

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

LIQUIDATOR'S REPORT AND RECOMMENDATION
ON KWELM COMPANIES' PROOFS OF CLAIM

Pursuant to Paragraph 4 of the Order Approving Liquidator's Report of Claims and Recommendations entered December 16, 2004, Roger A. Sevigny, Commissioner of Insurance for the State of New Hampshire, as Liquidator ("Liquidator") of the Home Insurance Company ("Home"), hereby reports on the claims of the five English and Bermuda insurers commonly referred to as the "KWELM Companies"¹ and recommends that they be allowed as Class V claims in the amounts specified below pursuant to RSA 402-C:45.

1. The KWELM Companies have each filed a proof of claim in the Home liquidation: POC Nos. RAHM700335 (Kingscroft), RAHM331506 (Walbrook), INTL709436 (El Paso), RAHM700333 (Lime Street), and RAHM700334 (Mutual). These claims have been addressed in the proceedings regarding Home's claims against KWELM under the English and Bermudian scheme of arrangement for the KWELM Companies, which has been enforced in the United States by an order of the United States Bankruptcy Court for the Southern District of New York under 11 U.S.C. § 304. On February 7, 2006, the Scheme Adjudicator appointed pursuant to that scheme of arrangement determined KWELM's claims against Home to be \$3,910,842 (allocated by KWELM Company as follows: Kingscroft - \$195,865; Walbrook - \$2,214,137; El Paso - \$25,651; Lime Street - \$16,798; and Mutual - \$1,458,391). The Scheme Adjudicator's

¹ The KWELM Companies consist of four English insurers, Kingscroft Insurance Company Limited, Walbrook Insurance Company Limited, El Paso Insurance Company Limited, and Lime Street Insurance Company Limited, and one Bermudian insurer, Mutual Reinsurance Company Limited. See <http://www.kwelm.com> (last visited March 1, 2006).

determination is attached as Exhibit A. Home participated in those proceedings through ACE INA Services U.K. Limited (“AISUK”). In the interests of comity and efficiency, the Liquidator hereby reports that resolution of the KWELM Companies’ claims and recommends pursuant to RSA 402-C:45, I, that the claims be allowed accordingly as Class V claims in the total amount of \$3,910,842 (allocated as in the Scheme Adjudicator’s determination) less the previously allowed KWELM claims of \$1,739,215 (consisting of Kingscroft - \$83,677; Walbrook - \$970,226, and Mutual - \$685,312). The recommended allowance is thus \$2,171,627 (allocated by KWELM Company as follows: Kingscroft - \$112,188; Walbrook - \$1,243,911; El Paso - \$25,651; Lime Street - \$16,798; and Mutual - \$773,079). The Liquidator recommends that the Court accord comity to the Scheme Adjudicator’s determination, which is also binding on Home under the KWELM scheme of arrangement and the Bankruptcy Court’s injunction.

Background

2. KWELM and Home reinsure one another, with Home the net creditor. KWELM and Home each reinsured the other under separate and distinct contractual arrangements. Home has claims against KWELM under reinsurance contracts arising out of US operations, and KWELM has claims against Home under reinsurance contracts assumed by Home’s UK Branch through participation in the American Foreign Insurance Association (“AFIA”). It has long been expected that Home’s claims will exceed the KWELM Companies’ claims so that Home will be a net creditor of each of the KWELM Companies. The KWELM Companies filed their proofs of claim in the Home proceeding in June 2004.

3. The KWELM Scheme. In 1993, a runoff scheme of arrangement for the KWELM Companies was approved by the creditors of those companies (including Home) and sanctioned by the High Court of Justice in London, England, as to the four English companies

and the Supreme Court of Bermuda as to the Bermudian company. The runoff scheme was converted to a cutoff scheme (the “Scheme”) to achieve closure of the estates, and the Scheme was approved by the creditors (including Home) and sanctioned by the English and Bermudian courts in February 2004. Home, as a Scheme creditor, is bound by the Scheme under English and Bermudian law.

4. Under the Scheme, claims against KWELM are to be determined by the Scheme Administrators and, in the event of a dispute, by a person appointed to resolve such disputes (the “Scheme Adjudicator”). Where the KWELM Companies have claims against a creditor (such as Home) that may offset the creditor’s claims against KWELM, the Scheme provides that KWELM’s claims are also to be determined by the Scheme Administrators, and if disputed, by the Scheme Adjudicator to the extent of the creditor’s claims against KWELM. Only if a KWELM Company has claims against the creditor that exceed the creditor’s claims against it is KWELM to pursue the net balance outside the Scheme (not the case here). This understanding of the Scheme has been confirmed in correspondence from KWELM. See Exhibits B (KWELM April 14, 2005 letter) and C (preceding AISUK April 12, 2005 letter). In its letter, KWELM specifically stated that:

[T]he rights and obligations of our respective clients in relation to the reinsurances underwritten by Home and protecting the KWELM Companies are not governed by the Home Liquidation, because [the KWELM Companies with the potential exception of Mutual] are net debtors of Home rather than net creditors of Home.

Exhibit B at 2.

5. The § 304 Order. In 1993, the United States Bankruptcy Court for the Southern District of New York issued a Permanent Injunction Order enforcing the original KWELM runoff scheme pursuant to § 304 of the Bankruptcy Code (the “Original § 304 Order”).

Exhibit D. Among other things, the Original § 304 Order provided that the run-off scheme “shall be given full force and effect and shall be binding on and enforceable against all Scheme Creditors in the United States”; enjoined all claims and legal proceedings against the KWELM Companies except as provided in that scheme; and enjoined any action “to create, perfect or enforce any lien, set-off or other claim” against KWELM. *Id.* at 3-4. In light of the conversion to a cutoff scheme, the Bankruptcy Court issued an Order Amending Permanent Injunction Order in March 2004 (the “Amended § 304 Order”). Exhibit E. The Amended § 304 Order ordered that the Scheme “shall be given full force and effect and shall be binding on and enforceable against all Scheme Creditors in the United States”; continued the Original § 304 Order in effect as modified to refer to the Scheme; and retained jurisdiction with respect to the enforcement, amendment or modification of the Amended § 304 Order. *Id.* at 4-5.

