

# OIL INSURANCE LIMITED

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TO: OIL Shareholder Representatives

September 12, 2016

## **Re: NOTICES TO SHAREHOLDERS**

Management is pleased to announce that on June 1, 2016, TransCanada PipeLines Limited and Plains All American Pipeline LP became OIL members. This brings our current membership count to 56 companies.

As a follow on to the August 19<sup>th</sup> Shareholder Memo, please find below the long form description of the six items highlighted in that memo. For ease of comparison, I have kept the text from the first memo in place so it will be easy for you to follow.

1. OIL has decided to temporarily waive the mandatory requirement to elect a \$400 million limit as of January 1, 2017 and has pushed back the deadline to January 1, 2018. Members may elect full limits that vary between \$300 million and \$400 million during 2017. As part of our ongoing efforts to review opportunities to improve our product offering, OIL is currently analyzing the possibility of offering different levels of limits to its membership in the future. We are extending the date to allow management to conclude the ongoing analytics necessary to make an informed decision.
2. OIL's Terrorism coverage wording has been modified. Changes were made to (1) create clarity on what an "Act of Terrorism" means, (2) broaden coverage to include areas in a country that are not under the control of terrorists, and (3) clarify that an Act of Terrorism must be the sole cause for a loss. Changes are effective 1/1/2017.
3. As of 1/1/2017, coverage under insuring agreement 3 will be amended to specifically address coverage for clean-up of 3rd party pollution in "pipeline right of ways".
4. 1<sup>st</sup> Quarter Invoices will no longer be due January 1<sup>st</sup>. Instead, they will be issued by OIL sometime in February and payable two weeks later. 2<sup>nd</sup> Quarter Invoices will be issued in April and due May 10<sup>th</sup> or the first business day thereafter. 3<sup>rd</sup> & 4<sup>th</sup> Quarter Invoices will be issued on the current schedule.
5. The Coverage Options Endorsement currently restricts members to one change per year on January 1. The practice at OIL has been to allow more than one change per year as long as we have 30 days advance notice. A wording change to Exhibit F of the Shareholder was approved that memorializes OIL's current practice. The change will take effect on 1/1/2017.
6. The Experience Modification wording in the Rating & Premium Plan fails to prevent Experience Modification Premium from being redistributed mid-year as a result of mergers, acquisitions and/or divestitures within the membership. At the March 2017 AGM, shareholders will be asked to approve language changes that prevent EM premium redistribution from happening under these circumstances.

## **Item #1 - Flexible Purchasing of Limits**

As part of the strategic planning process, OIL is investigating and analyzing the appropriateness of offering our membership the ability to choose a variable limit amount as long as it falls on or between minimum and maximum amounts. The thinking is it may be important to offer our membership (and potential members) flexible limit options particularly if not all companies need or wish to purchase the same amount of limit. When we surveyed our membership in 2014 before increasing our limit to \$400M, 73% of our membership wanted limits up to \$400M and 51% wanted limits of \$450M to \$500M. This data suggested that not all members wanted the same level of limits. Considering the drastic changes that have taken place within the energy and insurance industries since 2014, management was requested to re-survey the membership on this subject to get updated and current data on the membership's preferences and needs for limits. Because this data gathering and analysis will take time, the Board agreed with management that it was prudent to push out the mandatory election of \$400M in limits for another year pending the outcome of this project.

During this interim period, the membership should know that all members have the option to elect a limit profile from \$300M to \$400M without the need of warranting the absence of excess limits.

In the meantime, please be advised that the OIL Rating & Premium Plan automatically adjusts a member's Weighted Gross Assets for different levels of limits. This means a member will have a lower pool % for electing a \$300M limit versus electing a \$400M limit as long as all other factors such as their deductible, assets, sectors, limit structures and profiles of other members etc. remain constant. Management will be looking at this dynamic to understand how significant the differences are and whether having flexible limits disadvantages one group over another.

