

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 REPLY TO CIC'S OPPOSITION TO REPORT AND
RECOMMENDATION ON KWELM COMPANIES' PROOFS OF CLAIM**

The Liquidator of Home hereby replies to the Century Indemnity Company's opposition ("CIC Opp.") to the Liquidator's report and recommendations on the claims of the KWELM Companies.¹ The Liquidator has recommended that the KWELM Companies' proofs of claim be allowed in the amounts determined by the KWELM Scheme Adjudicator on February 7, 2006, less the amounts previously allowed in the Home liquidation (the "KWELM Claims"). CIC's opposition is an attempt to obtain a windfall to the detriment of Home's policyholders and other creditors. It is undisputed that KWELM was a net debtor to Home. Consequently, when the Scheme Adjudicator determined Home's liabilities to KWELM, which were then setoff against KWELM's obligations to Home, all Home-KWELM obligations to one another were finally determined. If Home's liabilities to KWELM, as so determined by the Scheme Adjudicator, are not allowed, the Liquidator will never be able to collect reinsurance for the KWELM Claims from CIC under the Insurance and Reinsurance Assumption Agreement ("Assumption Agreement"). This is because the KWELM Scheme Administrators will not once again prosecute the KWELM Claims in the New Hampshire proceeding since they have already been determined by the Scheme Adjudicator and KWELM has received the full economic benefit by setoff of that determined Home liability amount from the amount otherwise owed to

¹ This reply uses the terms defined in the Liquidator's March 15, 2006 Report and Recommendation on KWELM Companies' Proofs of Claim (the "Report").

Home by KWELM. CIC's suggestion that the Liquidator should wait for KWELM to prove its claims over the next several years ignores the reality that there will be no such claims to determine. Now that Home's and KWELM's claims have been determined in the Scheme, setoff taken, and payment to the Liquidator made based on KWELM's net liability, the KWELM Scheme Administrators have no reason to again pursue the KWELM Claims in the Home liquidation.

A. The Liquidator Is Authorized Under New Hampshire Law To Recommend That The Court Accord Comity To The Determination Of Home's Liabilities For The KWELM Claims Through The Scheme.

1. The Liquidator is authorized to make this recommendation under RSA 402-C:45, which provides that the Liquidator "shall review all claims duly filed in the liquidation and shall make such further investigation as he deems necessary. He may compound, compromise or in any other manner negotiate the amount for which claims will be recommended to the court." RSA 402-C:45, I (emphasis added). In the highly unusual situation presented here (insolvent insurers, with claims against each other, subject to proceedings pending in their respective countries), the Liquidator reasonably chose (and as discussed below was required) to resolve the amount of the KWELM Claims against Home through the claim adjudication process provided by the KWELM Scheme.

2. Resolution of the KWELM Claims under the Scheme is appropriate because the New Hampshire Act expressly authorizes both the marshaling of assets through proceedings in other jurisdictions and the application of setoffs to mutual claims between Home and other persons in such proceedings. The Act provides that the Liquidator is to collect debts and prosecute "any suits and other legal proceedings, in this state or elsewhere." RSA 402-C:25, VI, XII. To marshal assets (collect the net balance due Home by KWELM), the Liquidator had no choice but to prosecute Home's claims against KWELM under the KWELM Scheme. (Even

CIC concedes that the U.S. Bankruptcy Court's Amended § 304 Order so required. CIC Opp. ¶ 4.) The Act further provides for setoff of mutual debts and credits between the insolvent insurer and another person. RSA 402-C:34, I. The Order of Liquidation entered June 13, 2003, expressly provided for setoff between mutual reinsurers. See Order of Liquidation ¶ (n)(7). Such a setoff took place here as part of the Liquidator's pursuit of claims against KWELM under the Scheme.

3. The setoff is specified in the net statements for the KWELM Company issued by the Scheme Administrators after the Scheme Adjudicator's decision. The net statements and the cover letter from the Scheme Administrator dated February 20, 2006 are attached as Exhibit 1. Each net statement shows Home's agreed claims against the KWELM Company, the KWELM Company's claims against Home determined by the Scheme Adjudicator, and KWELM's resulting net liability after setoff. The cover letter shows the advance dividend totaling \$7,085,821 paid to the Liquidator on January 3, 2006, and the remaining dividend of \$6,969,220 due to Home under the Scheme based on the Established Scheme Liabilities (KWELM's net liability to Home). As shown on the March 2, 2006 remittance advice attached as Exhibit 2, KWELM deducted the Scheme Adjudicator's costs and paid Home the remaining \$6,954,138 on that date.

