

Completed Questionnaire

COMMONWEALTH INSURANCE COMPANY OF AMERICA

ITEM 6

PLAN OF OPERATION

TAB

Completed Questionnaire (Form 8)A

Pro FormaB

Narrative.....C

**Uniform Certificate of Authority Application
QUESTIONNAIRE**

Directions: Each "Yes" or "No" question is to be answered by marking an "X" in the appropriate space. All questions should be answered. If an applicant denotes a question as "Not Applicable" (N/A) an explanation must be provided. Other answers and additional explanations or details may be provided in writing attached to the questionnaire. Please complete this form and file it with the company's application for a Certificate of Authority.

1. I, John J. Bator hold the position(s) of Senior Vice President and Chief Financial Officer with the applicant.
2. A. Has the applicant transferred or encumbered any portion of its assets or business, or has its outstanding capital stock been directly or indirectly pledged?
Yes ___ No X
- B. Has the applicant merged or consolidated with any other company within the last five Years?
Yes ___ No X

If the answer to either question is yes, provide the details in writing and attach to the Questionnaire.

3. Is applicant presently negotiating for or inviting negotiations for any transaction described above?
Yes ___ No X

If yes, provide the details in writing and attach to the Questionnaire.

4. Has the applicant ever changed its name?
Yes ___ No X

If Yes, attach copies of the instruments effecting such transaction certified by the Secretary over corporate seal as a true copy of the originals, including any official state regulatory approvals and filing data.

5. A. Has the applicant undergone a change of management or control since the date of its latest annual statement filed in support of this application?
Yes ___ No X
- B. Does the applicant contemplate a change in management or any transaction that would normally result in a change of management within the reasonably foreseeable future?
Yes ___ No X

If the answer to either question is yes, provide the details in writing and attach to the Questionnaire.

6. Is applicant owned or controlled by a holding corporation?
Yes X No ___

A. If yes, attach and make a part hereof an affidavit by an executive officer of the applicant who knows the facts listing the principal owners (10% or more of the outstanding shares) of such holding corporation by name and residence address, business occupation and business affiliations.

See attachment.

7. Is applicant owned, operated or controlled, directly or indirectly, by any other state, or province, district, territory or nation or any governmental subdivision or agency?
Yes ___ No X

If yes, provide the details in writing and attach to the Questionnaire

8. A. Has the applicant's certificate of authority to do business in any state been suspended or revoked within the last ten years?
Yes ___ No X

B. Has its application for admission to any state been denied within the last ten years?
Yes ___ No X

If the answer to either question is yes, provide the details in writing and attach to the Questionnaire.

9. Has any person who is presently an officer or director of applicant been convicted on, or pleaded guilty or nolo contendere to, an indictment or information in any jurisdiction charging a felony for theft, larceny or mail fraud or, of violating any corporate securities statute or any insurance statute?
Yes ___ No X

If yes, provide the details in writing and attach to the Questionnaire.

10. Is applicant presently engaged in a dispute with any state or federal regulatory agency?
Yes ___ No X

If yes, provide the details in writing and attach to the Questionnaire.

11. Is applicant a plaintiff or defendant in any legal action other than one arising out of policy claims?
Yes ___ No X

If yes, provide a summary of each case and an estimate of company's probable liability, if any, and attach to the Questionnaire.

12. Does the applicant purchase investment securities through any investment banking or brokerage house or firm from whom any of applicant's officers, directors, trustees, investment committee members or controlling stockholders receive a commission on such purchases?
Yes ___ No X

If yes, provide the details in writing and attach to the Questionnaire.

13. Is applicant a

A. Bank,
Yes ___ No X

B. Bank holding company, subsidiary or affiliate
Yes ___ No X

C. Financial holding company
Yes ___ No X

D. Other financial institution
Yes ___ No X

If yes, identify the bank(s), bank holding company(ies) or financial institution and the affiliation of the applicant. Provide the details in writing and attach to the Questionnaire.

14. Has the applicant, within 18 months last preceding the date of this affidavit, done any of the following:?

A. Made a loan to an entity owned or controlled directly or through a holding corporation by one or more of applicant's officers, directors, trustees or investment committee members, or to any such person?
Yes ___ No X

B. Sold or transferred any of its assets or property, real or personal, to any such entity or person?

Yes ___ No X ___

C. Had its outstanding capital stock directly or indirectly pledged for the debt of an affiliate?

Yes ___ No X ___

D. Purchased securities, assets or property of any kind from an entity owned or controlled by one or more of applicant's officers, directors, trustees, or any persons who have authority in the management of applicant's funds (including a controlling stockholder)?

Yes ___ No X ___

If the answer to any of the last four questions is affirmative, did any officer, director, trustee or any person who had authority in the management of applicant's funds (including a controlling stockholder) receive any money or valuable thing for negotiating, procuring, recommending or aiding in such transaction?

Yes ___ No ___

If yes, provide the details in writing and attach to the Questionnaire.

15. Attach an organizational depiction (in the format of a flow chart) showing the various executive management and directors offices and related material functions that require internal control oversight of the applicant, with the name and official title of those responsible for those offices/functions and the portions of the organization they oversee. Material functions should include, but are not limited, to underwriting, claims adjustment/payments, premium accounting, claims accounting, marketing, financial reporting, and investment management. Note any executive or key staff that have access to funds or bank accounts. Submit a map or narrative explaining where offices are geographically located and the approximate number of employees at each location.

See attachment.

A. Designate any common facilities and/or any of the above functions that are shared with affiliates.

B. Designate any of the above office/functions that are delegated to third parties;

C. Attach copies of signed agreements for office functions delegated to either affiliates or third parties.

D. As applicable, attach a separate chart reflecting any other management positions (if different than what was noted above) that exercise control over insurance operations in other jurisdiction where the applicant company is seeking admission.

E. Attach any similar information that was submitted to lenders or investment partners.

16. Provide a detailed description of the applicant's sales techniques. The description should include:

Commonwealth Insurance Company of America has no current plans to write new business as it is in run-off. These questions are not applicable.

A. Information regarding recruitment and training of sales representatives.

B. Identification as to whether the applicant will be a direct writer or will use agents, brokers or a combination thereof.

C. Explanation of the compensation and control to be provided by the applicant to its agents, brokers or sales personnel.

D. Sample copies of any agreements entered into between the applicant and its agents or brokers.

E. If the applicant will use a specific agency or managing general agent, identification of the agency or managing general agent and a copy of the agreement for this arrangement.

F. Sample contract forms of all types used and remuneration schedule, including those for general agents, if any.

17. For each state in which the applicant is filing explain:

A. The product lines currently sold or planned by the applicant,

Commonwealth Insurance Company of America is currently licensed to write the following types of insurance in Delaware: Property, Marine and Transportation, Casualty, Full Vehicle, Liability, Burglary and Theft, Glass, Boiler and Machinery, Leakage and Fire Extinguisher Equipment, Malpractice, Elevator, Entertainment and Miscellaneous. As part of the re-domestication, Commonwealth Insurance Company of America has no current plans to write new business as it is in run-off. Commonwealth Insurance Company of America is seeking licenses to write Health Insurance, Surety and Workers' Compensation in Delaware to match its current licensing structure, however it has no plans to actually write business.

B. Specialty line or lines currently sold and planned,

None.

C. Captive business,

None.

D. The applicant's marketing plan, including a description of the financial, corporate or other connections productive of insurance,

Commonwealth Insurance Company of America has no current plans to write new business as it is in run-off.

E. The applicant's current and expected competition (both regionally and nationally) and

Commonwealth Insurance Company of America has no current plans to write new business as it is in run-off.

F. How each state in which admission has been requested fits into the marketing plan. General description of the classes to be transacted is not an adequate response. For example, if the applicant plans to market credit life and disability products tailored for use by credit unions, simply stating that it will transact credit life and disability is inadequate.

Commonwealth Insurance Company of America has no current plans to write new business as it is in run-off.

18. If a parent, subsidiary and/or affiliated insurer is admitted for the classes of insurance requested in the pending application, please differentiate the products and/or markets of the applicant from those of the admitted insurer(s).

Commonwealth Insurance Company of America has no current plans to write new business as it is in run-off.

19. Provide a detailed description of the advertising that will be used by the applicant to market its products in each state. Include a detailed explanation as to how the applicant will develop, purchase, control and supervise its advertising.

Commonwealth Insurance Company of America has no current plans to write new business as it is in run-off.

20. For each State, explain in detail the following:

A. How the applicant's policies will be underwritten, including the issuance of policies and endorsements,

B. How policies will be cancelled,

C. How premiums and other funds will be handled and

D. How personnel will be trained, supervised, and compensated.

See attachment.

21. Explain in detail how the applicant will adjust and pay claims. **See attachment.**
- A. Describe how you will train, supervise and compensate the personnel handling claims adjusting and claims payment.
 - B. Provide detailed information as to how and by whom claim reserves will be set and modified.
 - C. Does applicant pay any representative given discretion as to the settlement or adjustment of claims whether in direct negotiation with the claimant or in supervision of the person negotiating, a compensation which is in any way contingent upon the amount of settlement of such claims?
Yes ___ No X
22. Is applicant a member of a group of companies that shares any of the following:
- A. Common facilities with another company or companies
Yes X No ___
 - B. Services (e.g. accounting personnel for financial statement preparation)
Yes X No ___
 - C. Or, is a party to a tax allocation agreement in common with another company
Yes X No ___

If the answer to any of the above is Yes, explain the division of costs between participants. If costs are pro-rated, what is the basis for division? Attach a copy of relevant contracts and include a summary of any attached contract.

See attachment.

23. Does applicant have any reinsurance contracts which contracts that in effect provide that applicant will reimburse or indemnify the Reinsurer for losses payable there under?
Yes ___ No X

24. Does any salaried employee or officer, exclusive of a director, presently have in force a license as an insurance broker by the Delaware Department of Insurance?
(Name of Application State)
Yes ___ No X

If yes, please identify his/her license and position held with applicant.

25. Does applicant have outstanding unexercised stock options?
Yes ___ No X

A. If so, to whom and in what number of shares?

B. If options are outstanding for a number of shares greater than 10% of the number of shares presently issued and outstanding, a copy of the option form and of the plan pursuant to which they were granted are attached.

26. Are any of the applicant's policies being sold in connection with a mutual fund or investment in securities?
Yes ___ No X Not Applicable ___

If Yes, supply details including all sales literature which refers to the insurance and mutual fund or other investment literature that refers to the insurance and mutual fund or other investment plan connection.

27. If applicant is applying for authority to write Variable Annuities, provide the following: N/A

- a) Copy(ies) of any third party management or service contracts
- b) Commission schedules
- c) Five-year sales and expense projections
- d) A statement from the insurer's actuary describing reserving procedures including the mortality and expense risks which the insurer will bear under the contract
- e) Statement of the investment policy of the separate account
- f) Copy of the variable annuity prospectus as filed with the SEC unless the separate account is not required to file a registration under the federal securities law
- g) Copies of the variable annuity laws and regulations of the state of domicile
- h) Copy(ies) of the variable annuity contract(s) and application(s)
- i) A description of any investment advisory services contemplated relating to Separate Accounts
- j) Board of Directors resolution authorizing the creation of the separate account

28. If applicant is applying for authority to write Variable Life Insurance, provide the following: N/A
- a) Copy(ies) of variable life policy(ies) the company intends to issue
 - b) Name and experience of person(s) or firm(s) proposed to supply consulting, investments, administrative, custodial or distribution services to the company
 - c) Disclose whether each investment advisor i) is registered under the Investment Advisers Act of 1940, or ii) is an investment manager under the Employee Retirement Income Security Act of 1974, or iii) whether the insurer will annually file required information and statements concerning each investment advisor as required by its domiciliary state
 - d) Copy of the variable life prospectus as filed with the SEC unless the separate account is not required to file a registration under the federal securities law
 - e) Statement of the investment policy of any separate account, and the procedures for changing such policy
 - f) Copies of the variable life insurance laws and regulations of the state of domicile
 - g) A statement from the insurer's actuary describing reserving procedures including the mortality and expense risks which the insurer will bear under the contract
 - h) Standards of suitability or conduct regarding sales to policyholders
 - i) Statement specifying the standards of conduct with respect to the purchase or sale of investments of separate accounts (i.e. Board resolution)
 - j) Board of Directors resolution authorizing the creation of the separate account

29. If applicant is applying for authority to write Life Insurance, has applicant at any time in any jurisdiction while operating under its present management, or at any time within the last five years irrespective of changes in management, taught or permitted its agents to sell insurance by using any of the following devices, or representations resembling any of the following: N/A

A "Centers of influence" and "advisory board,"
Yes ___ No ___

B. A charter or founder's policy,
Yes ___ No ___

C. A profit sharing plan,
Yes ___ No ___

D. Only a limited number of a certain policies will be sold in any given geographical area;
Yes ___ No ___

E. "Profits" will accrue or be derived from mortality savings, lapses and surrenders, investment earnings, savings in administration;
Yes ___ No ___

F. A printed list of several large American or Canadian insurers showing the dollar amounts of "savings", "profits" or "earnings" they have made in such categories.
Yes ___ No ___

If the answer to any of the above is yes, supply a complete set of all sales material including the sales manual, all company instructional material, brochures, illustrations, diagrams, literature, "canned" sales talks, copies of the policies which are no longer in use, list of states where such methods were used and the date (by year) when they were used, the approximate amount of insurance originally written in each state on each policy form thusly sold, the amount currently in force, and the lapse ratio on each form year by year and cumulatively in gross to the present date.

