

THE BERMUDA FIRE & MARINE INSURANCE COMPANY LIMITED
(In Liquidation)

c/o KWELM Management Services Limited, John Stow House, 18 Bevis Marks, London EC3A 7JB, United Kingdom

To all known Scheme Creditors, Policyholders, Retrocessionaires and Brokers

Brokers, other agents and intermediaries are requested to bring this letter to the attention of their clients who have, or may have, claims against the Company.

This letter is being sent to some 7,000 policyholders for whom we have addresses and who, according to our records, were insured by the Company between 1964 and 1990. Whilst it is probable that the majority of these policyholders will have no claims or have had their claims agreed and paid, some could still have unagreed claims or possible future claims. If you wish to confirm the details of your past cover with the Company, please discuss with your broker or contact our Creditor Help Desk as described at the end of this letter.

1 March, 2004

Dear Sirs

Notice of Court Hearings in relation to The Bermuda Fire & Marine Insurance Company Limited (in liquidation) (the "Company")

Proposed Amending Scheme of Arrangement

The purpose of this letter is to update you on proposals for the early closure of the Scheme of Arrangement, between the Company and its creditors which became effective on 14 January 1997 (the "**Original Scheme**") and, in this regard, on the proposed Amending Scheme of Arrangement between the Company and its Scheme Creditors (the "**Amending Scheme**") which will amend certain provisions of the Original Scheme. The Original Scheme as proposed to be amended, is referred to below as the "**Restated Scheme**".

We have now finalised the Amending Scheme and intend to apply to the Supreme Court of Bermuda at 2.30pm on 1 April 2004 and the High Court of England and Wales at 10.30am, on 31 March, 2004 (the "**Hearings**") for permission to convene the necessary meetings (the "**Meetings**") of Scheme Creditors on or around 18 May 2004 to consider and, if thought appropriate, approve the Amending Scheme. Formal notice of the Meetings will be sent to you in due course.

Practice Statement (Companies: Scheme of Arrangement)

On the 15th April 2002, the High Court of England and Wales issued a practice statement (Practice Statement (Companies: Scheme of Arrangement) [2002] 1 W.L.R. 1345) that requires us to notify you of the following matters:

1. **That the Amending Scheme is being promoted.**
2. **The purpose of the Amending Scheme.**

The overall purpose of the Amending Scheme is to accelerate the closure of the Company's insurance and reinsurance businesses. If the Amending Scheme becomes effective, it will make certain amendments to the Original Scheme in order to:

- provide a mechanism for closure of the Original Scheme by the utilisation of a bar date ("**Bar Date**") for submission of claims together with an actuarially based estimation methodology, where appropriate, to evaluate and quantify liabilities (including contingent and future insurance and reinsurance liabilities) notified under the Amending Scheme owed by and to the Company.

Joint Liquidators:- Gareth H. Hughes, L. Anthony Joaquin, and John C. McKenna

Ernst & Young, Reid Hall, 3 Reid Street
Hamilton HM 11, Bermuda

Ernst & Young LLP, One More London Place,
London SE1 2AF, United Kingdom

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The purpose of the estimation methodology is to establish the quantum, by agreement or, if necessary, adjudication of those claims of Scheme Creditors against the Company which are prospective or contingent or otherwise unascertained (including "outstanding losses" and incurred but not reported claims ("**IBNR**")). The estimation methodology will also value "outwards" or ceded outstanding losses and IBNR under reinsurance contracts between the Company and those Scheme Creditors who are reinsurers of the Company in the same way for the purposes of quantifying the net amounts (after set off) of their claims against the Company.

- enable a substantive closure distribution and ultimate distributions to be declared and paid by the Company to all of the Scheme Creditors, net of distributions previously paid, significantly earlier than would be the case if the Company's insurance and reinsurance business was allowed to run off in the normal course under the Original Scheme.
- provide the Liquidators, the Company, the Informal Creditors Committee, the Committee of Inspection, KMS, the Scheme Actuary and the Scheme Adjudicator and others with full and effective waivers and releases from all and any liabilities in respect of either the Original Scheme, the Amending Scheme or the Restated Scheme (and, in the case of the Informal Creditors Committee and the Committee of Inspection, the Company's liquidation) which are not notified prior to the date of the substantive closure distribution.

3. That meetings of creditors will be required.

Any meeting of Scheme Creditors or class of Scheme Creditors must consist of creditors whose rights against the Company are not so dissimilar as to make it impossible for them to consult together in their common interest.

Following consultation with our legal advisers, we have concluded that there should be two separate classes of Scheme Creditors for voting purposes. These are the same classes which voted in relation to the Original Scheme and are as follows:

1. "**Protected Scheme Creditors**" (being Scheme Creditors in respect of Scheme Claims which are Protected Scheme Claims) (as those terms are defined in the Amending Scheme), whose claims are, or would become, in the normal course, eligible for protection under the applicable provisions of the Policyholders Protection Act 1975 by the Financial Services Compensation Scheme Limited. These creditors will be treated by the Amending Scheme, should it be implemented, significantly differently from other creditors. In particular, the estimation methodology has no application to the claims of Protected Scheme Creditors; and
2. "**General Scheme Creditors**" (being Scheme Creditors in respect of claims which are not Protected Scheme Claims).

Scheme Creditor Objections

If any Scheme Creditors take the view, once they have taken appropriate professional advice, that the classes are not properly constituted, then they should inform us in writing at the above address setting out their reasons clearly. Any concerns which you communicate in writing to us will be drawn to the Courts' attention in our application for permission to convene the Meetings. Scheme Creditors will also be permitted to attend

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the Hearings for the purpose of making representations and we will be pleased to provide you with further information regarding the Hearings, if required.

The Meetings

For the Amending Scheme to be implemented, it must be approved by a majority (i.e. more than 50%) in number, representing not less than 75% in value, of those Scheme Creditors who vote in person or by proxy at each Meeting. We will write to you again in more detail about the Meetings, together with formal notice of the venue following the Hearings.

Please note that if the Amending Scheme is so approved at the Meetings, it will be possible for Scheme Creditors to raise objections at the subsequent Bermudian and English Court hearings to sanction the Amending Scheme which will be held in June 2004. However, the Courts will expect creditors to show good reason why they did not object at an earlier stage if this is the case.

At the Hearings we will be seeking a direction that the Company will send hard copies of a further letter, notice of Meetings, voting documentation, as well as the Amending Scheme and Explanatory Statement (on a CD-Rom) to all relevant creditors, policyholders, retrocessionaires and brokers informing them of the Amending Scheme proposals and the Meetings.

Amending Scheme information

Should you require any document relating to the Hearings, you can now obtain from the Company website (www.bfmic.bm), the most recent drafts of the Amending Scheme, the accompanying Explanatory Statement, a more detailed notice of the Hearings and the form of the Bermudian and English Court applications and draft court orders setting out the directions which will be requested at the Hearings.

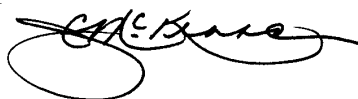
Alternatively, we are able to provide these to you in hard form through the postal system or answer any queries you may have arising from this letter if you telephone our Creditor Help Desk on +44 (0) 207 645 4995, fax +44 (0) 870 600 7582 or email creditor.helpdesk@bfmic.bm with the request.

In the event the Courts give permission to convene the Meetings and the Scheme Creditors vote in favour of the Amending Scheme at the Meetings, we would expect the Bar Date to be towards the end of September 2004.

Yours faithfully



Gareth H Hughes
Joint Liquidators of the Company



John C McKenna