4. Contrary to CIC's assertions, application of setoff by a debtor in a collection proceeding by the Liquidator does not "circumvent" the Act or conflict with the "exclusive" jurisdiction of the New Hampshire Court. As other courts have recognized, insurer insolvency setoff provisions like RSA 402-C:34 permit the determination of setoffs in proceedings brought by a liquidator outside the liquidation court. See O'Connor v. Insurance Co. of N. Am., 622 F. Supp. 611, 615-18 (N.D. Ill. 1985) (Ill. Rev. Stat. ch. 73, § 818, authorizes assertion of setoff in

action brought by liquidator); Superintendent v. Int'l Equip. Leasing, Inc., 588 A.2d 883, 887 (N.J. Super. 1991) (“The sole exception to the requirement that the liquidating court maintain exclusive jurisdiction involves mutual debts between the insurer and claimant. N.J.S.A. 17:30C-27; N.Y. Ins. Law § 7427.”); Schenck v. Coordinated Coverage Corp., 376 N.Y.S.2d 131, 135 (App. Div. 1975) (“the Legislature has specifically provided that only a setoff may be asserted as against a liquidator of an insolvent insurance company,” citing former N.Y. Ins. Law § 538 (now § 7427)).² Consistent with the Order of Liquidation, the Act thus provides an alternative method of determining claims in this exceptional situation.

5. Where the net-debtor KWELM’s claims against Home have been determined by the Scheme Adjudicator and KWELM has been paid the entire amount of those claims though setoff, the Liquidator properly may recommend that the Court allow the KWELM Claim under RSA 402-C:45 as a matter of comity. The Claims Procedures Order and the Claims Protocol do not undermine the Liquidator’s recommendation since the usual procedures for claims under the Act have no bearing on the determination of debtor setoffs against claims by the Liquidator in collection proceedings elsewhere. The Claims Procedures Order and Claims Protocol were intended to address the determination of claims in the Home liquidation proceeding, not to preclude the Liquidator from collecting assets by necessarily participating in other proceedings.

6. CIC’s position that further claim determination proceedings in the Home liquidation are required ignores the fact that all the economically meaningful events between Home and KWELM have already occurred under the Scheme. Home’s liabilities to KWELM have been determined by the Scheme Adjudicator after thorough consideration of the issues

² Any claim for monies due from Home that exceeds the amount sought by the Liquidator has to be determined in the Home liquidation proceeding. This is exactly the position under the KWELM Scheme, which only permits determination of KWELM’s claims against a creditor up to the amount of the creditor’s claim and requires the Scheme Administrators to recover the “remaining net debt” above that amount elsewhere. Report Ex. B at 2 (Scheme Administrators’ letter of April 14, 2005).

raised by AISUK and the Liquidator. See Report Ex. A at 1-3 (Scheme Adjudicator's decision) and e.g., Ex. F , G (two AISUK submissions). The resulting \$3,910,842 amount was \$8 million lower than the Scheme Administrators' initial determination. (The March 31, 2005 initial determination is attached as Exhibit 3.) Home has paid the \$3,910,842 in full through KWELM's setoff of that amount from what it otherwise owed Home as set forth in the February 20, 2006 net statements. See Exhibit 1. Further proceedings to redetermine the KWELM Claims in the Home liquidation proceeding would be futile as the KWELM Scheme Administrators will not once again prosecute those claims as they have already been both fully resolved by the Scheme Adjudicator and satisfied. The efficiencies and consistency of treatment that are the goals of centralizing proceedings in a single liquidation court will not be realized where two insolvencies are involved unless one proceeding takes the lead as to a particular claim. In these circumstances, it makes sense – and is entirely consistent with New Hampshire law – for the net debtor proceeding to determine such a claim so that distributions can be made without disputes over the propriety of the determination of the creditor estate's lesser offsetting claims. Indeed, the KWELM Scheme Adjudicator noted that under the Scheme “[c]learly what was intended was that a consistent approach be used in valuing inwards and outwards claims.” Report Ex. A at 3.

7. In these circumstances, the determination proceedings proposed by CIC for the KWELM Claims are merely theoretical. The Scheme Administrators have no reason to participate in such proceedings now that KWELM has determined the inwards and outwards claims and made distributions to Home based on KWELM's net liability. Given this reality, CIC's proposal is just a means of avoiding having Home recognize the liability determined by the Scheme Adjudicator so that Home will not have a clear basis to pursue recovery under the Assumption Agreement. CIC is not seeking to defend a claim against Home (which has already

been paid through setoff) but to better position itself as Home's reinsurer/indemnitor against a claim by Home under the Assumption Agreement. Home's liability for the KWELM Claims should be reflected as an allowed amount so that Home may seek reinsurance recovery. Without such an allowance, CIC will receive a windfall as it will escape its obligation to pay for amounts that Home has already paid in full through setoff.

8. CIC contends that the Scheme Adjudicator's decision is not a determination of Home's "liability" but only an "assessment of balances for setoff purposes." CIC Opp. ¶¶ 19-20. However, as between Home and KWELM, the only economically meaningful event is the Scheme Administrators' setoff of the Scheme Adjudicator's determination of Home's liability against the amounts KWELM owed Home. The Scheme Adjudicator's certification of "the amount due by Home to the KWELM Companies to be US\$3,910,842" (Report Ex A at 2), made after careful consideration of the parties' positions, has been used to offset Home's agreed claims against KWELM of \$19.7 million. See Exhibit 1. In other words, Home in effect has paid the determined amount to KWELM by dollar for dollar reduction in Home's claims against KWELM. Such setoff is not somehow different from liability; it is the application of two offsetting liabilities. Indeed, CIC itself concedes that the Scheme Administrators have "made payments under the Scheme based on the KWELM companies' net liability to Home." CIC Opp. ¶ 10 (emphasis added).