## **Item #2 – Amended Terrorism Coverage as of 1/1/2017**

As many of you know, OIL presented information on this subject to the membership during the Shareholder Information Sessions the first week of February 2016. OIL made these adjustments to rectify what we considered to be deficiencies in the current wording.

1. "Act of Terrorism" means use of force or violence ... committed for political, religious, ideological or other **similar** purposes ... The word "similar" was added to make sure that all covered acts committed were for reasons similar to political, religious or ideological purposes. "Other purposes" might be interpreted more broadly than was the intent of the coverage.
2. Coverage was extended / broadened to provide for acts of "secret agents" outside of the area of control of terrorists within a country. In the current policy, if a section of a country is controlled by terrorists, that fact precludes an OIL member from terrorism coverage in another part of that same country even if that area is hundreds of miles away and not controlled by those same terrorists. However, the current language does recognize coverage if an act takes place only a few miles away and the location is in another country. To OIL's Board and management that did not reflect the coverage the company intended to offer and hence the modification to eliminate the coverage exclusion within the same country.
3. Act of Terrorism covered, **"... but only if the Act of Terrorism is the sole cause which does not include the Excluded Acts; ..."** When OIL's Terrorism coverage was first drafted, terrorism acts were almost always isolated acts in which it was obvious an individual or group of individuals were responsible for the act. In today's world, there are often multiple activities as well as blurred delineations or distinctions between terrorist acts and acts that are excluded like wars, civil wars, insurrections, revolutions, rebellions, mutinies, Coup d'Etats and counter-

insurgencies. For these reasons, OIL's Board and management felt as if the company and its members were assuming risk that was beyond the original intent of the coverage.

Please see the attached Clean and Red-Lined version of the new language.

**Item #3 – 3<sup>rd</sup> Party Pollution Liability Coverage for “Pipeline Right of Ways” as of 1/1/2017**

As a result of feedback from our members and comparing our coverage to the commercial market, OIL's Board and management amended Insuring Agreement 3 to allow 3<sup>rd</sup> party pollution liability coverage for “pipeline right of ways”.

Please see the attached Clean and Red-Lined version of the new language.

**Item #4 – Changes to Due Dates of Premium Billings commencing in 2017**

As a result of feedback from the membership and reviewing the operational procedures of generating our premium billings, management has changed the 1<sup>st</sup> and 2<sup>nd</sup> quarter due dates when premium is due from the membership.

Right now there are several operational steps OIL has to take to generate premium bills for our members. This requires our staff to manually remove and reenter data in our R&PP and billing systems around the end of the year. In addition, many of our members are challenged to get premium bills approved in a timely manner around the end of the year and during the holiday season. By extending the 1<sup>st</sup> quarter billing into February with a due date two weeks later, OIL avoids several manual operational procedures, our members enjoy more favorable timing of cash flows and internal payment approval processes and the 1<sup>st</sup> quarter billing will be based upon losses through December 31<sup>st</sup> of the previous year instead of November 30<sup>th</sup> as is our current practice.

New Premium Billing Schedule:

1 <sup>st</sup> Quarter:	Invoices will be generated in February with payment due 2 weeks later
2 <sup>nd</sup> Quarter:	Invoices will be generated in April with payment due on May 10 <sup>th</sup> or the first business day thereafter
3 <sup>rd</sup> Quarter:	Invoices will be generated in mid-June with payment due July 1 <sup>st</sup>
4 <sup>th</sup> Quarter:	Invoices will be generated in mid-September with payment due October 1 <sup>st</sup>

Please note there will be no change to 3<sup>rd</sup> and 4<sup>th</sup> quarter due dates

**Item #5 – Number of Coverage Profile Changes per year as of 1/1/2017**

Recently, it was brought to our attention by one of our broker partners that OIL's current documentation in the Shareholders Agreement regarding annual Coverage Profile Changes (only one) is at odds with our current practice of allowing more than one per year as long as we have 30 days advance notice. As a result, the Board and management have modified the Coverage Options Endorsement to rectify this disparity in favor of our current practice effective January 1, 2017.