6. Home’s claims against KWELM. After 1993, Home pursued its claims against KWELM in the ordinary course in accordance with the runoff scheme and Original § 304 Order. The Scheme was sanctioned and enforced by the Amended § 304 Order in early 2004. Home filed its proof of claim against KWELM by the September 2004 deadline set by the Scheme. The Liquidator pursued the claim to collect the several million dollars by which Home’s claims against KWELM exceed KWELM’s claims against Home. In March 2005, the Scheme Administrators determined Home’s net claim (after considering KWELM’s offsetting claims against Home) at \$2,985,272. (The Scheme Administrator valued Home’s claims at \$14,842,658 and KWELM’s offsetting claims at \$11,857,386.) The Liquidator objected to the determination. See Exhibit F (AISUK April 27, 2005 letter stating “Disputed Matters should be submitted to the

Scheme Adjudicator in accordance with clause 9.5 of the Scheme if they cannot be agreed between us.”).²

7. Home’s claims against KWELM were subsequently resolved by agreement with the Scheme Administrators for \$19.7 million (allocated as follows: Kingscroft - \$2,291,053; Walbrook - \$10,046,509; El Paso - \$1,098,907; Lime Street - \$547,399; and Mutual - \$5,716,131). KWELM’s offset claims against Home remained before the Scheme Adjudicator. AISUK actively participated in the proceedings before the Scheme Adjudicator for Home. See Exhibit G. On February 7, 2006, the Scheme Adjudicator determined KWELM’s offset claims to be \$3,910,842 (allocated as follows: Kingscroft - \$195,865; Walbrook - \$2,214,137; El Paso - \$25,651; Lime Street - \$16,798; and Mutual - \$1,458,391). See Exhibit A. Each of the KWELM Companies is thus a net debtor to Home, and the Scheme Administrators have made payments under the Scheme based on the KWELM Companies’ net obligations to Home (\$15,789,158 – the difference between Home’s agreed \$19,700,000 claims and KWELM’s \$3,910,842 adjudicated claims against Home).

**The Court Should Accord Comity To The Determination Of KWELM’s
Claims Under The Scheme Approved By The English And Bermudian Courts
And Enforced By The US Bankruptcy Court’s Amended § 304 Order.**

8. The Liquidator recommends that the Court approve the determination of KWELM’s claims by the Scheme Adjudicator as a matter of comity. Comity “is the recognition which one nation allows within its territory to the legislative, executive or judicial acts of another nation, having due regard both to international duty and convenience, and to the rights of its own citizens or of other persons who are under the protection of its laws.” Hilton v. Guyot, 159 U.S. 113, 163-64 (1895). Courts generally extend comity to a foreign decision where the foreign

² AISUK has been acting for Home before the Scheme Administrators and the Scheme Adjudicator subject to a reservation of rights with the Liquidator, and that reservation of rights continues in effect.

court has jurisdiction and the laws and public policy of the forum state will not be violated. E.g., International Nutrition v. Horphag Research Ltd., 257 F.3d 1324, 1329 (Fed. Cir. 2001); Cunard S.S. Co. Ltd. v. Salen Reefer Servs. AB, 773 F.2d 452, 457 (2d Cir. 1985). See Matter of Ramadan, 2006 N.H. LEXIS 15, *9 (Feb. 14, 2006); MacDonald v. Grand Trunk Ry. Co., 71 N.H. 448 (1902).³ The courts have “repeatedly noted” the importance of extending comity to foreign bankruptcy proceedings because the orderly distribution of a debtor’s property requires assembling all claims against the limited assets in a single proceeding. E.g., Finanz AG Zurich v. Banco Economico S.A., 192 F.3d 240, 246 (2d Cir. 1999); Victrix S.S. Co., S.A. v. Salen Dry Cargo A.B., 825 F.2d 709, 713-14 (2d Cir. 1987).

9. Here, the KWELM Scheme, enforced in the United States by the Amended § 304 Order, provides for the resolution of creditor claims, inclusive of offsetting KWELM claims, in the KWELM proceeding. As a Scheme Creditor, Home is bound by the Scheme. Moreover, as Home is a net creditor of KWELM, it is necessary as a practical matter for Home to participate in the Scheme-mandated dispute resolution process to resolve its claims and KWELM’s offsets in order to collect on KWELM’s obligations to Home. Home (through AISUK) in fact participated in the Scheme process and obtained a determination of KWELM’s liability, including a determination of Home’s liability to KWELM. In these circumstances, Home is bound by the determinations under the Scheme, and it is appropriate to adopt the determination of Home’s liability in the Home liquidation. This consistently resolves the KWELM proof of claim against Home.

³ In one case, the New Hampshire Supreme Court chose to minimize reliance on comity and look to estoppel. Petition of Breau (New Hampshire State Board of Education), 132 N.H. 351, 359-60 (1989). Here, Home (through AISUK) appeared in the proceedings before the Scheme Adjudicator to dispute the question of its liability to KWELM. Those proceedings resulted in the determined liability dropping from \$11,357,386 to \$3,910,842. In addition to being bound by the Scheme, Home would be estopped from asserting any different liability.

10. Century Indemnity Company (“CIC”) contended in disputed claim proceeding 2005-HICIL-7 that KWELM’s claims can only be determined by proceedings in the Home liquidation.⁴ In the highly unusual situation presented here, that is not correct. Home is subject to the Scheme, which requires determination of KWELM’s claims used as offsets against Home’s claims. Indeed, the Amended § 304 Order enjoins any action to assert a claim or create a setoff except as provided in the Scheme. Exhibit E at 4 (ratifying the Original § 304 Order, Exhibit D at 4). While Home is in liquidation, that does not exempt it from the requirements of the Scheme or the Bankruptcy Court injunction. Any action by Home to determine KWELM’s claim (and thus determine the extent of KWELM’s setoff against Home’s claims) would be inconsistent with the Scheme and thus with the Amended § 304 Order. Home’s claims against KWELM, including the lesser offsetting claims of KWELM against Home, must be determined under the Scheme in order for the Liquidator to collect from KWELM. Now that the required determinations have been made, objected to, and redetermined by agreement with the Scheme Administrators and a favorable decision of the Scheme Adjudicator, it would be wasteful and serve no purpose to conduct further proceedings in the Home liquidation.

11. It is generally true that claims against Home are to be determined as provided in RSA 402-C:41 & 45 and the Claims Procedures Order. However, as respects KWELM, the Liquidator is seeking to marshal assets from insolvent insurers that are subject to an exclusive process for the determination of claims (including lesser offsetting claims) sanctioned by the courts in their own domiciles, England and Bermuda. This implicates comity to the KWELM insolvency proceedings.⁵ In asserting the “exclusive” jurisdiction of the New Hampshire Court,

⁴ The Referee determined that she did not need to reach this issue, and it is not addressed in the December 16, 2005 Referee’s Ruling resolving 2005-HICIL-7.

⁵ Indeed, comity is one of the statutory factors to be considered by bankruptcy courts in deciding whether to issue orders under § 304. See 11 U.S.C. § 304(c)(5).

CIC ignores the similarly exclusive jurisdiction of the foreign insolvency proceedings as enforced by the Amended § 304 Order. See In re Rubin, 160 B.R. 269, 280-81 (Bankr. S.D.N.Y. 1993) (it is consistent with state insurer liquidation statutes for liquidator of New Jersey insurer to be required under § 304 to pursue claim for reinsurance in Israeli liquidation for the reinsurer). Where there are two insolvency proceedings, each to handle claims and distribute limited assets, it makes sense for the proceeding for the net debtor – the proceeding which will be called on to distribute assets to the other – to resolve the claims, including the lesser offsetting claims, as is necessary for that purpose. It is not obviously repugnant to New Hampshire policy to have KWELM’s claims against Home determined in a foreign insolvency proceeding where that determination is part of the determination of Home’s larger claims against the foreign insurer. The New Hampshire Act authorizes the Liquidator to prosecute claims for Home “in this state or elsewhere,” RSA 402-C:25, XII, and it allows setoff of mutual debts and credits. RSA 402-C:34. Indeed, the Liquidation Order does not stay a right of setoff between mutual reinsurers. See Liquidation Order ¶ (n)(7). Where there are two potentially competing insolvency proceedings, it is appropriate to centralize proceedings in the net debtor forum. This recognizes that the net debtor estate will be called on to distribute assets and provides for consistency of approach in determination of the claims. The Claims Protocol with CIC does not increase the relative status of the Home liquidation, especially where AISUK quite successfully participated in the proceedings under the KWELM Scheme.