9. CIC's attempt to construe the setoff as involving something other than liability also founders on the language of the Scheme itself. Pursuant to § 9.5.5 of the Scheme, the Scheme Adjudicator is charged with determining Outwards Unpaid Losses and Outwards Reserves and IBNR for the purpose of calculating the Scheme Creditor's overall Established Scheme Liability (i.e., KWELM's net liability to the Scheme Creditor). The Scheme definitions

of each of the terms referring to the KWELM claims that are to be used as setoffs (Outwards Unpaid Losses and Outwards Reserves and IBNR) begin “any liability of a Scheme Creditor (as a reinsurer or retrocessionaire) to a Scheme Company under a contract of reinsurance or retrocession” Scheme § 1.1.1 (emphasis added). The term “liability” is not confined to the debtor liability of the Scheme Companies but is defined as “any liability of a person, whether it is present, future, prospective or contingent, whether or not its amount is fixed or liquidated” Id.³ While CIC asserts that the Scheme Administrators acknowledged by letter that they must pursue “debtor balances” outside of the Scheme, CIC Opp. ¶ 22, CIC mischaracterizes the letter, which – like the AISUK letter which it quotes – refers only to the balance in excess of the creditor’s claims against KWELM:

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 by arbitration under the relevant contracts of reinsurance.

Report Ex. B at 2 (Scheme Administrator’s letter of April 14, 2005) (emphasis added). See Scheme § 1.1.1 (definition of Offset Scheme Creditor), § 9.4.37. Here, there are no such “debtor balances” to recover “outside the Scheme” because KWELM was a net debtor of Home, and therefore in a position to fully “collect” Home’s obligation to it by setoff.

10. Contrary to CIC’s assertion that there are “no foreign claim adjudications to which to grant comity” (CIC Opp. ¶ 3), the Scheme Adjudicator here made a considered determination eminently warranting comity. For purposes of comity, there is no requirement that

³ Under the Scheme, the Scheme Administrators are to seek agreement with Scheme Creditors over the claims against KWELM by the creditor (the Notified Scheme Claims) and the claims of KWELM against the creditor (the Outwards Unpaid Losses and the Outwards Reserves and IBNR). Scheme §§ 9.4.10, 9.4.13, 9.4.17. Disputes over these matters are referred to the Scheme Adjudicator. Scheme §§ 9.4.18, 9.5. The amounts are then to be setoff in determining KWELM’s Established Scheme Liabilities. Scheme §§ 2.5.3, 9.4.37, 9.5.5.

foreign insolvency proceedings be identical to the New Hampshire proceedings. See, e.g., Allstate Life Ins. Co v. Linter Group, Ltd., 994 F.2d 996, 999 (2d Cir. 1993) (Australian liquidation need not “be identical to United States bankruptcy proceedings”). The Scheme Adjudicator has issued a decision that determines “the amount due by Home to the KWELM Companies” (Report Ex. A at 2) in accordance with the procedures provided by the Scheme approved by creditors and sanctioned by the English and Bermudian Courts. The English court has exclusive jurisdiction to hear and determine any proceeding that may arise “out of any action taken or omitted to be taken under the Scheme or in connection with the administration of the Scheme.” Scheme § 11.5. The Court should accord comity to the determination of Home’s liabilities to KWELM under the Scheme.

B. The Liquidator Is Required To Respect The Determination of Home’s Liabilities Under The Scheme Enforced By The U.S. Bankruptcy Court’s Amended § 304 Order.

11. The Liquidator’s recommendation here is not only authorized by New Hampshire law but also required under the KWELM Scheme as enforced by the U.S. Bankruptcy Court’s Amended § 304 Order. The Scheme is binding on Home in the United States under the injunctions in the Amended § 304 Order. Contrary to CIC’s assertions (CIC Opp. ¶ 4), that order did not just ratify the Original § 304 Order and channel claims to the Scheme. It specifically:

ORDERED, that the Restated [i.e., cutoff] 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.

Amended § 304 Order (Report Ex. E at 5).

12. It would violate the Scheme enforced by the Amended § 304 Order for the Liquidator to do as CIC suggests and seek to allow the KWELM Claims in an amount less than the amount determined by the Scheme Adjudicator. This would imply that KWELM must pay

Home an amount greater than that determined under the Scheme. Such an allowance would conflict with the Scheme as enforced by the Amended § 304 Order.⁴ The doctrine of comity is recognized under New Hampshire law to afford a means of avoiding such conflicts between courts. By focusing solely on the “exclusive” jurisdiction of this Court and ignoring the similarly exclusive jurisdiction under the Scheme, enforced by the Amended § 304 Order, CIC seeks to create a Gordian knot of inconsistent proceedings and determinations which serves its own economic self interest.