Please see the attached Clean and Red-Lined version of the new language.

## **Item #6 – Experience Modification Adjustment**

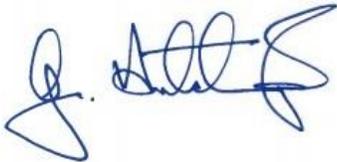
A recent merger between two OIL members highlighted an issue that was not anticipated when Experience Modification was first introduced. When two companies are merged in the system, it causes the system to recalculate the combined entity's Experience Modifier. If assets are large enough, the Experience Modifier can change up or down causing the combined company to pay either more or less Experience Modified Premium for the balance of the year. This in turn causes the rest of the membership to pay less or more premium respectively as well. Because OIL operates under the Lock-In Plan Premium system, the Board and management believe that premium during the year should remain constant for each member if all other factors remain constant. This modification prevents Experience Modifiers from changing as a result of mid-year mergers amongst members.

The Board has approved this modification for presentation to the Shareholders at the 2017 AGM.

Please see the attached Clean and Red-Lined version of the new language.

Should you have any questions about these changes, please contact me by email on [george.hutchings@oil.bm](mailto:george.hutchings@oil.bm).

Best regards,

A handwritten signature in blue ink, appearing to read "G. Hutchings", with a stylized flourish at the end.

George F. Hutchings  
Senior Vice President & Chief Operating Officer

## Item #2 – Amended Terrorism Coverage as of January 1, 2017

**RESOLVED THAT**, effective January 1, 2017, the definition of “Act of Terrorism” in Exhibits D-1 and D-2 of the OIL Shareholders’ Agreement is amended to read as follows:

“**Act of Terrorism**” means use of force or violence by any person(s), whether acting alone or on behalf of or in connection with any organization(s), committed for political, religious, ideological or other similar purposes, and whether or not the loss or damage resulting therefrom is accidental or intentional. Such acts shall include but not be limited to hijacking, sabotage or bombings. An Act of Terrorism includes an act of any person(s) who are agents of a government (de facto or de jure) and who are acting secretly and not in connection with the operation of regular military or naval armed forces in the country where the Assured’s property is located, provided that the acts of such person(s) shall not include the acts of a person or persons acting on behalf of a government, governmental authority, state or state-like entity whether or not recognized internationally, or power (usurped or otherwise) which exercises de facto jurisdiction control over that part or all of the populated land area of the country in which the described property is situated.

**AND FURTHER RESOLVED THAT**, effective January 1, 2017, section 2 (a) of exclusion 2 in Exhibits D-1 and D-2 of the OIL Shareholders’ Agreement is amended to read as follows:  
2 (a) an Act of Terrorism, but only if the Act of Terrorism is the sole cause which does not include the Excluded Acts;

For illustrative purposes, a redline version of the definition of Act of Terrorism is:

“**Act of Terrorism**” means use of force or violence by any person(s), whether acting alone or on behalf of or in connection with any organization(s), committed for political, religious, ideological or other ~~similar~~ purposes, and whether or not the loss or damage resulting therefrom is accidental or intentional. Such acts shall include but not be limited to hijacking, sabotage or bombings. An Act of Terrorism includes an act of any person(s) who are agents of a government (de facto or de jure) and who are acting secretly and not in connection with the operation of regular military or naval armed forces in the country where the Assured’s property is located, provided that the acts of such person(s) shall not include the acts of a person or persons acting on behalf of a government, governmental authority, ~~state or state-like entity whether or not recognized internationally~~, or power (usurped or otherwise) which exercises de facto ~~jurisdiction control~~ over that part ~~or all~~ of the ~~populated~~ land area of the country in which the described property is situated.

A redline of the amended exclusion 2 for D-1 follows (D-2 is similar):

2. All loss, damage, liability, cost or expense of whatsoever nature, in respect of any properties otherwise insured under this policy directly or indirectly caused by or resulting from war, invasion, acts of foreign enemies, hostilities or warlike operations (whether war be declared or not), civil war, rebellion, revolution, insurrection, usurped power, or use of any weapon employing atomic or nuclear fission, fusion and/or other radioactive force or matter (hereinafter the “Excluded Acts”).