12. Respect for the Scheme proceedings is more than just a matter of comity between the English and New Hampshire proceedings. The Scheme has been enforced by the nationwide Bankruptcy Court injunctions in the Original and Amended § 304 Orders. Exhibits D-E. These federal injunctions were issued pursuant to a federal statute, 11 U.S.C. § 304, which usually

would preempt inconsistent state law. See Agency for Dep. Ins. v. Superintendent of Banks of New York, 313 B.R. 561, 563-64 (S.D.N.Y. 2004). It would violate the injunction to take any action on KWELM's claims that would disregard the determination of the Scheme Adjudicator. The procedures under the Claims Protocol have no relevance for this reason as well. The Amended § 304 Order enforces the Scheme, and the Liquidator's agreement with CIC over claims determination procedures in the Home liquidation does not override that injunction.

13. While the McCarran-Ferguson Act often protects state insurance law from preemption by federal law, such "reverse preemption" only applies where the federal law would "invalidate, impair or supersede" the state law. 15 U.S.C. § 1012(b). See Humana, Inc. v. Forsyth, 525 U.S. 299, 307-10, 119 S. Ct. 710, 716-18 (1999). The effect of § 304 and the Scheme here, however, is only to permit the foreign proceeding (which commenced before the Home proceeding) to determine KWELM's claims as part of the determination of Home's claims, and only to the extent that KWELM's claims can be used as setoff against Home's claims. It does not mandate any distribution from Home's limited assets, as KWELM's claims will be satisfied through offset. This does not clearly "invalidate, impair or supersede" the New Hampshire Act, which contemplates that the Liquidator will collect assets through proceedings outside of New Hampshire and that mutual debts and credits may be setoff. As noted above, the Act authorizes the Liquidator to prosecute claims for Home in other jurisdictions, RSA 402-C:25, XII, and it expressly permits setoff of mutual debts and credits. RSA 402-C:34. In the circumstances, deferring to the procedures of the estate that is called on to make distributions harmonizes the roles of the jurisdictions involved. Especially given the international and foreign relations interests underlying § 304, it is unlikely that the Amended § 304 Order enforcing the KWELM Scheme would be reverse preempted by the Act. See In re Petition of Laitasalo, 193

B.R. 187, 191-94 (Bankr. S.D.N.Y. 1996) (interpreting § 304 and the McCarran-Ferguson Act); In re Rubin, 160 B.R. at 278-81 (same).

14. Recognition of the liability to KWELM determined by the Scheme Adjudicator as a matter of comity reflects the respective roles of the KWELM estate as net debtor and Home estate as net creditor and avoids wasteful proceedings of no benefit to the Home estate. CIC's apparent desire to redetermine KWELM's claim again is inconsistent with the binding effect of the Scheme as enforced by the Amended § 304 Order. Any challenge to the effectiveness of the Amended § 304 Order is a matter for the Bankruptcy Court, and even if that court agreed with CIC's McCarran-Ferguson argument, further proceedings on KWELM's claims here would not change the distributions from the KWELM estate. CIC merely seeks to protect its own debtor interests where it has already had the opportunity to protect those interests through AISUK's successful representation of Home before the Scheme Adjudicator. The Court should allow KWELM's claims as determined by the Scheme Adjudicator as a matter of comity so that the Liquidator may recover from CIC.

15. A proposed order approving this report and recommendation on the claims of the KWELM Companies is submitted herewith.

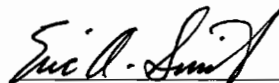
Respectfully submitted,

ROGER A. SEVIGNY, COMMISSIONER OF
INSURANCE OF THE STATE OF NEW HAMPSHIRE,
SOLELY AS LIQUIDATOR OF THE HOME
INSURANCE COMPANY,

By his attorneys,

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March 15, 2006

Certificate of Service

I hereby certify that a copy of the foregoing Liquidator's Report and Recommendation on KWELM Companies' Proofs of Claim and the proposed order were sent, this 15th day of March, 2006, by first class mail, postage prepaid to all persons on the attached service list.



Eric A. Smith

THE STATE OF NEW HAMPSHIRE

MERRIMACK, SS.

SUPERIOR COURT

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

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The Scheme Administrators,
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7th February, 2006

Dear Sirs,

Adjudication of KWELM Outwards Reinsurance Claim

I have been provided with the papers and documents as required in the Scheme of Arrangement. Both the creditor and the Scheme Administrators have responded to my enquiries.

I have considered the information as necessary and consulted the Scheme Actuary. I now set out below my adjudication of the disputed matters.

The Disputed Matters

The Creditor has raised a number of reconciliation type issues relating to the claimed unsettled paid losses and outstanding (case) loss reserves. These can be summarised as follows ;

1. The claims were not agreed due to outstanding queries they had raised to which no reply had been received.
2. The claims included " representative fees" which are disputed as not recoverable.
3. Certain claims arise from participation in the EW Payne pools .
4. Certain claims have been paid.
5. Certain claims had not been advised by KWELM to Home.
6. Certain claims were time barred.
7. Certain case reserves were overstated.

In addition the Creditor disputes the valuation of IBNR . The principle areas of objection in this regard surround the methodology utilised by the Scheme Administrators for the purpose of calculating its outwards IBNR. It is argued that this does not follow the methodology as set out in the Scheme Document.

(2)

Certificate

I hereby certify the amount due by Home to the KWELM Companies to be US\$3,910,842 comprised as follows;

Unsettled paid losses \$2,490,765
Ceded case reserves \$1,065,724 (Undiscounted)
Ceded IBNR \$1,119,010 (Undiscounted)
Discounted reserves \$1,420,077

The allocation of the US\$3,910,842 by KWELM Company is as follows;

Kingscroft-\$195,865
Walbrook-\$2,214,137
El Paso-\$25,651
Lime Street-\$16,798
Mutual-\$1,458,391

In accordance with 9.5.7 of the KWELM Closure Provisions I direct that my remuneration and expenses be shared equally between the Scheme Administrators and the Scheme Creditor. My fee invoice will follow under separate cover.

Reasoning

I find that most of the queries in respect of paid losses had previously been responded to and that in any event these did not affect the Creditors liability to KWELM. Similarly I find that the items claimed to be not advised have in fact been advised in the normal way. I find these to be valid claims due by the Creditor.