13. CIC’s reverse preemption argument disregards one critical element to any McCarran-Ferguson analysis. Under that statute, state statutes regulating the business of insurance only prevail over general federal statutes if the federal law “invalidate[s], impair[s] or supersede[s]” the state law. 15 U.S.C. § 1012(b). See Humana, Inc. v. Forsyth, 525 U.S. 299, 307-10 (1999).⁵ CIC fails to identify any specific provision of the New Hampshire Act that has been invalidated, impaired or superseded. While it contends that the New Hampshire court has “exclusive” jurisdiction over claims against Home, CIC does not address the provisions of the New Hampshire Act discussed in paragraphs 2 and 4 above that provide for the Liquidator to marshal assets through actions in other jurisdictions (RSA 402-C:25, VI, XII) and permit setoff in such proceedings (RSA 402-C:34). In the absence of a conflict between the New Hampshire Act and 11 U.S.C. § 304, the New Hampshire Act does not reverse preempt 11 U.S.C. § 304 as

⁴ That the Scheme Administrators filed proofs of claim and continued to provide claims information to AISUK during Home’s liquidation does not change the situation. The filings and information only served to preserve KWELM’s position while the net debtor status of the five KWELM Companies was confirmed through proceedings under the Scheme. Now that it is clear that each KWELM Company is a net debtor and those companies have made payments based on the net liabilities determined under the Scheme, the KWELM Scheme Administrators will not further participate in the Home liquidation proceeding.

⁵ The case cited by CIC also recognizes there must be a conflict between federal and state law for McCarran-Ferguson reverse preemption to apply. Barnett Bank of Marion County, N.A. v. Nelson, 517 U.S. 25, 37-38 (1996).

applied in the Amended § 304 Order. See In re Rubin, 160 B.R. 269, 281 (Bank. S.D.N.Y. 1993).

C. CIC's Arguments Concerning English Contract Law Are Irrelevant

14. CIC's further argument that KWELM's claims cannot be allowed based on English reinsurance law is irrelevant. The issue presented by the Liquidator's Report is whether, as a matter of New Hampshire law, the Scheme Adjudicator's determination of Home's liability to KWELM should be given comity, especially in light of the Amended § 304 Order enforcing the Scheme. Regardless of whether KWELM's claims against Home can otherwise be proved under English law, they have unquestionably been recognized under the Scheme and used as an offset against Home's claims against KWELM under the Scheme. Where KWELM has been able to offset these amounts in full, Home has been held liable for them in any meaningful economic sense and they form an appropriate basis for allowance by this Court in the Home liquidation proceeding.


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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April 10, 2006

Certificate of Service

I hereby certify that a copy of the foregoing Liquidator's Reply in Support of Report and Recommendation on KWELM Companies' Proofs of Claim was sent, this 10th day of April, 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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BY EMAIL & COURIER

Mr. J. Rosen.
Home Insurance Company in Liquidation,
59. Maiden Lane.
New York. NY 10038
USA

20 February 2006

Dear Sirs,

Kingscroft Insurance Company Limited
Walbrook Insurance Company Limited
El Paso Insurance Company Limited
Lime Street Insurance Company Limited
Mutual Reinsurance Company Limited (together "the KWELM Companies")
KWELM Scheme of Arrangement
Home Insurance Company in Liquidation – Principal No 26519

Please find attached the Net Statements which have been issued pursuant to the terms of Clause 9.4.37 of the Scheme and which set out your overall Established Scheme Liability for each of the KWELM Companies in respect of which you will be entitled to Scheme Payments, pursuant to the terms of the Scheme. The value is as determined by the Scheme Adjudicator in his letter of 7th February 2006.

If you believe that the Net Statements contain any arithmetical or other manifest error on their face, you must within 30 days of deemed receipt make a formal objection to the Net Statements, setting out the full grounds for your objection in accordance with Clause 9.4.39 of the Scheme. Matters which have previously been agreed or determined between us, or which have been subject to formal adjudication pursuant to the terms of the Scheme, cannot constitute the basis for a formal objection to the Net Statements.

Kingscroft Insurance Company Ltd (number 1277975), Walbrook Insurance Company Ltd (number 1044810), El Paso Insurance Company Ltd (number 1324414) and Lime Street Insurance Company Ltd (number 1449248) are registered in England and Wales. Mutual Reinsurance Company Ltd is registered in Bermuda (number 03071) and in England and Wales as an overseas company (number F7776).

CJ Hughes and IDB Bond have been appointed Scheme Administrators of Kingscroft Insurance Co Ltd, Walbrook Insurance Co Ltd, El Paso Insurance Co Ltd, Lime Street Insurance Co Ltd and Mutual Reinsurance Co Ltd.

Registered Office: John Stow House, 18 Bevis Marks, London EC3A 7JU, United Kingdom

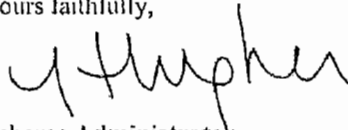
If you should wish to hasten the formal establishment of your Established Scheme Liability within the Scheme, please countersign and return this letter to the Scheme Administrator, either by post or by fax using the details set out at the head of this letter, confirming your agreement to its terms and the terms of the Net Statements.