30. Does the company pay, directly or indirectly, any commission to any officer, director, actuary, medical director or any other physician charged with the duty of examining risks or applications?
Yes ___ No ___ Not Applicable X

If yes, provide the details in writing and attach to the Questionnaire.

The following questions are to be completed only if the company is redomesticating to another state.

31. Does the company have any permitted practices allowed by its current state of domicile?
Yes ___ No X Not Applicable ___

If yes, provide the details in writing and attach a copy of the state of domicile's approval to the Questionnaire.

32. Does the company's current state of domicile prescribe any practices of the company that are not in accordance with?
a. Laws, regulations or bulletins of proposed state of domicile;
Yes ___ No X Not Applicable ___

If yes, provide the details in writing and attach to the Questionnaire.

- b. Reserving requirements of proposed state of domicile; or
Yes ___ No X Not Applicable ___

If yes, provide the details in writing and attach to the Questionnaire.

- c. NAIC guidelines
Yes ___ No X Not Applicable ___

If yes, provide the details in writing and attach to the Questionnaire.

33. Will the company's investments comply with the investment laws, regulations or bulletins of the proposed state of domicile?
Yes X No ___ Not Applicable ___

If no, provide the details in writing and attach to the Questionnaire.

34. Does the company have any outstanding surplus notes?
Yes ___ No X Not Applicable ___

If yes, provide the details in writing and attach to the Questionnaire and attach copy(ies) of the surplus notes reflecting the state of domicile's approval.

Uniform Certificate of Authority Application
Questionnaire – Additional Information

Question 6:

Commonwealth Insurance Company of America is ultimately owned by Fairfax Financial Holdings Limited. An Affidavit listing the principal owners of such holding corporation is attached hereto.

Question 15:

Attached is an organization depiction showing the various executive management and directors offices and material functions.

Question 15 A, B, C:

Commonwealth Insurance Company of America is a member of a group of companies that shares common facilities and services with RiverStone Resources LLC and RiverStone Claims Management LLC. Attached are copies of all intercompany agreements:

1. Service and Cost-Allocation Agreement between Commonwealth Insurance Company of America and affiliated companies Northbridge Indemnity Insurance Corporation and Northbridge Financial Corporation, dated January 1, 2013.
2. Investment Agreement between Commonwealth Insurance Company of America, Hamblin Watsa Investment Counsel Ltd., an affiliated company, and Fairfax Financial Holdings Limited, the ultimate controlling parent company, dated January 1, 2003.
3. Excess of Loss Reinsurance Agreement between Commonwealth Insurance Company of America and an affiliated company, Northbridge Indemnity Insurance Corporation, dated January 1, 2013.
4. Renewal Rights Transfer Agreement between Commonwealth Insurance Company of America and an affiliated company, Northbridge Indemnity Insurance Corporation, dated December 20, 2012.
5. Management Services Agreement between Commonwealth Insurance Company of America and an affiliated company, RiverStone Resources LLC, dated January 1, 2013.

- 6 Claim Administration Services Agreement between Commonwealth Insurance Company of America and an affiliated company, RiverStone Claims Management LLC, dated January 1, 2013.
- 7 Inter-Company Tax Allocation Agreement between Commonwealth Insurance Company of America and an affiliated company, TIG Holdings, Inc., as amended on January 7, 2013.
8. Tax and Compliance Services Agreement between Commonwealth Insurance Company of America and an affiliated company, Fairfax (US), Inc., dated January 1, 2013.

Question 20 and 21:

20a. Underwriting

Commonwealth Insurance Company of America has no plans to write new business as it is in run-off. All Commonwealth Insurance Company of America policies expired by April or May of 2013 and none were renewed. Likewise, no new policies were written. It is unlikely that any new claims will be forthcoming. Underwriting, policy issuance and endorsements are all handled in accordance with the terms outlined in the Service and Cost-Allocation Agreement as of January 1, 2013 by and between Commonwealth Insurance Company of America, Northbridge Indemnity Insurance Corporation and Northbridge Financial Corporation.

20b. Policy Cancellation

Commonwealth Insurance Company of America does not expect to have any policy cancellations as it has no plans to write new business because it is in run-off.

20c. Premium and other Funds

Commonwealth Insurance Company of America has no plans to write new business as it is in run-off. Premium and other funds are handled in accordance with terms outlined in a Service and Cost-Allocation Agreement as of January 1, 2013 by and between Commonwealth Insurance Company of America, Northbridge Indemnity Insurance Corporation and Northbridge Financial Corporation.

20d. Personnel Training

Back end operations are managed through service agreements with affiliates. There are no employees of Commonwealth Insurance Company of America.

21. Adjusting and Claim Payments

The claims are handled in accordance with terms outlined in a Claim Administration Services Agreement as of January 1, 2013 by and between Commonwealth Insurance Company of America and RiverStone Claims Management, LLC. The financial transactions are handled in accordance with terms in a Service and Cost-Allocation Agreement as of January 1, 2013 by and between Commonwealth Insurance Company of America, Northbridge Indemnity Insurance Corporation and Northbridge Financial Corporation.

There are six (6) remaining claims, all first party commercial property claims falling within first party commercial property coverage. They encompass the following jurisdictions throughout the U.S. – New York, Ohio, Washington, Oregon, Rhode Island and Georgia.

There is one claim from Iberia Parish, in which litigation was filed in Louisiana.

All Commonwealth Insurance Company of America policies expired by April or May of 2013 and none of the policies were renewed. Likewise, no new policies were written. It is unlikely that any new claims will be forthcoming. Commonwealth Insurance Company of America has no current plans to write new business as it is in run-off.

Question 22:

Division of costs between Commonwealth Insurance Company of America and affiliates are allocated on a quarter lag based on gross claims reserves.

A. Facilities

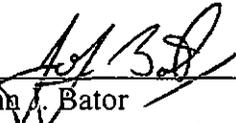
Mailing and Administrative offices for RiverStone Resources, LLC, RiverStone Claims Management, LLC and Commonwealth Insurance Company of America are located at 250 Commercial Street, Suite 5000 Manchester, NH 03101

B. Services performed for financial reporting and accounting functions are outlined in a Service and Cost-Allocation Agreement as of January 1, 2013 by and between Commonwealth Insurance Company of America and affiliated companies Northbridge Indemnity Insurance Corporation and Northbridge Financial Corporation and in a Management Services Agreement between Commonwealth Insurance Company of America and an affiliated company, RiverStone Resources, LLC dated January 1, 2013.

C. Tax Services that are shared are described in an Inter-Company Tax Allocation Agreement between Commonwealth Insurance Company of America and an affiliated company, TIG Holdings, Inc., as amended on January 7, 2013 and an Inter-Company Tax and Compliance Services Agreement between Commonwealth Insurance Company of America and an affiliated company, Fairfax (US), Inc. dated January 1, 2013.

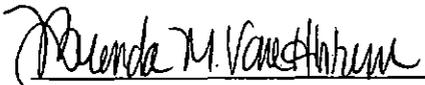


voting shares and 0.2% of the total votes attached to the subordinate voting shares.) V. Prem Watsa controls Sixty Two and himself beneficially owns an additional 258,115 subordinate voting shares and exercises control or direction over an additional 2,100 subordinate voting shares. These shares, together with the shares owned directly by Sixty Two, represent 44% of the total votes attached to all classes of shares of FFHL (100% of the total votes attached to the multiple voting shares and 1.5% of the total votes attached to the subordinate voting shares).



John A. Bator
Senior Vice President and Chief Financial Officer

Sworn to before me this 22nd day of July, 2014



Brenda M. VanHirtum
Notary Public



Commonwealth Insurance Company of America

Nicholas C. Bentley # President, Chairman and Chief Executive Officer

<p>John J. Bator # Senior Vice President and Chief Financial Officer</p>	<p>Nina Lynn Caroselli # Senior Vice President and Chief Operating Officer</p>	<p>Richard J. Fabian # Senior Vice President, General Counsel, Secretary and Director of Litigation</p>	<p>Frank DeMaria # Senior Vice President Worldwide Communtations</p>	<p>James Kelly # Senior Vice President Human Resources</p>	<p>Henry Edmiston Senior Vice President Regulatory Affairs (Fairfax (US), Inc. <i>Office located in Texas</i></p>
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John J. Bator Senior Vice President, Chief Financial Officer and Treasurer *

<p>Sara Smith * # Assistant Treasurer and Assistant Vice President</p>	<p>Robert Kant * # Vice President Treasury & Investment Management</p>
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* denotes Management which has access to funds or bank accounts

Offices located in Manchester, NH unless noted otherwise

Directors:

Nicholas C. Bentley
Nina Lynn Caroselli
Richard J. Fabian
John J. Bator

denotes individuals who are also company officers of RiverStone Resources, LLC

Executive Management:

All executive management of Commonwealth Insurance Company of America are paid employees of RiverStone Resources, LLC with the exception of Henry Edmiston who is an employee of TIG Insurance Company.

RiverStone Resources, LLC has an administrative office in Manchester, New Hampshire and employs approximately 190 associates.

John J. Bator is responsible for oversight of material functions in the finance group comprised of the operation of treasury; financial reporting; actuarial and credit analysis functions.

Nina Lynn Caroselli is responsible for the oversight of Operations, Claims Department and Information Technology functions.

Richard J. Fabian oversees the Office of the General Counsel who has primary responsibility for legal matters related to the company's activities. Additionally, all issues related to the corporate status, legal operations, corporate litigation, and resolution of coverage litigations and arbitrations are managed by the Office of the General Counsel.

James Kelly is responsible for the oversight of the Human Resources team.

Offsite Associates with Access to Bank Accounts:

The following individuals are employees of Northbridge Indemnity Insurance Corporation, an affiliate service provider, each of whom have access to funds and bank accounts for statutory and state deposit accounts as authorized signors:

Peter Uyeyama (office location: Vancouver, BC)

David Ross (office location: Vancouver, BC)

Stewart Woo (office location: Vancouver, BC)

All bank account reconciliations are performed in New Hampshire. Upon the re-domestication to Delaware, the authorized signors will be changed to other employees of RiverStone Resources, LLC.

SERVICE AND COST-ALLOCATION AGREEMENT

This Service and Cost-Allocation Agreement (the "Agreement") is made and entered into as of January 1, 2013 (the "Effective Date"), by and between COMMONWEALTH INSURANCE COMPANY OF AMERICA, an insurance company domiciled in the State of Washington (the "Company"), NORTHBRIDGE INDEMNITY INSURANCE CORPORATION, an insurance company incorporated under the laws of Canada ("NIIC"), and NORTHBRIDGE FINANCIAL CORPORATION, a company organized and existing under the laws of Canada ("NBFC"), (NIIC and NBFC hereafter collectively referred to as "Northbridge" or "Service Co.") (each sometimes individually referred to as a "Party" and collectively as "Parties").

ARTICLE I RETAINER

Company hereby retains the services of Service Co. to perform certain functions on behalf of Company's insurance business, subject to the terms, conditions and restrictions hereinafter set forth. Service Co. hereby agrees to provide such services, subject to the terms, conditions and restrictions hereinafter set forth.

ARTICLE II SERVICES TO BE PROVIDED

Service Co. will provide the following services (collectively, the "Services") to Company:

- (a) Claims Payment and Adjustment – Subject to procedures established by Company and communicated to Service Co., Service Co. will pay and adjust all claims arising under individual insurance policies issued by Company. Company shall at all times have the ultimate and final authority in determining whether to pay or reject payment on claims.
- (b) Preparation of Financial Reports – Under the supervision of the Board of Directors and responsible officers of Company, Service Co. will prepare all financial reports required by Company for regulatory, management and other purposes.
- (c) Underwriting – Subject to written underwriting standards established by Company and communicated to Service Co., Service Co. will be responsible for providing all underwriting services to the Company. Company shall at all times have the ultimate and final authority in accepting or rejecting risks, to determine from whom they will accept reinsurance assumed and to whom they will cede reinsurance.
- (d) Administrative – Subject to the ultimate control and direction of Company's Board of Directors, Service Co. will provide all administrative, clerical and other support staff functions to Company.
- (e) Books and Records – Subject to the ultimate control and direction of Company's Board of Directors, Service Co. will maintain all books and records of Company, including underwriting and claims files, corporate records, correspondence files and other documents which relate to the conduct of Company's business.

ARTICLE III FACILITIES TO BE PROVIDED

Service Co. will provide the Company with office space necessary for the Company to conduct its business.

ARTICLE IV GENERAL POWERS AND DUTIES

Except as provided in Paragraph B of this Article IV:

A. Service Co. shall have all the powers and authority, both expressed and implied, necessary, ordinary, usual and convenient to provide the Services in all of their aspects and in all states and counties in which Company is authorized to conduct or underwrite insurance business.

B. Notwithstanding the provision of Paragraph A of this Article IV, the Company:

1. Shall have the ultimate responsibility for all underwriting decisions and retains the right to overrule or rescind any actions taken by Service Co.

2. Shall own, have custody and control of, and shall have in its own possession its general corporate accounts and records, all the records of its business and those records necessary for the conduct of its business, except those corporate records necessarily maintained by Service Co. in the operation of its business.

3. Shall have ultimate responsibility for the claims adjustment process and claims payments, including the right to rescind any claims decision made by Service Co.

