THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS | SUPERIOR COURT

Docket No 03 - E - 0106
In the matter of the Liquidation of The Home Insurance Company

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EXHIBIT "GHH1" TO THE AFFIDAVIT
OF GARETH HOWARD HUGHES

This is the exhibit "GHH1" referred to in the Affidavit of **GARETH HOWARD HUGHES** sworn the 31st day of March 2004.

Before me,

Notary Public

Notary Public London England (Nicholas A. Thompson)

My Commission Expires at Death

Saville & Co.
Notaries Public
Princes House
95 Gresham Street
London EC2V 7NA
Telephone: +44 (0)20 7920 0000
Fax: + 44 (0)20 7920 0088

Financial Services Authority

Direct line: 020 7066 9660
Local fax: 020 7066 9701
Email: paul.taylor@fsa.gov.uk

FSA®

G Hughes Esq
Joint Provisional Liquidator
The Home Insurance Company (UK branch)
c/o Ernst & Young LLP
1 More London Place
London
SE1 2AF

26 March 2004

Our Ref: INSFD/non-life e/202179
AH/15SE20D

Dear Gareth

The Home Insurance Company ("the Home") (in Provisional Liquidation)

I write further to our meetings on 10 December 2003 and 24 February 2004 regarding the proposed approach in relation to the provisional liquidation of the Home's UK branch, including the proposed scheme of arrangement.

We note from our discussions and the scheme as proposed that this course of action envisages a better outcome for creditors compared with the potential availability of assets if a scheme is not approved.

On this basis, the FSA has no objections to the proposed scheme of arrangement.

Yours sincerely

D.P. Taylor

Paul Taylor
Manager: Insurance Firms Division

cc: Philip Hertz (Clifford Chance)

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AFIA (REINSURANCE OPERATIONS LONDON)

BACKGROUND TO BANK BALANCES PER CASHBOOKS (G.L.)

The notes below are applicable to the attached file (BankRec@05.03peg).

Total balances per account are reconciled to AFIA bank statements on a monthly basis.

NB: Inter-branch cash transfers reflect cash transfers between branches to meet year-end solvency requirements. No physical transfer of cash takes place because the balances are held (in trust) on one bank account.

2. The Home and St. Paul split shown in the schedules attached are memorandum statements reflecting cash transactions recorded in the cashbooks and the General Ledger since 1984 (the year CIGNA purchased AFIA from the previous owners). The Trust Agreements specify that the AFIA bank balances belong to Home and/or St Paul as per the respective accounting records.

3. The following points should be noted regarding the cash transactions recorded over the last 18 years in the cashbooks and the GL:

   a) Cash collected under the BAFCO reinsurance agreement, as amended, (CIRC's reinsurance of the AFIA liabilities) was posted as a matter of practicality to the Home Cashbook/GL. The reasoning behind this is that most of the losses related to the Home book (rather than the St Paul) and nearly always (if not always) CIRC provided cash as and when required to fund the Home (and the St Paul) operations. The BAFCO billings are consolidated for Home and St Paul transactions and submitted to CIRC semi-annually. No split between Home and St Paul has been made in the billings (this could be determined although it would be a difficult and onerous task given the other points noted below and the period that these transactions cover).

      The question arises as to why CIRC has not paid AFIA (Home and St Paul) billings in full at the time of the billing. The background to this is that:

      At times in the late 1980's AFIA UK almost ran out of cash and had no billings to draw on. CIRC, on a number of occasions, advanced AFIA (Home & St Paul branches) US$1m- 3m against future BAFCO billings.

      ii. ACE (and CIGNA) has in addition provided/ contributed significant funds to both the Home and St Paul to enable the branches to remain solvent and meet regulatory solvency margins. As at December 2002 CIRC has "contributed" US$ 20.2m to the Home branch as shown in the GL. In effect the amounts have been treated as "Capital" within the accounts of the Home branch i.e. it has enabled the branch to continue to meet its UK solvency margin requirements.

   b) Time deposits are posted as Home transactions, and funds are transferred to the current bank accounts as and when required. The current accounts are used to effect all payments and bank all receipts for the Home and the St Paul branches.

   c) All assumed brokers' payments are strictly coded in the cashbooks/GL and the assumed ledgers to the entity that wrote the underlying policy. However, on limited occasions, where payments are due to a broker/cedant from both entities, a consolidated cheque has been raised and coded to either the Home or the St. Paul, depending on the entity settling the larger balance; a journal has subsequently been raised internally in balance sheet inter-branch accounts, transferring the appropriate settled balance to the second entity. No physical transfer of cash took place between the two entities in such circumstances as there was only one bank account.