I have however adjusted the amount claimed in respect of certain representatives fees which are not recoverable. While I find that the vast majority of the amounts claimed as paid by the Creditor in fact remain outstanding an amount of \$8,446-90 in respect of Keene Corporation did transpire to have been previously settled as had \$16,912-12 in respect of the EW Payne pools. The remaining EW Payne pool items are due.

Due to the application of offset I find that none of the amounts due by the Creditor are time barred.

Arising from my investigation of various of the issues raised by the Creditor I find case reserves to have been overstated by \$687,463.

The IBNR position is a complex one. 9.4.14 of the KWELM Scheme closure provisions state that "in the event that the Scheme Creditor disputes any amount of Outwards reserves and IBNR so stated they shall return the Outwards Reserves and IBNR Statement to the scheme Administrators as soon as possible in accordance with clause 9.9, together with the amounts of Outwards Reserves and Outwards IBNR they are prepared to agree with the Supporting Information". While the Creditor has in its objection letter set out its reasons for disagreeing the IBNR calculations it has not provided its own calculations. Notwithstanding this I have considered the Creditor's objections.

(3)

The Creditor complains that the Scheme Administrators have not followed the methodology of IBNR calculation set out in the Scheme. They appear to suggest that the IBNR should be derived from an application of the agreed inwards claims to the Outwards reinsurance programme. I reject this objection as it would not be possible to

approach the calculations in this way and hence this could not have been contemplated when the Scheme was developed. Inward claims as agreed by the Scheme Administrators often include a bulk IBNR to cover unreported claims. As such these amounts are not broken down to an individual claim level and they could not be applied to the outwards programme. Clearly what was intended was that a consistent approach be used in valuing inwards and outwards claims.

I therefore consulted with the Scheme Actuary and asked him to calculate an outwards IBNR for the Creditor using a method consistent to that utilised in dealing with similar inwards claims. He has confirmed to me that the \$1,119,010 figure certified above is arrived at on this basis. Hence it is not necessary to consider the appropriateness or otherwise of the calculations performed by KMS.

Yours Faithfully,

Ivor Kiverstein
Scheme Adjudicator
KWELM Scheme Of Arrangement



Exhibit B

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Mr Jonathan Rosen
The Home Insurance Company
59 Maiden Lane
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USA

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.

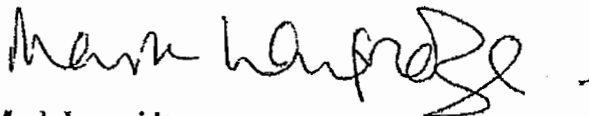
In relation to such Offset Scheme Creditors KWELM will look to recover the remaining net debt either by agreement or if necessary by arbitration under the relevant contracts of reinsurance.

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

A handwritten signature in black ink, appearing to read "Mark Langridge". The signature is written in a cursive, slightly slanted style.

Mark Langridge



ace european group

ACE INA Services U.K.
Limited

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www.aceeurope.com

Exhibit C

12th April, 2005.

Mr. M. Langridge,
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John Stowe House,
18 Bevis Marks,
London EC3A 7JB.

Dear Mark,

**KWELM Scheme of Arrangement
Home Insurance Company - 26519.**

We write at the request of Jonathan Rosen of The Home Insurance Company in Liquidation in connection with your letter of March 31, 2005 (a copy of which is attached herewith). As you are aware, it is the responsibility of ACE-INA on behalf of Century Indemnity Company to handle claims presented by KWELM in the estate of The Home Insurance Company in Liquidation ("Home") arising out of AFIA. We have considered your letter in accordance with that obligation and Mr. Rosen's request.

At the outset, we ask for your confirmation that the matters referred to in your letter of March 31, 2005 are solely designed to assess the extent of the creditor balances due under the KWELM Scheme of Arrangement (the "Scheme").

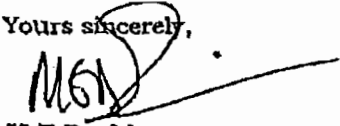
We ask for this confirmation as we understand that the debtor balance is assessed as a sum fixed by the application of the Scheme principles as they apply to creditor balances, and because a Scheme of Arrangement under the Companies Act 1985 is not binding on debtors of the company proposing that scheme. We understand that the Scheme provides a uniform structure for agreeing or assessing the amount by which debtor balances as agreed or assessed by the application of the Scheme principles are to be set off against the agreed or assessed creditor balances which are also agreed or assessed by the application of the same Scheme principles. 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.

We ask that you confirm our understanding as set forth above, no later than 19 April 2005. If we do not receive confirmation from you by that date we will likely seek court clarification of the impact of the Scheme.

Please note that we will (if we consider it necessary to do so) within the period prescribed under Clause 9.4.20 of the Scheme be forwarding to you an objection to the Outwards Reserves and IBNR Statement (the "Statement") setting forth in detail the areas of the determination which we wish to have considered as disputed matters in accordance with the Scheme.

Finally, neither our agreement on behalf of Home to review the Statement nor the subsequent conduct of that review amounts to an acknowledgement, whether express or implied, that Home is bound by the Scheme in its capacity as a reinsurer of KWELM. The New Hampshire Superior Court has jurisdiction with regards to the final and binding determination of Home's liabilities to its creditors (including Home's liability as a reinsurer) now that the Home is in liquidation. The amount of Home's liability, if any, as a reinsurer falls in consequence to be determined subject to and in accordance with the New Hampshire Insurers Rehabilitation and Liquidation Act and specifically the Claims protocol approved by the Superior Court in New Hampshire on November 12, 2004.

Yours sincerely,



M.E. Durkin.
Vice President.

c.c. J. Rosen (Home Insurance Company in Liquidation)

kwelam00

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

<p>In re</p> <p>Petition of Christopher John Hughes and Ian Douglas Barker Bond, as Joint Provisional Liquidators of Kingscroft Insurance Company Ltd., et al.,</p> <p style="padding-left: 40px;">Debtors in Foreign Proceedings.</p>	<p>:</p> <p>:</p> <p>:</p> <p>:</p> <p>:</p> <p>:</p> <p>:</p> <p>:</p> <p>:</p> <p>:</p> <p>:</p>	<p>In Petition Under Section 304.</p> <p>Case Nos. 92-B-41974 (PBA) through 92-B-41977(PBA) and 92-B-44623 (PBA) Jointly Administered</p>
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PERMANENT INJUNCTION ORDER

This matter has come before the Court on Petitioners' request for a permanent injunction pursuant to Sections 304 and 105 of the Bankruptcy Code, 11 U.S.C. § 101, et seq., and an order authorizing the transfer of funds held by the debtors in this district, and any monies or assets of the debtors in the United States which may be recovered in the future, to the foreign proceedings (the "Application").

