

PRO Insurance Solutions

Our Ref:

Date: 20 January 2006

CHIEF FINANCIAL OFFICER

Dear Sir / Madam

PROPOSED SCHEME OF ARRANGEMENT FOR "THE WFUM POOLS"

As explained in our letter of 2 December 2005, a copy of which can be found on the WFUM pools website (www.wfum-pools.com), the 16 companies listed in the appendix to this letter which participated in the WFUM pools ("Scheme Companies"), including the insolvent Sovereign Marine & General Insurance Company Limited ("Sovereign"), have been developing a collective scheme of arrangement under Section 425 of the Companies Act 1985 (the "Pool Scheme"). Sovereign's existing scheme dated 15 October 1999 will be amended so as to take the form of the Pool Scheme.

The Pool Scheme would close all elements of the solvent companies' WFUM pools business, which is in run-off, except for any UK compulsory insurance policies. It would also close all of the business of Sovereign and its solvent subsidiaries, Sovereign Insurance (UK) Limited and Greyfriars Insurance Company Limited. However, certain "Protected Policyholders" (Scheme Creditors who have claims against Sovereign which are protected by virtue of the Policyholders Protection Act 1975) of Sovereign will, subject to eligibility, still be entitled to receive payment from the Financial Services Compensation Scheme after closure.

We believe that you may be an actual or contingent creditor of one or more of the Scheme Companies and therefore may be affected by the proposed Pool Scheme.

PRO Insurance Solutions Limited ("PRO") is the WFUM pools run-off manager and proposed Scheme Manager.

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Following guidance given by the High Court of Justice of England and Wales, we are writing to inform you of:

- (i) the Scheme Companies' decision to formally propose the Pool Scheme;
- (ii) the purpose which the Pool Scheme is designed to achieve; and
- (iii) the composition of the meetings of creditors affected by the Pool Scheme ("Scheme Creditors") which the Scheme Companies propose to convene for the purpose of voting on the Pool Scheme.

The Court Hearing

The Scheme Companies intend to apply to the High Court of Justice at the Royal Courts of Justice, Strand, London WC2A 2LL, United Kingdom, for a court hearing (the "Court Hearing") to be held no earlier than 21 February 2006, for permission to convene the necessary meetings of Scheme Creditors in May 2006 to consider and, if thought appropriate, approve the Pool Scheme. The date of the Court Hearing will be confirmed on the WFUM pools website. Formal notice of the meetings of Scheme Creditors will be sent to you in due course.

The Pool Scheme

The background to the Pool Scheme is explained in more detail in the letter dated 2 December 2005 which is referred to previously.

In summary, the Scheme Administrators of Sovereign consider that Sovereign's run-off has now reached a point where the most beneficial option for policyholders is to propose a "closing" scheme of arrangement. Given the fragmentation of the WFUM pools which would occur if Sovereign and its solvent subsidiaries were to close in isolation, and the associated complexity for policyholders, one of the aims of the Pool Scheme is to enable the closure of the pool business to be carried out for the Scheme Companies and their policyholders in a unified and efficient manner. The Pool Scheme would also enable the run-off of the WFUM pools business to be concluded earlier than would be the case if claims were left to mature in the ordinary course of business.

The Pool Scheme would achieve this by establishing a Bar Date by which Scheme Creditors must submit details of all their claims against the Scheme Companies in respect of business covered by the Pool Scheme ("Scheme Claims"), whether actual or contingent. If they do not do so, they will lose the right to be paid for claims apart from claims which have already been agreed but not settled by the Scheme Companies or which are "Protected Scheme Claims" made by "Protected Policyholders". Scheme Creditors will therefore be urged to submit their claims by the Bar Date. If claims are not

accepted as submitted, the Scheme Manager will then enter into discussion with the Scheme Creditor to attempt to agree a fair value for its Scheme Claims. To the extent that these cannot be agreed, they will be valued in accordance with the procedures set out in the Pool Scheme.

For outstanding claims and incurred but not reported ("IBNR") claims this includes a procedure for valuation through an Estimation Methodology, which will be set out in the Scheme, by which the Scheme Actuary will determine ultimate values for claims. This Estimation Methodology allows the Scheme Actuary to adopt the Scheme Creditor's own methodology if, in the opinion of the Scheme Actuary, it is more appropriate.

In the event of a disagreement over whether the Estimation Methodology has been properly applied, an independent Actuarial Adjudicator can be asked to review the process. There are also provisions for adjudication of disputes of fact or law by a Scheme Adjudicator.

Scheme Claims will be valued as at the Ascertainment Date (31 December 2005) and the outstanding and IBNR element of Scheme Claims will be subject to a time value discount to the date of the Valuation Statement. The Valuation Statement will be issued when Scheme Claims have been agreed and will take into account set-off, if any. The total value of Scheme Claims, as shown on the Valuation Statement, will be paid in full by each solvent Scheme Company, while Sovereign will pay a percentage of each Scheme Claim. Such percentage (currently 40%) may be reviewed from time to time by Sovereign's Scheme Administrators.