Please note that the attached Net Statements show the Established Scheme Liability without taking into account the advanced dividend distribution of US\$7,085,821 paid on the 3 January 2006 and recognised by yourself in your e:mail dated 10 February 2006. For ease of reference I set out in the table below the Established Scheme Liability, the advance dividend and the dividend now due, by each KWELM company:

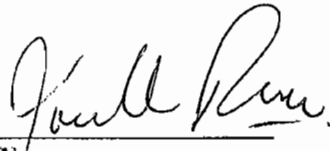
Company	Established Scheme Liability	advanced dividend	dividend now due
Kingscroft	US\$2,095,188	US\$1,313,825	US\$383,277
Walbrook	US\$7,832,373	US\$3,578,329	US\$4,254,043
El Paso	US\$1,073,257	US\$975,544	US\$44,050
Lime Street	US\$530,601	US\$415,299	US\$25,100
Mutual Re	US\$4,257,740	US\$802,823	US\$2,262,749
Total	US\$15,789,158	US\$7,085,821	US\$6,969,220

I trust that you find this to be in order.

Yours faithfully,



Scheme Administrator



Name

on behalf of the Home Insurance Company in Liquidation
in agreement to the terms set out in this letter and the attached KWELM Net
Statements

KINGSCROFT INSURANCE COMPANY LIMITED
Net Statement

PRINCIPAL: HOME INSURANCE COMPANY

PRINCIPAL NO: 26519

CURRENCY: US DOLLARS

Position as at: 20 February 2006

Business Underwritten by Kingscroft	
1. Established Scheme liabilities	0.00
2. Agreed liabilities	563,838
Notified Scheme Claim	
3. Estimated undiscounted liabilities	2,577,606
4. Discount applied	(850,390)
5. Estimated discounted liabilities [3 + (4)]	1,727,216
Deductions	
6. LoC funds applied against Notified Scheme claim	(0.00)
7. Other collateral	(0.00)
8. Valuation of business underwritten by Kingscroft [1 + 2 + 5 + (6) + (7)]	2,291,053
Business Ceded by Kingscroft	
9. Outwards Unpaid Losses and Estimated undiscounted Outwards Reserves and IBNR (*)	(228,430)
10. Discount applied	32,565
11. Valuation of business ceded by Kingscroft [(9) + 10]	(195,865)
12. Balance of Business Underwritten and Business Ceded [8 + (11)]	2,095,188

* The value for Outwards Unpaid Losses and estimated undiscounted
 Outwards Reserves and IBNR is made up of current unsettled paid
 (including Outwards Unpaid Losses) of: (135,387)
 and reserves and IBNR of: (93,043)

WALBROOK INSURANCE COMPANY LIMITED
Net Statement

PRINCIPAL: HOME INSURANCE COMPANY

PRINCIPAL NO: 26519

CURRENCY: US DOLLARS

Position as at: 20 February 2006

Business Underwritten by Walbrook	
1. Established Scheme liabilities	0.00
2. Agreed liabilities	2,017,462
Notified Scheme Claim	
3. Estimated undiscounted liabilities	11,150,190
4. Discount applied	(3,121,143)
5. Estimated discounted liabilities [3 + (4)]	8,029,047
Deductions	
6. LoC funds applied against Notified Scheme claim	(0.00)
7. Other collateral	(0.00)
8. Valuation of business underwritten by Walbrook [1 + 2 + 5 + (6) + (7)]	10,0456.509
Business Ceded by Walbrook	
9. Outwards Unpaid Losses and Estimated undiscounted Outwards Reserves and IBNR (*)	(2,641,320)
10. Discount applied	427,183
11. Valuation of business ceded by Walbrook [(9) + 10]	(2,214,137)
12. Balance of Business Underwritten and Business Ceded [8 + (11)]	7,832,373

* The value for Outwards Unpaid Losses and estimated undiscounted Outwards Reserves and IBNR is made up of current unsettled paid (including Outwards Unpaid Losses) of: (1,420,796)
and reserves and IBNR of: (1,220,524)

EL PASO INSURANCE COMPANY LIMITED
Net Statement

PRINCIPAL: HOME INSURANCE COMPANY

PRINCIPAL NO: 26519

CURRENCY: US DOLLARS

Position as at: 20 February 2006

Business Underwritten by El Paso	
1. Established Scheme liabilities	0.00
2. Agreed liabilities	268.026
Notified Scheme Claim	
3. Estimated undiscounted liabilities	1,241.368
4. Discount applied	(410.487)
5. Estimated discounted liabilities [3 + (4)]	830.882
Deductions	
6. LoC funds applied against Notified Scheme claim	(0.00)
7. Other collateral	(0.00)
8. Valuation of business underwritten by El Paso [1 + 2 + 5 + (6) + (7)]	1,098.907
Business Ceded by El Paso	
9. Outwards Unpaid Losses and Estimated undiscounted Outwards Reserves and IBNR (*)	(35,080)
10. Discount applied	9,429
11. Valuation of business ceded by El Paso [(9) + 10]	(25.651)
12. Balance of Business Underwritten and Business Ceded [8 + (11)]	1,073.257

* The value for Outwards Unpaid Losses and estimated undiscounted Outwards Reserves and IBNR is made up of current unsettled paid (including Outwards Unpaid Losses) of: (8,139)
and reserves and IBNR of: (26,941)

