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Mr Jonathan Rosen
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59 Maiden Lane
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14 April 2005

By post and e-mail

Dear Mr Rosen

**KWELM Scheme of Arrangement
Home Insurance Company – 26519**

I am writing in response to the letter dated 12 April 2005 and sent by Michael Durkin at your request on behalf of the Home Insurance Company in connection with the Scheme Administrator's Letter of Determination to you dated 31 March 2005.

You will appreciate that the KWELM Scheme of Arrangement was approved by the KWELM Scheme Creditors and subsequently sanctioned by the English and Bermudian Courts. Accordingly, the Home Insurance Company as a Scheme Creditor is bound by the terms of the KWELM Scheme, like any other Scheme Creditor. However, you will appreciate that neither KMS nor the Scheme Administrators can give formal advice to Scheme Creditors on the legal interpretation of either the Scheme or the Companies Act 1985.

Regarding Mr Durkin's query about the Scheme Administrator's letter of 31 March 2005, we would reiterate that, in the absence of agreement, the letter was sent pursuant to the terms of Clause 9.4.18 of the Scheme. With that in mind Mr Durkin's characterisation of the 31 March letter is broadly accurate, subject to the proviso that the letter's purpose is to set out the Scheme Administrators' assessment of the extent of the net creditor balances due under the KWELM Scheme of Arrangement (i.e. after set-off of ceded and assumed business).

In his third paragraph, Mr Durkin made the following statement:

"We also understand that once the Scheme assessed debtor balance reaches an amount equal to the Scheme assessed creditor balance, then the sum admitted in the Scheme becomes zero. In such circumstances a net debtor balance cannot be assessed under the Scheme, is outside the Scheme and is recoverable only under the particular contract or contracts under which the debtor balance entitlement arises."

That paragraph broadly conforms with our understanding of the position. Within the terms of the Scheme, a Scheme Creditor whose claim is exhausted by set-off, such that the claim is reduced to zero, becomes an Offset Scheme Creditor, a term defined in Clause 1.1.1 of the Scheme.

In relation to such Offset Scheme Creditors KWELM will look to recover the remaining net debt either by agreement or if necessary by arbitration under the relevant contracts of reinsurance.

Subject to what I say below, in the case of Home, issues of recovery by KWELM of any remaining net debt due from Home as an Offset Scheme Creditor under such outwards contracts of reinsurance would be mediated by the Home Liquidation proceedings.

With regard to Mr Durkin's final paragraph, whilst we note his comments, we would stress that (save potentially in relation to Mutual) the issue of set-off appears to us to be a matter which will fall to be determined wholly under the terms of the KWELM Scheme. In those circumstances, the rights and obligations of our respective clients in relation to reinsurances underwritten by Home and protecting the KWELM Companies are not governed by the Home Liquidation, because on the basis of the Statements of Determination attached to the 31 March letters, Kingscroft, Walbook, El Paso and Lime Street are net debtors of Home rather than net creditors of Home. In its capacity as a Scheme Creditor the Home is subject to the KWELM Scheme and will benefit from rights under the KWELM Scheme, but by the same token must comply with its obligations under the Scheme.

I hope that this helps clarify the position and that we will soon be in a position to reach a mutually acceptable resolution of this matter, within the KWELM Scheme timetable. I will call you shortly to this end.

Yours sincerely



Mark Langridge