The Court has considered and reviewed the Petitions filed in these cases, the Declaration of Andrew J.O. Wilkinson, duly sworn to the 26th day of October, 1993, the Declaration of Ian Douglas Barker Bond, one of the Petitioners herein, duly sworn to the 26th day of October, 1993, the Declaration of Christopher John Hughes, one of the Petitioners herein, duly sworn to the 30th day of November, 1993, the Supplemental Declaration of Andrew J.O. Wilkinson, duly sworn to the 13th day of December, 1993, and the memoranda of law in support of the Application, and the responses filed thereto, and having held a hearing and heard arguments by counsel on the 14th day of December, 1993, and based on the foregoing the Court finds and concludes as follows:

1. Petitioners have demonstrated that Kingscroft Insurance Company Ltd., El Paso Insurance Company Ltd., Lime Street Insurance Company Ltd., Mutual Reinsurance Company Ltd. (collectively "KELM") and Walbrook Insurance Company Ltd. ("Walbrook") (collectively with KELM, "KWELM" or the "KWELM Companies") are companies subject to foreign proceedings, and that Petitioners are the foreign representatives of the debtors;

2. Petitioners have demonstrated that the requested permanent injunctive relief will not cause hardships to parties which are not outweighed by the benefits. Unless a permanent injunction order is issued, it appears to this Court that one or more persons will relinquish or dispose of property of the KWELM Companies, or will commence or continue the prosecution of actions or proceedings against the KWELM Companies or their property, or will attempt to enforce judgments or claims against the KWELM Companies or their property, thereby interfering with, and causing harm to, the Petitioners' efforts to administer the KWELM estates pursuant to the foreign proceedings, and that as a result the Petitioners will suffer irreparable injury for which they have no adequate remedy at law;

3. The relief sought by Petitioners¹ will best assure an economical and expeditious administration of the KWELM estates, consistent with:

¹ Petitioners' request for relief, and the terms of this Order, are subject to the provisions of the Orders of Conservation obtained by the New York Superintendent of Insurance in the New York Supreme Court for New York County in relation to each of the KWELM Companies (the "Orders of Conservation").

(a) the just treatment of all holders of claims against or interests in the KWELM estates;

(b) the protection of claim holders in the United States against prejudice and inconvenience in the processing of claims in the foreign proceedings;

(c) the prevention of preferential or fraudulent dispositions of the property of the KWELM estates;

(d) the distribution of proceeds of the KWELM estates substantially in accordance with the order prescribed by Title 11 of the U.S. Bankruptcy Code; and

(e) comity.

NOW, THEREFORE, IT IS ORDERED as follows:

ORDERED that the Scheme of Arrangement between each of the KWELM Companies and its creditors, as approved by the required majorities of creditors of those companies on November 17, 1993, and sanctioned by an order of the High Court of Justice in London, England made on December 8, 1993, and by an order of the Supreme Court of Bermuda made on December 8, 1993 (the "Scheme of Arrangement"), shall be given full force and effect and shall be binding on and enforceable against all Scheme Creditors in the United States (as defined in the Scheme of Arrangement); and it is further

ORDERED that all persons (except as provided in the Orders of Conservation) are hereby permanently enjoined and restrained from:

(1) relinquishing or disposing of any property of any of the KWELM Companies, or the proceeds of such property, to third parties;

(2) commencing or continuing any action or other legal proceeding (including, without limitation, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against any or all of the KWELM Companies or any of their property, except as provided in the Scheme of Arrangement (a true and correct copy of which is attached to this Order and shall be served herewith, except with respect to service by publication, in which instance a copy shall be made available by the Petitioners or their counsel upon request);

(3) enforcing any judicial, quasi-judicial, administrative or regulatory judgment, assessment or order or arbitration award, and commencing or continuing any act or any action or other legal proceeding (including, without limitation, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) to create, perfect or enforce any lien, set-off or other claim against any or all of the KWELM Companies or any of their property, except as expressly permitted in the Scheme of Arrangement; and it is further

ORDERED that nothing in this Order shall in any respect prevent the continuance or commencement of proceedings against or involving London Market insurers or any insurance company defendant other than one of the KWELM Companies; and it is further *Insert Letter A*

ORDERED that all persons are hereby permanently enjoined and restrained from commencing or continuing any action or other legal proceeding (including, without

RIDER A

ORDERED that, this permanent injunction is issued with the following condition:

In the event that a Scheme Creditor resolves a claim against solvent Co-Insurers of a Scheme Company (in circumstances such that the stay on Proceedings against the Scheme Company in relation to that claim ceases to apply in accordance with Clause 2.2.2(a) or (b) of the Scheme), and the Scheme Company concerned decides to relitigate or force relitigation of the claim with the Scheme Creditor (rather than agree to the Scheme Claim on the basis of the resolution against the solvent Co-Insurers), then: should the Scheme Creditor prevail against the Scheme Company concerned, that Scheme Company will pay, in cash, 100% of all reasonable fees and costs incurred by the Scheme Creditor in connection with the relitigation. In the event of a dispute over the reasonableness of such fees and costs, this Court retains jurisdiction to decide this issue; and it is further

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limitation, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against the Joint Provisional Liquidators of the KWELM Companies, the KWELM Companies, the members of the Creditors Liaison Committee (as defined in the Explanatory Statement prepared in connection with the Scheme of Arrangement), or any of their respective officers, directors, agents, employees, representatives, financial advisors or attorneys (the "KWELM Parties"), or any of them, with respect to any claim or cause of action, in law or in equity, arising out of or relating to any action taken or omitted to be taken as of the effective date of the Scheme of Arrangement by any of the KWELM Parties in connection with these Section 304 cases or in preparing, disseminating, applying for or implementing the Scheme of Arrangement or this Order; and it is further

ORDERED that, except as otherwise provided below, all persons are hereby permanently enjoined and restrained from commencing or continuing any action or other legal proceeding (including, without limitation, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against the Scheme Administrators, the KWELM Companies, the members of the Creditors Committee (as defined in the Scheme of Arrangement), or any of their respective officers, directors, agents, employees, representatives, financial advisors or attorneys (the "Scheme Parties"), or any of them, with respect to any claim or cause of action, in law or in equity, which may arise out of the construction or interpretation of the Scheme of Arrangement or out of any action taken or omitted to be taken by any of

the Scheme Parties in connection with the administration of the Scheme of Arrangement;
and it is further

ORDERED that the High Court of Justice in England shall have exclusive jurisdiction to hear and determine any claim or cause of action, in law or in equity, which may arise out of the construction or interpretation of the Scheme of Arrangement or out of any action taken or omitted to be taken by any of the Scheme Parties in connection with the administration of the Scheme of Arrangement; provided, however, that nothing in this Order shall affect the validity of provisions determining governing law and jurisdiction, whether contained in any contract between any of the KWELM Companies and any of their Scheme Creditors or otherwise; and it is further

ORDERED that Petitioners are hereby authorized to transfer to the foreign proceedings for distribution pursuant to the Scheme the funds held by the KWELM Companies in bank accounts in this district pursuant to previous orders of this Court, and any additional monies or assets of the KWELM Companies located in the United States which the Petitioners (or the Scheme Administrators) may hereafter recover; and it is further

