

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:

Petition of Anthony James McMahon and
Philip Wedgwood Wallace, as Joint Provisional
Liquidators of SOVEREIGN MARINE & GENERAL
INSURANCE COMPANY LIMITED.

Debtor in Foreign Proceedings.

In a Proceeding Under
Section 304 of the
Bankruptcy Code

Case No. 97-B-44652 (JMP)

[PROPOSED] ORDER AMENDING PERMANENT INJUNCTION ORDER

Upon the motion dated September 21, 2007 (the "Motion"),¹ of Michael Steven Walker and John Mitchell Wardrop (the "Petitioners"), as the Scheme Administrators of Sovereign Marine & General Insurance Company Limited ("Sovereign Marine"), for an order pursuant to sections 105 and 304 of title 11 of the United States Code (the "Bankruptcy Code") amending this Court's Permanent Injunction Order dated December 30, 1999 (the "Permanent Injunction Order"), a copy of which is annexed hereto as Exhibit A; and the Court having reviewed and considered the Motion; and this Court's Order, dated September 20, 2007 (the "Service Order") specifying the form and manner of service of notice of the Motion; and upon all of the pleadings previously filed in this ancillary proceeding; and no objections to the Motion having been filed by October 16, 2007, the last day for filing such objections pursuant to the Service Order; and

¹ Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Amended Scheme (as defined below).

Upon the record of the hearing on the Motion held before this Court on October 23, 2007, and based on the foregoing and all prior proceedings herein, the Court finds and concludes as follows:

(1) Sovereign Marine is the subject of a “foreign proceeding” within the meaning of sections 101(23) and 304 of the Bankruptcy Code, and each of the Petitioners is a “foreign representative” of Sovereign Marine within the meaning of sections 101(24) and 304 of the Bankruptcy Code.

(2) Sovereign Marine is subject to a scheme of arrangement (the “ Original Scheme”) between Sovereign Marine and its creditors, as approved on November 29, 1999 by the requisite number of creditors pursuant to English law and sanctioned by an order of the High Court of Justice of England and Wales (the “High Court”), on December 20, 1999. The Scheme has been enforced in the United States by the Permanent Injunction Order.

(3) The Scheme Administrators of Sovereign Marine proposed a “closing” scheme by way of amendment to the Original Scheme (the "Amended Scheme"), which Amended Scheme will have the effect of estimating and crystallizing all of Sovereign Marine’s contingent liabilities apart from the Protected Scheme Claims of Sovereign Marine’s Protected Policyholders.

(4) The Amended Scheme was approved in accordance with English law by the requisite number of Scheme Creditors on October 27, 2006 and sanctioned by the High Court on September 17, 2007. The Amended Scheme has amended certain provisions of the Original Scheme. The amended provisions of the Original Scheme are contained within the Amended Scheme annexed hereto as Exhibit B.

(5) The Petitioners 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 Sovereign Marine's estate, consistent with:

(i) the just treatment of all holders of claims against or interests in Sovereign Marine;

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

(iii) the prevention of preferential or fraudulent dispositions of Sovereign Marine's property;

(iv) the distribution of proceeds of Sovereign Marine's estate substantially in accordance with the order prescribed by the Bankruptcy Code; and

(v) comity.

(6) Further, the Petitioners have demonstrated that the requested Amended Scheme Permanent Injunction Order will not cause affected parties hardships that are not outweighed by the benefits of amending the Permanent Injunction Order to incorporate the Amended Scheme. Unless the Amended Scheme Permanent Injunction Order is entered, it appears to this Court that the Petitioners will be unable to efficiently administer the Amended Scheme for the purpose of accelerating the closure of Sovereign Marine's estate pursuant to the foreign proceeding pending in England, and that as a result, the Petitioners and Sovereign Marine 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.

(8) Venue is proper in this District pursuant to 28 U.S.C. § 1410(c).

NOW THEREFORE, IT IS ORDERED AS FOLLOWS:

ORDERED, that the Motion is granted in all respects; and it is further

ORDERED, that the Amended Scheme, (including any amendment or modification thereof and any further scheme of arrangement implemented in accordance with the Amended Scheme) is hereby given full force and effect and is binding on and enforceable against all Scheme Creditors that are subject to this Court's jurisdiction; and it is further

ORDERED, that the Scheme Administrators and their duly selected successors and designees, continue to be the exclusive representatives of Sovereign Marine with respect to its interests and affairs in the United States; and it is further

ORDERED, that, all Scheme Creditors of Sovereign, insofar as they are Scheme Creditors of any other Scheme Company, must abide, and be bound, by the terms of the sanctioned and effective scheme of arrangement for that other Scheme Company, and it is further

