

PRO Insurance Solutions

Our Ref:

Date: 31 July 2006

CHIEF FINANCIAL OFFICER

Dear Sir / Madam

PROPOSED SCHEMES OF ARRANGEMENT FOR "THE WFUM POOLS"

NOTICE OF MEETINGS OF SCHEME CREDITORS IN LONDON ON 27 OCTOBER 2006

Summary of this letter

- Further to our letters of 2 December 2005, 20 January 2006 and 30 June 2006, the UK Court has now directed that a single meeting of creditors for Sovereign Marine & General Insurance Company Limited and its two subsidiaries, and two meetings of creditors for each of the remaining Scheme Companies, be convened to vote on the WFUM Pools scheme of arrangement proposals.
- The creditors' meetings will be held on 27 October 2006 commencing at 11am (registration from 9.30am). The venue for the meetings is:

Plaisterers' Hall
1 London Wall
London EC2Y 5JU
United Kingdom
- A CD-ROM containing the Scheme Document is enclosed with this letter. Paper copies are available on request from PRO Insurance Solutions Limited ("PRO") (see contact details on page 9).
- If you consider that you may have a claim in the proposed Scheme, we should be grateful if you would vote at the forthcoming meetings of creditors. Voting forms and guidance notes can be accessed and completed on the Website.
- The Website address is www.wfumpools.com. You are strongly urged to visit the Website and, if you have not already done so, ask PRO for your Website Password and username to access your policy details.
- If the Scheme becomes effective as proposed, the Bar Date for submission of claims will be six months after the Effective Date.

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Previous correspondence

Copies of our letters dated 2 December 2005, 20 January 2006 and 30 June 2006 are available to download from www.wfumpools.com (the "Website").

Introduction

As explained in our previous letters, the 16 companies participating in the WFUM Pools and listed in the appendix to this letter (the "Scheme Companies"), including the insolvent Sovereign Marine & General Insurance Company Limited ("Sovereign"), have been developing a collective scheme of arrangement in respect of their WFUM Pools business (the "Scheme"). Although it is contained in one document, it is legally a separate scheme of arrangement for each of the Scheme Companies, and in the case of Sovereign, the Scheme will amend its existing scheme of arrangement dated 15 October 1999, which became effective on 5 January 2000 (the "Original Sovereign Scheme"). PRO, the proposed Scheme Manager, administers the run-off of the WFUM Pools business on behalf of the Scheme Companies and is writing this letter on their behalf.

The Scheme Companies have been given permission by the Court to convene the necessary meetings (the "Meetings") of Scheme Creditors for each of the Scheme Companies (as described below) to consider and, if thought appropriate, approve the Scheme.

Sovereign and its two subsidiaries, Greyfriars Insurance Company Limited ("Greyfriars") and Sovereign Insurance (UK) Limited ("Sovereign UK"), are each convening a single meeting of Scheme Creditors to vote on their respective Schemes.

The remaining thirteen Scheme Companies are each convening two meetings of Scheme Creditors, to vote on their respective Schemes as follows:

- (1) for Scheme Creditors in relation to their Scheme Claims other than IBNR Claims; and
- (2) for Scheme Creditors in relation to their IBNR Claims.

("IBNR Claims" being as described in the voting and proxy form (the "Voting Form")).

Scheme Creditors which have Scheme Claims falling into both of these classes will be able to vote in each meeting.

These Meetings will be held in London on 27 October 2006 at 11am (English time) at Plaisterers' Hall, 1 London Wall, London EC2Y 5JU, United Kingdom.

Why are we writing to you?

We are writing to you because the WFUM Pools' records indicate that you or those you represent may have a claim against one or more of the Scheme Companies in respect of WFUM Pools business, in which case you, or those you represent, would be affected by the proposed Scheme. If you are a broker or other intermediary who has represented Scheme Creditors of the Scheme Companies, then in addition to considering any claim you may have in your own capacity you are requested to bring this letter to the attention of your relevant clients.

This letter explains why the Scheme is being proposed and how votes may be cast with respect to it.

