

**Obligations:**

The Reinsurer agrees to provide security (effective immediately) for its Obligations either by a cash deposit or a letter of credit in the amount of its Obligations, subject to the following conditions:

The term "Obligations" shall mean:

- (a) during the period covered by this Reinsurance Agreement, the Limit, plus
  - (i) losses and allocated loss expenses paid by the Reinsured, but not recovered from the Reinsurer,
  - (ii) reserves for losses reported and outstanding,
  - (iii) reserves for losses incurred but not reported,
  - (iv) reserves for allocated loss expenses,

Notwithstanding the foregoing the Collateral shall never exceed twice the Limit, less losses and loss adjustment expenses recovered from the Reinsurer.

- (b) on expiry of this Reinsurance Agreement, Obligations shall be determined as the aggregate of
  - (i) losses and allocated loss expenses paid by the Reinsured, but not recovered from the Reinsurer,
  - (ii) reserves for losses reported and outstanding,
  - (iii) reserves for losses incurred but not reported,
  - (iv) reserves for allocated loss expenses,

If security is provided by way of a letter of credit, such letter of credit shall be clean, irrevocable and unconditional and issued by a bank and containing provisions acceptable to the Reinsured, i.e. the bank shall have a minimum rating of "A" (Standard & Poor's) and shall be approved by the National Association of Insurance Commissioners (NAIC).

The Letter of Credit shall be issued for a period of not less than one year and shall be automatically extended for one year from its date of expiration or any further expiration date unless 60 (sixty) days prior to any expiration date the issuing bank shall notify the Reinsured by registered mail that the issuing bank elects not to consider the letter of credit extended for any additional period. Except for increases, the letter of credit may only be modified with the prior written consent of the Reinsured.

The Reinsured and the Reinsurer further agree, notwithstanding anything to the contrary in this Agreement, that said Letter of Credit may be drawn upon by the Reinsured or its successors in interest at any time, but only

for one or more of the following purposes:

- i) To reimburse itself for the Reinsurers' share of unearned premiums on the account of cancellations, unless paid in cash by the Reinsurers;
- ii) To reimburse itself for the Reinsurers' share of any amounts recoverable under the ULTIMATE NET LOSS CLAUSE paid under the terms of the Policies and/or Contracts reinsured hereunder, unless paid in cash by the Reinsurers;
- iii) To fund a cash account in the amount equal to the Reinsurers' Obligations, if said Letter of Credit has not been renewed or replaced by Reinsurers 20 business days prior to its expiration date;

In the event the amount drawn by the Reinsured on any Letter of Credit is in excess of the actual amount required for (i), (ii) or (iii), the Reinsured shall promptly return to the Reinsurers the excess amount so drawn.

After the period covered by this Reinsurance Agreement the Letter of Credit shall be determined by the following:

- (i) At ....., the Letter of Credit remains at 100% of the Obligations (as per provision (a)):  
  
if there is an event with expected ultimate net losses (including incurred but not reported) of the Reinsured of at least 30% of the attachment point
- (ii) At ..... the Letter of Credit is reduced to zero if none of the above has occurred.
- (iii) At ....., the Letter of Credit remains at 100% of the Obligations (as per provision (b))  
  
if there is one event with expected ultimate net losses (including incurred but not reported) of the Reinsured of at least 50% of the attachment point
- (iv) At ..... the Letter of Credit is reduced to zero if none of the above has occurred.
- (v) At ....., the Letter of Credit remains at 100% of the Obligations (as per provision (b))

if there is one event with expected ultimate net losses (including incurred but not reported) of the Reinsured of at least 70% of the attachment point

(vi) At ..... the Letter of Credit is reduced to zero if none of the above has occurred.

(vii) At ....., the Letter of Credit remains at 100% of the Obligations (as per provision (b))

if there is one event with expected ultimate net losses (including incurred but not reported) of the Reinsured of at least 90% of the attachment point

(viii) At ..... the Letter of Credit is reduced to zero if none of the above has occurred.

(ix) At ..... if the LOC hasn't already been reduced to zero, then the Reinsured and the Reinsurer negotiate a final settlement which includes final payment and reduction of LOC, if in the event a final settlement cannot be negotiated then the LOC amount shall remain in place until a satisfactory settlement has been negotiated.

If a loss event occurs in the final three months of this Reinsurance Agreement (..... to .....), then the dates above are deferred by three months (e.g. .... defers to .....), however, the Reinsurer and the Reinsured shall still negotiate final settlement at .....

All costs and expenses associated with the Letter of Credit will be the responsibility of the Reinsurer.

If security is provided by way of a cash deposit, cash in the amount of the Obligations (initially EUR \_\_\_\_\_) shall be transferred to the Reinsured. The cash deposited may be used by the Reinsured in accordance with the purposes set out above for LOC. The outstanding deposit amount shall bear interest at a rate of 3 month Euribor expressed as a percentage rate per annum (day count convention: actual/360 days). Interest shall be paid to the Reinsurer quarterly in arrears at the following dates: as per ....., ....., .....and .....

The 3 month Euribor rate shall be determined on the first working day of each quarter, the first quarter commencing as per ..... The Reinsured will release the outstanding amount of the cash deposit as soon as practicable upon receipt of a letter of credit meeting the requirements set out above and in the same amount as the cash deposit and the Obligations.