LIME STREET INSURANCE COMPANY LIMITED
Net Statement

PRINCIPAL: HOME INSURANCE COMPANY

PRINCIPAL NO: 26519

CURRENCY: US DOLLARS

Position as at: 20 February 2006

Business Underwritten by Lime Street	
1. Established Scheme liabilities	0.00
2. Agreed liabilities	106,379
Notified Scheme Claim	
3. Estimated undiscounted liabilities	663,497
4. Discount applied	(222,478)
5. Estimated discounted liabilities [3 + (4)]	441,020
Deductions	
6. LoC funds applied against Notified Scheme claim	(0.00)
7. Other collateral	(0.00)
8. Valuation of business underwritten by Lime Street [1 + 2 + 5 + (6) + (7)]	547,399
Business Ceded by Lime Street	
9. Outwards Unpaid Losses and Estimated undiscounted Outwards Reserves and IBNR (*)	(25,780)
10. Discount applied	8,982
11. Valuation of business ceded by Lime Street [(9) + 10]	(16,798)
12. Balance of Business Underwritten and Business Ceded [8 + (11)]	530,601

* The value for Outwards Unpaid Losses and estimated undiscounted Outwards Reserves and IBNR is made up of current unsettled paid (including Outwards Unpaid Losses) of: (118)
and reserves and IBNR of: (25,662)

MUTUAL RE INSURANCE COMPANY LIMITED
Net Statement

PRINCIPAL: HOME INSURANCE COMPANY

PRINCIPAL NO: 26519

CURRENCY: US DOLLARS

Position as at: 20 February 2006

Business Underwritten by Mutual Re	
1. Established Scheme liabilities	0.00
2. Agreed liabilities	1,233,527
Notified Scheme Claim	
3. Estimated undiscounted liabilities	6,199,078
4. Discount applied	(1,716,475)
5. Estimated discounted liabilities [3 + (4)]	4,482,603
Deductions	
6. LoC funds applied against Notified Scheme claim	(0.00)
7. Other collateral	(0.00)
8. Valuation of business underwritten by Mutual Re [1 + 2 + 5 + (6) + (7)]	5,716,131
Business Ceded by Mutual	
9. Outwards Unpaid Losses and Estimated undiscounted Outwards Reserves and IBNR (*)	(1,744,888)
10. Discount applied	286,497
11. Valuation of business ceded by Mutual [(9) + 10]	(1,458,391)
12. Balance of Business Underwritten and Business Ceded [8 + (11)]	4,257,740

* The value for Outwards Unpaid Losses and estimated undiscounted Outwards Reserves and IBNR is made up of current unsettled paid (including Outwards Unpaid Losses) of: (926,325)
and reserves and IBNR of: (818,563)

KWELM

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

Enquiries to:
KWELM Management Services Limited
 John Stow House
 18 Bevis Marks London EC3A 7JB
 Telephone: +44 (0) 207 645 4700
 Facsimile: +44 (0) 207 645 4777
 DX556 Bury Street
 Email: creditor.helpdesk@kwelm.com

Exhibit 2

REMITTANCE ADVICE - SCHEME PAYMENTS
 From the companies named below

Home Insurance Company
 C/o The Home Insurance Co in Liquidation
 59 Maiden Lane
 New York
 NY 10038
 USA

COMPANY NAME	PAYMENT DATE	PAYMENT REF	PERCENTAGE	CURRENCY	VALUE
Kingscroft	02-MAR-06	Manual	81.0000	USD	383,277.28
Walbrook	02-MAR-06	Manual	100.0000	USD	4,254,044.00
El Paso	02-MAR-06	Manual	95.0000	USD	44,050.15
Lime Street	02-MAR-06	Manual	83.0000	USD	25,099.83
Mutual Re	02-MAR-06	Manual	72.0000	USD	2,262,749.00
Less Adjudication Costs £8,618.00p @ £1 = USD1.75					15,081.50
TOTAL PAYMENT - US DOLLARS					6,954,138.76

KWELM

015492

DATE 02-MAR-2006

PAY HOME INSURANCE COMPANY

AMOUNT

\$6,954,138.76

MILLIONS	100 THOUSANDS	10 THOUSANDS	THOUSANDS	HUNDREDS	TENS	UNITS
SIX	NINE	FIVE	FOUR	ONE	THREE	EIGHT

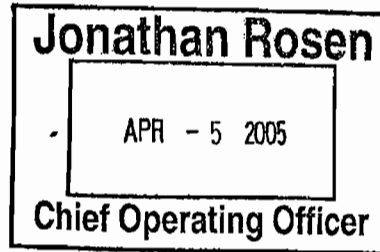
HSBC Bank USA
 120 Broadway
 New York

KWELM SCHEME PAYMENTS A/C - US DOLLARS

[Signature]
 Authorised Signatory
[Signature]
 Authorised Signatory



Mr. Jonathan Rosen
The Home Insurance Company
59 Maiden Lane
New York
NY 10038
USA



KWELM
John Stow House
18 Bevis Marks
London EC3A 7JB
Telephone +44 (0) 20 7645 4700
Facsimile +44 (0) 20 7645 4777

31 March 2005

Dear Sirs,

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

We write in relation to your Notified Scheme Claim in the KWELM Scheme and the Outwards Reserves and IBNR Statement as advised to you per KMS' letter dated 3rd February, 2005. We have sought to agree an appropriate value for your Notified Scheme Claim, giving particular regard to the Supporting Information which you have supplied with it. In the absence of agreement with you of the value of your Notified Scheme Claim and the Outwards Reserves and IBNR Statement, we have made a determination of the value of your claim in accordance with Clause 9.4.18 of the Scheme. Please see the attached Statement which sets out the value of your Notified Scheme Claim and the Outwards Reserves and IBNR Statement which we are prepared to accept.

