with the conditions for confirmation without the acceptance of all Impaired Classes set forth in Section 1129(b) of the Bankruptcy Code. If the Bankruptcy Court determines that the Plan does not comply with such requirements, the Creditors' Committee has reserved the right to modify the terms of the Plan as reasonably required by the Bankruptcy Court for the confirmation of the Plan without acceptance by all Impaired Classes. See "Plan—Amendments to or Modifications of the Plan". Such modifications could result in less favorable treatment of any nonaccepting Class or Classes of Claims, as well as any classes junior to such nonaccepting classes, than the treatment currently provided in the Plan. Such less favorable treatment could include receiving property of a lesser value than that currently provided for in the Plan or receiving or retaining no property whatsoever under the Plan.

The Bankruptcy Court may not confirm the Plan.

The Creditors' Committee believes that the Plan meets all of the requirements for confirmation under the Bankruptcy Code, including, in particular, that if the Plan is confirmed it will not be followed by the need for further financial reorganization of RFSC and that the Holders of Claims and Equity Interests will receive value under the Plan that is equal to or greater than the value they would receive if RFSC were liquidated under Chapter 7 of the Bankruptcy Code. However, there can be no assurance that the Bankruptcy Court will conclude that these tests and the other requirements of Section 1129 of the Bankruptcy Code have been met with respect to the Plan, that modifications of the Plan would not be required for confirmation, or that such modifications would not require a resolicitation of the Plan. Failure of the Bankruptcy Court to confirm the Plan would likely result in all Holders of Claims ultimately receiving less than what they would receive under the terms of the Restructuring.

The Plan may not be consummated or there may be a delay in the consummation of the Plan.

The Plan sets forth numerous conditions to consummation of the Plan. See "Plan—Conditions to Confirmation and Consummation of the Plan". There can be no assurance that the conditions will be satisfied or waived or that all necessary consents will be obtained. Thus, even if the Plan is confirmed by the Bankruptcy Court, the Plan may not be consummated. Similarly, there can be no guarantee as to when such conditions will be satisfied or waived.

In addition, a competing plan or plans may be proposed. As such, this Plan may not be confirmed or, if confirmed, consummation of the Plan may be delayed due to the insertion of an additional, potentially disruptive, plan into the process.

Additional Factors

The Liquidator and/or RGH or any other party may not be able to recover some or all of the D&O Litigation Proceeds and/or Other Litigation Proceeds.

Although the Liquidator has already commenced the RIC D&O Action against certain former officers and directors of RIC in the Commonwealth Court, the Liquidator may not be successful in prosecuting the RIC D&O Action and, even if successful, the Liquidator may not be able to recover any or all potential proceeds from such litigation (payable under the Insurance Policies) if any other party is able to recover any or all of the amounts potentially payable under Insurance Policies first. The same risks apply with respect to the potential proceeds of any other D&O Litigation or any other litigation relating to causes of action, direct or derivative, against third parties for any wrongful or illegal actions or for damages suffered by RFSC and/or RGH or their creditors, none of which have yet been commenced.

In addition, in the event the RGH Plan is not confirmed and consummated, the ability of RGH or the Liquidating Trustee to effectively pursue the Litigation Claims and recover D&O Litigation Proceeds may be impaired and Holders of Claims in Classes 2 and 4a who are not Opt-Out Creditors may lose the ability to have their Litigation Claims pursued.

Reorganized RFSC's budgeted funds may be depleted prior to recovering any or all of the potential assets.

Although the Creditors' Committee believes that the Proposed Budget for Reorganized RFSC is reasonable, such Proposed Budget may be insufficient due to certain unforeseen events and may result in Reorganized RFSC running out of funding prior to recovering any or all of the potential assets of the estate. In such event, Holders of Allowed Claims may receive only some, or perhaps even none, of the proposed distributions contemplated under the Plan.

Risks Related to Ownership of New RFSC Common Stock

An investment in New RFSC Common Stock involves significantly different risks from the holding of a Claim.

If the Plan is confirmed, Holders of Bank Claims will receive shares of New RFSC Common Stock. An investment in New RFSC Common Stock involves significantly different risks than creditors' Claims against RFSC. If RFSC's operating subsidiaries are unable to successfully pursue their business objectives following completion of the Restructuring, the value of the New RFSC Common Stock could decline significantly. Moreover, if in the future RFSC's operating subsidiaries are unable to finance their business operations or refinance their debt as it becomes due, the rights of holders of New RFSC Common Stock would be impaired.

Potential Liquidity of New RFSC Common Stock.

The New RFSC Common Stock will not be listed on any exchange or system.

There can be no assurance that an active trading market for the New RFSC Common Stock will develop. Accordingly, there can be no assurance that any holder of shares of the New RFSC Common Stock will be able to sell such shares in the future or any assurance as to the price at which shares of the New RFSC Common Stock might trade. The liquidity of the market for the New RFSC Common Stock and the prices at which such stock will trade will depend upon the number of holders of New RFSC Common Stock, the interest of securities dealers in

maintaining a market in the New RFSC Common Stock and other factors beyond the Creditors' Committee's control.

If a trading market were to be established with respect to the New RFSC Common Stock, any such trading market would most likely be unstable and illiquid for an indeterminate period of time following the Effective Date. This instability and illiquidity may, in turn, have an adverse effect on market prices for the New RFSC Common Stock.

In addition, the New RFSC Common Stock shall be subject to certain transfer restrictions. Among other things, transfers of New RFSC Common Stock will be absolutely prohibited for one (1) year following the Effective Date, as will any transfers that would cause an "ownership change" for tax purposes (i.e., would result in fifty percent (50%) or more, in the aggregate, of the New RFSC Common Stock to be transferred in a rolling three (3) year period) or that would result in Reorganized RFSC becoming a member of an affiliated group of corporations of which Reorganized RFSC would not be the common parent (all within the meaning of Section 1504(a) of the IRC). Furthermore, during the High River Exclusive Period, shares of New RFSC Common Stock will only be able to be transferred pursuant to a tender offer by High River and/or its affiliates to all holders of New RFSC Common Stock, up to a maximum of forty-nine percent (49%) of the then outstanding shares of New RFSC Common Stock. As such, even if an active trading market for the New RFSC Common Stock were to develop, such transfer restrictions could impede the ability of holders of shares of New RFSC Common Stock to sell such shares. For a further discussion of the restrictions on the transfer of shares of New RFSC Common Stock, see "Reorganized RFSC – Description of New RFSC Common Stock – Restrictions on Transfer".

Holders' ability to sell New RFSC Common Stock may be limited if they are deemed to be underwriters.

Without registration under the Securities Act or other applicable federal, state or local securities laws requiring registration of securities, the ability of a holder of shares of New RFSC Common Stock to sell such shares may be diminished if such holder is deemed to be an "underwriter" with respect to such securities within the meaning of Section 1145(b) of the Bankruptcy Code. Section 1145(b) of the Bankruptcy Code defines an "underwriter" for purposes of the Securities Act as including a person who is a control person of the issuer of the securities. **Because of the complex, subjective nature of the question of whether a particular holder may be an underwriter, the Creditors' Committee does not make any representation concerning the ability of any person to dispose of the shares of New RFSC Common Stock to be distributed under the Plan. The Creditors' Committee cannot assure holders of shares of New RFSC Common Stock that they will not be deemed to be a statutory underwriter and they are advised to consult with their own counsel as to the availability of exemptions under the Securities Act.**

Dividends

The Creditors' Committee cannot predict the timing of any payments by Reorganized RFSC of any dividend on the New RFSC Common Stock. In any event, the payment of dividends on the New RFSC Stock is also subject to applicable legal restrictions. Therefore,

certain institutional investors who are only permitted to invest in dividend-paying equity securities or operate under other restrictions prohibiting or limiting their ability to invest in securities similar to the New RFSC Common Stock may not be permitted to invest in the New RFSC Common Stock.

As a holding company, Reorganized RFSC will depend on the receipt of proceeds from the potential assets of the estate to meet its payment obligations and to pay dividends on the New RFSC Common Stock. If Reorganized RFSC does not realize any proceeds with respect to such assets or receive any dividends from RIC, Reorganized RFSC will be unable to pay any dividends on the New RFSC Common Stock. In addition, if Reorganized RFSC receives proceeds sufficient only to pay some or all of its operating expenses and reimbursement obligations (under the RGH/RFSC Settlement and Senior Secured Credit Agreement), Reorganized RFSC will be unable to pay any dividends on the New RFSC Common Stock. The ability of RIC to pay dividends to RFSC is subject to applicable law and to restrictions contained in the Settlements and in the Senior Secured Credit Agreement.

Risks Related to Federal Income Tax Considerations

The Tax Sharing Agreement May Not Be Approved By the Bankruptcy Court and/or the Commonwealth Court.

The Tax Sharing Agreement will require the approval of the Bankruptcy Court and the Commonwealth Court to become effective. There can be no assurance, however, that either or both courts will approve the Tax Sharing Agreement. In the event the Tax Sharing Agreement is not approved by the Bankruptcy Court and/or the Commonwealth Court, the Tax Sharing Agreement may need to be modified, in a manner adverse to the Holders of Claims against RFSC.

Section 847 Refunds May Not Be Available.

As discussed under "Federal Income Tax Consequences of the Plan – Consequences to Debtor", the IRS could assert several legal and factual arguments to deny the Section 847 Refunds to Reorganized RFSC. If any of these arguments were to prove successful, the amount of Section 847 Refunds payable to Reorganized RFSC could be substantially reduced or entirely eliminated. In this regard, Tax Determinations were made by the Bankruptcy Court with respect to the Bank Plan that addressed certain of these possible arguments, and it is expected that the Bankruptcy Court will confirm (in the Confirmation Order or a separate order) that its prior Tax Determinations are equally applicable to the Plan. However, there can be no assurance that the Bankruptcy Court will make such a confirmation and it is possible that the Effective Date could occur without any such confirmation. Moreover, even if the Bankruptcy Court were to confirm that the Tax Determinations made with respect to the Bank Plan are equally applicable to the Plan, these Determinations may not be binding on the IRS (especially if these Tax Determinations rely on facts that change subsequent to the date the Tax Determinations are issued by the Bankruptcy Court). Additionally, the IRS may raise issues on audit that were not addressed by the Tax Determinations. See "Federal Income Tax Consequences of the Plan –

Consequences to Debtor – Section 847 Refunds"; "Federal Income Tax Consequences of the Plan – Tax Determinations".

Reorganized RFSC and its Consolidated Subsidiaries May Owe Significant Amounts of Federal Income Tax.

If it were determined that Section 269 of the IRC applies to the Plan or that the Plan fails to qualify under Section 382(l)(5) of the IRC, not only would the amount of Section 847 Refunds payable to Reorganized RFSC be substantially (if not totally) eliminated but, additionally, Reorganized RFSC and its consolidated subsidiaries (which include RIC) might owe substantial Federal income taxes in future taxable years – since the amount of NOLs available to offset future income would be severely restricted. In connection with the Bank Plan, the Bankruptcy Court made certain Tax Determinations regarding the applicability of Section 269 and 382(l)(5) of the IRC to the Plan, and it is expected that the Bankruptcy Court will confirm (in the Confirmation Order or a separate order) that its prior Tax Determinations are equally applicable to the Plan. However, there can be no assurance that the Bankruptcy Court will make such a confirmation and it is possible that the Effective Date could occur without any such confirmation. Moreover, even if the Bankruptcy Court were to confirm that the Tax Determinations made with respect to the Bank Plan are equally applicable to the Plan, these Determinations may not be binding on the IRS (especially if these Tax Determinations rely on facts that change subsequent to the date the Tax Determinations are issued by the Bankruptcy Court). Additionally, the IRS may raise issues on audit that were not addressed by the Tax Determinations. See "Federal Income Tax Consequences of the Plan – Consequences to Debtor – Section 382 and 269 Limitations on Utilization of NOLs"; "Federal Income Tax Consequences of the Plan – Tax Determinations".

FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

Introduction

The following discussion is a summary of the significant Federal income tax consequences of the Plan to the Debtor and to Holders of Claims and is based on the Internal Revenue Code of 1986, as amended to the date hereof (the *"IRC"*), Treasury Regulations promulgated and proposed thereunder, judicial decisions and published administrative rules and pronouncements of the IRS as in effect and available on the date hereof. Changes in such rules or new interpretations thereof could significantly affect the tax consequences described below. Many of the tax issues raised by the Plan involve unsettled and complex legal issues, and also involve various factual determinations, such as valuations, that raise additional uncertainties. No rulings have been requested from the IRS and no legal opinions have been rendered by any counsel with respect to any of the tax aspects of the Plan. There can be no assurance that the IRS will not challenge the positions expressed herein or that a court would not sustain such a challenge

The Federal, state, local and other tax consequences of the Plan to the Holders of Claims may vary based upon the individual circumstances of each Holder. In addition, this discussion does not cover all aspects of Federal income taxation that may be relevant to the Debtor or the Holders of Allowed Claims, nor does the discussion deal with tax issues peculiar to certain types of Holders (such as broker-dealers, banks, regulated investment companies, tax-exempt organizations, insurance companies, traders that elect to mark to market, foreign taxpayers, persons whose functional currency is not the dollar, partnerships and other pass-through entities, U.S. expatriates and persons who hold their Claims as part of a hedging, straddle, integrated or conversion transaction). No aspect of foreign, state, local or estate and gift taxation is addressed. Additionally, this disclosure does not address the tax consequences applicable to RIC, a wholly owned subsidiary of the Debtor, or the PBGC.

The Federal income tax consequences of the Plan are complex and the following summary is not a substitute for careful tax planning. Holders of Claims are urged to consult their own tax advisors as to the Federal, state, local and other tax consequences applicable to them under the Plan.

Consequences To Holders of Claims

Realization and Recognition of Gain or Loss in General

Under the Plan, a Holder of an Allowed Claim generally will realize gain or loss in an amount equal to the difference between: (i) the sum of the amount of any cash and the fair market value on the Effective Date of any other property received by the Holder in exchange for such Claim (other than any consideration paid to the Holder which is treated as allocable to accrued but unpaid interest, as discussed below in "—Allocation of Consideration to Interest"); and (ii) the adjusted basis of the Allowed Claim exchanged therefor (other than any such basis which is attributable to accrued but unpaid interest previously included in the Holder's taxable income). Except as otherwise provided by the installment sale rules (as discussed below in "—Installment Sale Rules"), generally each Holder (with the possible exception of the Holders of

Bank Claims, as discussed below) will be required to recognize (that is, to take into account for Federal income tax purposes) any gain or loss realized by it and will have a basis in any property (other than cash) received in the Plan equal to the fair market value of such property on the Effective Date. Each Holder should consult its own tax advisor to determine whether any such recognized gain or loss constitutes ordinary income or loss or capital gain or loss in the hands of such Holder, which may depend, in part, on whether the Holder is subject to the market discount rules of Section 1276 of the IRC. (The market discount rules characterize any gain realized on the disposition of a bond that was initially acquired for less than the bond's stated redemption price (or the bond's revised issue price, in the case of a bond issued with original issue discount) as ordinary income to the extent of the accrued market discount at the time of disposition (determined on a straight line basis or, if elected by the taxpayer pursuant to a generally irrevocable election, on a constant yield basis) unless the Holder of the bond previously elected to accrue such discount into income on a current basis.)

Holders of Allowed Bank Claims

Whether or not gain or loss that is realized by the Holders of Allowed Bank Claims will be recognized for Federal income tax purposes will depend, in part, upon whether some or all of the Allowed Bank Claims are properly classified as "securities" for Federal income tax purposes. The term "security" is not defined in the IRC nor in the Treasury Regulations. One of the most significant factors considered in determining whether a particular debt instrument is a security is the original term thereof. In general, the longer the term of an instrument, the greater the likelihood that it will be considered a security. As a general rule, a debt instrument having an original term of ten (10) years or more will be classified as a security, and a debt instrument having an original term of fewer than five (5) years will not. The treatment of debt instruments having a term of at least five (5) years but less than ten (10) years is uncertain under current law. In this regard, the loan(s) giving rise to the Bank Claims had original term(s) of 7 years. Accordingly, it is unclear whether the Allowed Bank Claims constitute "securities" for Federal income tax purposes. Each Holder of an Allowed Bank Claim is urged to consult with its own tax advisor to determine whether or not its Claim constitutes a security for Federal income tax purposes.

Allowed Bank Claim Constituting "Securities". If an Allowed Bank Claim is considered a security for Federal income tax purposes, the receipt of New RFSC Common Stock in partial satisfaction of the Claim should constitute a recapitalization for Federal income tax purposes. Therefore, (i) any gain or loss realized by the Holder of such a Claim generally will not be recognized except, in the case of a gain, to the extent of the lesser of the gain realized by the Holder in the exchange and the fair market value of any "boot" received by such Holder (that is, the interest in the RFSC Litigation Proceeds being distributed to Holders of Allowed Bank Claims (other than Opt-Out Creditors)); (ii) a Holder's tax basis in the New RFSC Common Stock will generally equal the Holder's adjusted tax basis in the Allowed Bank Claim at the time of the exchange (other than any such basis which is attributable to accrued but unpaid interest previously included in the Holder's taxable income), increased by any gain recognized by the Holder on the exchange and decreased by the fair market value of any boot issued to the Holder; and (iii) a Holder's tax basis in the boot will equal the fair market value of the boot on the Effective Date. With respect to the treatment of accrued but unpaid interest

(if any) and amounts allocable thereto, see "—Allocation of Consideration to Interest". If any Holder of an Allowed Bank Claim acquired its Bank Claim at a market discount (that is, for an amount less than the Bank Claim's stated redemption price or, in the case of a Bank Claim with original issue discount, the Bank Claim's revised issue price), such Holder will be required (if such Holder did not otherwise elect to include such market discount in income on a current basis) to recognize ordinary income on any subsequent disposition of the New RFSC Common Stock to the extent of the accrued market discount on the Effective Date allocable to the New RFSC Common Stock (determined on a straight line basis or, if elected by the taxpayer pursuant to a generally irrevocable election, on a constant yield basis).

Allowed Bank Claims That Do Not Constitute "Securities". Except to the extent that the installment sale rules apply to a Holder (as discussed below in "—Installment Sale Rules"), if an Allowed Bank Claim is not considered a security for Federal income tax purposes, a Holder of such a Claim generally will realize gain or loss in an amount equal to the difference between the Holder's basis in its Claim at the time of the exchange (other than any such basis which is attributable to accrued but unpaid interest previously included in the Holder's taxable income) and the fair market value of the New RFSC Common Stock and the boot (the interest in the RFSC Litigation Proceeds) received by the Holder on the Effective Date (other than such portion as is attributable to accrued but unpaid interest). A Holder's tax basis in the New RFSC Common Stock and the boot will equal their respective fair market values on the Effective Date. With respect to the treatment of accrued but unpaid interest (if any) and amounts allocable thereto, see Section "—Allocation of Consideration to Interest".

Regardless of whether or not an Allowed Bank Claim constitutes a security for Federal income tax purposes, any gain recognized by the holder of an Allowed Bank Claim upon a subsequent sale or other taxable disposition of New RFSC Common Stock received pursuant to the Plan will be characterized, for federal income tax purposes, as ordinary income to the extent of (a) any bad debt deductions (or additions to bad debt reserve) claimed with respect to the Claim and any ordinary loss recognized in connection with the Plan, less any income (other than interest income) recognized in connection with the Plan, and (b) with respect to a cash-basis Holder, any amounts that were not included in the holder's gross income but which would have been included in such gross income had the Allowed Bank Claim been satisfied in full.

Similarly, regardless of whether or not an Allowed Bank Claim constitutes a security for Federal income tax purposes, any dividends paid by Reorganized RFSC on the New RFSC Common Stock will constitute a dividend to the extent of Reorganized RFSC's current or accumulated earnings and profits and, to the extent in excess of such earnings and profits, will reduce the shareholder's basis in the New RFSC Common Stock (but not below zero) and, to the extent in excess of such basis, will be taxable as capital gain. Provided that various holding period requirements have been satisfied, corporate owners of the New RFSC Common Stock will generally be entitled to a 70% dividends-received deduction with respect to any distributions paid on the New RFSC Common Stock that qualify as dividends, and individual owners of the New RFSC Common Stock generally will be entitled (for taxable years beginning prior to January 1, 2009) to a preferential tax rate (equal to or less than 15%) with respect to such dividends. Any gain or loss recognized by a Holder on a subsequent disposition of the New

RFSC Common Stock will be taxable as capital gain or loss if the New RFSC Common Stock constitutes a capital asset in the hands of such Holder (subject to the market discount rules discussed above in "—Realization and Recognition of Gain or Loss in General").