This exclusion applies whether any of the Excluded Acts occur in time of peace or war.

This exclusion does not apply to loss, damage, liability, cost or expense of whatsoever nature, caused by:

- (a) an Act of Terrorism, but only if the Act of Terrorism is the sole cause which does not include the Excluded Acts;
- (b) an Act of Piracy;
- (c) riots, strikes or civil commotion; or
- (d) with respect to Offshore properties collision or contact with aircraft, rockets or similar missiles, or with any fixed or floating object, stranding, heavy weather, fire or explosion unless caused directly (and independently of the nature of the voyage or service which the Watercraft concerned or, in the case of a collision, any other Watercraft involved therein, is performing) by any of the Excluded Acts.

Exceptions (a) through (d) do not apply to loss, damage, liability, cost or expense of whatsoever nature, caused by the use of any weapon employing atomic or nuclear fission, fusion and/or other radioactive force or matter.

APPROVED

**Item #3 – 3<sup>rd</sup> Party Pollution Liability Coverage for Pipelines in Rights of Ways as of 1/1/2017**

**RESOLVED THAT**, effective January 1, 2017, Exhibits D-1 and D-2 of the OIL Shareholders' Agreement are amended to read as set forth in Exhibit A; and

**RESOLVED FURTHER THAT**, effective January 1, 2017, the following definitions are added to Exhibits D-1 and D-2 of the OIL Shareholders' Agreement:

**"Pipeline"** means a long pipe or series of connected pipes used to convey fluids.

**"Right of Way"** means the legal right, acquired by grant, to pass along a specific route through grounds or property belonging to another.

Exhibit A

For Exhibit D-1: Insuring Agreement 3

3. To indemnify the Assured for any sum or sums for which the Assured may be legally liable (including punitive damages), or has agreed in writing to assume for the benefit of others, as a result of personal injury or bodily injury, including death, or physical loss of or loss of use of, or physical damage to property other than property insured or which could be, but for any of the exclusions contained in this policy, insured under insuring agreement 1, arising out of seepage, pollution or contamination caused by an Occurrence. However, a Right of Way within which a Pipeline is located is not deemed to be insured under insuring agreement 1 for purposes of this insuring agreement 3. This insuring agreement applies only if the Assured (or, in the case of an Occurrence arising out of the operations of a joint venture in which the Assured has an interest but is not the operator, the operator of such joint venture) becomes aware of the commencement of the seepage, pollution or contamination within forty (40) days of such commencement and the Named Insured provides the Underwriter with written notice of the commencement of such seepage, pollution or contamination within one hundred twenty (120) days of such commencement; provided, however, if coverage is applicable under this insuring agreement, except as provided in Endorsement 5 such coverage shall be in excess of and shall not contribute with (a) any other valid and collectible insurance of or for the benefit of the Assured, whether primary or excess, which is then in force to insure its liability for seepage, pollution or contamination, including, without limitation, any coverage afforded under general or excess liability insurance, any environmental impairment liability insurance or by any Protection and Indemnity Club and (b) all compensation available, or which would, but for the existence of this policy, be available, through the International Oil Pollution Compensation Fund, as amended, supplemented or extended, or any future conventions or funds (as amended, supplemented or extended) of a similar nature or purpose.

