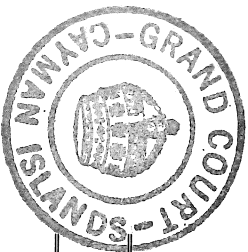


IN THE GRAND COURT OF THE CAYMAN ISLANDS

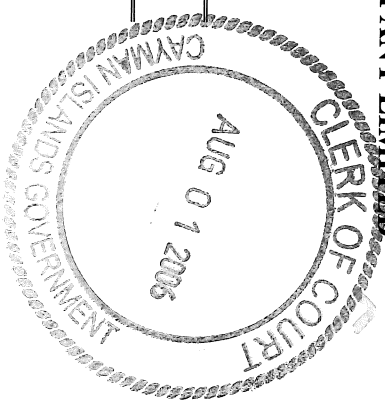
CAUSE NO: 323 OF 2006

IN THE MATTER OF THE COMPANIES LAW (2004 REVISION)
AND IN THE MATTER OF THE INSURANCE LAW (2004 REVISION)

AND IN THE MATTER OF WATER STREET INSURANCE COMPANY LIMITED



PETITION



TO: HER MAJESTY'S GRAND COURT OF THE CAYMAN ISLANDS

The Humble Petition of THE CAYMAN ISLANDS MONETARY AUTHORITY
(hereinafter called "the Authority" or "the Petitioner")

SHOWETH as follows:

Background

1. Water Street Insurance Company ("The Company") was granted an Unrestricted Class "B" Insurer's License on January 4, 1993 (EXP 19/92).
2. The Company was incorporated on December 18, 1992 to run off Auto Property Damage and Auto Liabilities of Water Street Syndicate, Inc.
3. At the time of licensing, Lancer Insurance Company was the registered owner of the Company and the sole director of the Company was Mr. Ali Rifai. Effective December 31, 1993 the ownership of the Company transferred to its parent company, Lancer Financial Group, Inc. ("Lancer").

4. The auditor for the Company is KPMG Cayman, P.O. Box 493GT, Grand Cayman.
5. At the time of licensing, the Insurance Manager of the Company was Mutual Risk Management (Cayman) Ltd.
6. Effective December 31, 1996, with the approval of the Authority, the Company was acquired by Crest Hill Ltd. ("Crest Hill") of Bermuda. Crest Hill is a management holding company, which buys companies in voluntary run off and contracts loss portfolio transfers and other reinsurance arrangements to effect the removal of liabilities from inactive insurance and reinsurance operations. Messrs. William R. Burns and Henry H. Traendly replaced the existing director of the Company and Cayside Insurance Management Ltd. ("Cayside") became the new Insurance Managers for the Company.
7. On September 15, 2000 Mr. Burns resigned as a Director of the Company and was replaced with Mr. John E. Smith of Cayside. Cayside was subsequently purchased by BritCay Management Ltd. ("the Insurance Manager") on August 6, 2001.
8. In December 2001 it was reported that Mr. Smith went missing. He was later presumed dead, and from 2002 to date the remaining and sole director of the Company has been Mr. Traendly.

Regulatory Considerations invoking appointment of Controllers

9. On May 20, 2005, the Authority exercised its powers under Section 13(1)(vii) of the Insurance Law (2004 Revision) ("the Law") and resolved to appoint a person to assume control of the affairs of the Company ("the Controllers"). The regulatory considerations for the Controllers' appointment were as follows:
 - a) The Company had been operating in contravention of the Law since 2002 and had not remedied any of the Authority's concerns despite repeated attempts;
 - b) Based on the December 31, 2003 management accounts, the Company's net worth stood at a deficit of US\$1,009,952, in breach of Section 4(10) of the Law;
 - c) The Company had not paid its 2005 annual Licence fee and was in breach of Section 4(12) of the Law;

- d) Full and proper records of the Company's business activities were not being maintained in the Cayman Islands in line with Section 7(7)(a) of the Law;
 - e) The Company had not filed audited accounts for the years ended June 30, 2002 through June 30, 2004 and was therefore in breach of Section 10(3)(a) of the Law;
 - f) The relationship between the Company and the Insurance Manager had effectively broken down;
 - g) The Company appeared likely to be unable to meet its obligations as they fell due;
 - h) The Authority's guidelines require that two directors be appointed to each captive board. Despite numerous requests from the Authority, a second director was never appointed to the Company's board; and
 - i) Despite notifying the Company on numerous occasions of the contraventions of the Law and making numerous requests and recommendations for the Company to take corrective action, the Company has remained in contravention of the Law.
10. On May 31, 2005 Messrs. Ian Wight and Stuart Sybersma of Deloitte & Touche Cayman were appointed Joint Controllers of the Company.