Except to the extent that the installment sale rules apply to a Holder (as discussed below in "—Installment Sale Rules"), each Holder of an Allowed Bank Claim will have an initial basis in its share of the RFSC Litigation Proceeds equal to the fair market value of such share of the RFSC Litigation Proceeds on the Effective Date. Since the RFSC Litigation Proceeds will have no reasonably ascertainable useful life, it is not expected that Holders will be permitted to amortize their basis in the RFSC Litigation Proceeds for Federal income tax purposes. Instead, it is anticipated that Holders will recognize gain or loss at such time as proceeds are received or accrued with respect to the RFSC Litigation Proceeds, depending on the Holder's method of accounting, in an amount equal to difference between such proceeds and the Holder's basis in its share of the RFSC Litigation Proceeds properly allocable to such proceeds. Each Holder should consult its own tax advisor to determine whether any such recognized gain or loss constitutes ordinary income or loss or capital gain or loss in the hands of such Holder.

General Unsecured Creditors

Holders of Allowed General Unsecured Claims (other than Opt-Out Creditors) will be deemed to have assigned their Litigation Claims to RGH (for an interest in the RFSC Litigation Proceeds) as part of the Plan. Each such Holder will recognize gain or loss in an amount equal to the difference between: (i) the fair market value of its interest in the RFSC Litigation Proceeds on the Effective Date and (ii) the adjusted basis of the Holder in its Claims. Except to the extent that the installment sale rules apply to a Holder (as discussed below in "—Installment Sale Rules"), each Holder of an Allowed General Unsecured Claim will have an initial basis in its share of the RFSC Litigation Proceeds equal to the fair market value of such share of the RFSC Litigation Proceeds on the Effective Date. Since the RFSC Litigation Proceeds will have no reasonably ascertainable usable life, it is not expected that Holders will be permitted to amortize their basis in the RFSC Litigation Proceeds for Federal income tax purposes. Instead, it is anticipated that Holders will recognize gain or loss at such time as proceeds are received or accrued with respect to the RFSC Litigation Proceeds, depending on the Holder's method of accounting, in an amount equal to the difference between such proceeds and the Holder's basis in its share of the RFSC Litigation Proceeds properly allocable to such proceeds. Each Holder should consult its own tax advisor to determine whether any such recognized gain or loss constitutes ordinary income or loss or capital gain or loss in the hands of such Holder.

Installment Sale Rules

The installment sale rules generally govern the timing of the recognition of, and in certain cases the amount of, the gain when at least one payment is to be received after the close of the taxable year in which a disposition occurs. Due to the contingent nature of the timing and the amount of consideration payable to certain Holders of Allowed Claims (and, in particular, Holders of Allowed Bank Claims and Allowed General Unsecured Claims), the installment sale rules might apply to such Holders if they recognize gain on the exchange of their Allowed Claims pursuant to the Plan. Under the installment sale rules, a portion of the total "gross profit" (that is, the total amount realized by a Holder less a Holder's adjusted basis) is included in

income each year in which a Holder receives a payment. Each payment is broken down into three parts: (1) recovery of basis, (2) interest and (3) gain. If the installment sale rules apply to a Holder's exchange of Allowed Claims pursuant to the Plan, the Holder may elect to be excluded from these rules by filing an election with the IRS on or before the due date for filing an income tax return for the year that includes the Closing Date. It is not clear whether the installment sale rules would apply to any Holder (and, if so, how). As a result, each Holder should consult with its own tax advisors to determine whether and to what extent the installment sale rules apply to the Holder and whether an election should be made to be excluded from these rules.

Allocation of Consideration to Interest

In general, to the extent that any amount received by a Holder of a Claim is treated as having been received in satisfaction of interest that accrued during the period that the Holder held its Claim, the Holder will be required to recognize this amount as ordinary interest income if the accrued interest had not previously been included in the Holder's gross income or, if the interest had previously been included in the Holder's gross income, will be entitled to claim an ordinary loss to the extent that the amount received is less than the amount previously included in income by the Holder.

The law is unclear as to the methodology that should be used, when a creditor receives consideration with respect to a Claim that is less than the amount of the Claim, to allocate the consideration between principal and interest. The House Report issued in connection with the Bankruptcy Tax Act of 1980 indicates that if an allocation is reflected in the Plan, both the debtor and creditor must utilize the allocation. Under the Plan, all distributions in respect of Allowed Claims are allocated first to the principal amount of the Allowed Claim, with any excess allocated to unpaid accrued interest. However, there is no assurance that this allocation will be respected for Federal income tax purposes. In this regard, Treasury regulations published subsequent to 1980 provide that payments on a debt instrument must generally be allocated first to unpaid accrued interest (with only the remainder of the payment being allocable to principal). Each Holder of an Allowed Claim is urged to consult its own tax advisor regarding the allocation of consideration and the deductibility of unpaid interest that has previously been accrued.

Withholding

All distributions under the Plan are subject to any applicable withholding requirements. Under Federal income tax law, interest, dividends and other reportable payments may, under certain circumstances, be subject to "backup withholding" (currently imposed at a 28% rate). Backup withholding generally applies if the Holder (i) fails to furnish its social security number or other taxpayer identification number (*"TIN"*), (ii) furnishes an incorrect TIN, (iii) fails properly to report interest or dividends, or (iv) under certain circumstances, fails to provide a certified statement, signed under penalties of perjury, that the TIN provided is its correct number and that it is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from backup withholding, including most corporations and financial institutions.

Consequences To Debtor

Cancellation-of-Indebtedness Income and Net Operating Losses

In general, the discharge of a debt obligation by a debtor for an amount less than its adjusted issue price gives rise to cancellation-of-indebtedness (*"COI"*) income which generally must be included in the debtor's income for Federal income tax purposes. A debtor that transfers property other than cash to a creditor in satisfaction of a creditor's claim (including stock of the debtor) is generally treated as having retired the debt for an amount equal to the fair market of the property at the time it is transferred to the creditor. The quantification of the amount of COI income that will be realized by RFSC in connection with the implementation of the Plan will turn in large part on the valuation of the non-cash consideration received by the Holders of Allowed Claims in satisfaction of their Claims. Subject to these valuation uncertainties, it is estimated that RFSC will realize between $200 million to $300 million of COI income in connection with the implementation of the Plan.

Realized COI income need not be included in income by a debtor if the income arises in connection with a plan that is approved by a bankruptcy court (the *"Bankruptcy Exception"*). The relief accorded by the Bankruptcy Exception is not without cost, however. Thus, if a debtor excludes COI income because of the Bankruptcy Exception, it is required (or members of its consolidated tax group are required) to reduce, at the end of the year in which the debt discharge occurs, certain of its (or their) tax attributes including, but not limited to, net operating loss carryovers (*"NOLs"*). To the extent the amount of excluded COI income exceeds the tax attributes available for reduction, the remaining COI income is without further tax cost to the debtor. If advantageous, a taxpayer relying on the Bankruptcy Exception may elect to reduce the basis of its depreciable property prior to any reduction in its NOLs or other tax attributes; however, it is expected that RFSC will not make this election.

As a result of the cancellation of the Equity Interests and the issuance of the New RFSC Common Stock to the Holders of Allowed Bank Claims, RFSC will cease to be a member of the RGH Tax Group as of the Effective Date; instead, Reorganized RFSC will be the parent corporation of a new group of corporations each of which has agreed to join in the filing of a consolidated Federal income tax return having Reorganized RFSC as its common parent (the *"RFSC Tax Group"*). Notwithstanding that the members of the RFSC Tax Group will cease to be includible in the RGH Tax Group as of the Effective Date, the NOLs of the RFSC Tax Group will remain available for absorption by the taxable income of the RGH Tax Group until the end of the taxable year of the RGH Tax Group. Accordingly, the amount of NOLs of the RGH Tax Group that will be apportioned to the RFSC Tax Group will depend in part on the taxable income of the RGH Group until the end of its taxable year. In order to reduce this uncertainty, it is expected that (if the Effective Date does not occur in 2004) the RGH Tax Group will file an election, subsequent to the Effective Date, to change its taxable year to end with the last day of the month that includes the Effective Date. Assuming that this election is made and is effective, and taking into account the attribute reduction required under the Bankruptcy Exception (and under the interest haircut rule, discussed below under "Section 382 and 269 Limitations on Utilization of NOLs"), it is anticipated that, just prior to the close of the taxable year in which the Plan is implemented (and not taking into consideration any income or loss realized by the RFSC Tax Group or the RGH Tax Group subsequent to the Effective Date), the RFSC Tax Group will

have approximately $2.7 billion of remaining NOLs. There can be no assurance, however, that an audit of the past or future tax returns of the RFSC Tax Group or the RGH Tax Group would not result in a substantial reduction of the RFSC Tax Group's NOLs.

The parent corporation of RFSC – RGH – is also currently in bankruptcy and it is expected that RGH will recognize an amount of COI income (when it emerges from bankruptcy) that is substantially in excess of the amount of the NOLs that will be available to RGH at the time it so emerges. The IRS might seek to reduce the NOLs of the RFSC Tax Group by the amount of this excess, in which case the NOLs available to the RFSC Tax Group at the close of the taxable year in which the Plan is implemented (again, not taking into consideration any income or loss realized by the RFSC Tax Group subsequent to the Effective Date) would be only $2.2 billion (approximately). This reduction is not anticipated to have a material adverse affect on Reorganized RFSC's ability to offset any taxable income generated by the RFSC Tax Group or on RFSC's ability to obtain the full amount of the anticipated Section 847 Refunds (as discussed below in "—Section 847 Refunds"). The allocation of the NOLs among the members of the RFSC Tax Group is described further below. See "—Description of Tax Sharing Agreement".

Holders should note that the IRS recently released regulations dealing with the realization of COI income in the context of consolidated tax groups, and indicated that it might subsequently propose additional regulations on this subject (with any such regulations being retroactive to COI income realized after September 4, 2003). The consequences described above might well be altered if the IRS were to propose additional regulations on the realization of COI income in the context of a consolidated tax group, especially if the regulations were to have a retroactive effective date.

Sections 382 and 269 Limitations on Utilization of NOLs

Section 382 of the IRC severely limits the rate at which a corporation can utilize its NOLs (and, in certain cases, its net unrealized built-in losses) if it undergoes an "ownership change." Under this provision, a corporation generally cannot utilize its NOLs (including certain net unrealized built-in losses) in any year subsequent to an ownership change in an amount in excess of the "Section 382 limitation", that is, the product of the value of its stock immediately before the ownership change and the long-term tax-exempt rate in effect at the time of the ownership change (which was 4.27% as of October, 2004). To the extent that a corporation's Section 382 limitation in a given year exceeds its taxable income for that year, the excess may be carried over to the succeeding taxable year and included in the Section 382 limitation for that subsequent year. Additionally, if an ownership change occurs and the corporation undergoing the change does not continue its historic business at all times during the two year period following the date of the ownership change, the NOLs are eliminated in their entirety. In this regard, an ownership change occurs for purposes of Section 382 of the IRC, very generally, when the percentage of stock (determined on the basis of value) owned by one or more holders of at least 5% of such stock increases by more than 50 percentage points (in relationship to the corporation's total stock considered to be outstanding for this purpose) from the lowest percentage of stock that was owned by such 5% shareholders at any time during the shorter of (i) the three year period preceding the date of testing or (ii) the period of time since the most recent ownership change of the corporation. Complicated attribution and aggregation rules apply for

purposes of determining which persons are considered 5% shareholders. Thus, a debtor's ability to utilize its NOLs to shelter taxable income can be severely limited (if not completely eliminated) if the debtor undergoes an ownership change.

It is expected that RFSC will undergo an ownership change upon implementation of the Plan. If the Section 382 limitations were to apply to the ownership change that RFSC is expected to undergo on the Effective Date, virtually all of the NOLs of the RFSC Tax Group would expire before they could be utilized (with the further result that the RFSC Tax Group might owe significant amounts of Federal income taxes in years subsequent to the implementation of the Plan and would almost certainly not be entitled to any significant amount of Section 847 Refunds).

Section 382(l)(5) of the IRC contains a special rule applicable to ownership changes that occur while a corporation is under the jurisdiction of a bankruptcy court (as in the present case). Under this rule, the limitations of Section 382 do not apply provided that, after the ownership change, the shareholders and certain qualifying creditors of the debtor corporation (as determined immediately prior to the ownership change) own stock of the debtor (as a result of being shareholders or creditors of the debtor immediately prior to the ownership change) possessing at least 50% of the total voting power of the stock of the debtor and having a value equal to at least 50% of the total value of the stock of the debtor (the *"50% Test"*). For purpose of the 50% Test, stock transferred to a creditor is only taken into account to the extent that such stock is transferred in satisfaction of indebtedness, and only if the indebtedness (1) was held by the creditor for at least 18 months before the date of the filing of the bankruptcy case or (2) arose in the ordinary course of trade or business of the loss corporation and is held, at the time of the ownership change, by the person who at all times held the beneficial interest in such debt.

If, pursuant to Section 382(l)(5) of the IRC, the rules of Section 382 do not apply to an ownership change, the following two rules apply: (1) with respect to indebtedness which is converted into stock in the bankruptcy case, the debtor must reduce the amount of its NOLs by the amount of any interest paid or accrued on such debt during (a) that portion of the taxable year in which the ownership change occurs which ends on the date of the ownership change and (b) each of the three preceding taxable years (the *"interest haircut rule"*), estimated to be approximately $11 million in the instant case if the Effective Date occurs in 2004 (and, otherwise, zero), and (2) if the debtor undergoes another ownership change within two years following the bankruptcy ownership change, the debtor's Section 382 limitation will be zero. If the 50% Test is not satisfied with respect to an ownership change occurring while the debtor corporation is under the jurisdiction of a bankruptcy court (or if the debtor corporation elects out of the special rules described above), the normal Section 382 limitations apply to the ownership change (with one exception) and the two special rules discussed in the preceding sentence do not. The one exception relates to the valuation of the stock of the loss corporation; under this exception, the value of the stock is determined after taking into account any surrender or cancellation of creditors' claims occurring in connection with the ownership change (thereby increasing the amount of NOLs which may be utilized by the debtor corporation in the years following the ownership change).

Based on information provided to RFSC by the Holders of Allowed Bank Claims, it is expected that Holders of "old and cold" Bank Claims (that is, Holders who held their Claims for at least 18 months before the date of the filing of RFSC's bankruptcy petition) will own in excess

of 50% of the New RFSC Common Stock after the ownership change and, accordingly, the RFSC Tax Group will be able to qualify for the benefits of Section 382(l)(5). (It should be noted, however, that no regulations have been issued addressing the application of Section 382(l)(5) in the context of a consolidated tax return, and significant uncertainties exist as to that application. Thus, neither the Code nor the Treasury regulations address whether the Bankruptcy Exception can be applied on a consolidated basis or only on a separate company basis. It is anticipated that Reorganized RFSC will take the position that the entire RFSC Tax Group qualifies for the Bankruptcy Exception.) If the entire RFSC Tax Group qualifies for the Bankruptcy Exception, the RFSC Tax Group's NOLs will not be subject to limitation under Section 382 of the IRC (although the RFSC Tax Group will be required to reduce its NOLs by the interest haircut amount, as described in the preceding paragraph). In order to reduce the likelihood that a second ownership change might occur with respect to Reorganized RFSC (which, as indicated above, would have the effect of eliminating the RFSC Tax Group's NOLs in their entirety if the ownership change occurred within two years of the Effective Date (since the Section 382 limitation would be reduced to zero in such case), and of substantially restricting the RFSC Tax Group's ability to utilize its NOLs if the ownership change were to occur after the second anniversary of the Effective Date), the Certificate of Incorporation of Reorganized RFSC has been amended to significantly restrict issuances, redemptions, cancellations and transfers of New RFSC Common Stock. Notwithstanding these restrictions, however, there can be no assurance that Reorganized RFSC will not undergo another ownership change subsequent to the Effective Date (since, *inter alia*, an ownership change can be triggered by indirect transfers of stock – which are not restricted under Amended and Restated Articles of Incorporation).

Generally, the IRS is given wide latitude to classify stock as non-stock and to classify non-stock as stock. As a result, the IRS might seek to recharacterize certain interests in or obligations of Reorganized RFSC (including those issued in connection with the implementation of the Plan) as stock. If the IRS were successfully to assert any such argument, it is unlikely the restructuring effected by the Plan would qualify under Section 382(l)(5) of the IRC (and thus the Section 382 limitations would apply) unless the recharacterized equity were properly characterized as "plain vanilla" preferred stock under Section 1504(a) of the Code. Alternatively, it is also possible that the IRS could argue that, as a result of the control being exercised over RIC by the Liquidator, the stock held by Reorganized RFSC in RIC should be classified as other than stock (with the result that Reorganized RFSC and RIC would not be includable in a common consolidated Federal income tax return and the restructuring effected by the Plan might well not qualify under 382(l)(5) of the IRC). As indicated previously, if the restructuring effected by the Plan does not qualify under 382(l)(5) of the IRC, virtually all of the NOLs would expire before they could be utilized (and the RFSC Tax Group and/or its members might owe significant amounts of income taxes during the period subsequent to the implementation of the Plan and would not be entitled to a substantial portion (or perhaps any) of the 847 Refunds, as discussed below in "—Section 847 Refunds"). Each holder is urged to consult its own tax advisors as to whether any interests in, or obligations of, Reorganized RFSC are properly characterized as stock for Federal income tax purposes or whether any of the outstanding stock of Reorganized RFSC or RIC should be characterized as non-stock for Federal income tax purposes.

Section 269 of the IRC could also apply to eliminate or reduce the NOLs available to the RFSC Tax Group after the Effective Date. Section 269 permits the IRS to disallow the use of

losses (including NOLs) if a person acquires at least 50 percent of the total combined stock (by vote or value) of a corporation and the principal purpose of such acquisition was the evasion or avoidance of Federal income tax by securing the benefit of a deduction, credit or other similar allowance (including NOLs). Treasury Regulations issued pursuant to Section 269 provide that unless the acquired corporation carries on more than an insignificant amount of an active trade or business during and subsequent to the title 11 or similar case, an acquisition of control of a corporation to which Section 382(l)(5) applies will be considered to be made for the principal purpose of the avoidance or evasion of Federal income tax absent strong evidence to the contrary. As discussed above, the RFSC Tax Group will be relying on Section 382(l)(5) to prevent the limitations of Section 382 from applying. Thus, unless RFSC carries on more than an insignificant amount of an active trade or business during and subsequent to the title 11 case, absent strong evidence to the contrary, the acquisition of the stock of RFSC by the Holders of the Allowed Bank Claims will be considered to be made for the principal purpose of the avoidance or evasion of Federal income tax and the IRS could prevent the RFSC Tax Group from utilizing the NOLs. As discussed above, if the RFSC Tax Group were prevented from utilizing the NOLs, the RFSC Tax Group might owe significant amounts of income taxes during the period subsequent to the implementation of the Plan and almost certainly would not be entitled to a substantial portion (or perhaps any) of the Section 847 Refunds, as discussed below in "–Section 847 Refunds").

It is anticipated, although there can be no assurance, that Reorganized RFSC's activities (indirectly conducted through RIC) currently constitute, and will continue to constitute for many years, more than an insignificant amount of an active trade or business such that Reorganized RFSC will not need to present strong evidence that the acquisition of the stock of RFSC by the Holders of the Allowed Bank Claims was not made for the principal purpose of the avoidance or evasion of Federal income tax. There can be no assurance, however, that the IRS will not take a contrary position or that the IRS will not assert that the principal purpose of the acquisition of Reorganized RFSC was the evasion or avoidance of Federal income tax by securing the benefit or a deduction, credit or other similar allowance (including NOLs). If the IRS were to prevail with respect to either such assertion, this would have the effect of substantially limiting (or perhaps eliminating) the use of the NOLs and substantially reducing (or perhaps eliminating) the receipt of the Section 847 Refunds.

The Bankruptcy Court has issued a Tax Order in connection with the Bank Plan addressing certain of the issues discussed above. It is unclear to what extent the IRS will be bound by the Tax Determinations contained in the Tax Order, especially if the Bankruptcy Court does not confirm that these Tax Determinations apply to the Plan (as well as to the Bank Plan). See "Federal Income Tax Consequences of the Plan – Tax Determinations".

