



ace european group

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12th April, 2005.

Mr. M. Langridge,
 KWELM,
 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)

10/20/04