Accompanying documentation

Please find enclosed the following documents which you will need in order to consider the proposals and which provide information about the Meetings:

1. A CD-ROM containing, in electronic format, a copy of the Scheme Document which includes:
 - a) the Explanatory Statement, explaining the closure proposal and the business affected by it. The schedules to the Explanatory Statement include an example of the voting and proxy form for use at the Meetings; and
 - b) the Scheme together with appendices. Those appendices include the Estimation Methodology to be applied by the Scheme Actuary, the definition of the business which is subject to the Scheme and tables of the stamps known to have been used by the Scheme Companies in WFUM Pools business.
2. A copy of the notice convening the Meetings to consider the proposed Scheme.
3. A map showing the location of the Meetings at Plaisterers' Hall.
4. A copy of the protocol for the vote adjudication process.

If you would like further copies of any of these documents, they are available to be downloaded from the Website. For a paper copy please contact PRO (see contact details on page 9).

Why is the Scheme being proposed?

As set out in the Explanatory Statement, the WFUM Pools have now been in run-off for some 14 years. In the normal course it is estimated that it would take at least another 20 years to run off the remaining Liabilities which it is proposed to include in the Scheme.

The majority of Sovereign's realisable assets have now been collected or secured under the Original Sovereign Scheme and Sovereign's Scheme Administrators believe that, in view of this and the future costs of continuing its run-off, it is no longer in the best interests of Sovereign's creditors to continue with the Original Sovereign Scheme in its current form. The closure of Sovereign's run-off necessitates a closing scheme for its solvent subsidiaries, Greyfriars and Sovereign UK.

The other solvent Scheme Companies consider that, given their complex pool inter-relationships with Sovereign in the WFUM Pools, it would be appropriate and administratively beneficial to both Scheme Creditors and the Scheme Companies to promote their own closing Schemes in respect of their WFUM Pools business at the same time as Sovereign. To that end, the unified WFUM Pools closure scheme for the Scheme Companies is being proposed and has been designed to:

- enable the Scheme Companies and their Scheme Creditors to terminate all their WFUM Pools involvements with each other simultaneously;
- provide a mechanism for fairly valuing Scheme Creditors' claims including outstanding claims and IBNR claims; and
- result in these claim values being paid in full (subject to a time-value discount) or, in the case of Sovereign, at a Payment Percentage, earlier than would otherwise be the case.

Business covered by the proposed Scheme.

The following Liabilities of the Scheme Companies would be included in, and therefore closed by, the Scheme:

- all of the Liabilities of Sovereign and its subsidiaries, Sovereign (UK) and Greyfriars. However, certain "Protected Policyholders" of Sovereign (Scheme Creditors who have claims against Sovereign which are protected by virtue of the Policyholders Protection Act 1975) will, subject to eligibility, still be entitled to receive payment from the Financial Services Compensation Scheme ("FSCS") and the Scheme will not close their claim against Sovereign, in

order to preserve their entitlement to be paid by the FSCS; and

- for the solvent Scheme Companies, other than Sovereign UK and Greyfriars, all Liabilities arising from their WFUM Pools business, except for any UK compulsory insurance business.

The Scheme Companies believe that it is in the interests of Scheme Creditors to accelerate the closure of the run-off process in this way in order that the WFUM Pools business be closed in a unified manner, to avoid any fragmentation, and to increase the ultimate distributions to Scheme Creditors of Sovereign. Details of the impact of fragmentation and other advantages and disadvantages of the Scheme are set out in the Explanatory Statement.

What should you do next?

The Scheme Companies encourage Scheme Creditors to vote on the Scheme proposals. You may vote at the Meetings either in person or by proxy, by submitting the Voting Form, which is available on the Website or from PRO, in accordance with the instructions accompanying it. In either event, you must provide us with an estimate of your Scheme Claim on the Voting Form. This estimate will be used for voting purposes only and does not limit the amount which you may claim under the Scheme.

The Website contains a secure section in which any Scheme Creditor may require its name and certain other information to be inserted. This section is designed to assist Scheme Creditors who wish to consult with one another in relation to the Scheme to do so and will be accessible by any Scheme Creditor (whether or not its own name is included). If you would like your contact details to be made available to other Scheme Creditors for this purpose, please contact PRO. Scheme Creditors who have obtained a Website Password and username will be able to access this section of the Website through their secure site, and view the contact details posted there.

Due to the complexity of the WFUM Pools, we believe it will be much easier for you to enter details of your claims on the Voting Form on the Website and Scheme Creditors are strongly encouraged to do so. All known insurance contracts which are subject to the Scheme, together with details of unpaid agreed claims, have been included by PRO in the Voting Forms on the Website. Calculation of the time-value discount and the allocation of claims across Scheme Companies will be carried out automatically on Voting Forms completed on the Website.