The Balance of Business Underwritten and Business Ceded figures on each of the Statements of Determination (see item 12 on the Statements) show a negative amount in brackets in respect of Mutual Reinsurance Company (ie. a debt due from you to Mutual Reinsurance Company), accordingly your overall Established Scheme Liability under the Scheme has been valued at zero and you fall to be treated as an Offset Scheme Creditor. This means that if our determination becomes binding, whether by agreement with you or otherwise, Mutual Reinsurance Company shall continue to be entitled to seek payment from you as a reinsurer. You will receive no payments under the Scheme from Mutual Reinsurance Company.

In the event that you should have an objection to this Statement, this must be raised within 30 days of deemed receipt of this letter and should set out a detailed explanation of those areas of the determination which you wish to be considered as disputed matters in accordance with Clause 9.4.20 of the Scheme. Unless we are thereafter able to reach agreement upon the disputed matters the Scheme Administrators will refer the matter on to the Scheme Adjudicator pursuant to the terms of the Scheme.

If you raise no objection to this Statement of Determination within 30 days of deemed receipt (in accordance with Clause 9.4.19 of the Scheme), the amount stated in this

Kingscroft Insurance Company Ltd (number 1277975), Walbrook Insurance Company Ltd (number 1044810), El Paso Insurance Company Ltd (number 1324414) and Lime Street Insurance Company Ltd (number 1449248) are registered in England and Wales. Mutual Reinsurance Company Ltd is registered in Bermuda (number 03071) and in England and Wales as an overseas company (number F7776).

CJ Hughes and IDB Bond have been appointed Scheme Administrators of Kingscroft Insurance Co Ltd, Walbrook Insurance Co Ltd, El Paso Insurance Co Ltd Lime Street Insurance Co Ltd and Mutual Reinsurance Co Ltd.

Registered Office: John Stow House, 18 Bevis Marks, London EC3A 7JB, United Kingdom.

statement will stand as the formal evaluation of your claim on the basis of which we will proceed to issue your Net Statement, in accordance with the provisions of Clause 9.4.37 of the Scheme.

Alternatively, if you should wish to formally confirm your agreement to the claim values which we have determined within the relevant KWELM Scheme, please counter-sign and return this letter to the Scheme Administrator, either by post or by fax, using the details set out at the head of this letter, confirming your agreement to its terms and the terms of the Statement of Determination. We will then proceed to issue your Net Statements, in accordance with the provisions of Clause 9.4.37 of the Scheme.

If you should have any queries in relation to this letter, please contact Mark Langridge at KWELM Management Services Limited on +44 20 7645 4700.

Yours faithfully,



Scheme Administrator

The Home Insurance Company
In agreement to the terms set out in this letter and the attached Statement

KINGSCROFT INSURANCE COMPANY LIMITED
Statement of Determination

PRINCIPAL: The Home Insurance Company (In Liquidation)

PRINCIPAL NO: 26519

CURRENCY: US Dollars

Position as at: 31 March 2005

Business Underwritten by Kingscroft	
1. Established Scheme liabilities	0.00
2. Agreed liabilities	563,837.53
Notified Scheme Claim	
3. Estimated undiscounted liabilities	1,583,114.47
4. Discount applied	(502,318.00)
5. Estimated discounted liabilities [3 + (4)]	1,080,796.47
Deductions	
6. LoC funds applied against Notified Scheme claim	(0.00)
7. Other collateral	(0.00)
8. Valuation of business underwritten by Kingscroft [1 + 2 + 5 + (6) + (7)]	1,644,634.00
Business Ceded by Kingscroft	
9. Outwards Unpaid Losses and Estimated undiscounted Outwards Reserves and IBNR (*)	(803,248.00)
10. Discount applied	134,201.00
11. Valuation of business ceded by Kingscroft [(9) + 10]	(669,047.00)
12. Balance of Business Underwritten and Business Ceded [8 + (11)]	975,587.00

* The value for Outwards Unpaid Losses and estimated undiscounted
 Outwards Reserves and IBNR is made up of current unsettled paid
 (including Outwards Unpaid Losses) of: (139,087.00)
 and reserves and IBNR of: (664,161.00)

WALBROOK INSURANCE COMPANY LIMITED
Statement of Determination

PRINCIPAL: The Home Insurance Company (In Liquidation)

PRINCIPAL NO: 26519

CURRENCY: US Dollars

Position as at: 31 March 2005

Business Underwritten by Walbrook	
1. Established Scheme liabilities	0.00
2. Agreed liabilities	2,017,461.94
Notified Scheme Claim	
3. Estimated undiscounted liabilities	7,451,037.06
4. Discount applied	(1,826,439.00)
5. Estimated discounted liabilities [3 + (4)]	5,624,598.06
Deductions	
6. LoC funds applied against Notified Scheme claim	(0.00)
7. Other collateral	(0.00)
8. Valuation of business underwritten by Walbrook [1 + 2 + 5 + (6) + (7)]	7,642,060.00