For Exhibit D-2: Reinsuring Agreement 3

3. To reinsure insurance policies issued by the Named Insured which indemnify the Assured for any sum or sums for which the Assured may be legally liable (including punitive damages), or has agreed in writing to assume for the benefit of others, as a result of personal injury or bodily injury, including death, or physical loss of or loss of use of, or physical damage to property other than property covered or which could be, but for any of the exclusions contained in this policy, covered under reinsurance agreement 1, arising out of seepage, pollution or contamination caused by an Occurrence. However, a Right of Way within which a Pipeline is located is not deemed to be reinsured under reinsurance agreement 1 for purposes of this reinsurance agreement 3. This reinsurance agreement applies only if the Assured (or, in the case of an Occurrence arising out of the operations of a joint venture in which the Assured has an interest but is not the operator, the operator of such joint venture) becomes aware of the

commencement of the seepage, pollution or contamination within forty (40) days of such commencement and the Named Insured provides the Underwriter with written notice of the commencement of such seepage, pollution or contamination within one hundred twenty (120) days of such commencement; provided, however, if coverage is applicable under this reinsurance agreement, except as provided in Endorsement 5, such coverage shall be in excess of and shall not contribute with (a) any other valid and collectible insurance of or for the benefit of the Assured, whether primary or excess, which is then in force to insure its liability for seepage, pollution or contamination, including, without limitation, any coverage afforded under general or excess liability insurance, any environmental impairment liability insurance or by any Protection and Indemnity Club and (b) all compensation available, or which would, but for the existence of this policy, be available, through the International Oil Pollution Compensation Fund, as amended, supplemented or extended, or any future conventions or funds (as amended, supplemented or extended) of a similar nature or purpose.

For illustrative purposes only, a redline of insuring agreement of D-1 is as follows:

3. To indemnify the Assured for any sum or sums for which the Assured may be legally liable (including punitive damages), or has agreed in writing to assume for the benefit of others, as a result of personal injury or bodily injury, including death, or physical loss of or loss of use of, or physical damage to property other than property insured or which could be, but for any of the exclusions contained in this policy, insured under insuring agreement 1, arising out of seepage, pollution or contamination caused by an Occurrence. **However, a Right of Way within which a Pipeline is located is not deemed to be insured under insuring agreement 1 for purposes of this insuring agreement 3.** This insuring agreement applies only if the Assured (or, in the case of an Occurrence arising out of the operations of a joint venture in which the Assured has an interest but is not the operator, the operator of such joint venture) becomes aware of the commencement of the seepage, pollution or contamination within forty (40) days of such commencement and the Named Insured provides the Underwriter with written notice of the commencement of such seepage, pollution or contamination within one hundred twenty (120) days of such commencement; provided, however, if coverage is applicable under this insuring agreement, except as provided in Endorsement 5 such coverage shall be in excess of and shall not contribute with (a) any other valid and collectible insurance of or for the benefit of the Assured, whether primary or excess, which is then in force to insure its liability for seepage, pollution or contamination, including, without limitation, any coverage afforded under general or excess liability insurance, any environmental impairment liability insurance or by any Protection and Indemnity Club and (b) all compensation available, or which would, but for the existence of this policy, be available, through the International Oil Pollution Compensation Fund, as amended, supplemented or extended, or any future conventions or funds (as amended, supplemented or extended) of a similar nature or purpose.

**Item #5 – Number of Coverage Profile Changes per year as of 1/1/2017**

**Re: Technical Correction to the Coverage Options Endorsement**

A recent review of Marsh's 2016 OIL Companion by staff has uncovered an inconsistency between the language of the Coverage Options Endorsement and long standing OIL practice. The language in the endorsement dates from the 1970s, at which time changes in deductibles and limits had to be approved by the Board of Directors. The change requests were reviewed and approved in December for effect January 1 of the following year.

Since the authority to approve Coverage Changes passed from the Board of Directors to Management it has been practice to allow mid-year Coverage Changes. The current endorsement language however restricts the date of limit changes to January 1 only. In addition the language makes references to "calendar" years and "calendar" months, again the language is inconsistent with practice, as mid-year, and mid-month Coverage Changes have long been permitted.