C. In providing any services hereunder which require the exercise of judgement by Service Co., Service Co. shall perform any such service in accordance with any standards and guidelines developed and communicated to be in, or not opposed to, the best interests of Company, and in any event in accordance with the written standards and guidelines of Company. If Service Co. cannot perform the requested services in a manner reasonably calculated to be in, or not opposed to, the best interests of the Company, Service Co. shall so advise Company and shall, in an orderly fashion, cease to perform the requested services.

D. The performance of services by Service Co. for Company pursuant to this agreement shall in no way impair the absolute control of and responsibility for the business and operations of Service Co. or Company by their respective Boards of Directors. The performance by Service Co. under this Agreement with respect to the business and operations of Company shall at all times be subject to the direction and control of the Board of Directors of Company. Service Co. shall act hereunder so as to assure the separate operating identity of Company. Notwithstanding any other provisions of this Agreement, it is understood that the business and affairs of Company shall be managed by its Board of Directors, and, to the extent delegated by such board, by its appropriately designated officers. The Board of Directors and officers of Service Co. shall not have any management prerogatives with respect to the business affairs and operations of Company.

ARTICLE V COMPENSATION OF SERVICE CO.

Company agrees to reimburse Service Co. for services and facilities provided pursuant to this Agreement. Charges for such services and facilities shall be the one hundred percent of all direct and directly allocable expenses, reasonably and equitably determined to be attributable to Company by Service Co., plus a markup of five percent.

Within thirty (30) days after the end of each calendar quarter, Service Co. will submit to Company a detailed written statement of the charges due for services and the use of facilities pursuant to this Agreement in the preceding calendar quarter, including charges not included in any previous statements, and any balance payable as shown in such statement shall be paid within thirty (30) days following receipt of such statement.

Service Co. shall be responsible for maintaining full and accurate accounting records of all services rendered and facilities used pursuant to this Agreement and such additional information as Company may reasonably request for purposes of their internal bookkeeping and accounting operations. Service Co. shall make such account records insofar as they pertain to the computation of charges hereunder available at its principle offices for audit, inspection and copying by Company, or any governmental agency having jurisdiction over Company, during all reasonable business hours.

ARTICLE VI TERMINATION

A. In the event that Service Co. fails to perform under this Agreement to the satisfaction of Company, Company shall notify Service Co. of such failure in writing and shall specify reasons for the dissatisfaction of Company. In the event that Service Co. shall not have conformed its performance to the satisfaction of Company within a period of ten (10) days from and after such written notice, Company shall have the absolute right at the termination of said ten (10) day period to cancel this Agreement.

B. Unless otherwise terminated under Paragraph A of this Article VI, this Agreement shall be effective as of the Effective Date and shall remain in effect until terminated as provided herein. This Agreement may be terminated immediately upon mutual agreement of the Parties, or by either Party upon sixty (60) days advance written notice to the other Party.

C. No later than ninety (90) days after the effective date of termination of this Agreement, Service Co. shall deliver to Company a detailed written statement for all charges incurred and not included in any previous statement to the effective date of termination. The amount owed hereunder shall be due and payable within thirty (30) days of receipt of such statement.

ARTICLE VII ASSIGNMENT

This Agreement shall not be assigned in whole or in part by Service Co. without the written consent of Company.

Signature Page Follows

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of the Parties as of the date first written above.

Northbridge Financial Corporation

By: [Signature]
Name: Craig Pinnock
Title: Chief Financial Officer

By: [Signature]
Name: Stewart Wood
Title: SVP, Corporate Risk

Northbridge Indemnity Insurance Corporation

By: [Signature]
Name: Stewart Wood
Title: SVP, Corporate Risk

By: [Signature]
Name: Donald Parry
Title: V.P., Finance

Commonwealth Insurance Company of America

By: [Signature]
Name: Stewart Wood
Title: CFO

By: [Signature]
Name: Donald Parry
Title: V.P., FINANCE

INVESTMENT AGREEMENT

THIS INVESTMENT AGREEMENT (this "Agreement"), dated as of January 1, 2003, is made by and among HAMBLIN WATSA INVESTMENT COUNSEL LTD. ("HW"), FAIRFAX FINANCIAL HOLDINGS LIMITED ("FFH") and COMMONWEALTH INSURANCE COMPANY OF AMERICA. As used in this Agreement, "we", "us" and "our" shall refer to COMMONWEALTH INSURANCE COMPANY OF AMERICA, and "you" and "your" shall refer to HW and FFH jointly.

In consideration of the mutual promised contained herein, the parties agree as follows:

Investment Management

1. We authorize HW to manage on a continuous basis an investment account (the "Account") on our behalf on the terms and conditions set out in this Agreement.
2. HW shall manage the Account in accordance with the investment objectives from time to time communicated in writing by us to HW, subject at all times to the investment guidelines. Until mutually agreed otherwise, the investment guidelines shall be as set out in the investment guidelines attached hereto as Schedule A. The investment guidelines shall at all times be in compliance with the investment statutes of Washington.
3. Subject to Section 2 above, HW shall manage the Account in our name and HW is hereby authorized to take such action for the Account as HW, in your sole discretion, may consider appropriate for the operation of the Account including, without limitation, the power to buy, sell and exchange and otherwise deal in all securities which may at any time form part of the Account and to invest, in securities selected by HW, all funds contained in, paid to or derived from the operation of, the Account, except to the extent that HW otherwise instructed in writing by us.

The services to be performed by HW shall be performed only by officers and employees who have appropriate qualifications. HW agrees to provide to us such information as we may reasonably request concerning the education and experience of any individuals HW proposes to assign to the performance of such services. Also, upon our request, HW agrees to provide a list of individual names and a brief description of their responsibilities. HW agrees to promptly notify us of any changes in HW's staff involving individuals that perform material functions on our Account.

4. The securities and funds of the Account have been deposited with and shall be held by U.S. Bank of Washington (or with such other custodian as is chosen by you from time to time and is approved by the Washington Department of Insurance) (the "Custodian") pursuant to an agreement which we have entered into with the Custodian. We have instructed the Custodian to promptly follow

your directions at all times and to provide HW with all such information concerning the Account as HW may from time to time require in connection with your management of the Account, including without limitation, copies of relevant monthly statements.

5. Provided HW has used reasonable care and diligence, HW shall not be liable for any damage, loss, cost or other expense sustained in the operation of the Account or relating in any manner to the carrying out of your duties under this Agreement. Notwithstanding the foregoing, any losses suffered as a result of an error in implementing investment decisions caused by HW's negligence or dishonesty are to be fully reimbursed by HW. To the extent any errors occur in implementing investment decisions, HW shall immediately notify us in writing of all relevant facts. HW shall bear full responsibility for any such errors to the extent such errors result from HW's negligence or dishonesty and shall be liable for all financial injury to us resulting therefrom. We agree that HW shall be entitled to assume that any information communicated by us or the Custodian to HW is accurate and complete, and that in making investment decisions HW shall be entitled to rely on publicly available information or on information which HW believes to have been provided to you in good faith, in both cases barring actual knowledge by HW to the contrary.
6. HW will provide us with a monthly statement and a quarterly presentation respecting the securities held in the Account.
7. HW shall deliver in writing to us, as soon as practicable after implementation of an investment decision, HW's confirmation of such implementation to enable us to ascertain that such implementation has been effected pursuant to the guidelines and procedures of our Board of Directors or a duly authorized committee thereof. Otherwise, the nature and timing of HW's reporting to us on the status of the Account shall be at least quarterly, within forty-five (45) days after the end of each quarter.
8. We acknowledge receipt of a copy of policies that HW has established to ensure that investment opportunities are allocated fairly among HW's discretionary investment accounts and we confirm that these policies, until revised by HW, will apply to the account.

Investment Administration

9. We authorize FFH to provide, and by signing below FFH agrees to provide, the investment administration services set forth in Schedule A attached hereto, on our behalf and on the terms and conditions set out in this Agreement, subject to such guidelines, procedures and limitations as may be duly established and approved by our Board of Directors or a duly authorized committee of said Board.

General

10. You shall be entitled to such fees for the services provided hereunder as FFH may specify from time to time. Attached hereto as Schedule C as is a copy of the current fee schedule and FFH agrees to give us thirty (30) days prior written notice of any change in such schedule, which change shall require the approval of the Washington Department of Insurance. Such fees shall be the exclusive fees and charges payable (excluding third party disbursements reasonably incurred) for the services provided hereunder. As regards third party services, you will charge us only the amount of your actual disbursements paid to arm's length third parties for such services, and HW will select as agents, brokers or dealers executing orders or acting on the purchase or sale of portfolio securities only agents, brokers or dealers operating in the United States. Such disbursements to third parties shall be reported to us quarterly, provided, that we shall pay third parties such disbursements directly if requested to do so by you. We will pay you all fees and disbursements hereunder not later than twenty (20) days after receiving your quarterly report.

All fees will be paid to FFH and FFH shall reimburse HW for its investment management services. HW acknowledges that it has no right under this agreement to receive fees directly from us.

11. Either you or FFH and HW may terminate this Agreement without penalty by giving the other party at least thirty (30) days advance written notice of its desire to terminate the same. In the event that the day upon which this Agreement is so terminated is a day other than the first day of a calendar quarter, the fees payable in accordance with paragraph 10 for such quarter shall be pro-rated and shall be determined having regard to the market value of the Account based upon the most recent financial report which has been delivered to you by the Custodian.
12. All notices and communications to each party to this Agreement shall be in writing and shall be deemed to have been sufficiently given if signed by or on behalf of the party giving the notice and either delivered personally or sent by prepaid registered mail addressed to such party at the address of such party indicated herein. Any such notice or communication shall be deemed to have been received by any such party if delivered, on the date of delivery, or if sent by prepaid registered mail on the fourth business day following mailing thereof to the party to whom addressed. For such purpose, no day during which there shall be a strike or other occurrence interfering with normal mail service shall be considered a business day.
13. This Agreement shall enure to the benefit of and shall be binding upon the parties hereto and their respective successors. This Agreement may not be assigned by any party.

14. We acknowledge that we have read and understood this Agreement and that we have received a copy of the same. You and we each acknowledge that the terms of this Agreement are the exclusive and conclusive terms of our mutual agreement with regard to the subject matter hereof.
15. Any dispute or difference arising with reference to the interpretation or effect of this Agreement, or any part thereof, shall be referred to a Board of Arbitration (the "Board") of two (2) arbitrators and an umpire.

The members of the Board shall be active or retired disinterested officers of insurance or reinsurance companies.

One arbitrator shall be chosen by the party initiating the arbitration and designated in the letter requesting arbitration. The other party shall respond, within thirty (30) days, advising of its arbitrator. The umpire shall thereafter be chosen by the two (2) arbitrators. In the event either party fails to designate its arbitrator as indicated above, the other party is hereby authorized and empowered to name the second arbitrator, and the party which failed to designate its arbitrator shall be deemed to have waived its rights to designate an arbitrator and shall not be aggrieved thereby. The two (2) arbitrators shall then have thirty (30) days within which to choose an umpire. If they are unable to do so within thirty (30) days following their appointment, the umpire shall be chosen by the manager of the American Arbitration Association and such umpire shall be a person who is an active or retired and disinterested officer of an insurance or reinsurance company. In the event of the death, disability or incapacity of an arbitrator or the umpire, a replacement shall be named pursuant to the process which resulted in the selection of the arbitrator or umpire to be replaced.

Each party shall submit its case to the Board within one (1) month from the date of the appointment of the umpire, but this period of time may be extended by unanimous written consent of the Board.

The Board shall make its decision with regard to the custom and usage of the insurance and reinsurance business. The Board is released from all judicial formalities and may abstain from the strict rules of law. The written decision of a majority of the Board shall be rendered within sixty (60) days following the termination of the Board's hearings, unless the parties consent to an extension. Such majority decision of the Board shall be final and binding upon the parties both as to law and fact, and may not be appealed to any court of any jurisdiction. Judgment may be entered upon the final decision of the Board in any court of proper jurisdiction.

Each party shall bear the fees and expenses of the arbitrator selected by or on its behalf, and the parties shall bear the fees and expenses of the umpire as determined by the party, as above provided, the expenses of the arbitrators, the

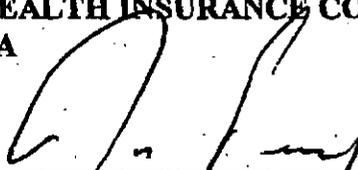
umpire and the arbitration shall be equally divided between the two parties. The arbitrators may allocate any and all of the costs and fees against the losing party upon a determination that the position of the losing party was, in whole or in part, groundless, specious or otherwise without merit or asserted primarily for the purposes of obfuscation or delay.

16. Additional terms and conditions applicable to this Agreement are set forth in Schedule D. The provisions in Schedule A, Schedule B, Schedule C and Schedule D attached hereto are hereby incorporated into, and form part of, this Agreement.
17. This Agreement, including the schedules attached hereto and made a part hereof, may only be amended by written agreement signed by the parties and approved by the Washington Department of Insurance; provided, however, that any amendment to Schedule A may become effective without the prior approval of the Washington Department of Insurance, provided that such amendment shall be filed with the Washington Department of Insurance not later than its effective date and shall, if disapproved by the Washington Department of Insurance, be void as of the date of such disapproval.

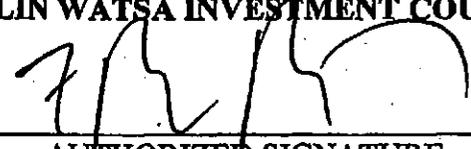
(Signatory Page to Follow)

IN WITNESS WHEREOF, this Agreement is hereby executed by duly authorized officers of the parties hereto as of the date first written above.