Business Ceded by Walbrook	
9. Outwards Unpaid Losses and Estimated undiscounted Outwards Reserves and IBNR (*)	(7,660,156.00)
10. Discount applied	1,191,975.00
11. Valuation of business ceded by Walbrook [(9) + 10]	(6,468,181.00)

12. Balance of Business Underwritten and Business Ceded [8 + (11)]	1,173,879.00
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* The value for Outwards Unpaid Losses and estimated undiscounted Outwards Reserves and IBNR is made up of current unsettled paid (including Outwards Unpaid Losses) of: (1,456,888.00)
and reserves and IBNR of: (6,203,268.00)

EL PASO INSURANCE COMPANY LIMITED
Statement of Determination

PRINCIPAL: The Home Insurance Company (In Liquidation)

PRINCIPAL NO: 26519

CURRENCY: US Dollars

Position as at: 31 March 2005

Business Underwritten by El Paso	
1. Established Scheme liabilities	0.00
2. Agreed liabilities	268,025.70
Notified Scheme Claim	
3. Estimated undiscounted liabilities	762,352.30
4. Discount applied	(242,831.00)
5. Estimated discounted liabilities [3 + (4)]	519,521.30
Deductions	
6. LoC funds applied against Notified Scheme claim	(0.00)
7. Other collateral	(0.00)
8. Valuation of business underwritten by El Paso [1 + 2 + 5 + (6) + (7)]	787,547.00
Business Ceded by El Paso	
9. Outwards Unpaid Losses and Estimated undiscounted Outwards Reserves and IBNR (*)	(92,517.00)
10. Discount applied	20,497.00
11. Valuation of business ceded by El Paso [(9) + 10]	(72,020.00)
12. Balance of Business Underwritten and Business Ceded [8 + (11)]	715,527.00

* The value for Outwards Unpaid Losses and estimated undiscounted Outwards Reserves and IBNR is made up of current unsettled paid (including Outwards Unpaid Losses) of: (9,451.00)
and reserves and IBNR of: (83,066.00)

LIME STREET INSURANCE COMPANY LIMITED
Statement of Determination

PRINCIPAL: The Home Insurance Company (In Liquidation)

PRINCIPAL NO: 26519

CURRENCY: US Dollars

Position as at: 31 March 2005

Business Underwritten by Lime Street	
1. Established Scheme liabilities	0.00
2. Agreed liabilities	106,379.43
Notified Scheme Claim	
3. Estimated undiscounted liabilities	404,425.57
4. Discount applied	(131,803.00)
5. Estimated discounted liabilities [3 + (4)]	272,622.57
Deductions	
6. LoC funds applied against Notified Scheme claim	(0.00)
7. Other collateral	(0.00)
8. Valuation of business underwritten by Lime Street [1 + 2 + 5 + (6) + (7)]	379,002.00

Business Ceded by Lime Street	
9. Outwards Unpaid Losses and Estimated undiscounted Outwards Reserves and IBNR (*)	(64,717.00)
10. Discount applied	17,678.00
11. Valuation of business ceded by Lime Street [(9) + 10]	(47,039.00)

12. Balance of Business Underwritten and Business Ceded [8 + (11)]	331,963.00
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* The value for Outwards Unpaid Losses and estimated undiscounted Outwards Reserves and IBNR is made up of current unsettled paid (including Outwards Unpaid Losses) of: (118.00)
and reserves and IBNR of: (64,599.00)

MUTUAL RE INSURANCE COMPANY LIMITED
Statement of Determination

PRINCIPAL: The Home Insurance Company (In Liquidation)

PRINCIPAL NO: 26519

CURRENCY: US Dollars

Position as at: 31 March 2005

Business Underwritten by Mutual Re	
1. Established Scheme liabilities	0.00
2. Agreed liabilities	1,233,527.36
Notified Scheme Claim	
3. Estimated undiscounted liabilities	4,157,976.64
4. Discount applied	(1,002,089.00)
5. Estimated discounted liabilities [3 + (4)]	3,155,887.64
Deductions	
6. LoC funds applied against Notified Scheme claim	(0.00)
7. Other collateral	(0.00)
8. Valuation of business underwritten by Mutual Re [1 + 2 + 5 + (6) + (7)]	4,389,415.00

Business Ceded by Mutual	
9. Outwards Unpaid Losses and Estimated undiscounted Outwards Reserves and IBNR (*)	(5,484,066.00)
10. Discount applied	882,967.00
11. Valuation of business ceded by Mutual [(9) + 10]	(4,601,099.00)

12. Balance of Business Underwritten and Business Ceded [8 + (11)]	(211,684.00)
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* The value for Outwards Unpaid Losses and estimated undiscounted Outwards Reserves and IBNR is made up of current unsettled paid (including Outwards Unpaid Losses) of: (944,271.00)
and reserves and IBNR of: (4,539,795.00)