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**RESOLVED** that effective January 1, 2017, Section I.A of Exhibit F to the Shareholders' Agreement is amended to read as follows:

**I. COVERAGE ELECTIONS & CHANGES**

**A.** After three (3) years as a Named Insured (or such shorter period as the Underwriter may determine) each Named Insured shall have the option of making Coverage Change(s), by giving notice to the Underwriter at least thirty (30) days prior to the effective date of the Coverage Change(s); provided, however, that a Named Insured may only make a Coverage Change with the written consent of, and upon such terms and conditions as are prescribed by, the Underwriter; without limiting the foregoing the Underwriter may in the case of a change in deductible or limit, require a warranty relating to the absence of underlying or other insurance (and breach of any such warranty shall void coverage as respects the Sector(s) or Geographic Region(s) involved). The consent of the Underwriter shall be evidenced in writing with the effective date being the date of writing unless otherwise evidenced by the Underwriter.

**FURTHER RESOLVED** that effective January 1, 2017, Section III.A of Exhibit F to the Shareholders' Agreement is amended to read as follows:

**A. Occurrence Limits**

With respect to any Occurrence, other than a Designated Named Windstorm Occurrence, the insurance limit per occurrence shall be the lesser of:

- (1) ten percent (10%) of Unmodified Gross Assets rounded to the nearest ten thousand dollars (\$10,000), or
- (2) the Maximum Insurance Limit Per Occurrence.

With respect to any Designated Named Windstorm Occurrence the insurance limit per occurrence shall be the lesser of:

- (1) ten percent (10%) of Unmodified Gross Assets rounded to the nearest ten thousand dollars (\$10,000), or
- (2) the Maximum Designated Named Windstorm Insurance Limit Per Occurrence.

The limits shall be in one contiguous layer; provided, however, that the Named Insured may elect to split its limits into more than one layer.

**FURTHER RESOLVED** that effective January 1, 2017, Section V of Exhibit F to the Shareholders' Agreement is amended to read as follows:

**V. DEFINITIONS**

The definitions of the terms defined in the Shareholders' Agreement and exhibits thereto are incorporated by reference into this Endorsement.

**"Coverage Change"** means any election or selection (or any withdrawal of or change to any such election or selection) that changes one or more of an Assured's Coverage Options.

**"Coverage Options"** means any parameter or election as to coverage pursuant to the provisions of this endorsement, including, without limitation, deductibles, insurance limits, external quota share participation, Quota Share Retention, split policies, and endorsements, but shall not include any election as respects transfer of risk to be subject to Retrospective Premium.

**"Maximum Designated Named Windstorm Insurance Limit Per Occurrence"** means the maximum insurance limit per occurrence, for any Designated Named Windstorm Occurrence, which may be elected in any Geographic Region by any Named Insured as established by the Board of Directors before the end of a calendar year as respects following calendar year(s) by Three-Quarters' Directors Vote.

**"Maximum Insurance Limit Per Occurrence"** means the maximum insurance limit per occurrence, for any Occurrence other than a Designated Named Windstorm Occurrence, which

may be elected in any Sector by any Named Insured as established by the Board of Directors before the end of a calendar year as respects the following calendar year(s) by Three-Quarters' Directors Vote.

“**Minimum Deductible**” means the minimum deductible which may be elected in any Sector or Geographical Region by any Named Insured as established by the Board of Directors before the end of a calendar year as respects following calendar year(s) by Three-Quarters' Directors Vote.

“**Quota Share Retention**” means as respects any Named Insured either (1) the quota share retention elected pursuant to Section I.B as respects any Sector, or (2) in respect of any Designated Named Windstorm Occurrence a quota share retention of forty percent (40%).

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For ease of reference, a red-line version follows:

**RESOLVED** that effective January 1, 2017, Section I.A of Exhibit F to the Shareholders' Agreement is amended to read as follows:

**I. COVERAGE ELECTIONS & CHANGES**

A. ~~After three (3) years as a Named Insured (or such shorter period as the Underwriter may determine) Each~~ Named Insured shall have the option ~~(but subject in all respects to the immediately following proviso)~~ of making Coverage Change(s) ~~for any full calendar year after its policies shall have been in effect for three full calendar years (or such shorter period as the Underwriter may determine),~~ by giving notice to the Underwriter at least ~~one (1) calendar month~~ thirty (30) days prior to the effective date of the Coverage Change(s); provided, however, that a Named Insured may only make a Coverage Change ~~only~~ with the written consent of, and upon such terms and conditions as are prescribed by, the Underwriter; without limiting the foregoing the Underwriter may in the case of a change in deductible or limit, require a warranty relating to the absence of underlying or other insurance (and breach of any such warranty shall void coverage as respects the Sector(s) or Geographic Region(s) involved). The consent of the Underwriter shall be evidenced in writing with the effective date being the date of writing unless otherwise evidenced by the Underwriter.