ORDERED that this Court shall retain jurisdiction with respect to the enforcement, amendment or modification of this Order or requests for any additional relief in these Section 304 cases; and it is further

ORDERED that no action taken by the Petitioners or the Scheme Administrators, their successors, agents or representatives, or any of them, or their counsel, in preparing, disseminating, applying for, implementing or

otherwise acting in furtherance of the Scheme of Arrangement, this Order, or such further order for additional relief in these Section 304 cases as this Court may make, shall be deemed to have waived the immunity afforded to the Petitioners or the Scheme Administrators, their successors, agents or representatives pursuant to Section 306 of the Bankruptcy Code; and it is further

ORDERED that this Order shall be served: (A) by U.S. mail, first class postage prepaid, along with a copy of the Scheme of Arrangement, on or before December 23, 1993, upon the parties in interest appearing in these cases at the time of each service; and (B) by publication in Business Insurance Magazine on or before January 10, 1994, and in the national edition of The Wall Street Journal on or before December 23, 1993, and that parties wishing to obtain a copy of the Scheme of Arrangement may request a copy in writing from the following:

Coopers & Lybrand
St. Andrew's House
20 St. Andrew Street
London EC4A 3AY
England
Attention: Christopher John Hughes
Ian Douglas Barker Bond

-or-

Shearman & Sterling
599 Lexington Avenue
New York, NY 10022
Attention: Jonathan L. Greenblatt

and it is further

ORDERED that service pursuant to the foregoing paragraph shall be good
and sufficient service and adequate notice for all purposes.

Dated: New York, New York
December 24, 1993

4:22 pm.

|s| PRUDENCE BEATTY ABRAM

U.S.B.J.

6596/C-1

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:

Petition of Christopher John Hughes and
Ian Douglas Barker Bond, as Joint Provisional
Liquidators of Kingscroft Insurance Company Ltd., *et al.*,

Debtors in Foreign Proceedings.

An Ancillary Case under
Section 304 of the
Bankruptcy Code

Case Nos. 92-B-41974 (PCB)
through 92-B-41977 (PCB) and
92-B-44623 (PCB)
Jointly Administered

ORDER AMENDING PERMANENT INJUNCTION ORDER

This matter having come before this Court on the motion (the "Motion"), dated February 3, 2004, made on behalf of Christopher John Hughes and Ian Douglas Barker Bond, as the scheme administrators (the "Scheme Administrators") of Kingscroft Insurance Company Limited, Walbrook Insurance Company Limited, El Paso Insurance Company Limited, Lime Street Insurance Company Limited and Mutual Reinsurance Company Limited (collectively, the "Scheme Companies"), seeking the entry of an order pursuant to sections 105 and 304 of title 11 of the United States Code (the "Bankruptcy Code") amending a certain permanent injunction order previously entered by this Court on December 14, 1993 (the "Original Section 304 Order"), a copy of which is annexed hereto as Exhibit A; and the Court having reviewed and considered the Motion and the Declaration of Ian Douglas Barker Bond, dated February 3, 2004 and submitted in support of the Motion; and the Court having entered an Order, dated February 11, 2004 (the "Service Order") (i) scheduling a hearing in respect of the Motion on March 19, 2004 (the "Hearing"), and (ii) authorizing the Scheme Administrators to publish notice of the relief sought in the Motion as provided in the Service Order; and the Court having

concluded that the manner in which the Scheme Administrators have provided notice of the relief sought in the Motion and the Hearing was sufficient and adequate and that no other or further notice need be provided; and upon the record at the Hearing; and upon all of the pleadings previously filed in this ancillary proceeding; and the Court having determined that the relief sought in the Motion is appropriate under the circumstances; and after due deliberation and sufficient cause appearing therefore, the Court finds and concludes as follows:

1. The Scheme Companies are the subject of foreign proceedings within the meaning of sections 101(23) and 304 of the Bankruptcy Code, and the Scheme Administrators are the foreign representatives of the Scheme Companies within the meaning of sections 101(23) and 304 of the Bankruptcy Code.

2. The Scheme Companies are subject to a Scheme of Arrangement (the "Original Scheme") between the Scheme Companies and their creditors, as approved on November 17, 1993 by the requisite number of creditors and as sanctioned by orders of both the High Court of Justice of England and Wales (the "High Court") and the Supreme Court of Bermuda (the "Bermuda Court"), on December 15, 1993. The Original Scheme has been enforced in the United States by the Original Section 304 Order.

3. A further Scheme of Arrangement (the "Amending Scheme") between each of the Scheme Companies and their respective creditors (the "Scheme Creditors"), approved by the requisite number of Scheme Creditors on January 29, 2004 and sanctioned by an order of the High Court dated February 24, 2004, and by order of the Bermuda Court dated February 27, 2004 with respect to only Mutual Reinsurance Company Limited, has amended certain provisions of the Original Scheme (as amended and restated, the "Restated Scheme"). A copy of the Restated Scheme (without appendices) is annexed hereto as Exhibit B.

4. The Scheme Administrators have demonstrated that pursuant to section 304 of the Bankruptcy Code the relief sought in the Motion will best assure an economical and expeditious administration of the Scheme Companies' estates, consistent with:

(i) the just treatment of all holders of claims against or interests in the Scheme Companies' estates;

(ii) the protection of claim holders in the United States against prejudice and inconvenience in the processing of claims in the foreign proceedings;

(iii) the prevention of preferential or fraudulent dispositions of the property of the Scheme Companies' estates;

(iv) the distribution of proceeds of the Scheme Companies' estates substantially in accordance with the order prescribed by the Bankruptcy Code; and

(v) comity.

5. Further, the Scheme Administrators have demonstrated that the requested amendments to the Original Section 304 Order will not cause hardships to parties affected by the Original Section 304 Order that are not outweighed by the benefits of amending the Original Section 304 Order to incorporate the Restated Scheme.

6. Further, this Court finds that unless the amendments to the Original Section 304 Order are approved, one or more persons or entities may transfer, relinquish or dispose of property of one or more of the Scheme Companies, or proceeds thereof, or commence or continue the prosecution of judicial actions, arbitration proceedings, administrative or regulatory actions or proceedings against one or more of the Scheme Companies, their property or the proceeds thereof, thereby interfering with, and causing harm to, the Scheme Administrators' efforts to administer the Scheme Companies' estates pursuant to the foreign proceedings pending in the United Kingdom and Bermuda, and that as a result, the Scheme

Administrators and the Scheme Companies will suffer irreparable injury for which they have no adequate remedy at law.