Section 847 Refunds

Section 847 allows a special deduction to an insurance company in an amount equal to the excess of its undiscounted, unpaid losses over its discounted, unpaid losses (which amount is credited to a "special loss discount account"), but requires the company to make a "special" estimated tax payment each year that the deduction is claimed equal to the tax benefit generated by the deduction – such that no actual tax benefit is realized by the deduction (at least initially). With the passage of time (and the payment of losses), the spread between the insurance company's undiscounted, unpaid losses and the discounted, paid losses with respect to any taxable year will generally decrease. These decreases are debited each year from the special loss discount account and included in gross income, with the corporation applying the special estimated tax payments it made in the prior taxable year to offset any taxes owed as a result of these income inclusions. If the amount of a special loss discount account established with respect to any year has not been reduced to zero before the 15th year after the year for which the account was established, the remaining balance of the account must be included in income in that 15th year. In the following year, any remaining special estimated tax payments made with respect to that year are treated as an actual estimated tax payment, such that the taxpayer can obtain a Section 847 Refund of the remaining special estimated tax payments to the extent such special estimated tax payments exceed any tax owed for such year. Generally, there will be remaining special estimated tax payments (and thus there will be Section 847 Refunds) only to the extent that the company has been able to offset some of the income inclusion resulting from the reversal of the special loss discount account over the prior fifteen years with current year losses or NOLs. Moreover, the refund will not be available if the company has liquidated or otherwise terminated its insurance business.

It is anticipated that, starting in 2005, and most years thereafter for the next seven to ten years, Reorganized RFSC will apply for an aggregate of at least $145 million of Section 847 Refunds during the years 2005 through 2015 inclusive (and possibly substantially in excess of such amount). Reorganized RFSC has obligated itself (under the Tax Sharing Agreement) to remit fifty percent of the amount of any Section 847 Refunds to RIC and has transferred to RGH a fifty percent undivided interest in the remaining fifty percent (that is, twenty-five percent) of the Section 847 Refunds (net of certain expenses).

The IRS may assert that the RFSC Tax Group has an insufficient amount of unrestricted NOLs to offset the income inclusion resulting from the reversal of the special loss discount account (thereby reducing or eliminating the Section 847 Refunds otherwise available to the RFSC Tax Group) – either as a result of the failure of the restructuring effected by the Plan to qualify under Section 382(l)(5) of the Code or otherwise. See "—Section 382 and 269 Limitations on Utilization of NOLs". Alternatively, the IRS could assert that RIC has liquidated or otherwise terminated its insurance business such that the RFSC Tax Group is not entitled to the Section 847 Refunds. Current law is unclear as to what constitutes an insurance business for purposes of Section 847 and, in any event, the determination of whether RIC has terminated its insurance business will probably depend heavily on RIC's future activities. Thus, while RIC is no longer writing any new insurance policies and is in the process of liquidating, it is anticipated that RIC will continue to employ a substantial number of employees and continue to utilize outside service providers for the relevant years who will be actively engaged in reviewing, settling, paying and/or contesting insurance claims, collecting premiums, as well as investing

RIC's insurance reserves. There can be no assurance, however, that these activities are sufficient to constitute an insurance business for purposes of Section 847 or that the insurance-related activities of RIC will not be substantially reduced in the future (although RGH, Reorganized RFSC and RIC each have agreed that they will take all steps necessary to maximize the receipt of Section 847 Refunds). In addition, the IRS could argue that RGH, the parent of the RGH Tax Group at the time the special estimated tax payments were made, inherits the special estimated tax payments when Reorganized RFSC and its subsidiaries (including RIC) are disaffiliated from the RGH Tax Group as a result of the Plan. Since RIC, the entity that conducts the insurance business, will otherwise no longer be a member of the RGH Tax Group at the time the Section 847 Refunds would become due, RGH would not be entitled to the Section 847 Refunds because it would not be engaged in the insurance business and neither Reorganized RFSC nor RIC would be entitled to the Section 847 Refunds because they would not be considered to have made any special estimated tax payments. If the IRS were to prevail on any of these (or other) arguments, the amount of the RFSC Tax Group's Section 847 Refunds could be substantially reduced if not totally eliminated.

The Bankruptcy Court has issued a Tax Order in connection with the Bank Plan addressing certain of the issues discussed above. It is unclear to what extent the IRS will be bound by the Tax Determinations contained in the Tax Order, especially if the Bankruptcy Court does not confirm that these Determinations apply to the Plan (as well as to the Bank Plan). See "Federal Income Tax Consequences of the Plan – Tax Determinations".

Alternative Minimum Tax

An alternative minimum tax (computed at the rate of 20%) is imposed on corporations if this tax exceeds the corporation's regular Federal income tax liability for the year. For purposes of computing alternative minimum taxable income, certain tax deductions and other beneficial allowances are modified or eliminated (such that a corporation's alternative minimum taxable income is often in excess of its regular taxable income). In particular, even though a corporation might otherwise be able to offset all of its taxable income for regular tax purposes by available NOLs, only 90% of a corporation's alternative minimum taxable income generally may be offset by NOLs. As a result, if the RFSC Tax Group generates alternative minimum taxable income subsequent to the Effective Date, it generally will be required to pay Federal income tax equal to 2% of the amount of this income – even assuming that the RFSC Tax Group has unrestricted NOLs in excess of its alternative minimum taxable income.

Additionally, if a corporation undergoes an "ownership change" within the meaning of section 382 of the IRC and has a net unrealized built-in loss at the time of the ownership change, the corporation must reduce the basis of its assets, for certain AMT purposes, to reflect the fair market value of the corporation's assets immediately prior to the ownership change. It is likely that this provision will apply to the RFSC Tax Group if a net unrealized built-in loss exists on Effective Date, even if the reorganization effected by the Plan qualifies under the Bankruptcy Exception. Due to legal and factual uncertainties, it is uncertain as to whether or not a net unrealized built-in loss will exist on the Effective Date. See "—Cancellation-of-Indebtedness Income and Net Operating Losses" above.

Description of Tax Sharing Agreement

It is anticipated that RFSC, RGH, RIC and the Liquidator will enter into a Tax Sharing Agreement (the *"Tax Sharing Agreement"*) on or before the Effective Date (which Agreement is expected to be approved by both the Bankruptcy Court and the Commonwealth Court). To the extent that the provisions of the Tax Sharing Agreement are inconsistent with the provisions of the PA Settlement Agreement, the provisions of the Tax Sharing Agreement are to control. Among the provisions contained in the Tax Sharing Agreement are the following:

1. Commencing on the Effective Date, RIC and each of its consolidated subsidiaries have agreed to join in the filing of a consolidated Federal income tax return with RFSC as the common parent, with each member of the RFSC Tax Group agreeing to cooperate with and provide assistance to any other member of the RFSC Tax Group relating to taxes as may reasonably be requested by such member.

2. Except to the extent that RIC has not fulfilled its monetary obligations under the Tax Sharing Agreement, RFSC is responsible for paying any taxes owed by the RFSC Tax Group. Additionally, RFSC has agreed to indemnify RIC and its consolidated subsidiaries (the *"RIC Group"*) against any taxes owed by the RFSC Tax Group and for which any member of the RIC Group is determined to be liable (so long as such taxes are not attributable to the RIC Group), and has granted RIC a junior subordinate lien on RFSC's share of the Section 847 Refunds in support of this indemnity obligation.

3. The Tax Sharing Agreement generally bifurcates the NOLs of the RFSC Tax Group between the RIC NOLs, which are available to the members of the RIC Group, subject to certain limitations, and the Base NOLs, which are available to those members of the RFSC Tax Group that are not also included in the RIC Group. Although the amount of the Base NOLs has been established at $1.25 billion, RIC is permitted, in effect, to designate some or all of the RIC NOLs as additional Base NOLs if RIC determines that it no longer requires all of the RIC NOLs. It is anticipated that approximately $800 million of the Base NOLs will either be eliminated as a result of the rules applicable to COI (as discussed above under "—Cancellation-of-Indebtedness Income and Net Operating Losses") or used to offset income inclusions arising under Section 847 of the IRC (as discussed above under "—Section 847 Refunds").

4. RIC generally has agreed to make periodic payments to RFSC (or to the IRS) in an amount equal to the taxes payable by the RIC Group for the relevant taxable period (determined on a stand-alone basis, but with certain modifications). If the amount of taxes that would have been owed by the RIC Group (again, determined on a stand-alone basis with modifications) had RIC not utilized Base NOLs (or RIC NOLs in excess of the amount that RIC is entitled to use under the Tax Sharing Agreement) to offset the taxable income of the RIC Group is in excess of the amount of taxes that is actually owed (again, on a stand-alone basis with modifications), RIC is generally required to pay this excess (the *"NOL Overuse Amount"*) to RFSC although under certain circumstances, RIC is required to pay only fifty percent (50%) of the NOL Overuse Amount to RFSC. Upon receipt of any NOL Overuse Amount from RIC, RFSC is required to pay fifty percent

(50%) of the amount so received to RGH if RIC's utilization of Base NOLs has reduced or is likely to reduce the amount of Section 847 Refunds otherwise available.

5. If RFSC receives a refund attributable to the RIC Group (or would have received such a refund but for the happening of certain events), RFSC is obligated to remit the refund to RIC.

6. RIC and RGH are entitled to fifty percent (50%) and twenty-five percent (25%), respectively, of any Section 847 Refunds received by the RFSC Tax Group, with the remainder belonging to RFSC. Under certain circumstances, RIC has agreed to indemnify RFSC and RGH, and RFSC has agreed to indemnify RIC and RGH, for lost Section 847 Refunds. RGH, RFSC, RIC and the Liquidator have each agreed that they will cooperate in good faith to take all steps necessary and appropriate to maximize the amount and receipt of Section 847 Refunds.

7. If and to the extent that Holders of Allowed Claims, other than RIC, receive any distribution of property relating to the utilization of Base NOLs, whether in their capacity as creditors of RFSC or as successor shareholders of RFSC (other than the Section 847 Refunds), RFSC is required to pay RIC an amount equal to such distribution (without regard to expenses incurred by any of the parties to the Tax Sharing Agreement, the estates of RGH or RFSC, and any liquidating trust established by RGH or RFSC. Thus, to the extent the amount of such distribution has been reduced by reason of an administrative expense of RGH, RFSC or any such liquidating trust, the amount payable to RIC is to be increased to eliminate the effect of such administrative expense).

8. Each party is liable for its own tax preparation expenses. In connection with any dispute with the IRS relating to items attributable to the RIC Group (other than most matters relating to Section 847 Refunds), (i) RIC is entitled to choose whether or not it wishes to be the controlling party with respect to such dispute and (ii) RIC is responsible for the payment of all costs of the contest (other than any costs incurred by RFSC if RFSC is not the controlling party with respect to such contest). In connection with any dispute with the IRS relating to most matters relating to Section 847 Refunds or to items not attributable to the RIC Group (other than most matters relating to Section 847 Refunds), (i) RFSC is the controlling party with respect to such dispute and (ii) RFSC is responsible for the payment of all contest costs (other than any costs incurred by the RIC Group).

9. Binding arbitration provisions are provided for the resolution of any disputes that arise in connection with the Tax Sharing Agreement.

Tax Determinations

The Bankruptcy Court issued the Tax Order in connection with the Bank Plan in which it made the following determinations (the "Tax Determinations") pursuant to Section 505 of the Bankruptcy Code:

1. The principal purpose of the Bank Plan, as proposed and confirmed, is not the avoidance or evasion of Federal income tax within the meaning of Section 269 of the IRC and the Treasury Regulations promulgated thereunder.

2. At all times subsequent to the Petition Date, RFSC has carried on more than an insignificant amount of an active trade or business within the meaning of Treasury Regulation Section 1.269-3(d).

3. The first sentence of Section 847(6)(A) of the IRC, which applies to a company that liquidates or otherwise terminates its insurance business, does not apply to RIC due to its ongoing insurance activities.

4. RIC has been, and continues to be, subject to the tax imposed by Section 831 of the IRC.

5. On the date following the Effective Date, the RFSC Tax Group (as a result of the inclusion of RIC in the affiliated group of corporations filing a consolidated Federal income tax return having Reorganized RFSC as the common parent) will succeed to all special estimated tax payments (within the meaning of Section 847 of the IRC) made by RGH.

6. As a result of the application of Section 382(l)(5) of the IRC, the NOL limitations of Section 382(a) do not apply to any ownership change resulting from the Bank Plan (as confirmed, assuming receipt of penalty of perjury statements from each of the Banks, executed as of the Effective Date and in substantially similar form as that described in Exhibits 18-24 offered into evidence at the hearing with respect to the Tax Order, and no relevant changes to the Bank Plan subsequent to the date of entry of the Tax Order).

7. RGH was not required to designate on an originally-filed tax return any estimated tax payments as "special estimated tax payments" under Section 847 of the IRC in order for such tax payments to be treated as special estimated tax payments refundable pursuant to Section 847 of the IRC;

Because the provisions of the Plan are substantially identical to those of the Bank Plan, it is expected that the Bankruptcy Court will confirm (in the Confirmation Order or a separate Order) that these Tax Determinations are equally applicable to the Plan. It is possible, however, that the Bankruptcy Court might not provide the requested confirmation. Moreover, even if the Bankruptcy Court were to provide the requested confirmation, the IRS may assert that it is not bound by the Tax Determinations.

RECOMMENDATIONS AND CONCLUSION

This Disclosure Statement has been prepared and presented for the purpose of permitting creditors to make an informed judgment to accept or reject the Plan. Please read this Disclosure Statement and the Plan in full and consult with your counsel if you have questions.

If the Plan is confirmed, its terms and conditions will be binding on all creditors and shareholders whether or not they accept the Plan and whether or not they receive distributions under the Plan. The Creditors' Committee believes that acceptance of the Plan by creditors is in their best interest and that confirmation of the Plan will provide the best recovery for creditors. Accordingly, the Creditors' Committee urges that all Holders of Claims who are entitled to vote to accept or reject the Plan vote to accept the Plan.

Dated: New York, New York
November 2, 2004

OFFICIAL UNSECURED CREDITORS' COMMITTEE OF RELIANCE FINANCIAL SERVICES CORPORATION

By: /s/ Eric R. Johnson
Name: Eric R. Johnson
Title: Chair, Official Unsecured Creditors' Committee

APPENDICES

Appendix A: Plan of Reorganization

Appendix B: PA Settlement Agreement

Appendix C: RGH/RFSC Settlement

Appendix D: Monthly Operating Report of RFSC and RGH (Consolidated) for the Month of September, 2004.

Appendix E: Proposed Budget

Appendix F: PBGC Stipulation

APPENDIX A

PLAN OF REORGANIZATION

APPENDIX B

PA SETTLEMENT AGREEMENT

SETTLEMENT AGREEMENT

This Settlement Agreement (the "Agreement") is entered into on the 1st day of April, 2003, by and among M. Diane Koken, and any successor thereto, in her, or his capacity as the statutory Liquidator (the "Liquidator") of Reliance Insurance Company ("Reliance"), and the Official Unsecured Bank Committee (the "Bank Committee") and the Official Unsecured Creditors' Committee (collectively with the Bank Committee, the "Committees") of Reliance Group Holdings, Inc. ("RGH") and Reliance Financial Services Corp. ("RFSC" and, together with RGH, the "Debtors").

RECITALS

WHEREAS, the parties hereto have been involved in various disputes with respect to: (A) the ownership interests of the Debtors' estates, on the one hand, and the Liquidator's Reliance estate, on the other hand, relating to: (i) directors and officers insurance policies and the proceeds thereof; (ii) cash now or hereafter held by the Debtors; (iii) the NOLs (as defined below); and (iv) the § 847 Refunds (as defined below); and (B) the amount of the Liquidator's allowed claim in the Debtors' bankruptcy proceedings; and

WHEREAS, the parties do not concede or admit the merits of any of the foregoing disputes; and

WHEREAS, in the interest of avoiding the cost of further litigation and conserving the assets of the liquidation estate of Reliance and the bankruptcy estates of RGH and RFSC, the parties wish to settle and resolve all their differences on the terms and conditions set forth in this Agreement;

NOW THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the parties hereto agree as follows:

1. **Effectiveness of Settlement.** The terms of this Agreement effectuating the settlement as set forth herein shall be effective upon the satisfaction of each of the following conditions on or prior to August 31, 2003:

a. the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") shall have entered an order pursuant to the Rule 9019 Motion (as defined in Section 7(d) hereof) approving this Agreement and containing all provisions specifically required in this Agreement to be included therein, and such order shall otherwise be consistent in all material respects with this Agreement; and

b. the Commonwealth Court of Pennsylvania (the "Commonwealth Court") shall have entered an order approving this Agreement and containing all provisions specifically required in this Agreement to be included therein, and such order shall otherwise be consistent in all material respects with this Agreement;

provided that, in the event such conditions are not so satisfied, this Agreement shall terminate without any obligation or liability of any kind by any party to another party or to

RGH or RFSC, except for any breach of any party's obligations under Section 7(b), 7(c), 7(d), 7(f), 7(g) or 7(h) of this Agreement.

2. **§ 847 Refunds**. Reliance, RGH and RFSC are members of a consolidated group for federal income tax purposes (the "RGH Tax Group"). A new consolidated federal income tax group with RFSC as the common parent and with Reliance as a member will be formed (the "RFSC Tax Group"). Reliance and any of its subsidiaries which are currently members of the RGH Tax Group hereby agree to join in the filing and will execute and deliver the necessary consents to file a consolidated federal income tax return as part of the RFSC Tax Group and RFSC hereby agrees to and will file a consolidated return with Reliance and any such subsidiaries. The members of such RFSC Tax Group hereby further agree not to take any actions that would cause a disaffiliation of Reliance from the RFSC Tax Group. The RGH Tax Group has amended or will amend certain past tax returns (including, but not necessarily limited to, the 1988-1992 tax years) in order to designate certain tax payments as "special estimated tax payments" under § 847 of the Internal Revenue Code of 1986, as amended (the "IRC"). Such payments may become available for refund pursuant to IRC § 847 (the "New § 847 Refunds"). In addition to the New § 847 Refunds created by amending those certain tax returns, Reliance, through the RGH Tax Group, has made significant other "special estimated tax payments" under IRC § 847 (the "Original 847 Refunds" and together with the New § 847 Refunds, the "§ 847 Refunds"). The RGH Tax Group will be terminated as part of a plan or plans of reorganization of RGH and RFSC (the "Plan(s) of Reorganization"). Each of the RGH Tax Group (until its termination), the RFSC Tax Group (upon its formation) and the Committees will take all steps necessary to maximize the receipt of § 847 Refunds. The recipient of the § 847 Refunds shall be deemed to hold: (i) fifty percent (50%) of each of such § 847 Refunds in trust for the sole benefit of the Liquidator and the Liquidator will promptly be paid such fifty percent (50%) share of the amount of each of such § 847 Refunds actually received, without set-off or offset; and (ii) fifty percent (50%) of each of such § 847 Refunds in trust for the sole benefit of a liquidating trustee to be appointed under the Plan(s) of Reorganization (the "Liquidating Trustee"), and the Liquidating Trustee will promptly be paid such fifty percent (50%) share of the amount of each of such § 847 Refunds actually received, without set-off or offset.