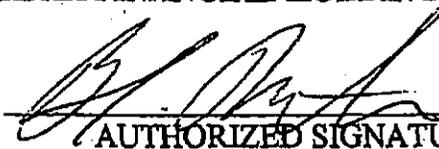
**COMMONWEALTH INSURANCE COMPANY
OF AMERICA**

BY: 
AUTHORIZED SIGNATURE
DONALD M. PARRY
NAME OF AUTHORIZED SIGNATORY

HAMBLIN WATSA INVESTMENT COUNSEL LTD.

BY: 
AUTHORIZED SIGNATURE
F. BRIAN BRADSTREET
NAME OF AUTHORIZED SIGNATORY

FAIRFAX FINANCIAL HOLDINGS LIMITED

BY: 
AUTHORIZED SIGNATURE
BRADLEY P. MARTIN
NAME OF AUTHORIZED SIGNATORY

HAMBLIN WATSA INVESTMENT COUNSEL LTD. and
COMMONWEALTH INSURANCE COMPANY OF AMERICA

SCHEDULE A
REVISED WASHINGTON INVESTMENT CODE

Chapter 48.13 RCW
INVESTMENTS

SECTIONS

<u>48.13.010</u>	Scope of chapter -- Eligible investments.
<u>48.13.020</u>	General qualifications.
<u>48.13.030</u>	Limitation on securities of one entity or a depository institution.
<u>48.13.040</u>	Public obligations.
<u>48.13.050</u>	Corporate obligations.
<u>48.13.060</u>	Terms defined.
<u>48.13.070</u>	Securities of merged or reorganized institutions.
<u>48.13.080</u>	Prefarred or guaranteed stocks.
<u>48.13.090</u>	Trustees' or receivers' obligations.
<u>48.13.100</u>	Equipment trust certificates.
<u>48.13.110</u>	Mortgages, deeds of trust, mortgage bonds, notes, contracts.
<u>48.13.120</u>	Investments limited by property value.
<u>48.13.125</u>	Mortgage loans on one family dwellings -- Limitation on amortization.
<u>48.13.130</u>	"Encumbrance" defined.
<u>48.13.140</u>	Appraisal of property -- Insurance -- Limit of loan.
<u>48.13.150</u>	Auxiliary chattel mortgages.
<u>48.13.160</u>	Real property owned -- Home office building.
<u>48.13.170</u>	Disposal of real property -- Time limit.
<u>48.13.180</u>	Foreign securities.
<u>48.13.190</u>	Policy loans.
<u>48.13.200</u>	Savings and share accounts.
<u>48.13.210</u>	Insurance stocks.
<u>48.13.218</u>	Limitation on insurer loans or investments.
<u>48.13.220</u>	Common stocks -- Investment -- Acquisition -- Engaging in certain businesses.
<u>48.13.230</u>	Collateral loans.
<u>48.13.240</u>	Miscellaneous investments.
<u>48.13.250</u>	Special consent investments.
<u>48.13.260</u>	Required investments for capital and reserves.
<u>48.13.265</u>	Investments secured by real estate -- Amount restricted.
<u>48.13.270</u>	Prohibited investments.
<u>48.13.273</u>	Acquisition of medium and lower grade obligations -- Definitions -- Limitations -- Rules.
<u>48.13.275</u>	Obligations rated by the securities valuation office.
<u>48.13.280</u>	Securities underwriting, agreements to withhold or repurchase, prohibited.
<u>48.13.285</u>	Derivative transactions -- Restrictions -- Definitions -- Rules.
<u>48.13.290</u>	Disposal of ineligible property or securities.
<u>48.13.340</u>	Authorization of investments.
<u>48.13.350</u>	Record of investments.
<u>48.13.360</u>	Investments of foreign and alien insurers.
<u>48.13.450</u>	Safeguarding securities -- Definitions.
<u>48.13.455</u>	Safeguarding securities -- Deposit in a clearing corporation or the federal reserve book-entry securities system -- Certificates -- Records.
<u>48.13.460</u>	Safeguarding securities -- Authorized methods of holding securities.
<u>48.13.465</u>	Safeguarding securities -- Requirement to receive a confirmation.
<u>48.13.470</u>	Safeguarding securities -- Broker executing a trade -- Time limits.
<u>48.13.475</u>	Safeguarding securities -- Maintenance with a qualified custodian -- Commissioner may order transfer -- Challenge to order -- Standing at hearing or for judicial review.
<u>48.13.490</u>	Safeguarding securities -- Rules.

NOTES:

Valuation of investments: RCW 48.12.170 through 48.12.200.

RCW 48.13.010

Scope of chapter – Eligible investments.

- (1) Investments of domestic insurers shall be eligible to be held as assets only as prescribed in this chapter.
- (2) Any particular investment of a domestic insurer held by it on the effective date of this code and which was a legal investment immediately prior thereto, shall be deemed a legal investment hereunder.
- (3) The eligibility of an investment shall be determined as of the date of its making or acquisition.
- (4) Except as to RCW 48.13.360, this chapter applies only to domestic insurers.
[1973 c 151 § 2; 1947 c 79 § .13.01; Rem. Supp. 1947 § 45.13.01.]

RCW 48.13.020

General qualifications.

- (1) No security or other investment shall be eligible for purchase or acquisition under this chapter unless it is interest bearing or interest accruing or dividend or income paying, is not then in default in any respect, and the insurer is entitled to receive for its exclusive account and benefit, the interest or income accruing thereon; except,
 - (a) that an insurer may acquire real property as provided in RCW 48.13.160, and
 - (b) that this section shall not prevent participation by an insurer in a mortgage loan if the insurer, either individually or jointly with other lenders, holds a senior participation in such mortgage or deed of trust giving it substantially the rights of a first mortgagee as to its interest in that loan.
- (2) No security shall be eligible for purchase at a price above its market value except voting stock of a corporation being acquired as a subsidiary.
- (3) No provision of this chapter shall prohibit the acquisition by an insurer of other or additional securities or property if received as a dividend or as a lawful distribution of assets, or if acquired pursuant to a lawful and bona fide agreement of bulk reinsurance or consolidation. Any investments so acquired through bulk reinsurance or consolidation, which are not otherwise eligible under this chapter, shall be disposed of pursuant to RCW 48.13.290 if personal property or securities, or pursuant to RCW 48.13.170 if real property.
[1983 1st ex.s. c 32 § 2; 1982 c 218 § 2; 1967 ex.s. c 95 § 11; 1947 c 79 § .13.02; Rem. Supp. 1947 § 45.13.02.]

NOTES:

Severability – 1982 c 218: See note following RCW 48.12.020

RCW 48.13.030

Limitation on securities of one entity or a depository institution.

- (1) Except as set forth in RCW 48.13.273, an insurer shall not, except with the consent of the commissioner, have at any time any combination of investments in or loans upon the security of the obligations, property, and securities of any one person, institution, or municipal corporation aggregating an amount exceeding four percent of the insurer's assets. This section shall not apply to investments in, or loans upon the security of general obligations of the government of the United States or of any state of the United States, nor to investments in foreign securities pursuant to RCW 48.13.180(1), nor include policy loans made pursuant to RCW 48.13.190.
- (2) An insurer shall not, except with the consent of the commissioner, have at any time investments in the voting securities of a depository institution or any company which controls a depository institution aggregating an amount exceeding five percent of the insurer's admitted assets.
[2001 c 21 § 1; 1993 c 92 § 1; 1947 c 79 § .13.03; Rem. Supp. 1947 § 45.13.03.]

RCW 48.13.040

Public obligations.

An Insurer may invest any of its funds in bonds or other evidences of debt, not in default as to principal or interest, which are valid and legally authorized obligations issued, assumed or guaranteed by the United States or by any state thereof or by any territory or possession of the United States or by the District of Columbia or by any county, city, town, village, municipality or district therein or by any political subdivision thereof or by any civil division or public instrumentality of one or more of the foregoing, if, by statutory or other legal requirements applicable thereto, such obligations are payable, as to both principal and interest, (1) from taxes levied or required to be levied upon all taxable property or all taxable income within the jurisdiction of such governmental unit or, (2) from adequate special revenues pledged or otherwise appropriated or by law required to be provided for the purpose of such payment, but not including any obligation payable solely out of special assessments on properties benefited by local improvements unless adequate security is evidenced by the ratio of assessment to the value of the property or the obligation is additionally secured by an adequate guaranty fund required by law.
[1947 c 79 § .13.04; Rem. Supp. 1947 § 45.13.04.]

RCW 48.13.050

Corporate obligations.

Except as set forth in RCW 48.13.273, an insurer may invest any of its funds in obligations other than those eligible for investment under RCW 48.13.110 if they are issued, assumed, or guaranteed by any solvent institution

created or existing under the laws of the United States or of any state, district or territory thereof, and are qualified under any of the following:

- (1) Obligations which are secured by adequate collateral security and bear fixed interest if during each of any three, including the last two, of the five fiscal years next preceding the date of acquisition by the insurer, the net earnings of the issuing, assuming or guaranteeing institution available for its fixed charges, as defined in RCW 48.13.060, have been not less than one and one-fourth times the total of its fixed charges for such year. In determining the adequacy of collateral security, not more than one-third of the total value of such required collateral shall consist of stock other than stock meeting the requirements of RCW 48.13.080.
 - (2) Fixed interest bearing obligations, other than those described in subdivision (1) of this section, if the net earnings of the issuing, assuming or guaranteeing institution available for its fixed charges for a period of five fiscal years next preceding the date of acquisition by the insurer have averaged per year not less than one and one-half times its average annual fixed charges applicable to such period and if during the last year of such period such net earnings have been not less than one and one-half times its fixed charges for such year.
 - (3) Adjustment, income or other contingent interest obligations if the net earnings of the issuing, assuming or guaranteeing institution available for its fixed charges for a period of five fiscal years next preceding the date of acquisition by the insurer have averaged per year not less than one and one-half times the sum of its average annual fixed charges and its average annual maximum contingent interest applicable to such period and if during each of the last two years of such period such net earnings have been not less than one and one-half times the sum of its fixed charges and maximum contingent interest for such year.
- [1993 c 92 § 2; 1947 c 79 § .13.05; Rem. Supp. 1947 § 45.13.05.]

RCW 48.13.060

Terms defined.

(1) Certain terms used are defined for the purposes of this chapter as follows:

- (a) "Obligation" includes bonds, debentures, notes or other evidences of indebtedness.
 - (b) "Net earnings available for fixed charges" means net income after deducting operating and maintenance expenses, taxes other than federal and state income taxes, depreciation and depletion, but excluding extraordinary nonrecurring items of income or expense appearing in the regular financial statements of such institution.
 - (c) "Fixed charges" includes interest on funded and unfunded debt, amortization of debt discount, and rentals for leased properties.
 - (d) "Admitted assets" means the amount as of the last day of the most recently concluded annual statement year, computed in the same manner as "assets" in RCW 48.12.010.
 - (e) "Aggregate amount" of medium grade and lower grade obligations means the aggregate statutory statement value of those obligations thereof.
 - (f) "Institution" means a corporation, a joint stock company, an association, a trust, a business partnership, a business joint venture, or similar entity.
- (2) If net earnings are determined in reliance upon consolidated earnings statements of parent and subsidiary institutions, such net earnings shall be determined after provision for income taxes of subsidiaries and after proper allowance for minority stock interest, if any; and the required coverage of fixed charges shall be computed on a basis including fixed charges and preferred dividends of subsidiaries other than those payable by such subsidiaries to the parent corporation or to any other of such subsidiaries, except that if the minority common stock interest in the subsidiary corporation is substantial, the fixed charges and preferred dividends may be apportioned in accordance with regulations prescribed by the commissioner.
- [1993 c 92 § 3; 1947 c 79 § .13.06; Rem. Supp. 1947 § 45.13.06.]

RCW 48.13.070

Securities of merged or reorganized institutions.

In applying the earnings test set forth in RCW 48.13.060 to any such institution, whether or not in legal existence during the whole of such five years next preceding the date of investment by the insurer, which has at any time during the five-year period acquired substantially all of the assets of any other institution or institutions by purchase, merger, consolidation or otherwise, or has been reorganized pursuant to the bankruptcy law, the earnings of the predecessor or constituent institutions, or of the institution so reorganized, available for interest and dividends for such portion of the five-year period as may have preceded such acquisition, or such reorganization, may be included in the earnings of such issuing, assuming or guaranteeing institution for such portion of such period as may be determined in accordance with adjusted or pro forma consolidated earnings statements covering such portion of such period and giving effect to all stock or shares outstanding, and all fixed charges existing, immediately after such acquisition, or such reorganization.

[1947 c 79 § .13.07; Rem. Supp. 1947 § 45.13.07.]

RCW 48.13.080

Preferred or guaranteed stocks.