Controllers' Interim Report

11. On June 29, 2005, the Controllers submitted their Interim Report dated June 22, 2005 to the Authority. The Controllers advised the Authority that the delay between the actual date of the report and the date of its delivery to the Authority was due to various delays the Controllers encountered in contacting and obtaining information from Mr. Traendly. In their Interim Report, the Controllers' detailed the steps taken since their appointment and set out their findings to date. The Controllers' main findings can be summarised as follows:
- a) Since their appointment the Controllers had notified and sought to contact all parties with an interest in, and or doing business with the Company. They had, however, been frustrated in understanding the Company's financial position and business due to the lack of up to date information contained within the Company's books and records held by BritCay, access to any person at BritCay with knowledge of the

business of the Company, and delays in speaking with and obtaining information relating to the Company from its sole director, Mr. Traendly;

b) The most recent management accounts of the Company prepared as at December 31, 2003 indicated that the Company had a deficit in excess of US\$1 million. The management accounts indicated that the Company had total liabilities in excess of US\$1.8 million. The accuracy of these accounts was, however, disputed by Mr. Traendly, from whom further information had been requested.

c) On June 27, 2005 the Controllers wrote to Mr. Traendly requesting that he confirm his willingness to: (i) travel to Cayman and meet with them; (ii) provide the Controllers with the relevant information they required to assess the financial position of the Company; and (iii) commit to provide external funding for the costs of the controllership in order to protect the position of the Company's creditors. Mr. Traendly had been scheduled to visit Cayman to meet with the Controllers the week of June 14, 2005, but was prevented from doing so due to a death in his immediate family;

d) The Controllers indicated that the Company is, or likely is in breach of the Law as follows:

- i. Section 7(4) for failing to prepare annual accounts in accordance with generally accepted accounting principles;
- ii. Section 7(7)(a) for failing to maintain full and proper books and records of the Company's business with the Insurance Manager;
- iii. Section 10(3) for failing to produce written confirmation from an independent approved auditor that annual accounts have been prepared as required; and
- iv. Section 4(10) for failing to maintain its statutorily required net worth. Given the uncertainty surrounding the true financial position of the Company, the Controllers did note that it was their preliminary assessment that the Company was likely in breach of Section 4(10).

- e) The Controllars recommended that the Company be allowed to continue in Controllars for a limited period of 30 days, to allow them to determine Mr. Traendly's compliance with the conditions set out in the their letter dated June 27, 2005.
- f) The Controllars stated that they would arrange a meeting with Mr. Traendly within 14 days and that they would continue to follow up on the other avenues of investigation outlined elsewhere in the report. Should Mr Traendly fail to agree to the conditions set out in the Controllars' letter dated June 27, 2005, then due to the already questionable solvency of the Company and the regulatory breaches identified to date, the Controllars noted that they would recommend to the Authority that the Company be placed into liquidation.
12. The Authority confirmed it had no objection to the Controllars recommended course of action.
13. On August 18, 2005 the Controllars wrote to the Authority and advised that they were continuing to experience delays in obtaining the required information in order to complete their Final Report. More specifically, these problems were as a result of the lack of information obtainable from the Insurance Manager and the delays in communication and requests for information from the sole director, Mr. Traendly. The Controllars further advised that they would be travelling to New York to meet with Mr. Traendly during the week of September 12th and would update the Authority on the results of this meeting. As noted in the Final Report of the Controllars the arrangement of the meeting in New York was the result of the cancellation of another meeting in Cayman by Mr. Traendly on account of his poor health.
14. On September 28, 2006 the Authority followed up with the Controllars for an update on the results of their meeting with Mr. Traendly and was advised that the Controllars were currently preparing their report for the Authority, which would include details of their meeting with Mr. Traendly and other enquiries, as well as their recommendations in relation to the Company.