3. **NOLs**. The RGH Tax Group has substantial net operating losses for federal income tax purposes and may generate additional such losses prior to its termination. The RFSC Tax Group will inherit substantial portions of such losses from the RGH Tax Group and may generate additional net operating losses in the future (together, all such RGH Tax Group losses inherited by the RFSC Tax Group and all subsequent losses generated by the RFSC Tax Group, the "NOLs"). The Liquidator has informed the Committees that the NOLs attributable to the operations of Reliance are estimated to exceed $2 billion through the end of 2001. RGH, RFSC and Reliance (to cover the period during which the RGH Tax Group remains in existence and Reliance remains a member) and RFSC and Reliance (to cover the period beginning when the RFSC Tax Group is created) will enter into certain Tax Sharing Agreements to govern the sharing of the respective group's consolidated tax liability and various other tax matters. The Tax Sharing Agreements will provide, and the parties to this Agreement also agree, that: (i) NOLs attributable to the operations of Reliance of not less than $1.25 billion will be made available for RGH and RFSC (the "Base NOLs"); (ii) NOLs attributable to the operations of Reliance, whether now existing or hereafter created, in excess of the Base NOLs, shall remain available for

the use of Reliance in offsetting income generated in connection with the liquidation of Reliance, including its ongoing insurance operations (the "Reliance NOLs"); (iii) in the event that Reliance, in its reasonable sole discretion, determines that it no longer requires all or a portion of the Reliance NOLs, Reliance shall make such excess NOLs (the "Excess NOLs") available to RGH or RFSC; (iv) if and to the extent that RGH creditors or RFSC creditors, through the utilization of Base NOLs and/or Excess NOLs (after reduction of such NOLs by any cancellation of indebtedness income realized in connection with the implementation of the Plan(s) of Reorganization), receive any distribution other than the § 847 Refunds, or any distribution is received for their benefit by, inter alia, a Liquidating Trustee, the Liquidator shall receive an amount equal to such distribution (it being agreed and understood that, other than for the payments provided under this subsection (iv), RGH and RFSC shall not be required to make any payments to Reliance under the Tax Sharing Agreements, nor shall the amount of income taxes otherwise payable by Reliance under the Tax Sharing Agreements be reduced, on account of the Base NOLs and/or Excess NOLs); and (v) to the extent that Reliance utilizes any of the Base NOLs (other than for offsetting the Base NOLs against any taxable income resulting from the § 847 Refunds), or to the extent that Reliance utilizes any of the Excess NOLs, Reliance shall pay the Liquidating Trustee in cash $0.35 for every $1.00 of such NOLs utilized by Reliance, and fifty percent (50%) of such payment shall be returned to the Liquidator consistent with subsection (iv) of this Section, except and to the extent that: (a) Reliance utilizes any Base NOLs or Excess NOLs that would otherwise have been utilizable to offset either any taxable income resulting from the § 847 Refunds or the cancellation of indebtedness income realized in connection with implementation of the Plan(s) of Reorganization (both with respect to the taxable year that the NOLs are utilized by Reliance and with respect to future taxable years); or (b) the utilization of the Base NOLs or the Excess NOLs by Reliance actually results in tax liability to the RFSC Tax Group (with respect to the taxable year that the NOLs are utilized by Reliance and/or future taxable years) that would otherwise not have been due had such Base NOLs or Excess NOLs not been utilized by Reliance, but only where Reliance has received or it is reasonably anticipated that Reliance will receive payment regarding such Base NOLs or Excess NOLs under subsection (iv) of this Section. It is understood that the actual use of the Base NOLs and Excess NOLs shall be determined by RGH and RFSC in consultation with Reliance. For purposes of calculating the amount of "any distribution" as used in paragraph (iv) above, such calculations shall be made without regard to expenses incurred by any of the parties hereto, the estates of RGH, RFSC, and any Liquidating Trustee. In particular, to the extent the amount of "any distribution" has been reduced by reason of an administrative expense of RGH, RFSC, or the Liquidating Trustee, the amount payable to the Liquidator shall be increased to eliminate the effect of such administrative expense. The parties further acknowledge that it is their intent under this Agreement and the Tax Sharing Agreements that: (i) any taxable income resulting from generation of the § 847 Refunds and cancellation of indebtedness income realized in connection with implementation of the Plan(s) of Reorganization (other than cancellation of indebtedness income realized by RGH to the extent such income does not offset NOLs) shall be offset with Base NOLs for purposes of this Agreement; and (ii) RGH and RFSC, and their successors and assigns, shall not manage, operate, or structure the affairs of RGH, RFSC, or any successor entity, including by consolidation, merger, partnership, or other association, in such a way that will result in the utilization of the Reliance NOLs; and RGH, RFSC and Reliance and their successors and assigns shall not manage, operate or structure the affairs of RGH, RFSC,

Reliance or any successor entity, including by consolidation, merger, partnership or other association, in such a way that will impair in any way the ability of the parties to utilize the Base NOLs to offset income generated in connection with the § 847 Refunds.

4. **D&O Litigation**.

a. **The Actions**. On June 24, 2002, the Liquidator commenced an action against certain former officers and directors ("Defendants") of Reliance (the "Reliance D&O Action") in the Commonwealth Court. So long as this Agreement is in full force and effect, the Committees, RGH, RFSC, the Liquidating Trustee or any other estate representative agree that they will not commence any action against the Defendants (except for a preference action as hereinafter defined) without the prior written consent of the Liquidator, which shall include the Liquidator's consent as to the venue of such action.

b. **Division of Proceeds**. (i) Unless altered by the conditions set forth in subsection (ii) of this Section 4(b), the gross proceeds (*i.e.* before payment of any costs, contingent or other attorneys fees, etc.) realized by the Liquidator, the Committees, RGH, RFSC, the Liquidating Trustee, or other estate representative arising out of any litigation, claims, or causes of action against any director or officer of RGH, RFSC, or Reliance under any of the insurance policies listed on Exhibit A to this Agreement or from such directors or officers, including any Defendant in the Reliance D&O Action (the "Proceeds"), will be divided forty percent (40%) to the Liquidating Trustee (or other appropriate representative of the Debtors' estates) and sixty percent (60%) to the Liquidator; it being understood that the division of the Proceeds shall be without any deduction, reduction, or diminution with respect to any expenses, legal or otherwise, in connection with such litigation, provided, however, that, it is specifically agreed that proceeds derived from or allocable to claims of receipt of preferential payments, fraudulent transfers, or similar causes of action ("preference actions"), so long as they are not derived from or received through or under the insurance policies listed on Exhibit A to this Agreement, brought in any forum against one or more Defendants, either in their capacity as officers and directors of RGH, RFSC, or Reliance, or as individuals or otherwise, are specifically excluded from division or allocation under this Agreement and will be retained by the party who brings such a preference action. (ii) In the event that an action or actions is initiated against one or more Defendants or other directors or officers of the Debtors by the Committees, RGH, RFSC, any Liquidating Trustee, or other RGH or RFSC estate representative consistent with Section 4(a) of this Agreement, the Liquidator shall be given the option to pay all expenses of such action or actions. If the Liquidator exercises that option, all Proceeds (consistent with the definition above) recovered from such action or actions shall be divided in accordance with subsection (i) of this Section 4(b). If the Liquidator declines the option to pay these expenses, the net Proceeds recovered from such action or actions (*i.e.* after payment of any costs, contingent or other attorneys fees, etc.) shall be divided fifty percent (50%) to the Liquidating Trustee (or other appropriate representative of the Debtors' estates) and fifty percent (50%) to the Liquidator.

c. **Distribution of Proceeds**. Proceeds shall be promptly distributed in accordance with the terms of this Agreement.

d. **D&O Settlement**. In the event the Liquidator wishes to settle the Reliance D&O Action, she shall first seek the consent of the Committees or, upon confirmation of the Plan(s) of Reorganization, the Liquidating Trustee, which consent shall not be unreasonably withheld. Individual members of the Committees shall have no right to consent or withhold consent under this Section. The Liquidator shall provide to the Committees or the Liquidating Trustee notice in writing setting forth the material terms of the proposed settlement, and the Committees or the Liquidating Trustee shall respond with consent or refusal to consent in writing within 48 hours of receipt of the notice, which, in the event of a refusal to consent, shall set forth: (i) each reason for the refusal to consent; and (ii) alternative terms to which consent would be given. The Liquidator may either abandon such settlement or submit the reasonableness of the settlement to the dispute resolution process set forth in Section 7(h) herein, provided that all parties agree that the dispute resolution proceeding on this issue shall be expedited and shall be commenced and concluded in no more than 48 hours. In any such proceeding under Section 7(h), the Committees or the Liquidating Trustee shall bear the burden of proving, by clear and convincing evidence, that the settlement is, when taken as a whole, unreasonable and inadequate, and if that burden is met, and the refusal to consent is sustained by the arbitrator, the arbitrator shall determine what monetary or other terms would be reasonable and adequate. The Liquidator, the Committees, and the Liquidating Trustee will be bound by the determination of the Section 7(h) proceeding. Upon any settlement, all parties bound by this Agreement (including but not limited to, upon effectiveness of the settlement as provided in Section 1, RGH and RFSC) agree to be bound by the settlement and to take all actions necessary to effectuate such settlement, including by using all commercially reasonable efforts to obtain any requisite court approval, signing all necessary documents, and implementing the division of proceeds as agreed to hereunder.

e. **The Standstill Agreement**. There is currently in effect a standstill agreement, originally dated March 12, 2002 and as amended from time to time, among the Liquidator, the Debtors, and the Committees (the "Standstill Agreement"), applicable to certain litigation pending between the Liquidator and the Debtors, including that certain litigation filed in the Commonwealth Court and subsequently removed to the United States District Court for the Eastern District of Pennsylvania (the "PA Litigation") and the litigation concerning an order to show cause pending in the Bankruptcy Court (the "NY Litigation"). The Standstill Agreement, as extended from time to time by the parties thereto, shall remain in effect until the effectiveness of the settlement as provided in Section 1, at which time the Standstill Agreement shall by joint stipulation terminate and the PA Litigation and the NY Litigation shall be dismissed with prejudice upon joint motion or stipulation of the parties. Notwithstanding the foregoing, the parties agree that the Emergency Petition for Preservation of Insurance Policy Assets of Estate (the "Emergency Petition"), filed by the Liquidator in the Commonwealth Court within matter No. 269 M.D. 2001, removed to the United States District Court for the Eastern District of Pennsylvania (the "EDPa Court"), and transferred to the Bankruptcy Court (which transfer was appealed to the EDPa Court), shall not be dismissed, but shall remain pending in the Bankruptcy Court (and the appeal shall remain pending in the EDPa Court), and the parties agree that no party shall file any further brief, motion, application, complaint, or proceeding, or take any other action, in any court or other tribunal, that seeks any ruling or order of any kind with respect to the subject matter of the Emergency Petition until such time as the parties agree to a dismissal or other resolution of the matter. Nothing in this Section shall be construed to prohibit

any party from making any appropriate response or filing in any action or proceeding commenced by nonparties to this Agreement regarding the subject matter of the Emergency Petition, including the matter captioned George E. Bello, et al. v. Syndicate 1212 at Lloyd's, London, et al, pending in the Bankruptcy Court at No. 01-03572, or to prohibit any party from commencing a new action or proceeding to prevent the payment of proceeds from the insurance policies that are the subject of the Emergency Petition, or to prohibit any party from opposing or otherwise responding to or proceeding in any such new action or proceeding. In the event that either the Bankruptcy Court or the EDPa Court takes any action inconsistent with the foregoing, the parties shall use their best efforts to reach agreement regarding a disposition of the Emergency Petition that will not be unduly prejudicial to the estate of either Reliance or the Debtors. Nothing in this Section shall be construed to alter the distribution of the Proceeds set forth in Sections 4(b) and 4(c) of this Agreement, or the dispute resolution procedure set forth in Section 7(h) of this Agreement.

f. **Records of the Debtors.** The Committees agree to use their best efforts to ensure that any order entered by the Bankruptcy Court approving this Agreement include a provision substantially in the following form: "The automatic stay extant pursuant to Section 362 of the Bankruptcy Code is hereby modified for the limited purpose of permitting the Liquidator to serve and enforce any request for the production of documents and things under Rules 34 and 45 of the Federal Rules of Civil Procedure and Rules 7034 and 9016 of the Federal Rules of Bankruptcy Procedure."

5. **Cash.**

a. **Allocation and Distribution of Current Cash.** The Committees represent that they have been advised by the Debtors that cash on hand/current assets (the "Current Cash") in the Debtors' estates as of February 28, 2003 is ninety-two million, three-hundred and twenty-seven thousand dollars ($92,327,000). From this amount, the fixed sum of $45 million shall be held by RGH for the benefit of the Liquidator, shall be invested at the direction of the Liquidator, and shall be distributed, along with accumulated interest thereon, but less any tax withholding or losses from the investment thereof, to the Liquidator upon the occurrence of the earliest of the following:

(A) The effective date of the Plan of Reorganization of RGH;

(B) Any interim distribution to creditors of RGH estate;

(C) March 31, 2004;

(D) The appointment of a trustee or examiner with powers of a trustee for either RGH or RFSC (other than upon motion by the Liquidator), but not an examiner appointed upon motion of any government agency or a trustee or examiner appointed for the limited purpose of evaluating whether to bring or initiate litigation against third parties; or

(E) Conversion of Chapter 11 case of either RGH or RFSC to Chapter 7 case, or dismissal of either of such cases (other than upon motion by the Liquidator).

The order of the Bankruptcy Court approving the Rule 9019 Motion shall provide, inter alia, that RGH shall not distribute any such moneys held for the Liquidator without the Liquidator's prior written consent and that such moneys shall be held in investments as directed by the Liquidator, subject to the approval of the Bankruptcy Court.

b. **Definition of New Cash**. "New Cash" means all cash and other assets that are equivalent to or readily convertible into cash ("cash equivalents") received after the execution of this Agreement into either the RGH or the RFSC estate before final confirmation of the Plan of Reorganization applicable to that estate and all cash and cash equivalents received by the Reorganized Debtors after final confirmation of the Plan(s) of Reorganization on account of assets that were property of either of the Debtors' estates on June 12, 2001 (the "Petition Date"), but not including: (i) the assets described in Sections 2, 3, 4 and 5(a) herein; (ii) any cash or cash equivalents received into the RGH or RFSC estates as a result of any litigation, claims, rights of set-off or causes of action; (iii) to the extent the Reorganized Debtors generate income from business operations conducted after the confirmation of the Plan(s) of Reorganization, any such net after-tax income; or (iv) any cash transferred between RGH and RFSC. It is expected that RGH will receive certain cash representing the net aggregate tax refund resulting from the final resolution of all outstanding tax liabilities of RGH and RFSC (whether federal, state or local), which may be attributable to claims under Sections 507(a)(8) or 503(b) of the Bankruptcy Code or otherwise. New Cash shall include any such net aggregate tax refund received by the Debtors' estates, but only after giving effect to such netting. New Cash shall also include cash and cash equivalents if, rather than being received into the Debtors' estates, such cash or cash equivalents are paid directly to a creditor or other person to satisfy an estate obligation.

c. **Distribution of New Cash**. Any New Cash that is received (which, with respect to assets in form other than cash, means the receipt of the cash proceeds upon conversion of such assets to cash) shall be distributed in the following order:

first, to the extent that the final resolution of all outstanding tax claims against RGH and RFSC (whether federal, state or local) does not result in a net aggregate tax refund, but instead results in net aggregate tax liabilities attributable to claims under Section 507(a)(8) or 503(b) of the Bankruptcy Code, to the payment of such net aggregate tax liabilities;

second, to RGH or its designee under the Plan(s) of Reorganization until RGH or such designee has received an amount equal to $12 million; and

third, on a *pro rata* basis: (a) 50% of the remaining New Cash to RGH or its designee under the Plan(s) of Reorganization; and (b) 50% of the remaining New Cash to the Liquidator.

Distributions of New Cash under this Agreement shall continue regardless of the total amount of New Cash received and regardless of the total amount of money already paid to the Liquidator. It shall not be a defense to payment to the Liquidator of her share of New Cash that she shall have been allegedly "paid in full" for the Liquidator's claim against the Debtors existing as of the Petition Date. The parties to this Agreement acknowledge that while there is an agreed allowed claim by the Liquidator of $288 million, the Liquidator will continue to be entitled to and continue to receive distributions of New Cash regardless of the total amount of her recoveries under this Agreement and from any other source.

6. **Effect of Prior Order**. The order of the Commonwealth Court approving the Petition (as defined in Section 7(f) below) shall provide, among other things, that the prior order of the Commonwealth Court, dated October 3, 2001, requiring property of Reliance held by other parties to be turned over to Reliance, shall not have any effect on, or be applicable to, any property of the Debtors or the Liquidating Trustee, except as otherwise specifically provided in this Agreement.

7. **Miscellaneous**.

a. **No Impact On Claims or Debts of Third Parties**. Consistent with the terms of § 524(e) of the Bankruptcy Code, this Agreement and the Plan(s) of Reorganization are not intended to have and shall not have any direct or indirect effect upon or directly or indirectly waive any claims against persons not actually parties to this Agreement. Neither this Agreement nor the Plan(s) of Reorganization shall directly or indirectly release, discharge, reduce the liability of, or reduce the damages attributable to, the current or former officers and directors of RGH or RFSC, the former officers and directors of Reliance, or any other party for any debts or liabilities or causes of action or claims existing against them, including any such debts owed simultaneously by the Debtors and such non-released third parties, except as specifically stated in this Agreement. Notwithstanding the foregoing, it is understood that the Plan(s) of Reorganization may contain customary exculpation provisions releasing: (i) the Committees, their representatives, and their counsel for all actions taken prior to and since the Petition Date in respect of the prosecution of and preparation for the Debtors' restructurings and Chapter 11 cases; and (ii) the Debtors, their officers and directors, their representatives, and their counsel for all actions taken since the Petition Date in respect of the Debtors' restructurings and Chapter 11 cases.

b. **Court Approval**. Each of the parties hereto agree to use appropriate and commercially reasonable efforts to obtain court approval in accordance with the provisions of Section 1 hereto, but no party guarantees or warrants that such approval will be obtained.

c. **Approval of the Agreement and the Plan(s) of Reorganization**. The Liquidator and the Committees agree to do everything reasonably necessary to implement the terms of this Agreement. The terms of this Agreement will be implemented on the part of the Committees and the Liquidator through the Rule 9019 Motion, the Petition (as defined in Section 7(f) below), the confirmed Plan(s) of Reorganization, and any plan of rehabilitation or liquidation for Reliance. The Committees agree that they or the Debtors shall provide the Liquidator in advance with a draft of the Plan(s) of Reorganization. The Plan(s) submitted to the Bankruptcy Court for approval, and the Order confirming such Plan(s) of Reorganization shall be consistent with the terms of this Agreement. In the event of any dispute as to whether the Plan(s) of Reorganization are consistent with this Agreement, the Plan(s) shall not be filed for approval and the parties agree to resolve the dispute through the dispute resolution procedure set forth in Section 7(h) hereto. Assuming that the Plan(s) of Reorganization are consistent with the terms of this Agreement, as determined by the Liquidator or in a final and binding arbitration award, the Liquidator agrees, for consideration as set forth in this Agreement, that she will support such Plan(s) of Reorganization. Each party hereto agrees to use its commercially

reasonable efforts to consummate the transactions contemplated herein as of the earliest practicable dates and to maximize the benefits of this Agreement to all parties.

d. **Approval by the Bankruptcy Court**. A copy of the motion seeking approval by the Bankruptcy Court of the settlement set forth in this Agreement (the "Rule 9019 Motion") of certain disputes (including without limitation the NY Litigation and the PA Litigation) with respect to the ownership interest of the Debtors' estates relating to: (i) any directors and officers insurance policies and the proceeds thereof; (ii) the Current Cash and the New Cash; (iii) the NOLs; and (iv) the § 847 Refunds, and fixing the Liquidator's allowed claim at $288 million, shall be provided to the Liquidator for her review and written approval prior to the filing of such motion with the Bankruptcy Court. The parties shall use their commercially reasonable efforts to obtain an order approving the Rule 9019 Motion by the Bankruptcy Court on or before August 31, 2003, although no party guarantees, warrants, or represents such order will be entered by said date. The effectiveness of the settlement pursuant to Section 1 shall constitute a settlement of the NY Litigation and the PA Litigation and a termination of the Standstill Agreement under Section 4(e), except as otherwise provided in this Agreement.

e. **Priority**. Any claim resulting from a breach of any obligation under this Agreement, including without limitation any payment obligation, by the Liquidator or Reliance, if upheld, shall be treated as a first priority administrative claim with respect to the Liquidator or Reliance in the liquidation proceedings in the Commonwealth Court. A provision requiring that all payments or payment obligations of the Liquidator or Reliance to the Debtors or the Liquidating Trustee under this Agreement shall be given first priority administrative status shall be included in the final order of the Commonwealth Court approving the Petition (as defined in Section 7(f) below) and in any plan of rehabilitation or liquidation for Reliance entered in, or approved by, the Commonwealth Court. Likewise, any claim resulting from a breach of any obligation under this Agreement, including without limitation any payment obligation, by the Committees, the Debtors, or the Liquidating Trustee, if upheld, shall be treated as a first priority administrative claim with respect to the Debtors' bankruptcy proceeding. A provision requiring that all payments or payment obligations of the Debtors, the Liquidating Trustee, or the Committees to the Liquidator or Reliance under this Agreement shall be given first priority administrative status shall be included in the final Plan(s) of Reorganization and the order approving this Agreement by the Bankruptcy Court.

f. **Commonwealth Court Petition**. A copy of the petition seeking approval of this Agreement by the Commonwealth Court (the "Petition") shall be provided to the Debtors and the Committees for their review prior to filing the Petition with the Commonwealth Court. The parties shall use their commercially reasonable efforts to obtain an order approving the Petition by the Commonwealth Court on or before August 31, 2003, although no party guaranties, warrants or represents that such order will be entered by said date.

g. **Jurisdiction of the Commonwealth Court**. The Liquidator hereby agrees to submit to the jurisdiction of the Bankruptcy Court solely for the purpose of any proceedings to implement and enforce the Rule 9019 Motion or Plan(s) of Reorganization, to the extent such submission does not conflict with the jurisdiction of the Commonwealth Court.