(1) An insurer may invest any of its funds, in an aggregate amount not exceeding ten percent of its assets, if a life insurer, or not exceeding fifteen percent of such assets if other than a life insurer, in preferred or guaranteed

stocks or shares, other than common stocks, of solvent institutions existing under the laws of the United States or of any state, district or territory thereof, if all of the prior obligations and prior preferred stocks, if any, of such institution at the date of acquisition by the insurer are eligible as investments under this chapter; and if qualified under either of the following:

(a) Preferred stocks or shares shall be deemed qualified if both these requirements are met:

(i) The net earnings of the institution available for its fixed charges for a period of five fiscal years next preceding the date of acquisition by the insurer must have averaged per year not less than one and one-half times the sum of its average annual fixed charges, if any, its average annual maximum contingent interest, if any, and its average annual preferred dividend requirements applicable to such period; and

(ii) during each of the last two years of such period such net earnings must have been not less than one and one-half times the sum of its fixed charges, contingent interest and preferred dividend requirements for such year. The term "preferred dividend requirements" shall be deemed to mean cumulative or noncumulative dividends whether paid or not.

(b) Guaranteed stocks or shares shall be deemed qualified if the assuming or guaranteeing institution meets the requirements of subdivision (1) of RCW 48.13.050, construed so as to include as a fixed charge the amount of guaranteed dividends of such issue or the rental covering the guarantee of such dividends.

(2) An insurer shall not invest in or loan upon any preferred stock having voting rights, of any one institution, in excess of such proportion of the total issued and outstanding preferred stock of such institution having voting rights, as would, when added to any common shares of such institution, directly or indirectly held by it, exceed fifteen percent of all outstanding shares of such institution having voting rights, nor an amount in excess of the limit provided by RCW 48.13.030. This limitation shall not apply to such shares of a corporation which is the subsidiary of an insurer, and which corporation is engaged exclusively in a kind of business properly incidental to the insurance business of the insurer.

[1947 c 79 § .13.08; Rem. Supp. 1947 § 45.13.08.]

RCW 48.13.090

Trustees' or receivers' obligations.

An insurer may invest any of its funds, in an aggregate amount not exceeding two percent of its assets, in certificates, notes, or other obligations issued by trustees or receivers of institutions existing under the laws of the United States or of any state, district or territory thereof, which, or the assets of which, are being administered under the direction of any court having jurisdiction, if such obligation is adequately secured as to principal and interest.

[1947 c 79 § .13.09; Rem. Supp. 1947 § 45.13.09.]

RCW 48.13.100

Equipment trust certificates.

An insurer may invest any of its funds, in an aggregate amount not exceeding ten percent of its assets, in equipment trust obligations or certificates which are adequately secured, or in other adequately secured instruments evidencing an interest in transportation equipment wholly or in part within the United States and the right to receive determined portions of rental, purchase or other fixed obligatory payments for the use or purchase of such transportation equipment.

[1947 c 79 § .13.10; Rem. Supp. 1947 § 45.13.10.]

RCW 48.13.110

Mortgages, deeds of trust, mortgage bonds, notes, contracts.

An insurer may invest any of its funds in:

(1)(a) Bonds or evidences of debt which are secured by first mortgages or deeds of trust on improved unencumbered real property located in the United States;

(b) Chattel mortgages in connection therewith pursuant to RCW 48.13.150;

(c) The equity of the seller of any such property in the contract for a deed, covering the entire balance due on a bona fide sale of such property, in amount not to exceed ten thousand dollars or the amount permissible under RCW 48.13.030, whichever is greater, in any one such contract for deed.

(2) Purchase money mortgages or like securities received by it upon the sale or exchange of real property acquired pursuant to RCW 48.13.160 as amended in "section 7 of this 1969 amendatory act.

(3) Bonds or notes secured by mortgage or trust deed guaranteed or insured by the Federal Housing Administration under the terms of an act of congress of the United States of June 27, 1934, entitled the "National Housing Act," as amended.

(4) Bonds or notes secured by mortgage or trust deed guaranteed or insured as to principal in whole or in part by the Administrator of Veterans' Affairs pursuant to the provisions of Title III of an act of congress of the United States of June 22, 1944, entitled the "Servicemen's Readjustment Act of 1944," as amended.

(5) Evidences of debt secured by first mortgages or deeds of trust upon leasehold estates, except agricultural leaseholds executed pursuant to RCW 79.01.096, running for a term of not less than fifteen years beyond the

maturity of the loan as made or as extended, in improved real property, otherwise unencumbered, and if the mortgagee is entitled to be subrogated to all the rights under the leasehold.
(6) Evidences of debt secured by first mortgages or deeds of trust upon agricultural leasehold estates executed pursuant to RCW 79.01.096, otherwise unencumbered, and if the mortgagee is entitled to be subrogated to all the rights under the leasehold.

[1975 1st ex.s. c 154 § 1; 1969 ex.s. c 241 § 4; 1947 c 79 § 13.11; Rem. Supp. 1947 § 45.13.11.]

NOTES:

*Reviser's note: The reference to "section 7 of this 1969 amendatory act" is to section 7, chapter 241, Laws of 1969 ex. sess., which amended RCW 48.13.160.

RCW 48.13.120

Investments limited by property value.

(1) An investment made pursuant to the provisions of RCW 48.13.110 shall not exceed seventy-five percent of the fair value of the particular property at the time of investment. However, if the loan is secured by a first mortgage or other first lien upon real property improved with a single-family residential building, the terms of such loan provide for monthly payments of principal and interest sufficient to effect full repayment of the loan within the remaining useful life of the building as estimated in the appraisal for the loan, or thirty years and two months, whichever is less, the principal so loaned or the entire note or bond issue so secured, plus the amount of the liens of any public bond, assessment, or tax assessed upon the property, may not exceed eighty percent of the market value of the real property, or of the real property together with the improvements which are taken as security. This restriction shall not apply to purchase money mortgages or like securities received by an insurer upon the sale or exchange of real property acquired pursuant to RCW 48.13.160.

(2) The extent to which a mortgage loan made under RCW 48.13.110 (3) or (4) is guaranteed or insured by the Federal Housing Administration or guaranteed by the Administrator of Veterans' Affairs may be deducted before application of the limitations contained in subsection (1) of this section.

[1993 c 92 § 7; 1969 ex.s. c 241 § 5; 1967 c 160 § 11; 1955 c 303 § 1; 1949 c 190 § 16; 1947 c 79 § 13.12; Rem. Supp. 1949 § 45.13.12.]

RCW 48.13.125

Mortgage loans on one family dwellings -- Limitation on amortization.

Loans on one family dwellings secured by mortgages or deeds of trust or investments therein shall be amortized within not more than thirty years and two months by payments of installments thereon at regular intervals not less frequent than every three months; except those guaranteed or insured in whole or in part by the Federal Housing Administration, the Administrator of Veterans' Affairs or the Farmers Home Administration.

[1969 ex.s. c 241 § 6; 1967 c 160 § 10.]

RCW 48.13.130

"Encumbrance" defined.

(1) Real property shall not be deemed to be encumbered within the meaning of RCW 48.13.110 by reason of the existence of:

- (a) Instruments reserving mineral, oil, timber or similar rights, rights of way, sewer rights, or rights in walls;
- (b) Liens for taxes or assessments not delinquent, or liens not delinquent for community recreational facilities, or for the maintenance of community facilities, or for service and maintenance of water rights;
- (c) Building restrictions or other restrictive covenants;
- (d) Encroachments, if such encroachments are taken into consideration in determining the fair value of the property;
- (e) A lease under which rents or profits are reserved to the owner if in any event the security for the loan or investment is a first lien upon the real property; or
- (f) With respect to loans secured by mortgage, deed of trust, or other collateral guaranteed or insured in full or in part by the government of the United States, such encumbrances as are allowed as exceptions in title by the administrator or administration of the division of such government so guaranteeing or insuring.

(2) If under any of the exceptions set forth in subsection (1) of this section there is any sum owing but not due or delinquent, the total amount of such sum shall be deducted from the amount which otherwise might be loaned on the property. The value of any mineral, oil, timber or similar right reserved shall not be included in the fair value of the property.

[1955 c 303 § 2; 1947 c 79 § 13.13; Rem. Supp. 1947 § 45.13.13.]

RCW 48.13.140

Appraisal of property -- Insurance -- Limit of loan.

(1) The fair value of property shall be determined by appraisal by a competent appraiser at the time of the acquisition of real property or of the making or acquiring of a mortgage loan or investing in a contract for the deed thereon; except, that as to bonds or notes secured by mortgage or trust deed guaranteed or insured by the

Federal Housing Administration, or guaranteed or insured as to principal in full or in part by the Administrator of Veterans' Affairs, or guaranteed or insured by the Farmers Home Administration, the valuation made by such administration or administrator shall be deemed to have been made by a competent appraiser for the purposes of this subsection.

(2) Buildings and other improvements located on mortgaged premises shall be kept insured for the benefit of the mortgagee against loss or damage from fire in an amount not less than the unpaid balance of the obligation, or the insurable value of the property, whichever is the lesser.

(3) An insurer shall not make or acquire a loan or loans upon the security of any one parcel of real property in aggregate amount in excess of twenty-five thousand dollars or more than the amount permissible under RCW 48.13.030, whichever is the greater.

[1967 ex.s. c 95 § 12; 1955 c 303 § 3; 1947 c 79 § .13.14; Rem. Supp. 1947 § 45.13.14.]

RCW 48.13.150

Auxiliary chattel mortgages.

(1) In connection with a mortgage loan on the security of real property designed and used primarily for residential purposes only, acquired pursuant to RCW 48.13.110, an insurer may loan or invest an amount not exceeding twenty percent of the amount loaned on or invested in such real property mortgage, on the security of a chattel mortgage for a term of not more than five years representing a first and prior lien, except for taxes not then delinquent, on personal property constituting durable equipment owned by the mortgagor and kept and used in the mortgaged premises.

(2) The term "durable equipment" shall include only mechanical refrigerators, mechanical laundering machines, heating and cooking stoves and ranges, mechanical kitchen aids, vacuum cleaners, and fire extinguishing devices; and in addition in the case of apartment houses and hotels, room furniture and furnishings.

(3) Prior to acquisition of a chattel mortgage, items of property to be included shall be separately appraised by a competent appraiser and the fair market value thereof determined. No such chattel mortgage loan shall exceed in amount the same ratio of loan to the value of the property as is applicable to the companion loan on the real property.

[1947 c 79 § .13.15; Rem. Supp. 1947 § 45.13.15.]

RCW 48.13.160

Real property owned - Home office building.

(1) An insurer may own and invest or have invested in its home office and branch office buildings any of its funds in aggregate amount not to exceed ten percent of its assets unless approved by the commissioner, or if a mutual or reciprocal insurer not to exceed ten percent of its assets nor such amount as would reduce its surplus, exclusive of such investment, below fifty thousand dollars unless approved by the commissioner.

(2) An insurer may own real property acquired in satisfaction or on account of loans, mortgages, liens, judgments, or other debts previously owing to the insurer in the course of its business.

(3) An insurer may invest or have invested in aggregate amount not exceeding three percent of its assets in the following real property, and in the repair, alteration, furnishing, or improvement thereof:

(a) Real property requisite for its accommodation in the convenient transaction of its business if approved by the commissioner.

(b) Real property acquired by gift or devise.

(c) Real property acquired in exchange for real property owned by it. If necessary in order to consummate such an exchange, the insurer may put up cash in amount not to exceed twenty percent of the fair value of its real property to be so exchanged, in addition to such property.

(d) Real property acquired through a lawful merger or consolidation with it of another insurer and not required for the purposes specified in subsection (1) and in paragraph (a) of subsection (2) of this section.

(e) Upon approval of the commissioner, in real property and equipment incident to real property, requisite or desirable for the protection or enhancement of the value of other real property owned by the insurer.

(4) A domestic life insurer with assets of at least twenty-five million dollars and at least ten million dollars in capital and surplus, and a domestic property and casualty insurer with assets of at least seventy-five million dollars and at least thirty million dollars in capital and surplus, or, if a mutual or reciprocal property or casualty insurer, at least thirty million dollars in surplus, may, in addition to the real property included in subsections (1), (2) and (3) of this section, own such real property other than property to be used for ranch, mining, recreational, amusement, or club purposes, as may be acquired as an investment for the production of income, or as may be acquired to be improved or developed for such investment purpose pursuant to an existing program therefor, subject to the following limitations and conditions:

(a) The cost of each parcel of real property so acquired under this subsection (4), including the estimated cost to the insurer of the improvement or development thereof, when added to the book value of all other real property under this subsection (4), together with the admitted value of all common stock, then held by it, shall not exceed twenty percent of its admitted assets or fifty percent of its surplus over the minimum required surplus, whichever is greater, as of the thirty-first day of December next preceding; and

(b) The cost of each parcel of real property so acquired, including the estimated cost to the insurer of the improvement or development thereof, shall not exceed as of the thirty-first day of December next preceding, four percent of its admitted assets.

(c) Indirect or proportionate interests in real estate held by a domestic life insurer through any subsidiary shall be included in proportion to such insurer's interest in the subsidiary in applying the limits provided in subsection (4). [1981 c 339 § 6; 1973 c 151 § 3; 1969 ex.s. c 241 § 7; 1967 ex.s. c 95 § 13; 1949 c 190 § 17; 1947 c 79 § .13.16; Rem. Supp. 1949 § 45.13.16.]

RCW 48.13.170

Disposal of real property -- Time limit.

(1) Real property acquired by an insurer pursuant to paragraph (a) of subsection (3) of RCW 48.13.160 shall be disposed of within five years after it has ceased being necessary for the use of the insurer in the transaction of its business. Real property acquired by an insurer pursuant to loans, mortgages, liens, judgments, or other debts, or pursuant to paragraphs (b), (c), (d), and (e) of subsection (3) of RCW 48.13.160 shall be disposed of within five years after date of acquisition. The time for any such disposal may be extended by the commissioner for a definite additional period or periods upon application and proof that forced sale of the property, otherwise necessary, would be against the best interests of the insurer.