A further complicating factor is that brokers will on occasion show the wrong entity, i.e. Home for St Paul or vice versa, on their statements. As a result broker receipts by wire transfer (direct to bank accounts) have from 1984 onwards on occasion been received into the AFIA bank account and only later has the correct entity been identified. The correcting entries have been raised in the inter-branch transfer accounts.

d) All ceded cash payments are strictly in the cashbook/GL and the ceded ledgers coded to the entity with the underlying contracts. The procedure noted in (c) above applies.

Consolidated cash receipts (i.e. combined Home and St. Paul receipts) by wire transfer have been treated in the same way as consolidated assumed receipts, i.e. often recorded to one entity and appropriate settlement transferred to the second entity through balance sheet inter-branch accounts when the correct entity has been identified.
A further complicating factor is that certain of the outwards reinsurance policies protect both the Home and the St. Paul and therefore consolidated ceded billings are sent out. Certain ceded reinsurance contracts entered into the 1970's are in the name of "AFIA and/or its Member Companies" and do not specifically mention the Home (and/or St Paul).

PJB/ AK
05 June 2003

AFIA LONDON
CIRC (BAFCO) OUTSTANDING BALANCES
MAY 2003

J/15

	Stg £ 1.0000	US$ 1.57260	Can$ 2.33445	Conv Stg At @ 5/03 rate
PER CIRC				
Balance Outstanding as agreed @ 12/02	852,479	42,129,709	0	27,642,323
Add : CIRC Statements: 2nd Half Year 2002 - booked 4/03)	184,954	7,195,359	0	4,760,408
	1,037,433	49,325,068	0	32,402,731
Cash Received				
- Jan 03	(300,000)	(1,000,000)		(935,890)
- Feb 03		(1,000,000)		(635,890)
- May 03		(1,000,000)		(635,890)
Total RO50H	737,433	46,325,068	0	30,195,062
Cash c/fwd @ 12/02	(500,000)	(29,500,000)	0	(19,258,743)
Total RO51Y	(500,000)	(29,500,000)	0	(19,258,743)
Total CIRC balance oustanding @ 5/2003	**237,433**	**16,825,068**	**0**	**10,936,319** ✓
PER GENERAL LEDGER @ 5/2003				
GL @ 5/2003 - 11500003	237,476	16,825,469	0	10,936,617
Small Diff	(43)	(401)	0	(298)
	237,433	16,825,068	0	10,936,319

A 29/05

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APPENDIX B

AFIA

WORLDWIDE INSURANCE Chesterfield House, 26 - 28 Fenchurch Street, London, EC3M 3DH.
Telephone: 01-626 8744, 01-626 8758 Telex No. [illegible]

G.R. Wilson Esq.
Department of Trade & Industry
Insurance Division 1E
Sanctuary Buildings
20 Great Smith Street
London SW1P 3DB

28th October 1985

Dear Mr Wilson,

RE: THE HOME INSURANCE COMPANY
ST. PAUL FIRE & MARINE INSURANCE COMPANY
TREATY DEPARTMENT REINSURANCE ARRANGEMENTS

At a recent meeting you requested further details of the special reinsurance arrangement covering the Treaty Departments of the London branches of The Home Insurance Company and St. Paul Fire and Marine Insurance Company in respect of the 1983 and prior underwriting years.

The reinsurance arrangements in question include those arranged with BAFCO Reinsurance Company, a company incorporated in Bermuda. Prior to the acquisition of AFIA by CIGNA Corporation, BAFCO was ultimately wholly-owned by the then members of AFIA. Since the acquisition of AFIA by CIGNA, BAFCO has ultimately been a wholly-owned subsidiary of CIGNA. BAFCO is authorised to carry on insurance business in Bermuda.

The History of the Arrangements is as follows:

In June 1981 with effect from 12th May 1981 and subsequently amended to have effect from 1st January 1981 an Excess of Loss Reinsurance Agreement was entered into whereby six specific treaties written by the Home Insurance Company were 100% retroceded to BAFCO.