h. **Dispute Resolution**. In the event a dispute should arise in respect of any provision of this Agreement or in respect of any party's compliance with any provision of this Agreement, the parties agree that they will use their best efforts to resolve such dispute in a consensual manner. In the event they cannot resolve any such dispute consensually, the parties agree that any and all such disputes shall be submitted to final and binding arbitration in accordance with the Rules of the American Arbitration Association ("AAA") and the Federal Arbitration Act, before one arbitrator from outside the Second and Third Circuits (unless otherwise agreed by the parties). In selecting an arbitrator, the Liquidator and the Committees or, upon confirmation of the Plan(s) of Reorganization, the Liquidating Trustee, may elect one neutral arbitrator that is acceptable to both parties. In the event an agreement on one neutral arbitrator cannot be reached, each party shall select one arbitrator and both arbitrators shall select a third neutral arbitrator. This provision constitutes consent to arbitration by each of the parties hereto and a waiver of its respective rights to seek relief in any forum other than that specified in this Section 7(h). In the event any party hereto or any of their respective successors or assigns should seek relief in any court or administrative tribunal or commences any proceeding other than one specified herein, this provision constitutes such party's consent to stay or dismissal of such action or, as may be appropriate, to have such dispute transferred to an arbitration to be conducted in accordance with the Commercial Rules of the AAA and the provisions of this Section 7(h).

i. **Limitation on Recoveries**. No signatory to this Agreement, nor the Debtors, shall pursue a claim against another signatory to this Agreement or the Debtors with respect to any matter which is inconsistent with this Agreement and with respect to the claims between Reliance and the Liquidator on the one hand and the other parties to this Agreement on the other hand, and each party agrees that, with respect to the matters specifically dealt with herein, they shall be limited to the recoveries specified under this Agreement, except that the parties may pursue claims to enforce or secure performance under this Agreement.

j. **Assertion of Claims**. Pursuant to the Plan(s) of Reorganization, and upon confirmation of such Plan(s) of Reorganization, RGH, RFSC, and RGH's and RFSC's subsidiaries, and the Liquidator and Reliance and its subsidiaries shall be permanently enjoined from pursuing claims against each other, except for their rights under this Agreement and the Plan(s) of Reorganization.

k. **No Proof of Claim**. There will be no requirement for the Liquidator to file a proof of claim in order to effectuate this Agreement.

l. **Claims of the Liquidator**. The parties agree that the claims of the Liquidator shall be separately classified in the Plan(s) of Reorganization. For purposes of receiving the agreed allocations to the parties hereto, the parties further agree to an allowed claim by the Liquidator in the amount of $288 million and that distribution on that allowed claim shall be as provided in this Agreement. The parties hereto acknowledge that the Liquidator contends that her claims are or may be far in excess of $288 million, but the Liquidator agrees not to further assert other claims against the Debtors or their respective subsidiaries, the Committees or the Committees' representatives and the Committees' counsel; it being agreed, however, that

such claims shall nevertheless survive and may be asserted by the Liquidator against any other parties who may be liable with respect thereto.

m. **No Attorney-Client Relationship**. Other than as expressly set forth in this Agreement, nothing contained herein shall be construed in any way to create any duties, legal, equitable, ethical, or otherwise, running from the Liquidator or Reliance, or their counsel, to the RGH creditors, the RFSC creditors, the Committees, RGH, RFSC, or Reorganized RGH or Reorganized RFSC. By way of example, and without excluding any other type of duty, nothing contained in this Agreement, in the Plan(s) of Reorganization, or in the Disclosure Statement(s) shall be deemed to create an attorney-client relationship between the Liquidator's counsel on one hand and the RGH creditors, the RFSC creditors, the Committees, RGH, RFSC, or Reorganized RGH or Reorganized RFSC, on the other hand. No parties, other than the signatories to this Agreement, the Debtors (upon effectiveness of the settlement pursuant to Section 1), and the Liquidating Trustee, and their successors and assigns, shall have any rights under this Agreement. There are no intended or other third party beneficiaries to this Agreement.

n. **Distributions**. To the extent funds are received by either party and such funds cannot be distributed pursuant to the terms of this Agreement because: (i) the Commonwealth Court has not approved this Agreement; or (ii) the Plan(s) of Reorganization of RFSC and RGH have not become effective, all such funds shall be held in interest bearing accounts (in investments acceptable to the party to which such funds are owed) pending distribution as set forth in this Agreement.

o. **Recovery of Distributed Funds**. Once funds have been distributed by the Liquidator, RGH or RFSC, each party shall limit its remedies in respect of such distributed funds to an adjustment to future distributions. In no event shall any party hereto or any person that they may distribute funds to be required to disgorge any payments which have been made pursuant to this Agreement.

p. **Members of Committees**. The Committees shall provide to the Liquidator a current list of their members within five (5) business days of the date hereof and the Committees warrant and represent that the list is accurate and complete as of the date provided. The Committees further warrant and represent that, subject only to the approval of the Bankruptcy Court in the form of an order approving the Rule 9019 Motion, they have authority to enter into this Agreement.

q. **Power and Authority**. Each of the parties to this Agreement hereby represents and warrants to the other that, subject to the approval of this Agreement by the Commonwealth Court and the confirmation of the Plan(s) of Reorganization by the Bankruptcy Court, such party has the power and authority to enter into this Agreement and, in the case of the Committees, to propose the Plan(s) of Reorganization and to perform all obligations and fulfill all covenants required of such party as set forth herein and therein.

r. **Severability**. The provisions of this Agreement are not severable.

s. **Notices**. All notices, consents, or other communications required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been duly given when delivered personally or one business day after being sent by a nationally recognized overnight delivery service, postage or delivery charges prepaid, or five business days after being sent by registered or certified mail, return receipt requested, postage charges prepaid. Notices also may be given by facsimile and shall be effective on the date transmitted if a copy is sent within 48 hours thereafter by one of the means provided in the preceding sentence. Notices to the Liquidator shall be sent to Liquidator, Reliance Insurance Company, 1326 Strawberry Square, Harrisburg, PA, 17120, with copies sent simultaneously to Barry Genkin, Blank Rome LLP, One Logan Square, Philadelphia, PA, 19103, and to Chief Counsel, Pennsylvania Insurance Department, 1341 Strawberry Square, Harrisburg, PA, 17120. Notices to the Official Unsecured Bank Committee shall be sent to Thomas M. Dinneen, Managing Director, JP Morgan Chase Bank, 270 Park Ave., 20th Floor, New York, NY, 10017, with a copy to Andrew DeNatale, White & Case LLP, 1155 Avenue of the Americas, New York, NY, 10036. Notices to the Official Unsecured Creditors' Committee shall be sent to the Liquidating Trustee, c/o Arnold Gulkowitz, Orrick Herrington & Sutcliffe LLP, 666 Fifth Ave., New York, NY, 10103. Any party may change its address for notice and the address to which copies must be sent by giving notice of the new addresses to the other parties in accordance with this Section 7, provided that any such change of address notice shall not be effective unless and until received.

t. **Entire Agreement; Amendments**. This Agreement, together with the Exhibit hereto, states the entire understanding among the parties with respect to the subject matter hereof, and supersedes all prior oral and written communications and agreements, and all contemporaneous oral communications and agreements, with respect to the subject matter hereof including all confidentiality agreements and letters of intent previously entered into among some or all of the parties hereto. No amendment or modification of this Agreement shall be effective unless in writing and signed by the party against whom enforcement is sought.

u. **Successors and Assigns**. This Agreement shall bind, benefit, and be enforceable by and against the Liquidator, the Committees, and, after effectiveness of this Agreement pursuant to Section 1, the Debtors and Debtors' estates, their respective successors and assigns, any Liquidating Trustee, and any successor trustee in a proceeding under Chapter 7 of the Bankruptcy Code. No party shall in any manner assign any of its rights or obligations under this Agreement without the express prior written consent of the other parties.

v. **Waivers**. Except as otherwise expressly provided herein, no waiver with respect to any provision of this Agreement shall be enforceable unless in writing and signed by the party against whom enforcement is sought. Except as otherwise expressly provided herein, no failure to exercise, delay in exercising, or single or partial exercise of any right, power or remedy by any party, and no course of dealing between or among any of the parties, shall constitute a waiver of, or shall preclude any other or further exercise of, any right, power or remedy.

w. **Counterparts**. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original hereof, and it shall not be necessary in making proof of this Agreement to produce or account for more than

one counterpart hereof. Delivery of an executed counterpart hereof by facsimile or other electronic means shall be equally effective as delivery of an originally executed counterpart.

x. **Governing Law**. THIS AGREEMENT IS MADE UNDER, AND EXCEPT TO THE EXTENT THAT FEDERAL BANKRUPTCY LAW APPLIES, SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED SOLELY THEREIN, WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW.

y. **Neutral Construction**. In view of the fact that each of the parties hereto have been represented by their own counsel and this Agreement has been fully negotiated by all parties, the legal principle that ambiguities in a document are construed against the draftsperson of that document shall not apply to this Agreement.

z. **Binding Effect of Court Approval**. Upon effectiveness of this settlement pursuant to Section 1, this Agreement shall also be binding upon the Debtors and the Debtors' estates. The Order approving this Agreement pursuant to the Rule 9019 Motion shall specifically state its binding effect upon the parties hereto and the Debtors and the Debtors' estates.

aa. **Service of Motion and Petition**. The Rule 9019 Motion and the Petition to approve this Agreement filed in the Bankruptcy Court and the Commonwealth Court, respectively, shall be served consistent with the requirements of each Court.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have executed this Agreement on the day and year first written above.

RELIANCE INSURANCE COMPANY
(IN LIQUIDATION)

By: William S. Taylor Date: 4-1-03

William S. Taylor
Authorized signatory for and on behalf of M. Diane Koken, Insurance Commissioner of The Commonwealth of Pennsylvania, in her capacity as Liquidator of Reliance Insurance Company

_____, on behalf of the Official Unsecured Bank Committee

Date: 4/7/03

_____, on behalf of the Official Unsecured Creditors' Committee

Date: _____

_____, on behalf of the Official Unsecured Creditors' Committee

Date: _____

_____ Date: _____

_____, on behalf of the Official
Unsecured Bank Committee

_____ Date: 9/20/03

_____, on behalf of the Official
Unsecured Creditors' Committee

[redacted]

_____ Date: _____

_____, on behalf of the Official
Unsecured Creditors' Committee

_____ Date: _____

_____, on behalf of the Official
Unsecured Bank Committee

_____ Date: _____

_____, on behalf of the Official
Unsecured Creditors' Committee

_____ Date: April 1, 2003

Mohan V. Phansalkar, on behalf of the
Official Unsecured Creditors' Committee,
by Pacific Investment Management Company LLC

EXHIBIT A

List of Insurance Policies

Lloyd's Policy Nos.

823/FD9701593
542/F01201D96
823/F01307D97
823/FD9798178
823/FD9900896

Greenwich Insurance Company Policy Nos.

ELU 82236-01
ELU 82237-01

Clarendon National Insurance Company Policy No.

MAG 14 400579 50000

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NEW YORK
PALO ALTO
SAN FRANCISCO
WASHINGTON, D.C.

BERLIN
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BRUSSELS
BUDAPEST
DRESDEN
DÜSSELDORF
FRANKFURT
HAMBURG
HELSINKI
ISTANBUL
LONDON
MILAN
MOSCOW
PARIS
PRAGUE
ROME
STOCKHOLM
WARSAW

WHITE & CASE
LIMITED LIABILITY PARTNERSHIP
1155 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10036-2787
TELEPHONE: (1-212) 819-8200
FACSIMILE: (1-212) 354-8113

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JEDDAH
RIYADH

MEXICO CITY
SÃO PAULO

JOHANNESBURG

April 4, 2003

Orrick Herrington & Sutcliffe LLP
666 Fifth Avenue
New York, NY 10103
Attn: Arnold Gulkowitz, Esq.

Blank Rome LLP
One Logan Square
Philadelphia, PA 19103-6998
Attn: Raymond L. Shapiro, Esq.

Re: In re Reliance Group Holdings, Inc., et al. (the "Debtors") Case Nos. 01-13403 and 01-13404 – Settlement Agreement Side Letter

Dear Ray and Arnold:

We represent the Official Unsecured Bank Committee in the above-referenced cases. Reference is made to the Settlement Agreement dated April 1, 2003 (the "Settlement Agreement"), by and among M. Diane Koken, and any successor thereto, in her, or his, capacity as the statutory Liquidator (the "Liquidator") of Reliance Insurance Company ("Reliance"), and the Official Unsecured Bank Committee (the "Bank Committee") and the Official Unsecured Creditors' Committee (collectively with the Bank Committee, the "Committees") of Reliance Group Holdings, Inc. ("RGH") and Reliance Financial Services Corp. ("RFSC" and, together with RGH, the "Debtors"). Terms defined in the Settlement Agreement shall have the same meaning when used in this letter (the "Side Letter").

This Side Letter sets forth the following terms which the parties hereto have agreed to include in the order entered approving the Rule 9019 Motion (the "9019 Order") and the order entered by the Commonwealth Court (the "Commonwealth Court Order") approving the Settlement Agreement:

1. The Debtors shall be permitted to use the Current Cash and shall have sole discretion as to the use of such cash, subject to the provisions of the Settlement Agreement, the Bankruptcy Code and the Federal Rules of Bankruptcy Procedure,

provided, however, that the amount of Current Cash shall at no time and in no event be less than $45 million plus accumulated interest, from the later of the date of the entry of the (i) 9019 Order or (ii) Commonwealth Court Order until the date of distribution of the Current Cash pursuant to Section 5(a) of the Settlement Agreement.

2. Reliance shall be granted an allowed constructive trust claim in the amount of $45 million plus accumulated interest as set forth above (the "Allowed Constructive Trust Claim"); and

3. All taxes payable on or with respect to the Allowed Constructive Trust Claim (including, but not limited to, any taxes that may be imposed under Section 468B of the Internal Revenue Code or the Treasury Regulations promulgated thereunder) shall be paid by Reliance or the Liquidator, on behalf of Reliance (and, to the extent NOLs are utilized, shall reduce Reliance NOLs (other than Excess NOLs)), however, Reliance and the Liquidator reserve the right to contest the assessment of any such taxes.

This Side Letter shall bind, benefit, and be enforceable by and against the Liquidator, Reliance and the Committees, and their respective successors and assigns. No party shall in any manner assign any of its rights or obligations under this Side Letter without the express prior written consent of the other parties. This Side Letter may be executed in any number of counterparts, each of which when so executed and delivered shall be an original hereof, and it shall not be necessary in making proof of this Side Letter to produce or account for more than one counterpart hereof. Delivery of an executed counterpart hereof by facsimile or other electronic means shall be equally effective as delivery of an originally executed counterpart. THIS SIDE LETTER IS MADE UNDER, AND EXCEPT TO THE EXTENT THAT FEDERAL BANKRUPTCY LAW APPLIES, SHALL BE CONSTRUED AND ENFORCED WITH, THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED SOLELY THEREIN, WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW. This Side Letter and the Settlement Agreement set forth the entire agreement between the parties as to the matters set forth herein and supersede all prior communications, written or oral, with respect to the matters herein.

* * * *

Very truly yours,

Andrew P. DeNatale
Jack J. Rose
WHITE & CASE LLP
Counsel for the Official Unsecured Bank Committee

Accepted and Agreed to this
___ day of April, 2003

Arnold Gulkowitz
ORRICK HERRINGTON & SUTCLIFFE LLP
Counsel for the Official Unsecured Creditors Committee

This Side Letter shall bind, benefit, and be enforceable by and against the Liquidator, Reliance and the Committees, and their respective successors and assigns. No party shall in any manner assign any of its rights or obligations under this Side Letter without the express prior written consent of the other parties. This Side Letter may be executed in any number of counterparts, each of which when so executed and delivered shall be an original hereof, and it shall not be necessary in making proof of this Side Letter to produce or account for more than one counterpart hereof. Delivery of an executed counterpart hereof by facsimile or other electronic means shall be equally effective as delivery of an originally executed counterpart. THIS SIDE LETTER IS MADE UNDER, AND EXCEPT TO THE EXTENT THAT FEDERAL BANKRUPTCY LAW APPLIES, SHALL BE CONSTRUED AND ENFORCED WITH, THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED SOLELY THEREIN, WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW. This Side Letter and the Settlement Agreement set forth the entire agreement between the parties as to the matters set forth herein and supersede all prior communications, written or oral, with respect to the matters herein.

* * * *

Very truly yours,

Andrew P. DeNatale
Jack J. Rose
WHITE & CASE LLP
Counsel for the Official Unsecured Bank Committee

Accepted and Agreed to this
7 day of April, 2003

Arnold Gulkowitz
ORRICK HERRINGTON & SUTCLIFFE LLP
Counsel for the Official Unsecured Creditors Committee

WHITE & CASE
LIMITED LIABILITY PARTNERSHIP

Raymond L. Shapiro
BLANK ROME LLP
Counsel for M. Diane Koken, Insurance Commissioner of The Commonwealth of Pennsylvania, in her capacity as Liquidator of Reliance Insurance Company

APPENDIX C

RGH/RFSC SETTLEMENT

RGH/RFSC SETTLEMENT TERM SHEET
January 29, 2004

This term sheet (the "Term Sheet") sets forth the terms of the agreement by and between the Official Unsecured Bank Committee (the "Bank Committee") and the Official Unsecured Creditors' Committee (the "Creditors' Committee" and, together with the Bank Committee, the "Committees") of Reliance Group Holdings, Inc. (together with its successor, designee and/or any liquidating trustee appointed under its plan of reorganization, "RGH") and Reliance Financial Services Corp. (together with its successor and/or designee, "RFSC" and, together with RGH, the "Debtors").

The terms of this Term Sheet are subject to the approval of the Bankruptcy Court. The Term Sheet, together with Appendices A and B hereto, is an integrated compromise and settlement and constitutes a single document which is not divisible.

Capitalized terms used herein but not defined shall have the meanings assigned to them in Appendices A and B hereto, or in the Settlement Agreement, dated April 1, 2003 (the "PA Settlement Agreement"), among the Committees and Reliance Insurance Company ("RIC").

§ 847 Refunds ..... Each of RGH and reorganized RFSC ("Reorganized RFSC") will have a 50% undivided interest in the Debtors' portion of the net § 847 Refunds (i.e., net of (i) amounts payable to RIC pursuant to the PA Settlement Agreement and (ii) actual expenses incurred in recovering such refunds (which have not been paid with funds from the Primary Reserve), provided that, after a Change of Control, the amount netted pursuant to preceding clause (ii) shall not exceed an amount equal to double the average annual expenses (excluding Development Expenses) incurred by Reorganized RFSC in the preceding three (3) years or, if shorter, the period since Reorganized RFSC's exit from bankruptcy).

Development ..... Reorganized RFSC will retain 100% of the Debtors' portion of any actual cash benefit derived from the Development (net of any amounts payable to RIC pursuant to Section 3 of the PA Settlement Agreement).

Cash ..... In accordance with the PA Settlement Agreement, RGH will retain or receive, as applicable, all Current Cash and New Cash remaining after any distributions to RIC pursuant to Section 5 of the PA Settlement Agreement.

D&O and Other Litigation ..... RGH and Reorganized RFSC will have a 72.5% and 27.5% undivided interest, respectively, in the Debtors' portion of the proceeds derived from (a) the D&O Litigation (as set forth in Section 4 of the PA Settlement Agreement) and (b) any litigation relating to causes of action, direct or derivative, against the directors and officers of the Debtors (including without limitation the cause or causes of action held by the Debtors and based on the factual allegations set forth in the pleadings in the matter captioned Glen Leibowitz and Harvey Greenfield v. Saul Steinberg, et al., Supreme Court of the State of New York, Westchester County, No. 9869/00) or against third parties for any wrongful or illegal actions or for any damages suffered by the Debtors or their creditors

(collectively, the "Litigation Proceeds"), in each case net of legal fees and expenses. After deducting all amounts required to be withheld or otherwise deducted hereunder, the rights to RFSC's portion of the Litigation Proceeds shall be distributed directly to creditors of RFSC pursuant to the Plan. Each such creditor (and any transferee thereof) shall have a direct right to enforce the preceding sentence.

Access to Books and Records..... The Plan shall provide that, so long as RGH retains an undivided interest in the § 847 Refunds, Reorganized RFSC shall permit RGH, at reasonable intervals, upon reasonable notice and during regular business hours, at the sole expense of RGH, to examine and make copies of all books, records and documents, including computer tapes and disks, in the possession or under the control of Reorganized RFSC.

RFSC Ownership..... The holders of the bank debt (pursuant to that certain Credit Agreement, dated as of November 1, 1993, as amended and restated as of April 25, 1995, among RFSC and the banks party thereto, as amended, supplemented, modified, extended, replaced, refinanced, renewed or restated) will own, on a pro rata basis, 100% of the equity interests in Reorganized RFSC upon its exit from bankruptcy.

RFSC Chief Executive Officer..... The Chief Executive Officer of Reorganized RFSC will be selected initially by the Bank Committee and thereafter by the holders of equity interests in Reorganized RFSC. For purposes of this Term Sheet, each of the Chief Executive Officer of Reorganized RFSC and RGH shall be authorized to act as "Liquidating Trustee" under the PA Settlement Agreement.