ORDERED, excepted as expressly permitted in the Amended Scheme, that all persons and entities are hereby permanently enjoined and restrained from:

(1) transferring, relinquishing or disposing of any property of Sovereign Marine, any property involved in the foreign proceedings, or the proceeds thereof, to any person other than the Scheme Administrators;

(2) commencing or continuing any claim, cross-claim, counterclaim, action or other proceeding (including, without limitation, discovery proceedings, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against Sovereign Marine or any of its representatives or agents, including run-off agents, or any of their property, property involved in the foreign proceeding, or the proceeds thereof;

(3) enforcing any judicial, quasi-judicial, administrative or regulatory judgment, assessment or order or any arbitration award, and taking, commencing or continuing any act or any action or proceeding (including, without limitation, discovery proceedings, arbitration, or any judicial, quasi judicial, administrative or regulatory action, proceeding or process whatsoever) to create, perfect or enforce any claim, lien, set-off or other right or remedy against Sovereign Marine or any of its property, property involved in the foreign proceeding, or the proceeds thereof, or against any of Sovereign Marine's representatives or agents, including runoff agents, or any of their property;

(4) drawing down any letter of credit established by, on behalf of, or at the request of Sovereign Marine, or withdrawing from, setting off against, or otherwise applying property that is the subject of any escrow agreement or similar arrangement in which Sovereign Marine has an interest, in excess of what is expressly authorized by the terms of the contract, any related trust or other agreement pursuant to which such letter of credit, escrow, trust or other similar arrangement has been established; except, however, no such drawdown, withdrawal, set-off or other application of property shall be made in connection with any commutation unless the amount has been agreed in writing with the Scheme Administrators or permitted by further order of this Court; and

ORDERED, that all Scheme Creditors are hereby permanently enjoined and restrained from invoking, enforcing or relying on the benefit of any statute, rule or requirement of federal, state, or local law or regulation requiring Sovereign Marine or any of its representatives or agents, including run-off agents, to establish or post security in the form of a bond, letter of credit or otherwise as a condition of prosecuting, defending or, appealing any action or proceeding (including, without limitation, discovery proceedings, arbitration, or any

judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever), and such statute, rule or requirement is hereby rendered null and void for such actions and proceedings; and

ORDERED, that every person and entity that is a beneficiary of a letter of credit established by, on behalf, or at the request of, Sovereign Marine, or parties to any trust or escrow or similar arrangement in which Sovereign Marine has an interest, is required to (a) provide notice to the Scheme Administrators and their United States counsel, Allen & Overy LLP, 1221 Avenue of the Americas, New York, New York 10020, to the attention of Ken Coleman and Stephen Doody, of any drawdown on any letter of credit established by, on behalf or at the request of, Sovereign Marine, or any withdrawal from, set-off against, or other application of property that is the subject of any escrow or trust agreement or similar arrangement in which Sovereign Marine has an interest, together with information sufficient to permit the Scheme Administrators to assess the propriety of such action, including, without limitation, the date and amount of such drawdown, withdrawal, set-off, or other application and a copy of the agreement pursuant to which any such drawdown, withdrawal, set-off, or other application was made and provide such notice and other information contemporaneously therewith; and (b) turn over and account to the Scheme Administrators for all funds resulting from such drawdown of any letter of credit or the application of funds subject to any trust, escrow or similar arrangement in excess of the amount expressly authorized by the terms of the contract, trust or other agreement pursuant to which such letter of credit, trust, escrow, or similar arrangement was established; and it is further

ORDERED, that every person and entity that has a claim of any nature or source against Sovereign Marine and that is a party to any action or proceeding (including, without

limitation, discovery proceedings, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) in which Sovereign Marine is or was named as a party, or in which a liability of Sovereign Marine may be established, is required to place the Scheme Administrators and their United States counsel, Allen & Overy LLP, 1221 Avenue of the Americas, New York, New York 10020, to the attention of Ken Coleman and Stephen Doody, on the master service list of any such action or other legal proceeding and to take such other steps as may be necessary to ensure that such counsel receives (a) copies of any and all documents served by the parties to such action or other proceeding or issued by the court, arbitrator, administrator, regulator or other official having jurisdiction over such action or proceeding, and (b) any and all correspondence, or other documentation circulated to parties named on any service list; and it is further

ORDERED, that all persons and entities in possession, custody or control of property of Sovereign Marine, or the proceeds thereof, shall be required to turn over and account for such property or its proceeds to the Scheme Administrators; and it is further