**FURTHER RESOLVED** that effective January 1, 2017, Section III.A of Exhibit F to the Shareholders' Agreement is amended to read as follows:

**A. Occurrence Limits**

With respect to any Occurrence, The insurance limit per occurrence other than a Designated Named Windstorm Occurrence, the insurance limit per occurrence shall be the lesser of:

(a1) ten percent (10%) of Unmodified Gross Assets rounded to the nearest ten thousand dollars (\$10,000), or

(b2) the Maximum Insurance Limit Per Occurrence.

With respect to any Designated Named Windstorm Occurrence the insurance limit per occurrence shall be the lesser of:

(a1) ten percent (10%) of Unmodified Gross Assets rounded to the nearest ten thousand dollars (\$10,000), or

(b2) the Maximum Designated Named Windstorm Insurance Limit Per Occurrence.

~~Except as provided for in paragraph C, the insurance limit per occurrence shall not be changed until the start date of the next calendar year.~~

The limits shall be in one contiguous layer; provided, however, that the Named Insured may elect to split its limits into more than one layer.

**FURTHER RESOLVED** that effective January 1, 2017, Section V of Exhibit F to the Shareholders' Agreement is amended to read as follows:

## **V. DEFINITIONS**

The definitions of the terms defined in the Shareholders' Agreement and exhibits thereto are incorporated by reference into this Endorsement.

**"Coverage Change"** means any election or selection (or any withdrawal of or change to any such election or selection) that changes one or more of an Assured's Coverage Options.

**"Coverage Options"** means any parameter or election as to coverage pursuant to the provisions of this endorsement, including, without limitation, deductibles, insurance limits, external quota share participation, Quota Share Retention, split policies, and endorsements, but shall not include any election as respects transfer of risk to be subject to Retrospective Premium.

**"Maximum Designated Named Windstorm Insurance Limit Per Occurrence"** means the maximum insurance limit ~~(s) per occurrence,~~ for any Designated Named Windstorm Occurrence, ~~which may be elected in any Geographic Region by~~ for any Named Insured as established by the Board of Directors before the end of a calendar year as respects following calendar year(s) by Three-Quarters' Directors Vote.

**"Maximum Insurance Limit Per Occurrence"** means the maximum insurance limit per occurrence, ~~for any Occurrence other than a~~ (other than as respects any Designated Named Windstorm Occurrence), ~~which may be elected in any Sector by any Named Insured as established by the Board of Directors before the end of a calendar year as respects the following calendar year(s) by Three-Quarters' Directors Vote.~~

**"Minimum Deductible"** means the minimum deductible which may be elected in any Sector or Geographical Region by any Named Insured as established by the Board of Directors before the end of a calendar year as respects following calendar year(s) by Three-Quarters' Directors Vote.

**"Quota Share Retention"** means as respects any Named Insured either (1) the quota share retention elected pursuant to Section I.B as respects any Sector, or (2) in respect of any Designated Named Windstorm Occurrence a quota share retention of forty percent (40%).

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## **Item #6 – Experience Modification Adjustment**

### **Re: Technical Correction to Experience Modification**

Since the introduction of the “Lock-In Plan” in 2010 Annual Premiums have effectively been fixed as of the second quarter billing. The Rating & Premium Plan (“R&PP”) does provide a mechanism for the Board of Directors to add a premium surcharge or credit at any time of the year, but in the absence of a premium surcharge or credit, premiums are final as of the second quarter billing.