RIC Equity Distributions..... Pursuant to the plan of reorganization of RFSC (the "Plan"), RGH will have a 20% undivided interest in any equity distributions in cash made from RIC to Reorganized RFSC (other than distributions, whether in form of equity or otherwise, which are directly attributable to Reorganized RFSC's share (as provided for in this Term Sheet) of the § 847 Refunds or Development).

RFSC Funding..... RGH will advance the funds required to fund Reorganized RFSC and the Secured Credit Facilities pursuant to the terms and conditions set forth in Appendices A and B hereto. Except as expressly set forth herein with respect to distributions pursuant to the Plan, no holder of equity interests in Reorganized RFSC shall have any obligation to provide any additional funds or property to Reorganized RFSC.

Court Approval..... The terms set forth in this Term Sheet are subject to the approval of the Bankruptcy Court. The order approving this Term Sheet pursuant to Federal Rule of Bankruptcy Procedure 9019 shall specifically state its binding effect upon the Committees and each of the Debtors and their respective estates.

Plan Process	The plans of reorganization of RGH and RFSC submitted to the Bankruptcy Court for approval and the order confirming such plans of reorganization shall be consistent with the terms of this Term Sheet.

RGH/RFSC FUNDING TERM SHEET

1. Definitions. Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to such terms in the RGH/RFSC Settlement Term Sheet (and accompanying Appendix B) to which this Appendix A is attached, or in the PA Settlement Agreement.

2. Application of Funds Received by Reorganized RFSC. (a) Initial Division. On any date after the Effective Date that the cumulative amount of funds (i) received by Reorganized RFSC from any source whatsoever (including without limitation § 847 Refunds, Litigation Proceeds and Development proceeds, but excluding funds in or disbursements from the Primary Reserve) and (ii) not previously required to be distributed pursuant to this Section 2 exceeds $25,000 (each such date, a "Receipt Date"), Reorganized RFSC shall calculate the portion thereof distributable to Reorganized RFSC (the "RFSC Available Funds") and to RGH (the "RGH Distributable Funds") pursuant to the Term Sheet. Reorganized RFSC shall apply any RFSC Available Funds as provided in Section 2(b). Reorganized RFSC shall apply any RGH Distributable Funds constituting RGH Available Funds as provided in Section 2(c) and shall distribute any other RGH Distributable Funds to RGH. "RGH Available Funds" means the § 847 Refunds to which RGH is entitled under the PA Settlement Agreement and the Term Sheet, excluding funds in the Primary Reserve.

(b) RFSC Available Funds. The Plan and the Bankruptcy Court order approving the Term Sheet shall provide that RFSC Available Funds be distributed as follows (but subject to Section 2(d)) within seven (7) business days after each Receipt Date (the date of each such distribution, a "Distribution Date"):

(i) first, to satisfy obligations under the Secured Credit Facilities;

(ii) second, to reimburse RGH for Reimbursable Expenses as prescribed in Section 3;

(iii) third, to fund the Primary Reserve as prescribed in Section 4(c)(ii);

(iv) fourth, to fund the Development Reserve as prescribed in Section 5(a);

(v) fifth, to reimburse the Indemnified Advisors (as defined in Section 8(b)) for any indemnified expenses incurred in such capacity;

(vi) sixth, to fund the Discretionary Reserve as prescribed in Section 5(b); and

(vii) seventh, as dividends to holders of equity interests in Reorganized RFSC.

(c) RGH Available Funds. The Plan and the Bankruptcy Court order approving the Term Sheet shall provide that RGH Available Funds be distributed as follows (but subject to Section 2(d)) on each Distribution Date:

(i) first, to fund the Primary Reserve as prescribed in Section 4(c)(ii);

(ii) second, if the Commitment Termination Date has not occurred, to fund the Revolving Loan Facility as prescribed in the proviso to Section 4(c)(ii); and

(iii) third, to RGH.

(d) Limitations. On any Distribution Date, if the amount of RFSC Available Funds otherwise available for distribution pursuant to Section 2(b)(iii) is greater than the amount of RGH Available Funds otherwise available for distribution pursuant to Section 2(c)(i) (without giving effect to this Section 2(d)), the RFSC Available Funds distributed pursuant to Section 2(b)(iii) shall be limited to an amount equal to the amount of RGH Available Funds distributed pursuant to Section 2(c)(i). On any Distribution Date, if the amount of RFSC Available Funds otherwise available for distribution pursuant to Section 2(b)(iii) is less than the amount of RGH Available Funds otherwise available for distribution pursuant to Section 2(c)(i) (without giving effect to this Section 2(d)), then

(i) if the Commitment Termination Date (as defined in Appendix B) has occurred, the RGH Available Funds distributed pursuant to Section 2(c)(i) shall be limited to an amount equal to the amount of RFSC Available Funds distributed pursuant to Section 2(b)(iii), and

(ii) if the Commitment Termination Date has not occurred and the RGH Available Funds are insufficient to fund the Revolving Loan Facility in the full amount contemplated by the proviso to Section 4(c)(ii), the RGH Available Funds distributed pursuant to Section 2(c)(i) shall be limited to an amount equal to the arithmetic average of (x) the amount of RGH Available Funds otherwise available for distribution pursuant to Section 2(c)(i) and (y) the amount of RFSC Available Funds otherwise available for distribution pursuant to Section 2(b)(iii) (in each case without giving effect to this Section 2(d)).[2]

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[2] The purpose of the foregoing limitations is to ensure that RGH's and Reorganized RFSC's deposits in the Primary Reserve are always equal. If Reorganized RFSC has more funds available to deposit than RGH, intercompany loans are unavailable to correct the imbalance; the first sentence of Section 2(d) therefore limits Reorganized RFSC's deposit to the amount of RGH's deposit, regardless whether either company can satisfy the Primary Reserve Requirement. (If both can do so, the limitation has no effect.) If Reorganized RFSC has less funds available for the Primary Reserve Requirement than RGH and the Revolving Loan Facility has terminated, intercompany loans are again unavailable to correct the imbalance; clause (d)(i) therefore limits RGH's deposit to the amount of Reorganized RFSC's deposit, regardless whether either company can satisfy the Primary Reserve Requirement. (If both can do so, the limitation has no effect.)

If Reorganized RFSC has less funds available to deposit than RGH but the Revolving Loan Facility is still available, clause (ii) limits RGH's Primary Reserve deposit only when intercompany loans are insufficient to correct the imbalance (*i.e.*, when RGH has insufficient funds both to make its own deposit and to supply the shortfall in Reorganized RFSC's deposit). As an example, assume that RGH and Reorganized RFSC are each required to deposit $40 in the Primary Reserve on a Distribution Date prior to the termination of the Revolving Loan Facility. If RFSC has only $20 available to deposit in the Primary Reserve, Section 2(c) would otherwise require RGH to deposit $40 in the Primary Reserve and lend $20 to Reorganized RFSC. If RGH has only $30 to deposit in the Primary Reserve (*i.e.*, insufficient funds to satisfy both requirements but more than Reorganized RFSC), clause (ii) limits RGH's deposit to $25 (the average of $30 and $20), permitting RGH to make a $5 loan to Reorganized RFSC. Reorganized RFSC then deposits the same amount in the Primary Reserve as RGH ($20 plus $5).

Notwithstanding anything to the contrary contained in this Section 2, Reorganized RFSC shall make distributions of funds to creditors holding general unsecured claims without regard to the provisions of this Appendix A.

3. Reimbursable Expenses. (a) At the times and to the extent provided in Section 2(b), Reorganized RFSC shall reimburse RGH with RFSC Available Funds in an amount equal to (i) fifty percent (50%) of all Development Expenses paid from the Primary Reserve in the applicable Reimbursement Period plus (ii) the Other Expense Amount for such Reimbursement Period (collectively, the "Reimbursable Expenses").

(b) If Reimbursable Expenses remain outstanding (i) on any Distribution Date or (ii) on the date of any Change of Control, 847 Termination Date or dissolution of Reorganized RFSC, in each case after the application of RFSC Available Funds on such date pursuant to Section 2(b), then Reorganized RFSC shall be deemed to have borrowed under the Revolving Loan Facility in the amount of such outstanding Reimbursable Expenses and to have reimbursed RGH therefor.

(c) "Development Expenses" means all costs and expenses of Reorganized RFSC relating to the monetization or conversion to cash of its existing assets ("Development"), including all CEO Indemnification Obligations arising therefrom, and excluding any costs and expenses incurred in connection with obtaining, defending or pursuing the Litigation Proceeds or §847 Refunds. The parties agree that all costs and expenses of Reorganized RFSC shall be rebuttably presumed not to be Development Expenses.

(d) "Reimbursement Period" means, in the case of a reimbursement of Reimbursable Expenses (x) upon a Change of Control, 847 Termination Date or dissolution of Reorganized RFSC, the period beginning on (and including) the most recent Interim Reporting Date (or, if none, the Effective Date) and ending on (and including) the date of such Change of Control, 847 Termination Date or dissolution of Reorganized RFSC, as the case may be, and (y) otherwise, the period beginning on (and including) the Interim Reporting Date immediately preceding the most recent Interim Reporting Date (or, if none, the Effective Date) and ending on (but excluding) the most recent Interim Reporting Date.

(e) "Other Expense Amount" means, with respect to any Reimbursement Period, (i) if the JV Trigger Date has not occurred by the end of such Reimbursement Period, zero, or (ii) otherwise, an amount equal to ten percent (10%) of all expenses of Reorganized RFSC (other than Development Expenses) paid from (but excluding) the earliest effective date of any agreement governing a Joint Venture (as defined in Appendix B) to (and including) the last day of such Reimbursement Period, minus the aggregate Other Expense Amounts paid with respect to all prior Reimbursement Periods.

(f) "JV Trigger Date" means the first day on which the aggregate amount of all cash distributions to Reorganized RFSC by Joint Ventures exceeds $250,000.

4. Funding and Adjustment of Primary Reserve. (a) Initial Funding. The Reorganized RFSC budget will initially be funded in the amount of $5,074,000 by each of RGH and RFSC transferring $2,537,000 to an account of Reorganized RFSC (the "Primary Reserve") on the effective date of the Plan (the "Effective Date"), in the case of RFSC from proceeds of the Term Loan Facility.

(b) Adjustment of Budget. On each Interim Reporting Date and each Quarterly Reporting Date, Reorganized RFSC, in its reasonable discretion and to provide for its future expenses, may adjust (x) its budget for the subsequent seven (7) years or such shorter period as Reorganized RFSC may deem appropriate (the "Budget Requirement"), taking into consideration the Development Reserve and any general reserve, and (y) the amount of any funds to be reserved for the payment of its CEO

Indemnification Obligations (the "Indemnification Requirement" and, together with the Budget Requirement, the "Primary Reserve Requirement"). Notwithstanding the foregoing, (A) the Budget Requirement shall not exceed (i) $5 million at any time prior to (and including) the fourth (4th) anniversary of the Effective Date (provided that initial funding of the Primary Reserve in the amount of $5,074,000 shall be permitted), (ii) $3 million at any time from (but excluding) the fourth (4th) anniversary of the Effective Date to (and including) the seventh (7th) anniversary of the Effective Date and (iii) at any time thereafter, the lesser of (I) $3 million and (II) double the amount of expenses (excluding any CEO Indemnification Obligations) incurred by Reorganized RFSC during the prior two years and (B) the Indemnification Requirement shall not exceed (i) $10 million on or after the commencement of litigation that could give rise to a CEO Indemnification Obligation and prior to the final disposition of such litigation and (ii) $1 million at any other time. The limitations set forth in preceding clauses (A) and (B) may be waived at any time by the written consent of (I) sixty-six and two-thirds percent (66 2/3%) of all holders of claims or obligations on such claims against RGH or its assignees, and of (II) holders of sixty-six and two-thirds percent (66 2/3%) of all outstanding shares of Reorganized RFSC.

(c) Adjustment of Primary Reserve. On each Distribution Date,

(i) if the reported Primary Reserve balance exceeds the reported Primary Reserve Requirement, then funds from the Primary Reserve shall be distributed as if such funds were (x) RFSC Available Funds distributable pursuant to Section 2(b) and (y) RGH Available Funds distributable pursuant to Section 2(c), in each case in an amount equal to fifty percent (50%) of such excess; and

(ii) if the reported Primary Reserve Requirement exceeds the reported Primary Reserve balance, then, to the extent provided in Section 2(b), RFSC Available Funds and RGH Available Funds shall be deposited in the Primary Reserve, in each case in an amount equal to fifty percent (50%) of such excess, provided that if the RFSC Available Funds are insufficient for such deposit by Reorganized RFSC, Reorganized RFSC shall make a drawing under the Revolving Loan Facility (to the extent available) in the amount of such shortfall and shall deposit the proceeds in the Primary Reserve on such Distribution Date.

5. Funding and Adjustment of Other Reserves. (a) Development Reserve. At the times and to the extent provided in Section 2(b), Reorganized RFSC shall fund an account of Reorganized RFSC (the "Development Reserve") in an amount equal to the aggregate amount of all Development Expenses that Reorganized RFSC expects to pay (the "Development Requirement") in the period (the "Development Period") from (but excluding) the Interim Reporting Date immediately preceding such funding to (and including) the second (2nd) anniversary of such Interim Reporting Date.

(b) Discretionary Reserve. At the times and to the extent provided in Section 2(b), Reorganized RFSC may fund an account of Reorganized RFSC (the "Discretionary Reserve"), in such amount as Reorganized RFSC shall determine, to provide for future expenses of the types described in Sections 2(b)(i), (ii), (iii) and (v).

6. Disbursements from Reserves. (a) Primary Reserve. Funds in the Primary Reserve shall be disbursed solely as follows:

(i) prior to any Change of Control, 847 Termination Date or dissolution of Reorganized RFSC, (A) to pay (or establish an escrow to pay) all expenses incurred (or reasonably expected to be incurred) by Reorganized RFSC from the Effective Date to (and including) the date of any Change of Control, 847 Termination Date or dissolution of

Reorganized RFSC, other than Development Expenses coming due during a Development Period, and (B) to reduce the Primary Reserve balance pursuant to Section 4(c)(i); and

(ii) upon any Change of Control, 847 Termination Date or dissolution of Reorganized RFSC, to pay (or reserve against) all expenses and CEO Indemnification Obligations due and payable (or actually incurred) through the date of such Change of Control, 847 Termination Date or dissolution, as the case may be, with any remaining funds to be distributed as provided in Section 6(d).

(b) Development Reserve. Funds in the Development Reserve shall be disbursed solely as follows:

(i) prior to any Change of Control or dissolution of Reorganized RFSC, to pay (or establish an escrow to pay) all Development Expenses coming due (or reasonably expected to come due) during a Development Period to (and including) the date of any Change of Control or dissolution of Reorganized RFSC; and

(ii) upon any Change of Control or dissolution of Reorganized RFSC, to pay (or reserve against) all Development Expenses due and payable (or actually incurred) through the date of such Change of Control or dissolution of Reorganized RFSC, if same occurs during a Development Period, and, in any event, with any remaining funds to be distributed as provided in Section 6(d).

(c) Discretionary Reserve. Upon any Change of Control, 847 Termination Date or dissolution of Reorganized RFSC, all funds in the Discretionary Reserve shall be distributed as provided in Section 6(d).

(d) Liquidation of Reserves. At the times and to the extent provided in Sections 6(a), 6(b) and 6(c), all funds remaining in the Primary Reserve, Development Reserve and Discretionary Reserve, respectively, shall be distributed as follows:

(i) first, if any CEO Indemnification Obligations could reasonably be expected to become payable, to a trust or trusts established to maintain such funds for the benefit of the respective Indemnified CEOs in an aggregate amount not exceeding the Indemnification Requirement, and, notwithstanding any other provision of this Term Sheet, neither Reorganized RFSC nor such trusts shall be obligated to distribute such funds to RGH, or to holders of equity interests in Reorganized RFSC pursuant to the Plan, until all litigation and claims giving rise to such CEO Indemnification Obligations have been settled, paid or otherwise finally resolved, at which time any remaining trust funds shall be distributed pursuant to following clause (ii); and

(ii) second, (A) in the case of funds from the Primary Reserve, fifty percent (50%) to RGH or its successors and fifty percent (50%) as if such funds were RFSC Available Funds distributable pursuant to Section 2(b), and (B) in the case of funds from the Development Reserve or the Discretionary Reserve, one hundred percent (100%) as if such funds were RFSC Available Funds distributable pursuant to Section 2(b), in each case without giving effect to Sections 2(b)(iii), (iv) or (vi).

(e) Post-Liquidation Obligations. If the funds distributed pursuant to Section 6(d) are insufficient to satisfy Reorganized RFSC's obligations under the Secured Credit Facilities, Reorganized

RFSC shall remain liable to RGH for any such unsatisfied obligations and shall satisfy same before making any distribution to holders of equity interests in Reorganized RFSC pursuant to the Plan, and RGH shall be entitled to pursue all rights and remedies available to it under this Term Sheet or applicable law. If Reorganized RFSC receives § 847 Refunds at any time after an 847 Termination Date, Reorganized RFSC shall distribute to RGH fifty percent (50%) of such § 847 Refunds, net of fifty percent (50%) of any expenses incurred after the 847 Termination Date.

(f) "Change of Control" means any transfer of the stock of, or of a Beneficial Ownership interest in, Reorganized RFSC, or of an interest (including a Beneficial Ownership interest), participation or other right or obligation in, from, or to any entity which holds, maintains or has any right in any entity with any interest (including a Beneficial Ownership interest) in Reorganized RFSC (whether direct or indirect) that could or would result in the transferee owning, directly or indirectly, or having a Beneficial Ownership interest in, fifty percent (50%) or more of the outstanding stock of Reorganized RFSC (by vote or value) or having actual or constructive control or the right to control or direct the vote of fifty percent (50%) or more of the outstanding stock of Reorganized RFSC (regardless of the means used to attain such control). "Beneficial Ownership" shall have the meaning provided in 17 C.F.R. § 240.13d-3.

(g) "847 Termination Date" means, subject to the terms of the PA Settlement Agreement, the date that the management of Reorganized RFSC shall determine, in its reasonable discretion, that (i) there is no reasonable likelihood that the RFSC Tax Group shall receive any additional § 847 Refunds and (ii) that the Internal Revenue Service is barred by the statute of limitations (including any extensions thereto) from recovering any § 847 Refunds previously received by the RFSC Tax Group, provided that such date shall in no event be later than October 20, 2020.

7. Reporting; Audits. (a) Interim. On the fifth (5th) business day following each Receipt Date (each such date, an "Interim Reporting Date"), Reorganized RFSC shall prepare and send a statement (each, an "Interim Statement") to each of (a) RGH or its successor, (b) the members of the Advisory Committee, (c) counsel to the Creditors' Committee, (d) the co-chairpersons of the Creditors' Committee, (e) all holders of equity interests in Reorganized RFSC, (f) any additional parties designated in the RGH plan of reorganization and (g) any assignees of any of the foregoing parties (collectively, the "Notice Parties"). Each Interim Statement shall set forth, with respect to the period from (and including) the Interim Reporting Date or Quarterly Reporting Date, whichever is later, immediately preceding the most recent Interim Reporting Date (or, if none, the Effective Date) to (but excluding) the most recent Interim Reporting Date, (i) the total amount of all operating expenses and actual indemnification obligations (including any actual CEO Indemnification Obligation) incurred by Reorganized RFSC, each operating expense and actual indemnification obligation in excess of $5,000 incurred by Reorganized RFSC, the purpose, date, and payee of same (or portion thereof) and a reconciliation of same against the amount budgeted therefor, (ii) the source, type and amount of any funds received by Reorganized RFSC (e.g., § 847 Refunds, Litigation Proceeds) and the allocation or distribution thereof, (iii) all adjustments to Reorganized RFSC's budgets and the Development Requirement and the reasons therefor, (iv) the current balances in the Primary Reserve, Development Reserve and Discretionary Reserve and (v) the last day of the Development Period, if any, after giving effect to any distribution to the Development Reserve to be made on the immediately succeeding Distribution Date.

(b) Quarterly and Annual. On or before the fifteenth (15th) day of each January, April, July and October, or, if such day is not a business day, on the first business day thereafter (each such date, a "Quarterly Reporting Date"), Reorganized RFSC shall prepare and send to the Notice Parties a quarterly statement (each, a "Quarterly Statement") setting forth, with respect to the calendar quarter then most recently ended, the information described in Sections 7(a)(i) through (v), including each operating expense and actual indemnification obligation incurred by Reorganized RFSC. On or before February 15th of each year, Reorganized RFSC shall provide to the Notice Parties an annual statement aggregating

the information contained in the Quarterly Statements for the previous four (4) quarters. Reorganized RFSC shall be audited not less than once every twelve (12) months.