In addition, if you complete the Voting Form on the Website and the Scheme becomes effective, detailed claims information entered on the Website for voting purposes will be automatically transferred to your Claim Form, which will avoid duplication of effort. For the avoidance of doubt, vote values and information will not be automatically binding and can be amended or added to as part of the process of making a claim in the Scheme.

You may, however, request a paper version of the Voting Form from PRO and complete it manually if you prefer to do so. An example of the paper Voting Form is included in Schedule II to the Explanatory Statement.

Once you have entered your claims information on the Voting Form and calculated it on the Website, PRO will collate it and e-mail it back to you at the e-mail address which you have provided. You will then be asked to print off this e-mail and sign a paper copy of the Voting Form e-mailed to you. This will confirm your voting details and your appointment of proxy (if any).

Whether you complete your Voting Form manually or complete it on the Website and print off a version to sign, you are requested to post, fax or e-mail the signed Voting Form to PRO, marked for the attention of Toby Wooldridge, to be received by no later than 4:00pm (English time) on 20 October 2006.

If you intend to attend and vote at the Meetings in person or by proxy, you may hand in your signed Voting Form at the registration desk prior to the start of the Meetings, however Scheme Creditors are strongly urged to return the completed forms in advance of the Meetings.

Faxed or e-mailed Voting Forms will not be accepted unless legible and you must return the original to PRO, marked for the attention of Toby Wooldridge, to be received no later than seven days after the Meetings, or hand it in at the registration desk at the Meetings prior to their commencement.

If you wish to attend the Meetings in person or, in the case of a company, through a nominated representative, please ensure that the person attending brings a copy of the signed Voting Form to the Meetings together with proof of identity and authority to act where relevant. If you intend to attend the Meetings in person, please arrive no later than 10.30am in order to register and so as to be present to hear the Chairman's address at the start of the Meetings. If you wish to vote, but cannot attend the Meetings yourself (or in the case of a company, by nominated representative) you must appoint a proxy. Appointment of a proxy will not prevent you from attending the Meetings in person instead of your proxy.

Please vote on the proposed Schemes. If you need any assistance in completing and submitting your Voting Forms please contact PRO.

How will the Meetings and vote be conducted?

For each of Sovereign and its two subsidiaries, Greyfriars and Sovereign (UK), there will be a single Meeting to vote on their respective Schemes. For each of the other Scheme Companies there will be two separate Meetings (one comprised of Scheme Creditors voting in respect of their Scheme Claims other than IBNR Claims, and one for Scheme Creditors voting in respect of their IBNR Claims). The Meetings of each of the Scheme Companies to vote on the proposals are to be held on 27 October 2006 at 11am at Plaisterers' Hall in London (see attached map). If more than 50% in number and at least 75% by value of those voting in each Meeting (whether in person or by proxy) approve a scheme, it will, subject to Court approval and the delivery to the UK Registrar of Companies of the relevant Order from the Court, be binding on all Scheme Creditors of that Scheme Company whether they voted or not.

The Chairman of the Meetings (the "Chairman") will be Stephen Adamson, who is a member of the Institute of Chartered Accountants and is independent of the Scheme Companies. Mr Adamson has had no connection with the preparation of the Scheme nor with any of the Scheme Companies or the advisers on the Scheme. A copy of his CV is available on the Website.

The Chairman will consider the value of your claim as submitted on your Voting Form and, if he considers it reasonable, will admit it for voting purposes. Votes will be valued with a discount to reflect the time value of money with set-off being applied in respect of, and only in respect of, any amounts which are currently established as being due from Scheme Creditors to the Scheme Company. In respect of Sovereign only, votes will also be valued net of amounts agreed and offset against Scheme Claims under the Original Sovereign Scheme. For the avoidance of doubt, Scheme Creditors of Sovereign will vote without deduction of any payment actually made under the Original Sovereign Scheme. The Chairman has absolute discretion and the power to reject a vote or determine what he considers to be a fair and reasonable assessment of the Scheme Creditor's vote value. If the Chairman disagrees with the value submitted on your Voting Form, and you and he cannot resolve the dispute, it will be assessed by a "Vote Adjudicator".

The Vote Adjudicator will be the first Scheme Actuary proposed in respect of each of the relevant Scheme Companies, which will be David Hindley of Deloitte & Touche LLP in respect of the Scheme Companies other than Continental Reinsurance Corporation

International Limited, for which the Vote Adjudicator and proposed Scheme Actuary will be Esmee Robinson of PricewaterhouseCoopers LLP.