The meetings and the proposed voting classes

Legally the Pool Scheme consists of a separate scheme of arrangement for each of the Scheme Companies, although the terms of the Pool Scheme are the same for each Scheme Company with the exception of:

- (i) Sovereign, for whom certain differences are required due to the fact that it is insolvent; and
- (ii) Continental Reinsurance Corporation International Limited ("CRCI"), for which the Estimation Methodology will be applied by someone other than the Scheme Actuary due to the fact that the Scheme Actuary's firm audits the group to which CRCI belongs.

For each Scheme Company's scheme to be implemented, it must be approved by a majority in number, and not less than 75% in value, of those creditors who vote (in person or by proxy) at the meeting in respect of that Scheme Company, or at each such meeting if there were to be more than one class of creditors. If the rights of creditors are so different or would be affected so differently by a scheme of arrangement as to make it impossible for them to consult together in their common interest, they must be divided into classes and vote at separate class meetings.

In the case of the Pool Scheme, each Scheme Company intends to propose calling a single class meeting of Scheme Creditors for the purposes of considering and, if thought appropriate, approving the Pool Scheme for that Scheme Company.

The rationale for this is that we believe all of the Scheme Creditors of the solvent Scheme Companies either have, or may have, an interest in the quantification of claims pursuant to the terms of the Scheme. The same applies to the majority of the Scheme Creditors of Sovereign.

Additionally, the nature and mix of Scheme Creditors' claims are continually changing as their claims mature. Over the time between the date of this letter and the Bar Date a claim could move from being IBNR, to notified outstanding, to agreed. Accordingly a Scheme Creditor which has an IBNR claim when considering the Scheme proposal could very well find that some of its claims have matured into notified or even agreed claims by the Bar Date.

Consequently, if such claims were segregated for voting purposes based on their status at the date of the meetings, the effect would be that the class in which a Scheme Creditor voted may bear no relation to how its claim would ultimately be treated under the Scheme.

In Sovereign's case, the rationale for a single class is also based on the fact that it is currently in an insolvent run-off scheme, which operates instead of an insolvent liquidation and which envisages a transition to an insolvent cut-off scheme.

The Scheme Companies are therefore of the view that, given the way in which the Scheme would affect Scheme Creditors' rights, there is no sound basis for concluding that they cannot consult together.

Sovereign's insolvent scheme will also include "Protected Policyholders". Protected Policyholders will continue to present their claims to the Scheme Administrators of Sovereign as they fall due in the ordinary course of business. When such claims are agreed by the Scheme Administrators, Protected Policyholders will, as they would in an insolvent liquidation, receive payment of the protected percentage of their claim from the Financial Services Compensation Scheme Limited. Sovereign does not consider that their rights or treatment in the Pool Scheme are so different as to prevent them from consulting together with other Scheme Creditors.

Conclusion

Accordingly, it is the view of all the Scheme Companies that it is appropriate to convene one meeting of Scheme Creditors for each Scheme Company to consider and, if thought appropriate, approve the Pool Scheme. The application to Court will be made on this basis.

The action you should now take

If any potential Scheme Creditor has concerns, having considered appropriate professional advice, on the proposed constitution of classes, they should write, fax or e-mail us, using the contact details below, as soon as possible and in any event seven days prior to the date of the Court Hearing (which will be notified on the website).

Any concerns which Scheme Creditors communicate in writing to us on this issue will be drawn to the Court's attention at the Court Hearing. Scheme Creditors also have the right to attend the Court Hearing for the purpose of making representations and we will be pleased to provide you with further information regarding the Court Hearing, if requested.

Please note that if the Pool Scheme is approved at the meetings of Scheme Creditors, it will be possible for Scheme Creditors to raise objections on the question of classes at the subsequent Court hearing to sanction the Pool Scheme which it is anticipated will be held in May 2006. However, were this to be the case, the Court is likely to expect creditors to show good reason why they did not object at an earlier stage.

Contact Details and Further Information

By Post: WFUM Pools, c/o PRO Insurance Solutions Limited, Bruton Court, Bruton Way, Gloucester GL1 1DA, United Kingdom, marked for the attention of Toby Wooldridge

By e-mail: pro_wfumpools@pro-ltd.co.uk

By Fax: +44 (0)1452 523 437, marked for the attention of Toby Wooldridge

Further information regarding the Pool Scheme, the Court hearing dates and the WFUM pools business is available on the WFUM pools website at www.wfumpools.com. If you are unable to access the website and would like details sent to you by alternative means, or if you have any other queries, please contact the WFUM Pool Scheme helpline on +44 (0)1452 523 426.

Yours faithfully

PRO Insurance Solutions Limited

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APPENDIX: SCHEME COMPANIES

- **Sovereign Marine & General Insurance Company Limited**
- **Allianz Cornhill Insurance plc**
- **Allianz Marine & Aviation (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**
- **Ocean Marine Insurance Company Limited**
- **Oslo Reinsurance Company (UK) Limited**
- **Sovereign Insurance (UK) Limited**
- **Sphere Drake Insurance 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 pool 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.