(2) Any such real property held by the insurer without the commissioner's consent beyond the time permitted for its disposal shall not be carried or allowed as an asset.

[1967 ex.s. c 95 § 14; 1947 c 79 § .13.17; Rem. Supp. 1947 § 45.13.17.]

RCW 48.13.180

Foreign securities.

(1) An insurer authorized to transact insurance in a foreign country may invest any of its funds, in aggregate amount not exceeding its deposit and reserve obligations incurred in such country, in securities of or in such country possessing characteristics and of a quality similar to those required pursuant to this chapter for investments in the United States.

(2) An insurer may invest any of its funds, in an aggregate amount not exceeding five percent of its assets, in addition to any amount permitted pursuant to subsection (1) of this section, in obligations of the governments of the Dominion of Canada or of Canadian provinces or municipalities, and in obligations of Canadian corporations, which have not been in default during the five years next preceding date of acquisition, and which are otherwise of equal quality to like United States public or corporate securities as prescribed in this chapter.

[1947 c 79 § .13.18; Rem. Supp. 1947 § 45.13.18.]

RCW 48.13.190

Policy loans.

A life insurer may loan to its policyholder upon the pledge of the policy as collateral security, any sum not exceeding the legal reserve maintained on the policy.

[1947 c 79 § .13.19; Rem. Supp. 1947 § 45.13.19.]

RCW 48.13.200

Savings and share accounts.

An insurer may invest or deposit any of its funds in share or savings accounts of savings and loan associations, or in savings accounts of banks, and in any one such institution only to the extent that such an account is insured by the Federal Savings and Loan Insurance Corporation or the Federal Deposit Insurance Corporation.

[1947 c 79 § .13.20; Rem. Supp. 1947 § 45.13.20.]

RCW 48.13.210

Insurance stocks.

(1) An insurer other than a life insurer may invest a portion of its surplus funds in an aggregate amount not exceeding fifty percent of its surplus over its capital stock and other liabilities, or thirty-five percent of its capital funds, whichever is greater, in the stocks of other insurers organized and existing under the laws of states of the United States. Indirect or proportionate interests in insurance stocks held by an insurer through any intermediate subsidiary or subsidiaries shall be included in applying the limitations provided in subsections (1), (2), and (3) of this section.

(2) A life insurer may invest in such insurance stocks in an aggregate amount not exceeding the smaller of the following amounts: Five percent of its assets; or twenty-five percent of its surplus over its capital stock and other liabilities, or of surplus over its required minimum surplus if a mutual life insurer.

(3) An insurer shall not purchase or hold as an investment more than five percent of the voting stock of any one other insurer, and subject further to the investment limits of RCW 48.13.030. This limitation shall not apply

if such other insurer is the subsidiary of, and substantially all its shares having voting powers are owned by, the insurer.

(4) No such insurance stock shall be eligible as an investment unless it meets the qualifications for stocks of other corporations as set forth in RCW 48.13.220.

(5) The limitations on investment in insurance stocks set forth in this chapter shall not apply to stocks acquired under a plan for merger of the insurers which has been approved by the commissioner or to shares received as stock dividends upon shares already owned.

[1979 ex.s. c 199 § 3; 1979 ex.s. c 130 § 4; 1947 c 79 § .13.21; Rem. Supp. 1947 § 45.13.21.]

RCW 48.13.218

Limitation on insurer loans or investments.

(1) Notwithstanding RCW 48.13.220 and 48.13.240, an insurer may not loan or invest its funds in common stock, preferred stock, debt obligations, and other securities of one or more subsidiaries in an aggregate amount exceeding the lesser of the following sums: Ten percent of its assets, or fifty percent of its surplus as regards policyholders. In calculating the amount of investments under this section, investments in domestic or foreign subsidiary insurers, health care service contractors, and health maintenance organizations are excluded.

(2) For the purposes of this section, "subsidiary" has the same meaning as in RCW 48.31B.005.

[2001 c 90 § 1.]

RCW 48.13.220

Common stocks -- Investment -- Acquisition -- Engaging in certain businesses.

(1) After satisfying the requirements of RCW 48.13.260, an insurer may invest any of its funds in common shares of stock in solvent United States corporations that qualify as a sound investment; except, that as to life insurers such investments shall further not aggregate an amount in excess of fifty percent of the insurer's surplus over its minimum required surplus.

(2) The insurer shall not invest in or loan upon the security of more than ten percent of the outstanding common shares of any one such corporation, subject further to the aggregate investment limitation of RCW 48.13.030.

(3) The limitations of subsection (2) of this section shall not apply to investment in the securities of any subsidiary corporations of the insurer which are engaged or organized to engage exclusively in one or more of the following businesses:

(a) Acting as an insurance agent for its parent or for any of its parent's insurer subsidiaries or affiliates;

(b) Investing, reinvesting, or trading in securities or acting as a securities broker or dealer for its own account, that of its parent, any subsidiary of its parent, or any affiliate or subsidiary;

(c) Rendering management, sales, or other related services to any investment company subject to the Federal Investment Company Act of 1940, as amended;

(d) Rendering investment advice;

(e) Rendering services related to the functions involved in the operation of an insurance business including, but not limited to, actuarial, loss prevention, safety engineering, data processing, accounting, claims appraisal, and collection services;

(f) Acting as administrator of employee welfare benefit and pension plans for governments, government agencies, corporations, or other organizations or groups;

(g) Ownership and management of assets which the parent could itself own and manage: PROVIDED, That the aggregate investment by the insurer and its subsidiaries acquired pursuant to this paragraph shall not exceed the limitations otherwise applicable to such investments by the parent;

(h) Acting as administrative agent for a government instrumentality which is performing an insurance function or is responsible for a health or welfare program;

(i) Financing of insurance premiums;

(j) Any other business activity reasonably ancillary to an insurance business;

(k) Owning one or more subsidiary (i) insurers to the extent permitted by this chapter, or (ii) businesses specified in paragraphs (a) through (k) of this subsection inclusive, or (iii) other businesses the stock of which is eligible under RCW 48.13.240 or 48.13.250, or any combination of such insurers and businesses.

(4) No acquisition of a majority of the total outstanding common shares of any corporation shall be made pursuant to this section unless a notice of intention of such proposed acquisition shall have been filed with the commissioner not less than ninety days, or such shorter period as may be permitted by the commissioner, in advance of such proposed acquisition, nor shall any such acquisition be made if the commissioner at any time prior to the expiration of the notice period finds that the proposed acquisition is contrary to law, or determines that such proposed acquisition would be contrary to the best interests of the parent insurer's policyholders or of the people of this state. The following shall be the only factors to be considered in making the foregoing determination:

(a) The availability of the funds or assets required for such acquisition;

(b) The fairness of any exchange of stock, assets, cash, or other consideration for the stock or assets to be received;

(c) The impact of the new operation on the parent insurer's surplus and existing insurance business and the risks inherent in the parent insurer's investment portfolio and operations;

(d) The fairness and adequacy of the financing proposed for the subsidiary;

(e) The likelihood of undue concentration of economic power;

(f) Whether the effect of the acquisition may be substantially to lessen competition in any line of commerce in insurance or to tend to create a monopoly therein; and

(g) Whether the acquisition might result in an excessive proliferation of subsidiaries which would tend to unduly dilute management effectiveness or weaken financial strength or otherwise be contrary to the best interests of the parent insurer's policyholders or of the people of this state. At any time after an acquisition, the commissioner may order its disposition if he finds, after notice and hearing, that its continued retention is hazardous or prejudicial to the interests of the parent insurer's policyholders. The contents of each notice of intention of a proposed acquisition filed hereunder and information pertaining thereto shall be kept confidential, shall not be subject to subpoena, and shall not be made public unless after notice and hearing the commissioner determines that the interests of policyholders, stockholders, or the public will be served by the publication thereof.

(5) A domestic insurance company may, provided that it maintains books and records which separately account for such business, engage directly in any business referred to in paragraphs (d), (e), (h), and (j) of subsection (3) of this section either to the extent necessarily or properly incidental to the insurance business the insurer is authorized to do in this state or to the extent approved by the commissioner and subject to any limitations he may prescribe for the protection of the interests of the policyholders of the insurer after taking into account the effect of such business on the insurer's existing insurance business and its surplus, the proposed allocation of the estimated cost of such business, and the risks inherent in such business as well as the relative advantages to the insurer and its policyholders of conducting such business directly instead of through a subsidiary.

[1982 c 218 § 3; 1973 c 151 § 4; 1949 c 190 § 18; 1947 c 79 § .13.22; Rem. Supp. 1949 § 45.13.22.]

NOTES:

Severability -- 1982 c 218: See note following RCW 48.12.020.

RCW 48.13.230

Collateral loans.

An insurer may loan its funds upon the pledge of securities or evidences of debt eligible for investment under this chapter. As at date made, no such loan shall exceed in amount ninety percent of the market value of such collateral pledged, except that loans upon pledges of United States government bonds may be equal to the market value of the bonds pledged. The amount so loaned shall be included in the maximum percentage of funds permitted to be invested in the kinds of securities or evidences of debt pledged or permitted by RCW 48.13.030. [1947 c 79 § .13.23; Rem. Supp. 1947 § 45.13.23.]

RCW 48.13.240

Miscellaneous investments.

(1) An insurer may loan or invest its funds in an aggregate amount not exceeding the lesser of the following sums: Ten percent of its assets, or fifty percent of its surplus over its capital and other liabilities, or if a mutual or reciprocal insurer fifty percent of its surplus over minimum required surplus, in loans or investments not otherwise eligible for investment and not specifically prohibited by RCW 48.13.270.

(2) No such loan or investment shall be any item described in RCW 48.12.020.

(3) No such investment in or loan upon the security of any one person or entity shall exceed the amount specified in subsection (1) of this section or one percent of the insurer's assets, whichever is the lesser, except that this subsection (3) shall not apply to an investment in the stock of a subsidiary company.

(4) The insurer shall keep a separate record of all investments acquired under this section.

[1982 c 218 § 4; 1947 c 79 § .13.24; Rem. Supp. 1947 § 45.13.24.]

NOTES:

Severability -- 1982 c 218: See note following RCW 48.12.020.

RCW 48.13.250

Special consent investments.

Upon advance approval of the commissioner and in compliance with RCW 48.13.020, an insurer may make any investment or kind of investment or exchange of assets otherwise prohibited or not eligible under any other section of this chapter. The commissioner's order of approval if granted shall specify whether the investment or any part thereof may be credited to required minimum capital or surplus investments, or to investment of reserves.

[1947 c 79 § .13.25; Rem. Supp. 1947 § 45.13.25.]

RCW 48.13.260

Required investments for capital and reserves.

(1) An insurer shall invest and keep invested its funds aggregating in amount, if a stock insurer, not less than one hundred percent of its minimum required capital, or if a mutual or reciprocal insurer, not less than one hundred percent of its required minimum surplus, in cash or investments eligible in accordance with RCW

48.13.040 (public obligations), and in mortgage loans on real property located within this state, pursuant to RCW 48.13.110.

(2) In addition to the investments required by subsection (1) of this section, an insurer shall invest and keep invested its funds aggregating not less than one hundred percent of its reserves required by this code in cash or premiums in course of collection or in investments eligible in accordance with the following sections: RCW 48.13.040 (public obligations), 48.13.050 (corporate obligations), 48.13.080 (preferred or guaranteed stocks), 48.13.090 (trustees' or receivers' obligations), 48.13.100 (equipment trust certificates), 48.13.110 (mortgages, loans and contracts), 48.13.150 (auxiliary chattel mortgages), 48.13.160 (real property, home office building, etc.), 48.13.180 (foreign securities), 48.13.190 (policy loans), 48.13.200 (savings and share accounts), 48.13.220 (common stocks), 48.13.230 (collateral loans), 48.13.250 (special consent investments).

(3) This section shall not apply to title insurers nor to mutual insurers on the assessment premium plan. [1971 ex.s. c 13 § 16; 1947 c 79 § .13.26; Rem. Supp. 1947 § 45.13.26.]

RCW 48.13.265

Investments secured by real estate -- Amount restricted.

An insurer shall not invest or have invested at any one time more than sixty-five percent of its assets in investments in real estate, real estate contracts, and notes, bonds and other evidences of debt secured by mortgage on real estate, as described in RCW 48.13.110 and 48.13.160. Any insurer which, on June 13, 1957, has in excess of sixty-five percent of its assets so invested shall not make any further such investments while such excess exists.

[1957 c 193 § 8.]

RCW 48.13.270

Prohibited investments.

An insurer shall not, except with the commissioner's approval in advance, invest in or loan its funds upon the security of, or hold:

(1) Issued shares of its own capital stock, except for the purpose of mutualization in accordance with RCW 48.08.080;

(2) Securities issued by any corporation if a majority of its stock having voting power is owned directly or indirectly by or for the benefit of any one or more of the insurer's officers and directors;

(3) Any investment or loan ineligible under the provisions of RCW 48.13.030;

(4) Securities issued by any insolvent corporation;

(5) Obligations contrary to the provisions of RCW 48.13.273; or

(6) Any investment or security which is found by the commissioner to be designed to evade any prohibition of this code.

[1995 c 84 § 1; 1993 c 92 § 4; 1982 c 218 § 5; 1947 c 79 § .13.27; Rem. Supp. 1947 § 45.13.27.]