Controllers' Final Report

15. The Controllers' Final Report dated December 9, 2005 detailed the steps taken since their Interim Report and set out their findings to date. Some of the key points set out in the Final Report can be summarised as follows:

- a) The Controllers provided a detailed chronology of their correspondence with Mr. Traendly covering the period June 27 to September 29, 2005, including the details of a telephone conference call and meeting with him in New York on September 14, 2005. Of note from the Controllers' meeting with Mr. Traendly is that he conceded that the Company should have been placed into voluntary liquidation some time ago but that he claimed not to have understood the liquidation process and the requirements of a voluntary liquidation in the Cayman Islands. That said, Mr. Traendly maintained his position that the Company was not insolvent and that the potential claims that had been identified by the Controllers could be rejected for a variety of reasons, or compromised through settlement in a manner which would be more beneficial to the Company;
- b) Mr. Traendly also agreed with the Controllers that the best course of action for the Company was for it to be placed into liquidation and for the appointed liquidators to adjudicate and settle any claims made against the Company.
- c) Following an extensive review of the Company's records the Controllers identified parties that potentially have claims against the Company, namely Safety National Casualty Corporation ("SNCC"), Sentry Insurance, Guy Carpenter & Company Inc., and Allianz Insurance Company. The Controllers entered into correspondence with these parties, and discussed the validity of their claims with Mr. Traendly. Further information was requested from these parties and at the date of the Final Report the Controllers were still awaiting receipt of certain information. Based on the information available to the Controllers at the time of the Final Report, the potential claims liabilities of the Company totalled US\$1,854,644;
- d) The Controllers noted that from the information that they had identified to date that if the potential claims against the Company are valid and can be proved then the

Company is insolvent. However, as stated above, Mr. Traendly is of the view that these claims are not valid, as they cannot be proved by the respective parties making the claims, and should therefore be rejected;

e) The cash position of the Company was such that upon payment of those trade creditors identified by the Controllers to date, and without any adjudication on the potential claims that had been identified, the Company would, at the very least, be in breach of its minimum capital adequacy requirement as required by the Law. In addition to the breach of the minimum capital adequacy requirement, the Controllers noted that no audited financial statements had been produced or filed with the Authority since December 2001 and that the books and records of the Company do not appear to have been adequately maintained. The Controllers further noted that following discussions with Mr. Traendly and a thorough review of the Company's records that it was highly unlikely that these breaches would ever be subject to any form of remediation;

16. Due to the apparent regulatory breaches, the questionable solvency of the Company and the difficulty that the Controllers have experienced to date in obtaining up to date and relevant information in relation to the claims identified, the Controllers recommended to the Authority that the Company be wound up.

17. The Controllers noted that the liquidation of the Company would allow all the creditors identified to file proofs of debt with supporting information, therefore allowing the liquidators to adjudicate on the validity of those claims and to admit or reject them. The Controllers further noted that the liquidation would still allow the Company to negotiate appropriate commutation agreements or other such scheme of arrangement as may be considered appropriate in the circumstances.

18. In addition, the Controllers noted that a Court supervised liquidation would provide a ready forum for both the creditors and the Company to obtain direction and ruling in respect of those claims, which due to the passage of time appear to lack the necessary supporting information and documentation required, and are potentially litigious.

The Authority's Findings

19. On December 13, 2005 the Authority acknowledged receipt of the Controllers' Final Report and advised that they would revert after reviewing the Report.
20. On January 11, 2006 members of the Compliance and Insurance Divisions of the Authority met to discuss the Controllers' Final Report and to compile a list of various issues for which further information was sought from the Controllers. The main concern of the Divisions was that the Controllers had not been able to determine with any degree of certainty the validity of the potential claims against the Company.
21. The Authority met with the Controllers on January 27, 2006 to discuss the Controllers' findings, recommendations and the validity of the outstanding insurance claims. During this meeting the status of the SNCC claim in particular was discussed in detail and the Controllers provided copies of further documentation they had received from SNCC subsequent to filing their Final Report. It was agreed that the Controllers would seek further information and clarification to better assess the validity of the SNCC claim, which would ultimately determine the Company's solvency.
22. On February 17, 2006 the Authority received a letter from the Controllers in which they advised that they had made further enquiries in relation to the SNCC claim and received additional information that led them to conclude in their capacity as Controllers that the claim appeared to be valid and that the Company was insolvent. The Controllers do not however consider their view to be a binding adjudication of the claim. If appointed as Official Liquidators, one of their duties will be to make a final determination of this and other claims based on the proofs of debt that are submitted and any further information that may become available during the liquidation. This additional information obtained from SNCC by the Controllers was enclosed with their letter to the Authority.
23. After reviewing the information provided by the Controllers in respect of the SNCC claim the Authority wrote to the Controllers on March 14, 2006 and concurred that the Company was insolvent.