A recent merger of two shareholders has highlighted an issue with the new Experience Modification mechanism of the R&PP. Merging the asset and loss histories of both shareholders causes a change in the value of the surviving shareholder’s Experience Modifier. The surviving shareholder’s Experience Modified Premium after the merger is different from the total Experience Modified Premium of the two shareholders before the merger. This has the knock-on effect of changing the total amount of Experience Modified Premium used to determine the Experience Premium Credit and hence the Annual Premiums of all shareholders. Although technically correct according to the R&PP, Management believe that this behavior is undesirable and that a technical correction should be made to the R&PP to explicitly state that once losses are finalized Experience Modifiers are made final and that mid-year-mergers do not change other shareholders’ Experience Premium Credits.

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<p><b>RESOLVED</b> that the following resolution is adopted for submission to the Shareholders at the next General Meeting of Shareholders.</p>
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**RESOLVED** that effective immediately, Section V of Exhibit E to the Shareholders’ Agreement is amended to read as follows:

#### **V. DETERMINATION OF EXPERIENCE MODIFIERS**

- (1) The Named Insured’s Experience Modifier for the current calendar year is a factor based on the Named Insured’s Reserve Ratio for the current calendar year.
- (2) The modifier shall be the amount shown on the Experience Modification Schedule attached hereto as Schedule 1; provided, however, that Experience Modifier values corresponding to Reserve Ratio values that are not explicitly shown on such schedule shall be linearly interpolated from the nearest appropriate values.
- (3) Once the Incurred Losses for the prior calendar year have been finalized and signed off by the Underwriter then the Experience Modifiers of all Named Insureds shall be recalculated and made final for the current calendar year.
- (4) In the event that a Named Insured (“Acquired Named Insured”) becomes majority owned or controlled by another Named Insured (“Surviving Named Insured”) after the Experience Modifiers for the current year have been made final then the Experience Modifier for the current calendar year for the Surviving Named Insured shall be set to a value that when applied causes no change in the Experience Premium Credit of any other Named Insured from that calculated prior to the Acquired Named Insured becoming majority owned or controlled by the Surviving Named Insured.

(5) The Board of Directors may at any time prior to the end of an calendar year make changes to the Experience Modification Schedule as respects subsequent calendar years by Three-Quarters' Directors Vote; provided however that in no event shall any Experience Modifier value be greater than one and a half (1.5).

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For ease of reference, a red-line version follows:

<b>RESOLVED</b> that the following resolution is adopted for submission to the Shareholders at the next General Meeting of Shareholders.
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**RESOLVED** that effective immediately, Section V of Exhibit E to the Shareholders' Agreement is amended to read as follows:

**V. DETERMINATION OF EXPERIENCE MODIFIERS**

(1) The Named Insured's Experience Modifier for the current calendar year is a factor based on the Named Insured's Reserve Ratio for the current calendar year.

(2) The modifier shall be the amount shown on the Experience Modification Schedule attached hereto as Schedule 1; provided, however, that Experience Modifier values corresponding to Reserve Ratio values that are not explicitly shown on such schedule shall be linearly interpolated from the nearest appropriate values.

(3) Once the Incurred Losses for the prior calendar year have been finalized and signed off by the Underwriter then the Experience Modifiers of all Named Insureds shall be recalculated and made final for the current calendar year.

(4) In the event that a Named Insured ("Acquired Named Insured") becomes majority owned or controlled by another Named Insured ("Surviving Named Insured") after the Experience Modifiers for the current year have been made final then the Experience Modifier for the current calendar year for the Surviving Named Insured shall be set to a value that when applied causes no change in the Experience Premium Credit of any other Named Insured from that calculated prior to the Acquired Named Insured becoming majority owned or controlled by the Surviving Named Insured.

(5) The Board of Directors may at any time prior to the end of an calendar year make changes to the Experience Modification Schedule as respects subsequent calendar years by Three-Quarters' Directors Vote; provided however that in no event shall any Experience Modifier value be greater than one and a half (1.5).