NOTES:

Severability -- 1982 c 218: See note following RCW 48.12.020.

RCW 48.13.273

Acquisition of medium and lower grade obligations -- Definitions -- Limitations -- Rules.

(1) As used in this section:

(a) "Lower grade obligations" means obligations that are rated four, five, or six by the securities valuation office.

(b) "Medium grade obligations" means obligations that are rated three by the securities valuation office.

(c) "Securities valuation office" means the entity created by the national association of insurance commissioners in part, to assign rating categories for bond obligations acquired by insurers.

(2) No insurer may acquire directly or indirectly, any medium grade or lower grade obligation if, after giving effect to the acquisition, the aggregate amount of all medium grade and lower grade obligations then held by the insurer would exceed twenty percent of its admitted assets provided that:

(a) No more than ten percent of an insurer's admitted assets may be invested in lower grade obligations;

(b) No more than three percent of an insurer's admitted assets may be invested in lower grade obligations rated five or six by the securities valuation office;

(c) No more than one percent of an insurer's admitted assets may be invested in lower grade obligations rated six by the securities valuation office;

(d) No more than one percent of an insurer's admitted assets may be invested in medium and lower grade obligations issued, guaranteed, or insured by any one institution; and

(e) No more than one-half of one percent of an insurer's admitted assets may be invested in lower grade obligations issued, guaranteed, or insured by any one institution.

(3) This section does not require an insurer to sell or otherwise dispose of any obligation lawfully acquired before July 25, 1993, or in accordance with this chapter. The commissioner shall adopt rules identifying the circumstances under which the commissioner may approve an investment in obligations exceeding the limitations of this section as necessary to mitigate financial loss by an insurer.

(4) The board of directors of any domestic insurance company which acquires or invests, directly or indirectly, more than two percent of its admitted assets in medium grade and lower grade obligations of any institution, shall adopt a written plan for making those investments. The plan, in addition to guidelines with respect to the

quality of the issues invested in, shall contain diversification standards including, but not limited to, standards for issuer, industry, duration, liquidity, and geographic location.
[1993 c 92 § 5.]

RCW 48.13.275

Obligations rated by the securities valuation office.

Notwithstanding the provisions of RCW 48.13.050, an insurer may invest its funds in obligations rated by the securities valuation office. Investments in obligations that are rated one or two by the securities valuation office shall be subject to the limitations contained in RCW 48.13.030.
[1993 c 92 § 6.]

RCW 48.13.280

Securities underwriting, agreements to withhold or repurchase, prohibited.

No insurer shall

- (1) participate in the underwriting of the marketing of securities in advance of their issuance or enter into any transaction for such underwriting for the account of such insurer jointly with any other person; or
 - (2) enter into any agreement to withhold from sale any of its property, or to repurchase any property sold by it.
- [1947 c 79 § 13.28; Rem. Supp. 1947 § 45.13.28.]

RCW 48.13.285

Derivative transactions - Restrictions - Definitions - Rules.

(1) An insurer may, directly or indirectly through an investment subsidiary, engage in derivative transactions under this section under the following conditions:

- (a) An insurer may use derivative instruments under this section to engage in hedging transactions and certain income generation transactions, as these terms may be further defined by rule by the insurance commissioner;
 - (b) Derivative instruments shall not be used for speculative purposes, but only as stated in (a) of this subsection;
 - (c) An insurer shall be able to demonstrate to the insurance commissioner the intended hedging characteristics and the ongoing effectiveness of the derivative transaction or combination of transactions through cash flow testing or other appropriate analysis;
 - (d) An insurer may enter into hedging transactions under this section if, as a result of and after giving effect to the transaction:
 - (i) The aggregate statement value of options, caps, floors, and warrants not attached to another financial instrument purchased and used in hedging transactions does not exceed seven and one-half percent of its admitted assets;
 - (ii) The aggregate statement value of options, caps, and floors written in hedging transactions does not exceed three percent of its admitted assets; and
 - (iii) The aggregate potential exposure of collars, swaps, forwards, and futures used in hedging transactions does not exceed six and one-half percent of its admitted assets;
 - (e) An insurer may only enter into the following types of income generation transactions if, as a result of and after giving effect to the transactions, the aggregate statement value of the fixed income assets that are subject to call or that generate the cash flows for payments under the caps or floors, plus the face value of fixed income securities underlying a derivative instrument subject to call, plus the amount of the purchase obligations under the puts, does not exceed ten percent of its admitted assets:
 - (i) Sales of covered call options on noncallable fixed income securities, callable fixed income securities if the option expires by its terms prior to the end of the noncallable period, or derivative instruments based on fixed income securities;
 - (ii) Sales of covered call options on equity securities, if the insurer holds in its portfolio, or can immediately acquire through the exercise of options, warrants, or conversion rights already owned, the equity securities subject to call during the complete term of the call option sold;
 - (iii) Sales of covered puts on investments that the insurer is permitted to acquire under this chapter, if the insurer has escrowed, or entered into a custodian agreement segregating, cash or cash equivalents with a market value equal to the amount of its purchase obligations under the put during the complete term of the put option sold; or
 - (iv) Sales of covered caps or floors, if the insurer holds in its portfolio the investments generating the cash flow to make the required payments under the caps or floors during the complete term that the cap or floor is outstanding;
 - (f) An insurer shall include all counterparty exposure amounts in determining compliance with general diversification requirements and medium and low grade investment limitations under this chapter; and
 - (g) Pursuant to rules adopted by the insurance commissioner under subsection (3) of this section, the commissioner may approve additional transactions involving the use of derivative instruments in excess of the limitations in (d) of this subsection or for other risk management purposes under rules adopted by the commissioner, but replication transactions shall not be permitted for other than risk management purposes.
- (2) For purposes of this section:

(a) "Cap" means an agreement obligating the seller to make payments to the buyer, with each payment based on the amount by which a reference price or level or the performance or value of one or more underlying interests exceeds a predetermined number, sometimes called the strike rate or strike price;

(b) "Collar" means an agreement to receive payments as the buyer of an option, cap, or floor and to make payments as the seller of a different option, cap, or floor;

(c) "Counterparty exposure amount" means the net amount of credit risk attributable to a derivative instrument entered into with a business entity other than through a qualified exchange, qualified foreign exchange, or cleared through a qualified clearinghouse. The amount of the credit risk equals the market value of the over-the-counter derivative instrument if the liquidation of the derivative instrument would result in a final cash payment to the insurer, or zero if the liquidation of the derivative instrument would not result in a final cash payment to the insurer.

If over-the-counter derivative instruments are entered into under a written master agreement which provides for netting of payments owed by the respective parties, and the domiciliary jurisdiction of the counterparty is either within the United States or, if not within the United States, within a foreign jurisdiction listed in the purposes and procedures of the securities valuation office as eligible for netting, the net amount of credit risk shall be the greater of zero or the sum of:

(i) The market value of the over-the-counter derivative instruments entered into under the agreement, the liquidation of which would result in a final cash payment to the insurer; and

(ii) The market value of the over-the-counter derivative instruments entered into under the agreement, the liquidation of which would result in a final cash payment by the insurer to the business entity.

For open transactions, market value shall be determined at the end of the most recent quarter of the insurer's fiscal year and shall be reduced by the market value of acceptable collateral held by the insurer or placed in escrow by one or both parties;

(d) "Covered" means that an insurer owns or can immediately acquire, through the exercise of options, warrants or conversion rights already owned, the underlying interest in order to fulfill or secure its obligations under a call option, cap or floor it has written, or has set aside under a custodial or escrow agreement cash or cash equivalents with a market value equal to the amount required to fulfill its obligations under a put option it has written, in an income generation transaction;

(e) "Derivative instrument" means an agreement, option, instrument, or a series or combination thereof:

(i) To make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests, or to make a cash settlement in lieu thereof; or

(ii) That has a price, performance, value, or cash flow based primarily upon the actual or expected price, level, performance, value, or cash flow of one or more underlying interests.

Derivative instruments include options, warrants used in a hedging transaction and not attached to another financial instrument, caps, floors, collars, swaps, forwards, futures, and any other agreements, options, or instruments substantially similar thereto or any series or combination thereof and any agreements, options, or instruments permitted under rules adopted by the commissioner under subsection (3) of this section;

(f) "Derivative transaction" means a transaction involving the use of one or more derivative instruments;

(g) "Floor" means an agreement obligating the seller to make payments to the buyer in which each payment is based on the amount by which a predetermined number, sometimes called the floor rate or price, exceeds a reference price, level, performance, or value of one or more underlying interests;

(h) "Future" means an agreement, traded on a qualified exchange or qualified foreign exchange, to make or take delivery of, or effect a cash settlement based on the actual or expected price, level, performance, or value of, one or more underlying interests;

(i) "Hedging transaction" means a derivative transaction which is entered into and maintained to reduce:

(i) The risk of a change in the value, yield, price, cash flow, or quantity of assets or liabilities which the insurer has acquired or incurred or anticipates acquiring or incurring; or

(ii) The currency exchange rate risk or the degree of exposure as to assets or liabilities which an insurer has acquired or incurred or anticipates acquiring or incurring;

(j) "Option" means an agreement giving the buyer the right to buy or receive (a "call option"), sell or deliver (a "put option"), enter into, extend, or terminate or effect a cash settlement based on the actual or expected price, level, performance, or value of one or more underlying interests;

(k) "Swap" means an agreement to exchange or to net payments at one or more times based on the actual or expected price, level, performance, or value of one or more underlying interests;

(l) "Underlying interest" means the assets, liabilities, other interests, or a combination thereof underlying a derivative instrument, such as any one or more securities, currencies, rates, indices, commodities, or derivative instruments; and

(m) "Warrant" means an instrument that gives the holder the right to purchase an underlying financial instrument at a given price and time or at a series of prices and times outlined in the warrant agreement. Warrants may be issued alone or in connection with the sale of other securities, for example, as part of a merger or recapitalization agreement, or to facilitate divestiture of the securities of another business entity.

(3) The insurance commissioner may adopt rules implementing the provisions of this section.

[1997 c 317 § 1.]

RCW 48.13.290

Disposal of ineligible property or securities.

(1) Any ineligible personal property or securities acquired by an insurer may be required to be disposed of within the time not less than six months specified by order of the commissioner, unless before that time it attains the standard of eligibility, if retention of such property or securities would be contrary to the policyholders or public interest in that it tends to substantially lessen competition in the insurance business or threatens impairment of the financial condition of the insurer.

(2) Any personal property or securities acquired by an insurer contrary to RCW 48.13.270 shall be disposed of forthwith or within any period specified by order of the commissioner.

(3) Any property or securities ineligible only because of being excess of the amount permitted under this chapter to be invested in the category to which it belongs shall be ineligible only to the extent of such excess.

[1982 c 218 § 6; 1973 c 151 § 5; 1947 c 79 § .13.29; Rem. Supp. 1947 § 46.13.29.]

NOTES:

Severability -- 1982 c 218: See note following RCW 48.12.020.

RCW 48.13.340

Authorization of investments.

No investment, loan, sale or exchange thereof shall, except as to the policy loans of a life insurer, be made by any domestic insurer unless authorized or approved by its board of directors or by a committee charged by the board of directors or the bylaws with the duty of making such investment, loan, sale or exchange. The minutes of any such committee shall be recorded and reports thereof shall be submitted to the board of directors for approval or disapproval.

[1949 c 190 § 19; 1947 c 79 § .13.34; Rem. Supp. 1949 § 45.13.34.]

RCW 48.13.350

Record of investments.

(1) As to each investment or loan of the funds of a domestic insurer a written record in permanent form showing the authorization thereof shall be made and signed by an officer of the insurer or by the chairman of such committee authorizing the investment or loan.

(2) As to each such investment or loan the insurer's records shall contain:

(a) In the case of loans: The name of the borrower; the location and legal description of the property; a physical description, and the appraised value of the security; the amount of the loan, rate of interest and terms of repayment.

(b) In the case of securities: The name of the obligor; a description of the security and the record of earnings; the amount invested, the rate of interest or dividend, the maturity and yield based upon the purchase price.

(c) In the case of real estate: The location and legal description of the property; a physical description and the appraised value; the purchase price and terms.

(d) In the case of all investments:

(i) The amount of expenses and commissions if any incurred on account of any investment or loan and by whom and to whom payable if not covered by contracts with mortgage loan representatives or correspondents which are part of the insurer's records.

(ii) The name of any officer or director of the insurer having any direct, indirect, or contingent interest in the securities or loan representing the investment, or in the assets of the person in whose behalf the investment or loan is made, and the nature of such interest.

[1949 c 190 § 20; 1947 c 79 § .13.35; Rem. Supp. 1949 § 45.13.35.]

RCW 48.13.360

Investments of foreign and alien insurers.

The investments of a foreign or alien insurer shall be as permitted by the laws of its domicile but shall be of a quality substantially as high as those required under this chapter for similar funds of like domestic insurers.

[1947 c 79 § .13.36; Rem. Supp. 1947 § 46.13.36.]

RCW 48.13.450

Safeguarding securities -- Definitions.

The definitions in this section apply throughout RCW 48.13.450 through 48.13.475 unless the context clearly requires otherwise.

(1) "Broker" means a broker as defined in RCW 62A.8-102(1)(c).

(2) "Clearing corporation" means a depository corporation which maintains a book entry accounting system and which meets the requirements of RCW 62A.8-102(1)(e).