8. Indemnification. (a) Chief Executive Officer. RFSC and RGH acknowledge and agree that Reorganized RFSC shall indemnify each Chief Executive Officer of Reorganized RFSC serving prior to a Change of Control, whether in his capacity as a director or officer of Reorganized RFSC (each, an "Indemnified CEO"), to the fullest extent permitted by Delaware law. RFSC and RGH agree that, subject to the terms and conditions hereof, Primary Reserve funds may be reserved to pay actual or anticipated indemnification obligations of Reorganized RFSC to each Indemnified CEO (the "CEO Indemnification Obligations").

(b) Advisory Committee Members. RFSC and RGH acknowledge and agree that Reorganized RFSC shall indemnify each member of the RFSC Advisory Committee appointed pursuant to the Plan (the "Advisory Committee") serving prior to a Change of Control (each, an "Indemnified Advisor") to the fullest extent permitted by Delaware law. Reorganized RFSC shall satisfy such indemnification obligations only at the times and to the extent provided in Section 2(b).

9. Professional Advisers. Professional advisors to be retained by Reorganized RFSC charging annual fees not exceeding $20,000 in the aggregate may be retained by the Chief Executive Officer of Reorganized RFSC upon ten (10) days' notice to all holders of equity interests in Reorganized RFSC, provided, that the retention of such professionals shall be subject to the approval of holders of a majority of all outstanding shares of Reorganized RFSC if twenty percent (20%) of all outstanding shares of Reorganized RFSC object to such retention within such notice period. All other professional advisers to be retained by Reorganized RFSC shall be selected initially by the Bank Committee and, thereafter, with the approval of holders of a majority of all outstanding shares of Reorganized RFSC. Professional advisers to be retained by RGH shall be selected initially by the Creditors' Committee and, thereafter, with the approval of sixty-six and two-thirds percent (66 $^{2}/_{3}$%) of all holders of claims or obligations on such claims against RGH or its assignees. At the sole cost and expense of RGH, counsel to RGH may (i) monitor compliance of Reorganized RFSC with the Credit Agreement executed by Reorganized RFSC and RGH with respect to the Secured Credit Facilities and (ii) participate fully as co-counsel in the pursuit and defense of § 847 Refunds, and in each case shall be afforded full access to all information relevant to such matters. Reorganized RFSC shall not take any action materially affecting its rights in respect of the § 847 Refunds without the prior consent of RGH. If RGH and Reorganized RFSC cannot agree on a course of action in respect of any issue related to the § 847 Refunds, RGH and Reorganized RFSC shall submit such issue to binding arbitration on the terms set forth in Section 7(h) of the PA Settlement Agreement. An Indemnified CEO may (but shall have no obligation to) select a lead counsel (including without limitation counsel to Reorganized RFSC or RGH) in respect of any discrete issue or litigation related solely to the pursuit or defense of § 847 Refunds, such lead counsel's fees and expenses to be expenses of Reorganized RFSC other than Development Expenses.

10. Waivers of Conflicts. Each of Reorganized RFSC and RGH hereby waives, and shall be deemed to have waived, any conflict of interest of any counsel, director or officer of Reorganized RFSC or RGH arising from (i) the employment of an Indemnified CEO as a director of Reorganized RFSC, (ii) the employment of an Indemnified CEO as a director or officer of RGH (or its successor) and the participation of such Indemnified CEO in negotiations leading to employment and (iii) the participation of counsel to RGH as co-counsel or lead counsel in the pursuit and defense of § 847 Refunds.

APPENDIX B

SUMMARY OF PRINCIPAL TERMS AND CONDITIONS
OF
SENIOR SECURED CREDIT FACILITIES

Unless otherwise defined herein, capitalized terms used herein are defined as in the RGH/RFSC Funding Term Sheet (and accompanying Appendix A) to which this Appendix B is attached, or in the PA Settlement Agreement.

Borrower: Reliance Financial Services Corporation, a Delaware corporation (the "Borrower") or, after the Effective Date, Reorganized RFSC.

Lender: Reliance Group Holdings, Inc., a Delaware corporation (together with its successor and/or designee, the "Lender").

Secured Credit Facilities:

1. A term loan facility (the "Term Loan Facility") in an aggregate principal amount of $2,537,000.

2. A committed revolving loan facility (the "Revolving Loan Facility") in an aggregate principal amount equal to the lesser of:

   (i) the aggregate amount of all RGH Available Funds distributed to RGH pursuant to Section 2(c)(ii) or Section 4(c)(ii) of Appendix A and borrowed by Reorganized RFSC on the date of distribution, or

   (ii) $25,000,000.

Source of Funds: The Term Loan Facility will be funded out of cash held by RGH on the Effective Date.

The Revolving Loan Facility will be funded solely out of RGH Available Funds and not out of RFSC Available Funds used to repay amounts due under the Secured Credit Facilities; provided that loans under the Revolving Loan Facility may be deemed to have been made as prescribed in Section 3(b) of Appendix A.

Use of Proceeds: The proceeds of the Secured Credit Facilities will be used by the Borrower for any purpose permitted under Appendix A.

Availability:

1. Loans under the Term Loan Facility may be borrowed only on the Effective Date and, once repaid, may not be reborrowed.

2. Loans under the Revolving Loan Facility may be borrowed, repaid and reborrowed on or after the Effective Date and prior to the Commitment Termination Date.

Notice of Borrowing: The Borrower may borrow funds under the Secured Credit Facilities upon delivery to the Lender of a notice of borrowing indicating the amount and desired date of such borrowing (which shall be no earlier than the business day immediately following delivery of such notice). Upon receipt of such notice of borrowing, the Lender shall deposit (or, to the extent that the funds to be borrowed are under the

control of the Borrower, shall authorize the Borrower to deposit on the Lender's behalf) the requested funds, to the extent available, into the Primary Reserve.

Mandatory Repayments: Repayment of the Secured Credit Facilities shall be required from 100% of any RFSC Available Funds to the extent provided in Appendix A. Repayments shall be applied, first, to reduce any outstanding interest under the Secured Credit Facilities to $0, second, to reduce any outstanding principal under the Revolving Loan Facility to $0 and, third, to reduce any outstanding principal under the Term Loan Facility to $0.

Calculation of Interest: All interest on the Secured Credit Facilities shall be calculated on the basis of actual number of days elapsed and a year of 365 days. All outstanding interest shall compound annually on the anniversary of the Effective Date.

Interest Rate: 7.5% per annum for all loans made (or deemed to have been made) under the Secured Credit Facilities.

Maturity: The Secured Credit Facilities shall be payable in full on October 20, 2020 (the "Maturity Date").

Commitment Termination: All commitments of the Lender under the Revolving Loan Facility shall terminate (the "Commitment Termination Date") upon the earliest of:

(i) the Maturity Date;

(ii) the 847 Termination Date;

(iii) the liquidation of the Primary Reserve pursuant to Section 6(d) of Appendix A;

(iv) any distribution of RFSC Available Funds pursuant to Sections 2(b)(v), (vi) or (vii) of Appendix A; or

(v) an Event of Default, provided that all commitments of the Lender under the Revolving Loan Facility shall be reinstated immediately upon any cure or waiver of such Event of Default.

Security: All amounts owing to RGH under the Secured Credit Facilities and the Term Sheet will be secured by a first priority perfected security interest in all assets of the Borrower, other than (i) all interests in any joint venture of Reorganized RFSC with a third party for the purpose or exploitation of Development (each, a "Joint Venture") and (ii) all funds invested by, or other contributions of, a third party (x) to a Joint Venture or (y) to Reorganized RFSC in connection with a Joint Venture. No lien granted pursuant to this Term Sheet shall in any way affect any rights or property belonging to RIC pursuant to the PA Settlement Agreement.

Conditions Precedent to Initial Borrowing:	The Effective Date shall have occurred.
Affirmative Covenants:	Maintenance of existence, properties and records; financial reporting; compliance with all relevant laws to the extent failure to do so could be expected to have a material adverse effect; payment of taxes.
Negative Covenants:	Limitations on liens, mergers and acquisitions, significant other indebtedness, and changes in nature of business; prohibition on any liens on Joint Venture distributions to Reorganized RFSC and proceeds thereof senior to RGH's lien on the same.
Events of Default:	Change of Control; any failure by the Borrower to pay RFSC Available Funds to the Lender to the extent provided in Appendix A; material breach of covenants; material breach of the terms of the Term Sheet; entering bankruptcy (each, an "Event of Default").
Remedies:	Acceleration of all outstanding principal and interest to be immediately due and payable and enforcement of the security interest.
Assignment:	Except for an assignment by the Lender to its successor and/or designee pursuant to the Lender's confirmed plan of reorganization, the assignment by the Borrower or the Lender of any of their respective rights or obligations hereunder to any other person shall not be permitted.
Governing Law:	New York.

APPENDIX D

MONTHLY OPERATING REPORT OF RFSC AND RGH (CONSOLIDATED) FOR THE MONTH OF SEPTEMBER, 2004

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

Case No. 01-13404(AJG)
Chapter 11

RELIANCE GROUP HOLDINGS, INC., et al.
(Name of Debtors)

Monthly Operating Statement for
the period from September 1, 2004 through September 30, 2004

Debtors' Address:
5 Hanover Square
New York, NY 10004

Debevoise & Plimpton LLP
(Debtors' Attorneys)

Monthly Operating Profit (Loss): ($ 586)
($ in thousands)

Cash Disbursements:
Reliance Group Holdings, Inc.: $ 690
($ in thousands)
Reliance Financial Services Corp.: none

Report Preparer: Ray Yaworski

The undersigned, having reviewed the attached report and being familiar with the Debtors' financial affairs, verifies under the penalty of perjury, that the information contained therein is complete, accurate and truthful to the best of my knowledge.

Date: October 14, 2004

Paul W. Zeller
President and CEO

Indicate if this is an amended statement by checking here AMENDED STATEMENT _____

Reliance Group Holdings, Inc., et al.
Debtors-in-Possession
Unaudited Consolidated Statement of Operations, excluding subsidiaries which are not Debtors-in-Possession
(000s)

	For the Period September 1, 2004 to September 30, 2004	For the Period June 12, 2001 to September 30, 2004
Revenues	$ -	$ -
Costs and expenses:		
Operating and administrative	90	7,180
Pension plan actuarial adjustments and expenses		9,059
Depreciation		144
Total costs and expenses	90	16,383
Loss before reorganization items	(90)	(16,383)
Reorganization items:		
Professional fees	569	18,803 [a]
Increase in allowance on balance due from Reliance Development Group, Inc.		10,334
Reduction of balance due Reliance Insurance Company per settlement (see Notes 2 and 5)		(10,765)
Interest earned on accumulated cash resulting from Chapter 11 proceeding	(73)	(5,024)
Total reorganization items	496	13,348
Income tax benefits net of deficiency interest of $3,179 (see Note 2)		(90,770)
Net income (loss)	$ (586)	$ 61,039

a Includes $254 of pre-petition charges approved for payment by Judge Gonzalez on November 16, 2001.

The accompanying notes are an integral part of the financial statements.

Reliance Group Holdings, Inc., et al.
Debtors-in-Possession
Unaudited Consolidated Statement of Cash Flows, excluding subsidiaries which are not Debtors-in-Possession
(000s)

	September 1, 2004 to September 30, 2004	For the Period June 12, 2001 to September 30, 2004
Cash flows from operating activities:		
Loss from operations before reorganization items	$ (90)	$ (16,383)
Adjustments to reconcile loss to net cash provided by operating activities:		
Income tax recovery		17,706
Depreciation		144
Changes in:		
(Increase) decrease in Prepaid expenses	200	8,826
Increase (decrease) in Post-petition payables	(172)	813
Increase (decrease) in Liabilities subject to compromise		1,702
Net cash provided (used) by operating activities before reorganization items	(62)	12,808
Operating cash flows from reorganization items -		
Interest received on cash accumulated because of the Chapter 11 proceeding	73	5,135
Application of retainer towards reorganization professional fees		450
Payment of reorganization items	(628)	(15,416)
Distribution to Reliance Insurance Company (in Liquidation)		(45,347)
Net cash used by reorganization items	(555)	(55,178)
Net cash used by operating activities	(617)	(42,370)
Cash flows from investing activities -		
Receipts from Reliance Development Group, Inc.		5,800
Net cash provided by investing activities	-	5,800
Cash flows from financing activities -		
Proceeds of split dollar policies		4,584
Net cash provided by financing activities	-	4,584
Net decrease in cash and cash equivalents	(617)	(31,986)
Cash and cash equivalents at beginning of period	57,472	88,841
Cash and cash equivalents at end of period	$ 56,855	$ 56,855

The accompanying notes are an integral part of the financial statements.

Reliance Group Holdings, Inc., et al.
Debtors-in-Possession
Unaudited Consolidated Balance Sheet, excluding subsidiaries which are not Debtors-in-Possession
(000s)

	September 30, 2004	August 31, 2004
Assets		
Cash (see Note 5)		
Unrestricted	$ 56,855	$ 57,472
Restricted funds		
	56,855	57,472
Accounts and Notes Receivable	13,090	13,090
Prepaid expenses and deposits	353	553
Due from Reliance Development Group, Inc. less allowance of $60,334 (see Note 1)		
Property, plant and equipment, net of accumulated depreciation of $1,567	-	-
Total assets	$ 70,298	$ 71,115
Liabilities and Shareholders' Deficit		
Liabilities not subject to compromise		
Post-petition - accounts payable	$ 1,896	$ 2,292
Professional fee holdback payable	2,298	2,133
Liabilities subject to compromise	1,025,318	1,025,318
Total liabilities	1,029,512	1,029,743
Shareholders' deficit		
Common stock, par value $.01 per share	11,616	11,616
Additional paid in capital	558,541	558,541
Accumulated deficit (see Notes 1 and 5)	(1,529,371)	(1,528,785)
Total shareholders' deficit	(959,214)	(958,628)
Total liabilities and shareholders' deficit	$ 70,298	$ 71,115

The accompanying notes are an integral part of the financial statements.

Reliance Group Holdings, Inc., et.al.
Debtors-in-Possession
Additional information
September 30, 2004

Schedule of Federal, State and Local Taxes Collected, Received, Due or Withheld

All wages and salaries paid (GROSS) or incurred.	$	24,000
The amount of payroll taxes withheld:		
Federal (FIT, FICA, FICA-MED)		5,557
State		1,720
The amount of employer payroll tax contributions incurred:		
FICA-med		344
Gross taxable sales		N/A
Sales tax collected		N/A
Property taxes		N/A
Any other taxes		N/A

Date and amount paid over to each taxing agency for taxes

		September 1, 2004
Internal Revenue Service	$	5,901
State Income Taxes		1,720

Insurance

All insurance policies are fully paid for the current period.

The amounts for workers compensation and disability insurance have been fully paid for the period.

Additional information
September 30, 2004

Payments to Professionals

Professional	Amount of Payment
Debevoise & Plimpton LLP	$ 109,734
Orrick Herrington & Sutcliffe LLP	265,941
White & Case LLP	243,439
Deloitte & Touche LLP	16,410
Altman & Cronin	7,476

RELIANCE GROUP HOLDINGS, INC., et al.
(DEBTORS-IN-POSSESSION)

ORGANIZATION, BUSINESS AND PROCEEDINGS UNDER CHAPTER 11

Reliance Group Holdings, Inc. ("RGH" or the "Company") is an insurance holding company whose principal business is the indirect ownership of Reliance Insurance Company ("RIC"). All of RIC's common stock is owned by Reliance Financial Services Corporation ("RFSC"), RGH's wholly-owned subsidiary. RIC is one of the oldest property and casualty insurance companies in the United States. RIC offered a number of insurance products over the years, including a broad range of commercial property and casualty insurance products, primarily in the United States. However, the property and casualty insurance operations of RIC incurred a substantial operating loss in 1999, including among other things a substantial increase of net reserves for policies of prior years. During the second quarter of 2000, an additional substantial increase was made to net loss reserves related to policies issued in prior periods. As a result of a series of downgrades, RIC determined to cease writing business and to sell or transfer policy renewal rights to the extent possible and developed a run-off policy for the orderly downsizing of its business. On May 29, 2001, the Commonwealth Court of Pennsylvania entered an order granting a petition of the Pennsylvania Department of Insurance, with RIC's consent, for the rehabilitation of RIC. Under the order, the Pennsylvania Insurance Commissioner is directed to take possession of RIC's assets and business and to take such actions as the nature of the case and the interests of the policyholders, creditors or the public may require. As of May 29, 2001, RGH and RFSC have had no control over the operations and assets of RIC. On October 3, 2001, the Commonwealth Court of Pennsylvania entered an order granting a petition of the Pennsylvania Department of Insurance for liquidation of RIC.

During the year ended December 31, 2000, the Company wrote off its entire investment in RIC and its subsidiaries of $1.47 billion. The loss incurred during 2000 by RIC and its subsidiaries materially exceeded the amount written off by the Company.

Bankruptcy Proceedings

On June 12, 2001, RGH, together with its subsidiary RFSC (the "Debtors"), filed a voluntary petition for relief under Chapter 11 of Title 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). The Debtors are authorized to operate their business in the ordinary course as debtors-in-possession. On June 22, 2001, the Office of the United States Trustee for the Southern District of New York (the "U.S. Trustee") appointed the Official Unsecured Bank Committee and the Official Unsecured Creditors' Committee to represent the interests of the Debtors' unsecured creditors. Various settlements have been entered into as discussed in Notes 2 and 5.

On June 2, 2004, The Official Unsecured Bank Committee filed a plan of reorganization for RFSC, together with a related disclosure statement. The disclosure statement was approved by order of the Bankruptcy Court dated July 7, 2004. A hearing to consider the confirmation of the plan has been scheduled for October 20, 2004.

Basis of Presentation

The Company's unaudited consolidated financial statements have been prepared in accordance with Statement of Position 90-7 "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7") and generally accepted accounting principles applicable to a going concern which, unless otherwise noted, assumes the realization of assets and the payment of liabilities in the ordinary course of business. SOP 90-7 requires (i) that pre-petition liabilities that are subject to compromise be segregated in the Company's consolidated balance sheet as liabilities subject to compromise and (ii) that revenues, expenses, realized gains and losses, and provisions for losses resulting from the reorganization and restructuring of the Company be reported separately as reorganization items in the consolidated statement of operations. As a result of the reorganization proceedings under Chapter 11, the Company may take, or may be required to take, actions which may cause assets to be realized, or liabilities to be liquidated, for amounts other than those reflected in the unaudited consolidated financial statements. As a result of the Company's recurring losses, the Chapter 11 filings and circumstances relating to these events, including the Company's debt structure and current economic conditions, realization of assets and liquidation of liabilities are subject to significant uncertainty.

Certain footnote disclosures normally included in unaudited consolidated financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted from the interim financial information. In the opinion of management, all adjustments considered necessary for a fair presentation have been included.

The preceding financial statements – unaudited consolidated balance sheet, unaudited consolidated statements of operations, and unaudited consolidated statements of cash flows were prepared for the period from September 1, 2004 through September 30, 2004.

NOTE 1 – DUE FROM RELIANCE DEVELOPMENT GROUP, INC.

The collectibility of the balance of $60,334 due from Reliance Development Group, Inc. ("RDG"), a wholly owned subsidiary of Reliance Group Holdings, Inc. ("RGH") is dependent upon the future operations of RDG. While it appears the RDG will generate future cash flow, it does not appear that such cash flows will be sufficient to repay to the Debtor any portion of the balance due. An allowance of $50,000 was provided in the June 2002 operating statement to reduce the net receivable to management's estimate of its net realizable value at that time The allowance was increased by $9,334 in June 2003 based on a further impairment of RDG's position. In June 2004 the remaining balance was deemed uncollectable and was fully reserved.

NOTE 2 – LIABILITIES SUBJECT TO COMPROMISE

As a result of the Chapter 11 filing, all actions to collect the payment of pre-petition indebtedness are subject to compromise. Generally, actions to enforce or otherwise effect payment of pre-petition liabilities are stayed. These claims are reflected in the September 30, 2004 unaudited consolidated balance sheet as *Liabilities Subject to Compromise.* Although pre-petition claims are generally stayed, the Bankruptcy Court approved the Company's motions to pay (i) pre-petition employee obligations relating to certain plans and policies providing medical and dental coverage to the Company's employees and (ii) pre-petition claims for workers' compensation premium payments. In addition, substantially all actions to enforce or otherwise effect payment of pre-filing obligations are stayed.