The Vote Adjudicator will not be advised by the Chairman as to whether you voted for or against the Scheme. The Chairman and the Vote Adjudicator will refer to the records held by PRO and any supporting documentation which is supplied by you to support your vote value. It is therefore important that you provide adequate supporting documentation to support the vote value that you assert. Guidance as to the type of information that might be suitable can be found in the Estimation Methodology at Appendix B of the Scheme Document. Failure to supply suitable supporting documentation may result in your vote being rejected or receiving a lower value than you assert.

Where a vote is rejected or valued at less than the amount you originally asserted, you will be notified of this decision as soon as possible, and in any event prior to the Court hearing to sanction the Scheme. This rejection or revision of your vote value will be reported to the Court at the sanction hearing and should you wish to object you may do so at that hearing or by writing to PRO in advance of the hearing, and PRO will bring your letter to the Court's attention.

The assessment of any vote value by the Vote Adjudicator and/or the Chairman will not determine the value of your Scheme Claim under the Scheme in the event that the Scheme goes ahead. The actual value of your Scheme Claim in the event that the Scheme proceeds may be higher or lower (in either case, possibly materially so) than the value assessed by the Vote Adjudicator and/or the Chairman. This is because there may be significantly more information available during the claims submission process under the Scheme, both from the relevant Scheme Creditor and also from other Scheme Creditors with similar claims.

It may be necessary to adjourn the Meetings and/or delay the announcement of the result of the vote until disputed votes have been assessed.

A copy of the protocol for the vote adjudication process is enclosed with this letter.

If the requisite majorities approve the proposals at the Meetings, and the Scheme subsequently becomes effective as proposed, the Bar Date for submission of claims under the Scheme will be 6 months after the Effective Date. It has been possible for Scheme Creditors to enter detailed claims information on the Website since 2 December 2005. The flexibility of the Website is such that detailed claims information provided for voting purposes will be migrated onto Claim Forms. This means that the overall period for providing information will be over 17 months.

If you have any questions regarding the above, or would like to discuss the way in which your claims data is likely to be evaluated under the Scheme process, including the Estimation Methodology, please contact PRO using the contact details below.

PRO's contact details are as follows:

- **E-mail:** **pro_wfumpools@pro-ltd.co.uk**
- **Post:** **WFUM Pools c/o PRO Insurance Solutions Limited, Bruton Court, Bruton Way, Gloucester GL1 1DA, United Kingdom**
- **Fax:** **+44 (0)1452 523 437 (marked for the attention of Toby Wooldridge)**
- **Telephone:** **+44 (0)1452 523 426**

Sources of information available to you

- You can access the WFUM Pools Website at www.wfumpools.com.
- You should consult advisers and/or your broker or other intermediary for advice.
- You can contact the Scheme helpline by e-mail, fax or telephone (see PRO's contact details above).

Yours faithfully

PRO Insurance Solutions Ltd

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PROPOSED SCHEME OF ARRANGEMENT FOR THE WFUM POOLS

APPENDIX: LIST OF SCHEME COMPANIES

SOVEREIGN MARINE & GENERAL INSURANCE COMPANY LIMITED

ALLIANZ CORNHILL INSURANCE PLC

ALLIANZ GLOBAL CORPORATE & SPECIALTY (FRANCE)

ATLANTIC MUTUAL INSURANCE COMPANY

CONTINENTAL REINSURANCE CORPORATION INTERNATIONAL LIMITED

GREYFRIARS INSURANCE COMPANY LIMITED

HEDDINGTON INSURANCE (U.K.) LIMITED

HIBERNIAN GENERAL INSURANCE LIMITED

MITSUI SUMITOMO INSURANCE COMPANY (EUROPE), LIMITED

OSLO REINSURANCE COMPANY (UK) LIMITED

SOVEREIGN INSURANCE (UK) LIMITED

SPHERE DRAKE INSURANCE LIMITED

THE OCEAN MARINE INSURANCE COMPANY LIMITED

THE SEA INSURANCE COMPANY LIMITED

TOKIO MARINE EUROPE INSURANCE LIMITED

WAUSAU INSURANCE COMPANY (U.K.) LIMITED

Note:

The above are the current names of the WFUM Pools participants and as such are not necessarily the names that were in existence at the time that the business was underwritten. For more information in this regard, please refer either to PRO or the WFUM Pools website.