7. The interest of the public will be served by this Court granting the relief requested in the Motion.

NOW THEREFORE, IT IS ORDERED AS FOLLOWS:

ORDERED, that all references contained in the Original Section 304 Order to the Scheme of Arrangement shall be deemed to refer to the Restated Scheme from and after the date hereof; provided however, that nothing herein shall alter, impair or limit the protections, privileges and immunities afforded to each of the following parties with respect to any act, omission or conduct, as provided by or permitted in any of the Original Section 304 Order, the Original Scheme or the Restated Scheme: the Scheme Companies, the Scheme Administrators, the Provisional Liquidators, the Scheme Adjudicator, the Scheme Actuary, the members of the committee of creditors established pursuant to the Original Scheme and the Restated Scheme or any of their respective officers, directors, agents, employees, representatives, financial advisors or attorneys, and any other party identified in clause 10.3 of the Restated Scheme, all of which shall be included in the term "Scheme Parties" as used in the Original Section 304 Order; and it is further

ORDERED, that except as modified herein, the Original Section 304 Order is hereby ratified, approved and re-affirmed in all respects; and it is further

ORDERED, that this Court shall retain jurisdiction with respect to the enforcement, amendment or modification of this Order or requests for any additional relief in this ancillary proceeding filed under section 304 of the Bankruptcy Code and all adversary proceedings in connection therewith, which are properly commenced and within the jurisdiction of this Court; and it is further

ORDERED, that the Restated Scheme shall be given full force and effect and shall be binding on and enforceable against all Scheme Creditors in the United States that have claims against the Scheme Companies, which claims are covered by, or afforded treatment under, the Restated Scheme; and it is further

ORDERED, that notice of this Order shall be served as follows:

(A) By serving a copy of this Order, without exhibits, by United States mail, first class, postage prepaid upon the parties in interest appearing in these cases at the time of such service;

(B) By publication of notice of entry of this Order on or before April 15, 2004, in each of the following publications: the *New York Times*, *Financial Times* (all Editions), *Insurance Day* (London), *Lloyd's List* (London), *Post Magazine* (London), *Wall Street Journal* (the USA Eastern and International Editions), *Business Insurance*, the *Royal Gazette* (Bermuda) and the *Bermuda Sun*; and

(C) By posting a copy of the Order, with exhibits, on the website maintained by the Scheme Companies at www.kwelm.com; and it is further

ORDERED, that service pursuant to the foregoing paragraph shall be good and sufficient service and adequate notice of entry of this Order for all purposes.

Dated: New York, New York
March 31, 2004

/s/ Prudence Carter Beatty
United States Bankruptcy Judge



ace european group

27 April 2005

ACE INA Services U.K.
Limited

01622 403000 tel
01622 403045 fax

Run-Off Services
Kent House
Romney Place
Maidstone
Kent ME15 6LT
United Kingdom

www.aceeurope.com

Kwelm Management Services Limited,
John Stow House,
18 Bevis Marks,
London EC3A 7JB.

FOR THE ATTENTION OF: MARK LANGRIDGE

Dear Mark,

HOME INSURANCE COMPANY - 26519

NOTICE OF OBJECTION

We refer to your letter of 31 March (the "31 March letter") and the Statements of Determination attached to that letter (the "Statements"). We also refer to our letters of today's date registering our Objection to the Statements of Determination issued by you on behalf of:

Kingscroft Insurance Company Limited
Walbrook Insurance Company Limited
El Paso Insurance Company Limited
Lime Street Insurance Company Limited
Mutual Reinsurance Company Limited

Those formal letters contained our Notices of Objection pursuant to clauses 9.4.19 and 9.4.20 of the Scheme. Disputed Matters should be submitted to the Scheme Adjudicator in accordance with clause 9.5 of the Scheme if they cannot be agreed between us.

The purpose of this letter is to state the basis of our objection to the Statements of Determination. As claims submitted have in the past been considered and discussed with you on a pool basis and not on an individual pool company basis, we here deal with these issues on a pool basis. We recognise that the final Determination will be on a pool company by pool company basis. We attach a schedule marked "Disputed Claims" which is our first draft schedule of claims submitted by you on a company by company basis.

As you are aware we have in meetings, letter, faxes and emails repeatedly advised you that we cannot or do not agree the Unsettled Pald balances claimed. For ease of reference we attach a summary schedule marked "Schedule of Exchanges with KMS/EY re Unsettled Palds" showing the exchanges and copies of certain of our communications or those emanating from Ernst & Young (submitted on behalf of the Home Liquidator).

We have requested further detailed information and clarification on certain claims. Others have been rejected.

Specifically we cannot agree the Unsettled Palds. In summary, the reasons we have given you for this are:

- (a) Our records show certain of the claims you submit as having already been settled to your broker.

- (b) We have rejected various of these claims and have raised queries or requested further information on others. Requests for information and queries remain outstanding.
- (c) We have received no information or claims presentation in respect of various of the claims.

Concerning the Estimated Outwards Reserves, our concern can be divided into two parts.

- (a) Those claims in respect of which we have received notification but in respect of which we have requested further information to assess either coverage or quantum or both. This may also apply to Estimated Outwards Reserves relating to claims included in b) and c) above.
- (b) Those claims in respect of which we have received no information.

Until the Unsettled Palds and the Estimated Outwards Reserves are established we cannot address the issue of Estimates for IBNRs.

We note that there may be a possibility to agree amendments to the Statements with you prior to a submission to the Scheme Adjudicator. Your 31 March letter refers. We would welcome taking all these matters forward with you.

In that context, if Unsettled Palds have been established by or by reference to a commutation, please provide us with copies of each commutation agreement together with supporting documentation showing exactly what claims were commuted.

Also, in support of your figure for the Estimated Undiscounted Outwards Reserves please provide a schedule of the underlying claims reserve on a claim-by-claim basis indicating the assureds your contract number and the date of presentation of the relevant claim information to KWELM companies.

We look forward to working with you to resolve these issues.

Yours faithfully,



M E Durkin
Vice President



ace european group

ACE INA Services U.K. Limited 020 7173 2800 tel
020 7173 2801 fax
Run-Off Services
The London Underwriting Centre www.aceeurope.com
3 Minster Court
Mincing Lane
London EC3R 7DD
United Kingdom

Exhibit G

30 September 2005

Mr Ivor Kiverstein
KWELM Scheme Adjudicator
c/o KWELM Management Services Limited
John Stow Hosue,
18 Bevis Marks,
LONDON EC3A 7JB

Dear Mr Kiverstein

Re: Adjudication of KWELM Outwards claim with Home Insurance Company

We write with reference to your email dated 30 August 2005 and your request for information to be supplied by Home Insurance Company (with particular reference to the Notice of Objection dated 27 April 2005).

We have divided our response to you into three sections:

1. Unsettled Pairs (your 30 August email points 1 and 2)
2. Outstanding Loss Reserves (your 30 August email point 3)
3. IBNR.

We have enclosed various attachments and appendices to each section, as we feel appropriate, to provide you with the relevant supporting information.

We hope that this provides you with the information you need but please do not hesitate to contact us if you require anything further.

Yours sincerely,

Mark Whitlock
ACE INA Services U.K. Limited

Response to I. Kiverstein letter dated 30 September 2005

Section 1 – Unsettled Pairs

As set out in our email to you dated 16 September 2005 (attached) we submitted our Notice of Objection relating to KWELM unsettled pairs on 27 April 2005. The figures that were used in the Notice were based on the Schedule 4 information to the Scheme of Arrangement as this was the only information available to us which was broken down on a stamp company basis.