The Company may reject pre-petition executory contracts and unexpired leases with the approval of the Bankruptcy Court. Damages resulting from rejection of executory contracts and unexpired leases are treated as general unsecured claims and are classified as liabilities subject to compromise. A bar date is the date by which claims against the Debtors must be filed if the claimants wish to receive any distribution in these Chapter 11 cases. The bar date established by the Bankruptcy Court in these Chapter 11 cases was December 21, 2001. All known claimants subject to the bar date have been notified of their need to file a proof of claim with the Bankruptcy Court. Differences between liability amounts estimated by the Debtors and claims filed by the creditors will be investigated and the Bankruptcy Court will make a final determination of the allowable claim.

Valuation methods used in Chapter 11 reorganization cases vary depending on the purpose for which they are prepared and used and are rarely based on generally accepted accounting principles, the basis on which the accompanying financial statements are prepared. Accordingly, the values set forth in the accompanying consolidated financial statements are not likely to be indicative of the values presented to or used by the Bankruptcy Court.

As of September 30, 2004, the Company had liabilities subject to compromise of approximately $1,025,318 as follows:

Foreign, state and local income taxes	$	5,000
Bank term and revolving loans		237,500
Debenture notes payable		463,480
Payable to Reliance Insurance Company (see Note 5)		242,653
Accounts payable and accrued liabilities		76,685
	$	**1,025,318**

All amounts presented above may be subject to future adjustments depending on Bankruptcy Court actions, further development with respect to disputed claims, or other events.

The Department of the United States Treasury, Internal Revenue Service (the "IRS") had filed a proof of claim in the case in the amount of $434,642 for the tax years 1988-1999. The Company had received approval from the Bankruptcy Court to settle this claim for a net refund of not materially less than $12,600. The IRS agreed to this settlement (as approved by the Joint Committee on Taxation of the United States Congress) with refunds having been received in January 2004 totaling $14,077 for the tax years ending December 31, 1988 through 1994. Accordingly, the pre-petition claims for Federal taxes, including deferred taxes have been eliminated in these operating statements.

The New York State Department of Taxation and Finance (the "Department") had filed a proof of claim in the amount of $3,718. The Company objected to this claim, and the parties agreed to a settlement which resolves all of the Department's claims by stipulating that the Department has an allowed unsecured pre-petition priority claim in the amount equal to $300. The Bankruptcy Court approved this settlement by entering the Stipulation and Order reflecting the terms of the settlement on April 7, 2004.

NOTE 3 – PENSION PLAN MATTERS

Pension plan adjustments represent the accounting for the differences between the actuarial present value of accumulated plan benefits and the net assets of the plan along with obligations required to be paid to the Pension Benefit Guaranty Corp. (PBGC).

Due to the deficiency between the actuarial present value of accumulated plan benefits and the net assets of the plan, a contribution of $208 was required to be made to the Reliance Group Holdings, Inc. Pension Plan on April 15, 2003. The Bankruptcy Court denied the Company permission to make this contribution. Because the Bankruptcy Court denied the Company permission to make the April 15, 2003 contribution, such contribution and all subsequent contributions (July 15, 2003: $208, September 15, 2003: $794, October 15, 2003: $208, January 15, 2004: $208; along with contributions of $564 due on April 15, 2004 and July 15, 2004, as well as the minimum funding contribution due on September 15, 2004, with 2004 contributions being subject to revision by the Plan's actuary in light of previously missed contributions) have not been made. In addition, the payment of the annual premiums of $144 due on October 15, 2003 and the preliminary premium for 2004 of $14 due on March

1, 2004 to the PBGC have not been made. Finally, the payment of the annual premium of $168 due to the PBGC on October 15, 2004 will not be made.

On February 24, 2004 RGH received a Notice of Determination from the PBGC informing RGH of the PBGC's decision to take over and involuntarily terminate the plan as of January 31, 2004.On July 7, 2004 RGH received the Bankruptcy Court's permission to enter into a trusteeship agreement with the PBGC pursuant to which the takeover and plan termination would occur, although at that time a dispute existed as to the proper date of termination of the plan. The PBGC previously filed a proof of claim in anticipation of the plan termination in an amount equal to $10,100.

The Reliance Insurance Company Retirement Plan (the "RIC Retirement Plan") was terminated by the PBGC effective February 28, 2002. The PBGC previously filed the following claims against RGH and RFSC in respect of the RIC Retirement Plan:

(i) $124,200 for unfunded benefit liabilities,

(ii) $27,600 for minimum funding contributions, and

(iii) $292 for PBGC premiums.

It is anticipated that the PBGC will revise these amounts. The PBGC has also asserted that certain portions of the claims are entitled to administrative priority.

In connection with the RGH and RIC Retirement Plans on September 29, 2004 the Official Unsecured Bank Committee and the Official Unsecured Creditors' Committee filed a motion to approve a stipulation with the PBGC pursuant to which among other things, RGH will execute a trusteeship agreement with a January 31, 2004 termination date. Pursuant to the stipulation with the PBGC the PBGC has agreed to reduce its claims against RGH, including the claim relating to the plan termination to $81,000 and to reduce its claim against RFSC to $82,500.

NOTE 4 – REORGANIZATION ITEMS

The Company has incurred reorganization related charges of approximately $569 and $18,803 for the month ended September 30, 2004 and the period from June 12, 2001 through September 30, 2004, respectively. Reorganization costs are directly associated with the reorganization proceedings under the Company's Chapter 11 filings. Included in such costs are amounts related to accruals or payments for professional and advisory fees incurred in connection with the Company's Chapter 11 filing. In addition, reorganization items for period from June 12, 2001 through September 30, 2004 also included an increase in the allowance on the balance due from Reliance Development Group, Inc. and a reduction in the balance due to Reliance Insurance Company (see Notes 1 and 5) totaling $431 which have been reflected in the *Reorganization Items* line of the Consolidated Statement of Operations.

NOTE 5 – SETTLEMENT OF LITIGATION

On May 28, 2003, the Bankruptcy Court entered an order (the "Order") in the Company's Chapter 11 cases which, among other things, approved a settlement agreement and related side letter (together, the "Settlement") between the Commissioner of Insurance for the Commonwealth of Pennsylvania, in her capacity as liquidator (the "Liquidator") of Reliance Insurance Company and the Official Committee of Unsecured Creditors and the Official Unsecured Bank Committee. The Order provides that the Settlement shall be binding upon the Debtors and the Debtors' Estates. The effectiveness of the Settlement was conditioned on receipt of the Order and the approval of the Settlement by the Commonwealth Court of Pennsylvania, which was granted on June 19, 2003.

The Settlement was entered into by the parties to settle and resolve various disputes with respect to ownership interests of the Debtors' Estates, on the one hand, and the Liquidator's Reliance Insurance Company estate, on the other hand, relating to directors and officers insurance policies and the proceeds thereof, cash held by the Debtors, certain net operating losses and certain tax refunds, and with respect to the amount of the Liquidator's allowed claim in the Debtors' Chapter 11 cases.

Among other things, the Settlement provides for:

the allocation of certain tax refunds, if any, under Section 847 of the Internal Revenue Code;

the allocation of the benefits of net operating losses for income tax purposes, to the extent available, among Reliance Insurance Company and the Debtors;

the allocation of proceeds, if any, received (including proceeds from insurers under certain directors and officers liability insurance policies) in certain litigation against officers and directors of Reliance Insurance Company or the Debtors;

the Liquidator to have a priority claim over $45,000 in cash held by the Company (see below);

the allocation to Reliance Insurance Company of certain additional cash now or hereafter held by the Debtors; and

a $288,000 allowed claim by the Liquidator in the Debtors' Chapter 11 cases, which claim is settled in full against the Debtors by the terms of the Settlement as outlined above in this Note 5.

For more information on the terms of the Order and the Settlement, see the Order and attached Settlement, which has been filed in the Company's Chapter 11 cases.

On March 31, 2004 the Company distributed $45,000 in cash along with accumulated interest to February 29, 2004 of $309 to satisfy the priority claim referred to above. On April 1, 2004, the Company distributed $38 representing accumulated interest for the month of March 2004.

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	
RELIANCE GROUP HOLDINGS, INC., et al.,	Case No. 01-13404 (AJG)
	Chapter 11
	Jointly Administered
Debtors.	

AFFIDAVIT OF SERVICE

STATE OF NEW YORK
)ss:
COUNTY OF NEW YORK

Douglas D. Ehresman, being duly sworn, deposes and says:

1. I am over 18 years of age and am not a party to this action.

2. I am employed by Update Legal, 1140 Avenue of the Americas, New York, New York 10036 and am currently working at Debevoise & Plimpton LLP at 919 Third Avenue, New York, New York 10022.

3. On October 15, 2004, I caused to be served a true and correct copy of the Monthly Operating Statement for the period September 1, 2004 through September 30, 2004, via regular mail upon the parties listed on the attached list.

Douglas D. Ehresman

Sworn to before me on
October 15, 2004

Notary Public

MARZENA HACKER
Notary Public, State of New York
No. 01HA6078189
Qualified in Richmond County
Certificate Filed in New York County
Commission Expires June 24, 2008

21181674v58

Schedule 1

Service List

Deirdre A. Martini, United States Trustee United States Trustee Program Region 2 33 Whitehall Street, 21st Floor New York, NY 10004
Mary E. Tom, Assistant United States Trustee United States Trustee Program Region 2 33 Whitehall Street, 21st Floor New York, NY 10004
Internal Revenue Service 290 Broadway New York, NY 10007 Attn: District Director
U.S. Attorney's Office 100 Church Street, 19th Floor New York, NY 10007 Attn: Wendy H. Schwartz, Assist. U.S. Attny
Securities and Exchange Commission 233 Broadway, New York, NY 10279
David C. Roseman, Esq. Jones, Day, Reavis & Pogue 51 Louisiana Avenue Washington, D.C. 20001
Edward S. Weisfelner, Esq. Berlack, Israels & Liberman LLP 120 West 45th Street New York, NY 10036

Mr. Vincent J. Intrieri Icahn Associates Corp. 767 Fifth Avenue, 47th Floor New York, NY 10153
Anthony Princi, Esq. Orrick, Herrington & Sutcliffe LLP 666 Fifth Avenue New York, NY 10103
Arnold Gulkowitz, Esq. Orrick, Herrington & Sutcliffe LLP 666 Fifth Avenue New York, NY 10103
Mark I. Bane, Esq. Kelley Drye &Warren 101 Park Avenue New York, NY 10178-0002
Brian Dalton, Esq. Kelley Drye &Warren 101 Park Avenue New York, NY 10178-0002
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APPENDIX E

PROPOSED BUDGET

PROPOSED BUDGET

Description	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
Officer Compensation	84,000.00	84,000.00	84,000.00	84,000.00	84,000.00	84,000.00	84,000.00	588,000.00
Director Fee	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Benefit/Taxes	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Start-up Costs	65,000.00	0.00	0.00	0.00	0.00	0.00	0.00	65,000.00
Office Expense (Incl. Utilities)	20,000.00	6,240.00	6,489.60	6,749.18	7,019.15	7,299.92	7,591.91	61,389.76
Build Out of Office	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
File Storage -- On Site	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
File Storage -- Off Site	18,000.00	18,720.00	19,468.80	20,247.55	21,057.55	21,899.75	22,775.74	142,169.39
File Retrieval	2,000.00	2,080.00	2,163.20	2,249.73	2,339.72	2,433.31	2,530.64	15,796.60
City Rent Tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Moving Costs	10,000.00	0.00	0.00	0.00	0.00	0.00	0.00	10,000.00
Claims Resolution Cost	150,000.00	0.00	0.00	0.00	0.00	0.00	0.00	150,000.00
Accounting Fees	150,000.00	156,000.00	162,240.00	168,729.60	175,478.78	182,497.74	189,797.85	1,184,743.97
Tax Preparation	50,000.00	50,000.00	50,000.00	50,000.00	50,000.00	50,000.00	50,000.00	350,000.00
Bank Fees	10,000.00	10,400.00	10,816.00	11,248.64	11,698.59	12,166.53	12,653.19	78,982.95
Legal Fees	250,000.00	400,000.00	50,000.00	300,000.00	400,000.00	50,000.00	50,000.00	1,500,000.00
Disposal of Records	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
D&O Insurance	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
D&O Reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
General Reserve	928,000.00	0.00	0.00	0.00	0.00	0.00	0.00	928,000.00
Total	**1,737,000.00**	**727,440.00**	**385,177.60**	**643,224.70**	**751,593.79**	**410,297.25**	**419,349.33**	**5,074,082.67**
Cumulative Total		**2,464,440.00**	**2,849,617.60**	**3,492,842.30**	**4,244,436.09**	**4,654,733.34**	**5,074,082.67**	

APPENDIX F

PBGC STIPULATION

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Counsel for the Official Unsecured Bank Committee

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	
RELIANCE GROUP HOLDINGS, INC., et al.,	Case No. 01-13404 (AJG)
Debtors.	Chapter 11
	Jointly Administered

STIPULATION AND ORDER REGARDING JOINT OBJECTION TO PROOFS OF CLAIM AND RFS PLAN OBJECTION FILED BY THE PENSION BENEFIT GUARANTY CORPORATION

This Stipulation and Order ("Stipulation") is made by and among the Official Committee of Unsecured Creditors (the "Creditors' Committee"), the Official Unsecured Bank Committee (the "Bank Committee", and collectively, the "Committees"), each for the above-captioned debtors (together with any successors, the "Debtors") and the Pension Benefit Guaranty Corporation (the "PBGC" and, together with the Committees, collectively the "Parties"), by and through the undersigned.

WHEREAS, on June 12, 2001 (the "Petition Date"), both of the Debtors -- Reliance Group Holdings, Inc. ("RGH") and Reliance Financial Services Corporation ("RFSC") -- filed their respective voluntary petitions for reorganization relief under chapter 11 of title 11, United States Code, 11 U.S.C. §§ 101-1330, et seq., as amended (the "Bankruptcy Code"). The cases have been consolidated for procedural purposes only and are being jointly administered pursuant to an Order of the Court;

WHEREAS, on June 22, 2001, the United States Trustee for the Southern District of New York appointed the Committees pursuant to Section 1102 of the Bankruptcy Code. The Creditors' Committee is charged with representing the interests of the general unsecured creditors. The Bank Committee is charged with representing the interests of the bank creditors;

WHEREAS, PBGC has filed numerous proofs of claim and amendments thereto (collectively, as amended, the "PBGC Claims") against the Debtors based on their alleged liability arising out of the pension plans of RGH and Reliance Insurance Company ("RIC"), a non-debtor affiliate of the Debtors;

WHEREAS, the Committees filed a Joint Objection to Proofs of Claim Filed by the Pension Benefit Guarantee Corporation (the "Joint Objection");

WHEREAS, PBGC filed a response to the Joint Objection;

WHEREAS, PBGC commenced an action (the "District Court Action") in the United States District Court for the Southern District of New York to terminate the RGH pension plan (the "RGH Pension Plan"), which action has been assigned case number 04 Civ. 5705 (WHP);

WHEREAS, PBGC filed an Objection to the Second Amended Plan of Reorganization of Reliance Financial Services Corporation (the "RFS Plan Objection");

WHEREAS, the Committees and PBGC negotiated in an attempt to resolve the PBGC Claims, the Joint Objection, the District Court Action and the RFS Plan Objection without further cost and litigation;

WHEREAS, the Committees and PBGC have reached agreement and desire to resolve the PBGC Claims, the Joint Objection, the District Court Action and the RFS Plan Objection upon the terms set forth herein;

WHEREAS, this Court has jurisdiction over the PBGC Claims, the Joint Objection and the RFS Plan Objection pursuant to 28 U.S.C. §§ 157 and 1334, and venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409; and

WHEREAS, this matter is a core proceeding pursuant to 28 U.S.C. § 157(b);

NOW THEREFORE, in consideration of the promises and respective agreements set forth herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties stipulate and agree as follows:

1. The Parties stipulate and agree that the PBGC Claims shall be amended or deemed amended such that PBGC shall receive, in full and complete settlement and satisfaction of any claims, causes of action, rights or interests of PBGC against or in either of the Debtors or their respective assets or estates, the following:

(a) an allowed general unsecured claim in the amount of Eighty-Two Million, Five Hundred Thousand Dollars and no cents ($82,500,000.00 USD) against the RFS' estate (the "RFS Agreed Amount") and an allowed general unsecured claim in the amount of Eighty-One Million Dollars and no cents ($81,000,000.00 USD) against RGH's estate (the "RGH Agreed Amount"); provided, however, that (i) the total recovery by PBGC from both Debtors' estates shall not, in the aggregate, exceed the RFS Agreed Amount, and (ii) no portion of the RGH Agreed Amount and, except as provided in clause (b) below, no portion of the RFS Agreed Amount shall be entitled to administrative or any other priority under the Bankruptcy Code or otherwise; and

(b) an administrative claim in the amount of Three Million Dollars and no cents ($3,000,000.00 USD) against the RFS' estate (the "RFS Administrative Claim"); provided that such RFS Administrative Claim shall be payable solely from 50% of the first six million dollars

($6,000,000.00) of any future proceeds (other than Litigation Proceeds, as such term is defined in the RGH/RFSC Settlement Term Sheet) otherwise available for distribution to the holders of equity of Reorganized RFS under Section 2(b)(vii) of that certain RGH/RFSC Settlement Term Sheet, between the Bank Committee and the Creditors' Committee, dated January 29, 2004 (the "RGH/RFSC Settlement Term Sheet").

2. (A) Simultaneously with the execution of the Stipulation, RGH shall execute the Agreement for the Appointment of Trustee and Termination of Pension Plan (the "Trusteeship Agreement") in the form provided to RGH by PBGC on or about March 25, 2004, which PBGC shall hold in escrow and execute in turn after approval of the Stipulation by the Court, thereby terminating the RGH Pension Plan (it being agreed that, in the absence of the Court approval of the Stipulation, such Trusteeship Agreement shall be null and void); and (B) as soon as practicable after approval of the Stipulation by the Court, the District Court Action will be dismissed, with prejudice, without costs imposed on any of the Parties or the Debtors and the Parties agree to cooperate in the dismissal of the District Court Action to the extent necessary to effectuate such dismissal.

3. In connection with this Stipulation, the Committees hereby agree (and, upon approval of the Stipulation by the Court, the Debtors shall be bound by such agreement) that they shall not challenge, cause any other party to challenge, or voluntarily assist any other party in challenging, the validity of the lien filed by PBGC against the assets of Reliance Development Group, Inc, a non-debtor affiliate of the Debtors.

4. The Article XIV section 14.4(c) of the RFS Plan will be amended to include the following language as a new subsection 14.4(c)(v):

nothing in the Plan shall release (1) any person (whether or not incorporated), other than the Debtor, that would be treated with the Debtor as members of a controlled group as defined by Section 4001(a)(14) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), from any

liability arising under Title IV of ERISA or (2) any person from liability arising as a result of such person's breach of fiduciary duty under ERISA.

5. PBGC (i) will not take any action to assert, directly or indirectly, claims, rights, causes of action or any other interest against the insurance policies (the "D&O Insurance Policies") referenced in that certain Settlement Agreement, dated April 1, 2003, by and among the Committees and the statutory Liquidator of RIC, or in any exhibits to such agreement; (ii) confirms that it has not given any notice of claims to any of the current or former directors and/or officers or pension plan trustees or any of the Debtors or their related entities; and (iii) agrees that at the request of the insurers (the "Insurers") under the D&O Insurance Policies, it will execute such documents as are reasonably requested by the Insurers to evidence the agreement of the PBGC that it will not assert claims against the D&O Insurance Policies as provided in sub-paragraph (i) above.

6. Upon approval of the Stipulation by the Court, the RFS Plan Objection shall be dismissed, with prejudice, without costs imposed on any of the Parties or the Debtors.

7. The Debtors, the Debtors' claims agent and the Clerk of the Court are authorized to take all necessary or appropriate actions to give effect to this Order.

8. Upon approval of the Stipulation by the Court, the Stipulation shall also be binding upon the Debtors and the Debtors' estates.

9. This Court shall retain jurisdiction over any and all issues arising from or related to the implementation and interpretation of this Stipulation.

10. The Stipulation is expressly conditioned on this Court's approval of the Stipulation and, in the event that this Stipulation is not approved by this Court, nothing in this Stipulation shall constitute or be deemed an admission or acknowledgment by any of the Parties.

11. No provision of this Stipulation may be changed except by a written instrument executed by the Parties.

12. This Stipulation shall be governed by and construed in accordance with the laws of the State of New York in effect on the date of the execution of this Stipulation.

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Dated: New York, New York
September 17, 2004

AGREED:

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Dated: New York, New York
September __, 2004

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SO ORDERED:

HONORABLE ARTHUR J. GONZALEZ
UNITED STATES BANKRUPTCY JUDGE