Regulatory Considerations

24. The Company has been operating in breach of the Law since 2002 and has not remedied any of the breaches despite repeated requests from the Authority and the Controllers. In particular, the Company is in breach of the Law as follows:
- a) The Company is insolvent and is therefore in breach of Section 4(10) of the Law for failure to maintain the prescribed net worth requirement.
 - b) Section 4(12) for failing to pay its 2005 and 2006 annual Licence fee;
 - c) Section 7(4) for failing to prepare annual accounts in accordance with generally accepted accounting principles;
 - d) Section 7(7)(a) for failing to maintain full and proper records of the Company's business activities with its Insurance Manager; and
 - e) Section 10(3) for failing to file audited accounts for the years ended June 30, 2002 through June 30, 2005.
25. Pursuant to Section 13(4) of the Law, "On receipt of the report under subsection (3), the Authority may –
- a) *revoke the appointment of the person appointed under subsection 1(vi) or (vii);*
 - b) *extend the period of his appointment;*
 - c) *subject to such conditions as the Authority may impose, allow the licensee to reorganize its affairs in a manner approved by the Authority; or*
 - d) *revoke the licence and apply to the Grand Court for an order that the licensee be forthwith wound up by that Court in which case the provisions of the Companies Law (2004 Revision) relating to the winding up of a company by that Court shall, with necessary changes, apply.*

Recommendations

26. The Authority duly considered the recommendation of the Controllers and concurred with their recommended course of action that the company be wound up.

27. The Authority, on May 22nd 2006 and pursuant to Section 13(4)(d) of the Law, adopted a resolution to revoke the licence and apply to the Grand Court for an order that the licensee be forthwith wound up by that Court in which case the provisions of the Companies Law (2004 Revision) relating to the winding up of a company by that Court shall, with necessary changes, apply.
28. The Authority is of the belief that winding up of the company is the most appropriate option of all those which are available for the following reasons:
- a) Given the regulatory breaches and the insolvency of the Company, the revocation of the appointment of the Controllers is not appropriate, as it would put the director back in control of the Company, which, based on past experience, will not resolve the outstanding regulatory matters with the Company and may prejudice policyholders and creditors;
 - b) There is no real benefit to extending the Controllers' appointment, as the Controllers have already exhausted all means available to them and are unable to progress the matter further; and
 - c) Imposing further conditions is unlikely to resolve the situation as the Company has already failed to satisfy certain statutory requirements under the Law.
29. Pursuant to Section 13(4)(d) of the Law, the Petitioner applies under Section 94 of the Companies Law (2004 Revision) for the Company to be wound up by the Court on the grounds that it is just and equitable for the following reasons:
1. Based on the information available to the Authority, the Company is insolvent and is unable to pay its debts as and when they fall due and is not in a position to continue as a going concern.
 2. Joint Official Liquidators could protect the asset position of the Company against potential legal proceedings
 3. It is in the public interest that the Company be wound up expeditiously.

YOUR PETITIONER THEREFORE HUMBLLY PRAYS as follows: -

- (a) That Water Street Insurance Company be wound up by the Court subject to the provisions of the Companies Law (2004 Revision);
- (b) That Messrs. Ian Wight and Stuart Sybersma of Deloitte & Touche Cayman, be appointed as Joint Official Liquidators of the Company, and that the Joint Official Liquidators be authorised to do any acts or things jointly and severally considered by them to be necessary or desirable in connection with the liquidation of the Company and the winding up of its affairs;
- (c) That the Joint Official Liquidators shall not be required to give security for their appointment;
- (d) That the Petitioner be at liberty to apply to the Court at any time, *inter alia*, for the removal of the Joint Official Liquidators;
- (e) That the Joint Official Liquidators be authorised:
 - (i) to bring or defend any action, suit, prosecution or other legal proceedings, whether criminal or civil, by way of court process or arbitration, in the name and on behalf of the Company.
 - (ii) to take possession of, collect and get in all property or assets (of whatever nature) to which the Company is or appears to be entitled;
 - (iii) to do all things as may be necessary or expedient for the protection of the Company's assets;
 - (iv) to do all things (including the carrying on of the business of the Company) as may be necessary or expedient for the beneficial realisation of the property or assets of the Company (including power to borrow money);