In 1982 the general nature of the AFIA UK Treaty Department losses became apparent, and a Second Excess of Loss Reinsurance Agreement was entered into. In summary, subject to a retention of US$95 million, all losses of the UK Treaty Departments of Home and St. Paul and certain uncollectable reinsurance is recoverable from BAFCO.

...2/-

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For BAFCO's protection the Stop Loss Agreement was entered into which provided that in so far as BAFCO's liabilities were not covered by its accumulated funds it would be reinsured without limit by all the then members of AFIA.

On acquisition of AFIA these reinsurance arrangements passed to CIGNA and for the purpose of the acquisition Stop Loss Addendum 1, the Insurance Assumption Agreement and the Quota Share Agreement were entered into. Since that time CIGNA has taken further steps to consolidate and simplify the reinsurance arrangements by the preparation and execution of the First Supplemental Excess of Loss Reinsurance Agreement and Stop Loss Addendum.

The Present Arrangements are currently:

The First and Second Excess of Loss Reinsurance Agreements have been modified by the First Supplemental Excess of Loss Reinsurance Agreement. The Stop Loss Agreement must be read in conjunction with Stop Loss Addendum 1 and, Stop Loss Addendum 2. The Insurance Assumption Agreement and Quota Share Agreement exist independently.

The Stop Loss Agreement, as amended by Stop Loss Addendum 1 and Stop Loss Addendum 2, is now between BAFCO and Insurance Company of North America, one of CIGNA's US insurance subsidiaries. As amended, the Stop Loss Agreement reinsures BAFCO for all liability under the First and Second Excess of Loss Reinsurance Agreements (as amended) in excess of an aggregate of US$50,000.

The Insurance Assumption Agreement was entered into on CIGNA's acquisition of AFIA. It provided that INA would assume as its direct obligation all insurance and reinsurance liabilities of each of the selling members of AFIA (including Home and St. Paul) arising out of the operation of AFIA. This agreement results in INA being legally obliged to stand directly behind the liabilities of the Home and St. Paul Treaty Departments whether formally reinsured with INA or not. X

Under the Quota Share Agreement the selling AFIA members in turn reinsure INA and the other CIGNA entities for:

(a) a 90% Quota Share of US$265 million excess of US$335 million of losses of the London Treaty Department; and

(b) 50% of non-recoverable London Treaty Department reinsurance in excess of US$45.9 million.

In conclusion I would suggest that the reinsurance now afforded by BAFCO under the First Excess of Loss Reinsurance Agreement, the Second Excess of Loss Reinsurance Agreement and the First Supplemental Excess of Loss Reinsurance Agreement and supported by the Stop Loss Agreement provide high quality protection for the United Kingdom Treaty Department of Home and St. Paul.

...3/-

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I hope that you now have the information which you require. If you would appreciate a meeting to clarify further the contents of this letter, I should be very happy to oblige.

I enclose the following copy documents:

(a) First Excess of Loss Reinsurance Agreement, signed on 1st and 23rd December 1982 and taking effect on 12th May 1981.

(b) Second Excess of Loss Reinsurance Agreement, signed on 1st and 23rd December 1982 and taking effect on 12th May 1982.

(c) First Supplemental Excess of Loss Reinsurance Agreement, signed on 1st February 1985 and taking effect on 1st January 1981 in respect of the First Excess of Loss Reinsurance Agreement and 12th May 1982 in respect of the Second Excess of Loss Reinsurance Agreement.

(d) Stop Loss Reinsurance Agreement, signed on various dates in 1982 and 1983 and taking effect on 30th June 1982.

(e) Addendum number 1 to the Stop Loss Agreement signed on 31st January 1983 and taking effect on 30th June 1983.

(f) Addendum number 2 to the Stop Loss Agreement, in draft, and taking effect on 30th June 1983.

(g) Insurance and Reinsurance Assumption Agreement, signed on 31st January 1984 and taking effect on that date, together with a glossary of terms used but not defined in the Agreement. ✓

(h) Quota Share Reinsurance Treaty Agreement, signed on 31st January 1984 and taking effect on 30th June 1983, together with a glossary of terms used but not defined in the Agreement. ✓

Yours sincerely,

S.D.F. White
General Manager
SW22/85/AFIA14/LP

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