We requested details of the claims included in the KWELM Statement of Determination but this was not made available to us (despite several requests) until 22 September.

We have prepared our responses to your requests for information based on our Notice of Objection and updated this to include amended information to reconcile with the KWELM Statement of Determination.

We felt it appropriate to provide you with this information and the schedules included in the accompanying lever arch file so that you can identify where we have obtained the detail to respond to your enquiries.

We have referred to the tab reference number in the lever arch file to provide you with a source reference to each schedule.

Tab 1 contains a summary showing the Home Notice of Objection figures (claim figures are shown as negatives). Amendments to these are shown (either additions or subtractions) to show the Statement of Objection figures used by KWELM which total \$2,532,555).

Tab 2 contains a copy of the original Home Notice of Objection schedule.

Tab 3 contains a summary which splits the Statement of Objection (US dollars only) between those claims that are agreed \$1,739,323 and those that are disputed \$765,676.

Tab 4 contains claim by claim breakdowns for each of the disputed sections which we will refer to in more detail when responding to your enquiries.

Tab 5 contains schedules of claims added to and subtracted from the Schedule 4 information to produce KWELM's Statement of determination.

Table 6 shows information relating to claims which we have disputed which KWELM have now withdrawn.

Tab 7 shows information relating to £ sterling claims (converted to US\$) added by KWELM to Schedule 4.

Having set out the above information we can now deal with your specific enquiries.

Your question 1 relates to payments which we have made to KWELM's broker. A summary of these are set in 4C. We have included copies of documents supporting the payments we have made in a batch labelled Appendix 4C. On reviewing these

you will note that we have not been able to supply copies of information relating directly to our all the payment transaction. For the missing ones we have enclosed copies of brokers' statements showing the debit entry and copies of later brokers' statements showing that the debit has been removed. We maintain the broker would not have removed the debit from their statement if payment had not been made. We have frequently asked KWELM to make enquiries of their broker but they have declined to do so.

Your question 2 requests specific reasons why other payments have been denied.

Section 4A relates to items that we have queried where we have not received satisfactory responses to our enquiries. Appendix 4A shows a copy of each query raised in number order to the relevant schedule. Appendix 4A/supplement shows additional queries raised again using the relevant numbering sequence.

Section 4B relates to E W Payne Pool transactions. At the back of the wallet containing the relevant schedule we have included a note written by our claims adjuster who handles this account. In summary we have processed and settled all accounts up to the end of the first quarter 1998. The transactions thereafter will be settled when the relevant accounts are reviewed. To these should be added the £ sterling claims in section 7 which would have been settled to the broker handling the pool transactions.

Section 4D shows a list of claims for which we have not received any of the required documentation to support the claim and we are therefore unable to determine whether or not the claim should be accepted. We have repeatedly asked for documentation from KWELM for these.

Section 4E shows a list of the claims which we have submitted documentation showing the reasons why we have rejected them. See Appendix 4E for copies of the documentation. To these should be added the £ sterling claims included in section 7 which we have rejected because they are time barred.

Whitlock, Mark MMQE

From: Whitlock, Mark MMQE
Sent: 16 September 2005 12:04
To: 'Scheme.Adjudicator@kwelm.com'
Cc: 'jonathan.rosen@homeinsco.com'; 'mark.langridge@kmsl.co.uk'
Subject: Adjudication of KWELM Outwards claim with Home Insurance Company

Dear Mr Kiverstein

We refer to your email correspondence dated 30th August 2005 to Mr. Jonathan Rosen (Home Insurance Company) and Mark Langridge (KWELM Management Services Limited)

In the email you state that you have reviewed correspondence from Home Insurance Company and ACE European Group as it relates to the Statement of Determination of Outwards paid losses, reserves and IBNR issued by the KWELM Scheme Administrators on 31st March 2005.

You have requested further information to be supplied by Home with particular reference to its Notice of Objection dated 27th April 2005.

We are working to provide a response to your request but we seek your guidance in relation to the Outwards paid losses element.

We have been working with KWELM, to reconcile the unsettled paid [on a block basis] as at 30th June 2002, since July 2002. After September 2004 we transmuted this exercise to incorporate the information provided in Schedule 4 (Outward Unpaid Losses) of the KWELM Scheme of Arrangement by breaking down block amounts over the relevant individual companies.

This produced a breakdown of unsettled paid over the relevant companies as follows:

Kingscroft		131,215
Walbrook		1,172,009
El Paso		8,391
Mutual Re		779,299
Total	\$	2,090,914

These are the figures that have been used as the basis for the information supplied in the Notice of Objection supplied by Home.

KWELM's Statement of Determination for reasons that have not been made known to us shows a breakdown over the relevant companies as follows:

Kingscroft		136,398
Walbrook		1,442,709
El Paso		9,353
Mutual Re		944,094
Total	\$	\$2,532,554

We have asked KWELM for an analysis of the information included in their Statement of Determination but they have not responded to our request to clarify this change in basis so we are unable to match the two sets of figures.

Under the circumstances, we seek your guidance and assurance that the response to be supplied to satisfy your request for further information as it relates to the Notice of Objection is acceptable using the first basis described above.

Yours Sincerely

Mark Whitlock
ACE European Group
(Tel. +44 (0) 20 7173 2810

Response to I. Kiverstein letter dated 30 September 2005

Section 2 – Outstanding Loss Reserves

We refer to KWELM's letter dated 7 June 2005 (attached) and in particular paragraphs labelled e) and f).

Specific losses have been mentioned in conjunction with the suggestion that these are "Market Losses" and have been agreed before. The implication from KWELM being that there should be no objection to further payments on these losses.

This is an over simplistic interpretation and is refuted.

Whilst it is true we have made partial settlements on the named losses we have also made denials to partial or component elements of the KWELM presentation (e.g. – GAF non named, 3M accelerated payments etc) Furthermore as these are aggregate presentations each individual aggregate is capable of having unique exposures, which could be subject to legitimate dispute within the aggregation. They would also include London representation costs which are disputed.

Comments re Asbestos reserves

Aggregate products asbestos claims advices or settlements are normally accompanied with an Asbestos Related Claim Form (ARCF) which provide a breakdown of the underlying exposure, payments and very basic terms. They are invariably not sufficient on their own to determine coverage issues or settlement on their own as settlement criteria have developed since their introduction.. In some instances our files reveal this limited information others do not. The documents provided by KWELM are generally just their covering letters which give even less insight.

Comments re Pollution reserves

In order to determine coverage on these losses we require specific and detailed information (refer pollution appendix). There is not one instance where we have received remotely sufficient information to enable loss or liability. When notification of a Pollution loss is received we acknowledge the advice under a full reservation of rights. At the time of advice it is generally not clear, even to the original insurer how, or if coverage (whether direct or reinsurance) will actually exist.

We have attached a copy of a summary provided by KWELM showing losses over US\$10,000 and we provide a loss specific commentary relating to each one.