- (v) to appoint attorneys, solicitors and other professional qualified persons both in the Cayman Islands and elsewhere to assist them in the performance of their duties;
- (vi) to appoint agents both in the Cayman Islands and elsewhere to do any business which they are unable to do themselves or which can more conveniently be done by an agent and power to employ and dismiss officers and employees of the Company;
- (vii) to exercise any power which is necessary or incidental to the performance of their duties;
- (viii) to open and maintain bank accounts in the name of the Company or themselves anywhere in the world as may be necessary for the better performance of their duties;
- (ix) to exercise and execute all the powers set out in Section 109 of the Companies Law (2004 Revision) without sanction or intervention of the Court and unprejudiced by the generality hereof;
- (x) to compromise all calls and liabilities to calls, debts and liabilities capable of resulting in debts, and all claims whether present or future, certain or contingent, ascertained or sounding only in damages, subsisting or supposed to subsist between the Company and any contributory or alleged contributory or alleged contributory or other debtor or person apprehending liability to the Company, upon receipt of such sums payable at such times and generally on such terms as may be agreed upon, with power to take securities for the discharge of such debts or liabilities and to give complete discharges in respect of all such calls, debts, or liabilities; and
- (xi) to do and execute all such other things as may be necessary for winding-up the affairs of the Company and distributing its assets;

and for the avoidance of doubt the powers bestowed on the Joint Official Liquidators may be exercised by them within and outside the Cayman Islands.

- (f) That the Joint Official Liquidators do file with the Clerk of the Court a report in writing of the position of and the progress made with the winding up of the Company and with the realisation of the assets thereof and as to any other matters connected to the winding up of the Company, every six calendar months or as the Court may from time to time direct;
- (g) That, save as aforesaid, the Joint Official Liquidators be at liberty to employ attorneys, counsel and professional advisors whether in the Cayman Islands or elsewhere as they may consider necessary to advise and assist them in performance of their duties and on such terms as they may think fit;
- (h) That the Joint Official Liquidators be at liberty to and do pay themselves, their agents, employees, attorneys, solicitors and whomsoever else they may employ or instruct, remuneration and costs in priority to all other debts of the Company pursuant to Section 123 of the Companies Law (2004 Revision), and:
 - (i) The Joint Official Liquidators shall be entitled to receive remuneration for their services by reference to the time properly given by them and their staff in attending to matters arising in the winding-up and the hourly rates and the amount of remuneration shall be determined in accordance with Rules 4.127 – 131 of the UK Insolvency Rules 1986;
 - (ii) The Joint Official Liquidators be at liberty to pay their agents, employees, attorneys, solicitors and whomsoever else they employ or instruct either weekly or monthly or at such intervals as they consider appropriate;
 - (iii) The Joint Official Liquidators be at liberty to meet all disbursements reasonably incurred in connection with the performance of their duties;

- (i) The Joint Official Liquidators shall provide to the Petitioner copies of all reports filed with this Court and/or sent to creditors or contributories of the Company;
- (j) The Joint Official Liquidators shall serve on the Petitioner copies of all applications made to this Court for directions or other relief and any evidence in support thereof, such service to be within a reasonable time of date of the hearing of any such applications;
- (k) That the costs of this petition be paid out of the assets of the Company as an expense of the liquidation;
- (l) Such other orders and directions may be made as the Court thinks fit.

AND YOUR PETITIONER will ever pray etc.

DATED this 1st day of August 2006.



Candice R. Huggins
Legal Counsel for the
Cayman Islands Monetary Authority

INDORSEMENT

TO: Water Street Insurance Company Limited
c/o BritCay Management Limited
BritCay House, Eastern Avenue
George Town

The Petition will be heard at the Law Courts, George Town, Grand Cayman on
6 October 2006, 2006 at 10 a.m./p.m.

This Petition is filed by the Legal Division of the Cayman Islands Monetary Authority, whose address for service is 80e Sheddin Road, Elizabethan Square, PO Box 10052 APO, Grand Cayman, Cayman Islands.