ORDERED, that all persons and entities in possession, custody or control of any books, papers or records of Sovereign Marine shall deliver such books, papers and records to the Scheme Administrators, and all persons having any books, papers or records relating to Sovereign Marine's business, including but not limited to the acts, conduct, property, liabilities (including claim exposures and allocation where Sovereign Marine shared its participation on risks with other insurers) or financial condition of Sovereign Marine, or to any matter which may affect the administration of Sovereign Marine's estate or the Amended Scheme, shall preserve them and submit them to the Scheme Administrators, or their designee, for examination at all reasonable times; and it is further

ORDERED, that except as expressly set forth herein, nothing in this Order shall in any respect prevent the continuation or commencement of proceedings against or involving any person or entity other than Sovereign Marine, provided, however, that no settlement or judgment in any such proceeding shall be binding on or enforceable against Sovereign Marine, its property or property involved in the foreign proceeding, or the proceeds thereof; and it is further

ORDERED, that all persons and entities are hereby permanently enjoined and restrained from commencing or continuing any action or proceeding (including, without limitation, discovery proceedings, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against Sovereign Marine, the Provisional Liquidators, the Scheme Administrators, the members of the Creditors' Committee, the New York Superintendent of Insurance (the "Superintendent"), any of their respective predecessors and successors, or any of their respective directors, officers, agents, employees, representatives, financial advisors or attorneys (the "Pre-Scheme 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 by any of the Pre-Scheme Parties in connection with the Provisional Liquidation proceedings, the section 304 case or in preparing, disseminating, applying for or implementing the Original Scheme, the Amended Scheme, the Permanent Injunction Order or the Amending Scheme Permanent Injunction Order; and it is further

ORDERED, that except as otherwise provided in the Amended Scheme, all persons and entities are hereby permanently enjoined and restrained from commencing or continuing any action or other legal proceeding (including, without limitation, discovery proceedings, arbitration or any judicial, quasi-judicial, administrative or regulatory action,

proceeding or process whatsoever) against Sovereign Marine, the Scheme Administrators, the members of the Creditors' Committee, the Superintendent, any of their respective predecessors and successors, or any of their respective directors, officers, agents, employees, representatives, financial advisors or attorneys and any other party identified in the Amended Scheme (the "Scheme Parties"), with respect to any claim or cause of action in law or in equity, arising out of or relating to the construction or interpretation of the Original Scheme or the Amended Scheme or out of any action taken or omitted to be taken by any of the Scheme Parties in connection with the administration of the Original Scheme or the Amended Scheme; and it is further

ORDERED, that the High Court of Justice of England and Wales shall have exclusive jurisdiction to hear and determine any suit, action, claim or proceeding and to settle any dispute which may arise out of the construction or interpretation of the Amended Scheme, or out of any action taken or omitted to be taken by any of the Scheme Parties in connection with the administration of the Amended Scheme; provided, however, that in relation to the determination of Scheme Claims nothing in this Order shall affect the validity of provisions determining governing law and jurisdiction, whether contained in any contract between Sovereign Marine and any of its Scheme Creditors or otherwise; and it is further

ORDERED, that the Scheme Administrators are hereby authorized to transfer to the foreign proceeding for distribution pursuant to the Amended Scheme any monies or assets of Sovereign Marine that the Scheme Administrators have or 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, and requests for any additional relief in this or any subsequent section 304 case related to this case, and all adversary proceedings in

connection therewith properly commenced and within the jurisdiction of this Court; and it is further

ORDERED, that no action taken by the Provisional Liquidators or the Scheme Administrators, their successors, agents, including runoff agents, representatives or designees or any of them, or their counsel, in preparing, disseminating, applying for, implementing or otherwise acting in furtherance of the Original Scheme, the Amended Scheme, the Permanent Injunction Order, the Amending Scheme Permanent Injunction Order, the section 304 case, any further order for additional relief in this or any subsequent related section 304 case or any adversary proceeding in connection therewith, shall be deemed to constitute a waiver of the immunity afforded the Provisional Liquidators or the Scheme Administrators, their predecessors, successors, agents, including runoff agents, representatives, or designees pursuant to section 306 of the Bankruptcy Code; 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 this Order shall be served as follows:

(i) by United States mail, first class, postage prepaid upon the known parties-in-interest who may have a claim against Sovereign Marine or their representatives by _____, 2007, without exhibits;

(ii) by publication of notice of entry of this Order in *Insurance Day*, *The New York Times* (National Edition), *The Wall Street Journal* (National Edition) and *Business Insurance* by _____, 2007; and

(iii) by posting a copy of the Order, with exhibits, on the website maintained by Sovereign Marine and the other Scheme Companies in the WFUM Pools at www.wfumools.com; 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
October __, 2007

United States Bankruptcy Judge