(3) "Commissioner" means the insurance commissioner of the state of Washington.

(4) "Federal reserve book-entry securities system" means the computerized systems sponsored by the United States department of the treasury and certain agencies and instrumentalities of the United States for holding and

transferring securities of the United States government and such agencies and instrumentalities, respectively, and managed by the federal reserve system for participating financial institutions.

(5) "Participating financial institution" means a depository financial institution such as a national bank, state bank, savings and loan, credit union, or trust company that is:

(a) Authorized to participate in the federal reserve book-entry system; and

(b) Licensed by the United States or the banking authorities in its state of domicile and is regularly examined by the licensing authority.

(6) "Qualified custodian" means either a participating financial institution or a clearing corporation, or both. A qualified custodian does not include a broker.

(7) "Securities" means instruments as defined in RCW 62A.8-102(1)(c).

[2000 c 221 § 1.]

RCW 48.13.455

Safeguarding securities -- Deposit in a clearing corporation or the federal reserve book-entry securities system -- Certificates -- Records.

Notwithstanding any other provision of law, a domestic insurance company may deposit or arrange for the deposit of securities held in or purchased for its general account and its separate accounts in a clearing corporation or the federal reserve book-entry securities system. When securities are deposited with a clearing corporation, certificates representing securities of the same class of the same issuer may be merged and held in bulk in the name of the nominee of such clearing corporation with any other securities deposited with such clearing corporation by any person, regardless of the ownership of such securities, and certificates representing securities of small denominations may be merged into one or more certificates of larger denominations. The records of any participating financial institution through which an insurance company holds securities in the federal reserve book-entry securities system, and the records of any custodian banks through which an insurance company holds securities in a clearing corporation, shall at all times show that such securities are held for such insurance company and for which accounts thereof. Ownership of, and other interests in, such securities may be transferred by bookkeeping entry on the books of such clearing corporation or in the federal reserve book-entry securities system without, in either case, physical delivery of certificates representing such securities.

[2000 c 221 § 2.]

RCW 48.13.460

Safeguarding securities -- Authorized methods of holding securities.

The following are the only authorized methods of holding securities:

(1) A domestic insurance company may hold securities in definitive certificates;

(2) A domestic insurance company may, pursuant to an agreement, designate a participating financial institution or institutions as its custodian through which it can transact and maintain book-entry securities on behalf of the insurance company; or

(3) A domestic insurance company may, pursuant to an agreement, participate in depository systems of clearing corporations directly or through a custodian bank.

[2000 c 221 § 3.]

RCW 48.13.465

Safeguarding securities -- Requirement to receive a confirmation.

A domestic insurance company using the methods of holding securities under RCW 48.13.460 (2) or (3) is required to receive a confirmation from:

(1) The participating financial institution or the qualified custodian whenever securities are received or surrendered pursuant to the domestic insurance company's instructions to a securities broker; or

(2) The securities broker provided that the domestic insurance company has given the participating financial institution or qualified custodian and the securities broker matching instructions authorizing the transaction, which have been confirmed by the participating financial institution or qualified custodian prior to surrendering funds or securities to conduct the transaction.

[2000 c 221 § 4.]

RCW 48.13.470

Safeguarding securities -- Broker executing a trade -- Time limits.

(1) A broker executing a securities trade pursuant to an order from a domestic insurance company shall send confirmation to the domestic insurance company or the clearing corporation confirming the order has been executed within twenty-four hours after order completion.

(2) A broker may not hold in its own account for longer than seventy-two hours any securities bought or sold pursuant to an order from a domestic insurance company.

[2000 c 221 § 5.]

RCW 48.13.475

Safeguarding securities -- Maintenance with a qualified custodian -- Commissioner may order transfer -- Challenge to order -- Standing at hearing or for judicial review.

(1) Notwithstanding the maintenance of securities with a qualified custodian pursuant to agreement, if the commissioner:

(a) Has reasonable cause to believe that the domestic insurer:

(i) Is conducting its business and affairs in such a manner as to threaten to render it insolvent;

(ii) Is in a hazardous condition or is conducting its business and affairs in a manner that is hazardous to its policyholders, creditors, or the public; or

(iii) Has committed or is committing or has engaged or is engaging in any act that would constitute grounds for rendering it subject to rehabilitation or liquidation proceedings; or

(b) Determines that irreparable loss and injury to the property and business of the domestic insurer has occurred or may occur unless the commissioner acts immediately;

then the commissioner may, without hearing, order the insurer and the qualified custodian promptly to effect the transfer of the securities to another qualified custodian approved by the commissioner. Upon receipt of the order, the qualified custodian shall promptly effect the transfer of the securities. Notwithstanding the pendency of any hearing or request for hearing, the order shall be complied with by those persons subject to that order. Any challenge to the validity of the order shall be made under chapter 48.04 RCW, however, the stay of action provisions of RCW 48.04.020 do not apply. It is the responsibility of both the insurer and the qualified custodian to oversee that compliance with the order is completed as expeditiously as possible. Upon receipt of an order, there shall be no trading of the securities without specific instructions from the commissioner until the securities are received by the new qualified custodian, except to the extent trading transactions are in process on the day the order is received by the insurer and the failure to complete the trade may result in loss to the insurer's account. Issuance of an order does not affect the qualified custodian's liabilities with regard to the securities that are the subject of the order.

(2) No person other than the insurer has standing at the hearing by the commissioner or for any judicial review of the order.

[2000 c 221 § 6.]

RCW 48.13.490

Safeguarding securities -- Rules.

The commissioner may adopt rules to implement and administer RCW 48.13.450 through 48.13.475.

[2000 c 221 § 7.]

RCW 48.12.020

Nonallowable assets.

In addition to assets impliedly excluded under RCW 48.12.010, the following expressly shall not be allowed as assets in any determination of the financial condition of an insurer:

- (1) Goodwill, except in accordance with regulations prescribed by the commissioner, trade names, agency plants and other like intangible assets.
 - (2) Prepaid or deferred charges for expenses and commissions paid by the insurer.
 - (3) Advances to officers (other than policy loans or loans made pursuant to RCW 48.07.130), whether secured or not, and advances to employees, agents and other persons on personal security only.
 - (4) Stock of such insurer, owned by it, or any equity therein or loans secured thereby, or any proportionate interest in such stock through the ownership by such insurer of an interest in another firm, corporation or business unit.
 - (5) Furniture, furnishings, fixtures, safes, equipment, vehicles, library, stationery, literature, and supplies; except, electronic and mechanical machines authorized by subsection (11) of RCW 48.12.010, or such personal property as the insurer is permitted to hold pursuant to paragraph (e) of subsection (2) of RCW 48.13.160, or which is acquired through foreclosure of chattel mortgages acquired pursuant to RCW 48.13.150, or which is reasonably necessary for the maintenance and operation of real estate lawfully acquired and held by the insurer other than real estate used by it for home office, branch office, and similar purposes.
 - (6) The amount, if any, by which the aggregate book value of investments as carried in the ledger assets of the insurer exceeds the aggregate value thereof as determined under this code.
- [1982 c 218 § 1; 1963 c 195 § 12; 1947 c 79 § .12.02; Rem. Supp. 1947 § 45.12.02.]

NOTES:

Severability -- 1982 c 218: "If any provision of this amendatory act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected." [1982 c 218 § 7.]

RCW 48.12.170

Valuation of bonds.

- (1) All bonds or other evidences of debt having a fixed term and rate held by any insurer may, if amply secured and not in default as to principal or interest, be valued as follows:
 - (a) If purchased at par, at the par value.
 - (b) If purchased above or below par, on the basis of the purchase price adjusted so as to bring the value to par at the earliest date callable at par or maturing at par and so as to yield in the meantime the effective rate of interest at which the purchase was made; or in lieu of such method, according to such accepted method of valuation as is approved by the commissioner.
 - (c) Purchase price shall in no case be taken at a higher figure than the actual market value at the time of purchase.
 - (d) Unless otherwise provided by a valuation established or approved by the National Association of Insurance Commissioners, no such security shall be carried at above call price for the entire issue during any period within which the security may be so called.
 - (2) Such securities not amply secured or in default as to principal or interest shall be carried at market value.
 - (3) The commissioner shall have full discretion in determining the method of calculating values according to the rules set forth in this section, and not inconsistent with any such methods then currently formulated or approved by the National Association of Insurance Commissioners.
- [1947 c 79 § .12.17; Rem. Supp. 1947 § 45.12.17.]

RCW 48.12.180

Valuation of stocks.

- (1) Securities, other than those referred to in RCW 48.12.170, held by an insurer shall be valued, in the discretion of the commissioner, at their market value, or at their appraised value, or at prices determined by him or her as representing their fair market value.
 - (2) Preferred or guaranteed stocks or shares while paying full dividends may be carried at a fixed value in lieu of market value, at the discretion of the commissioner and in accordance with such method of computation as he or she may approve.
 - (3) The stock of a subsidiary of an insurer shall be valued on the basis of the greater of (a) the value of only such of the assets of such subsidiary as would constitute lawful investments for the insurer if acquired or held directly by the insurer or (b) such other value determined pursuant to rules and cumulative limitations which shall be promulgated by the commissioner to effectuate the purposes of this chapter.
 - (4) The commissioner has full discretion in determining the method of calculating values according to the rules set forth in this section, and consistent with such methods as then adopted by the National Association of Insurance Commissioners.
- [1993 c 462 § 54; 1973 c 151 § 1; 1947 c 79 § .12.18; Rem. Supp. 1947 § 45.12.18.]

NOTES:

Severability -- Implementation -- 1993 c 462: See RCW 48.31B.901 and 48.31B.902.

RCW 48.12.190

Valuation of property.

(1) Real property acquired pursuant to a mortgage loan or a contract for a deed, in the absence of a recent appraisal deemed by the commissioner to be reliable, shall not be valued at an amount greater than the unpaid principal of the defaulted loan or contract at the date of such acquisition, together with any taxes and expenses paid or incurred in connection with such acquisition, and the cost of improvements thereafter made by the insurer and any amounts thereafter paid by the insurer on assessments levied for improvements in connection with the property.

(2) Other real property held by an insurer shall not be valued at any amount in excess of fair value, less reasonable depreciation based on the estimated life of the improvements.

(3) Personal property acquired pursuant to chattel mortgages made under RCW 48.13.150 shall not be valued at an amount greater than the unpaid balance of principal on the defaulted loan at date of acquisition together with taxes and expenses incurred in connection with such acquisition, or the fair value of such property, whichever amount is the lesser.

(4) The commissioner has full discretion in determining the method of calculating values according to the rules set forth in this section, and consistent with such methods as then adopted by the National Association of Insurance Commissioners.

[1993 c 462 § 55; 1967 ex.s. c 95 § 10; 1947 c 79 § .12.19; Rem. Supp. 1947 § 45.12.19.]

NOTES:

Severability -- Implementation -- 1993 c 462: See RCW 48.31B.901 and 48.31B.902.

RCW 48.12.200

Valuation of purchase money mortgages.

(1) Purchase money mortgages shall be valued in an amount not exceeding the acquisition cost of the real property covered thereby or ninety percent of the fair value of such real property, whichever is less.

(2) The commissioner has full discretion in determining the method of calculating values according to the rules set forth in this section, and consistent with such methods as then adopted by the National Association of Insurance Commissioners.

[1993 c 462 § 56; 1947 c 79 § .12.20; Rem. Supp. 1947 § 45.12.20.]

NOTES:

Severability -- Implementation -- 1993 c 462: See RCW 48.31B.901 and 48.31B.902.

SCHEDULE B

SERVICES

Investment Administration to be performed are:

Monthly

- daily processing of securities
- portfolio accounting functions including posting of all trades, monitoring investment income, corporate actions, open payables and receivables
- computation of all regulatory figures
- analysis and reconciliation of portfolios
- yield review
- computation of market decline tests
- computation of liquidity analysis
- analysis of book values, e.g. bond amortizations and investment provisions
- analysis of gross gain and loss positions
- cash flow obligations
- investment review meeting
- NAIC and SVO filings
- custodial relationships
- broker relationships

Periodic

- review and analysis of foreign exchange position
- placement of foreign exchange contracts, where appropriate
- discussions with regulators regarding portfolio (positions)
- reporting to the investment committee
- reporting to the audit committee
- general assistance with accounting issues
- maintaining contact with external auditors
- such other administrative services as the parties shall mutually agree from time to time
- 5900 report on investment controls
- performance reporting
- software provider (including e-Pam) – functioning and testing

SCHEDULE C

FEE SCHEDULE

Investment fees are comprised of two parts:

(A). The Base Fee Amount

and

(B). The Incentive Fee Amount

(A) **The Base Fee Amount**

- 1) Fees will be payable quarterly. Interim invoices may be issued based on our estimates of the final fees payable.
- 2) After the end of each calendar quarter, FFH shall submit its investment management charges in accordance with the schedule below.
- 3) The charges are on a calendar year basis. They will be calculated at the end of each calendar quarter based upon the average of the market value of the funds at the close of business for the three (3) preceding months.

4)	<u>MARKET VALUE</u>	<u>CHARGE</u>
	On Total Market Value	.30%

(B) **The Incentive Fee Amount**

The incentive fee amount relates to the investment management of equity securities only.

Annual Base Fee: a) If performance equals or exceeds benchmark, base fee is unchanged from current fee.

b) If performance is less than benchmark, base fee is 90% of current fee.

Maximum Fee: 1.75% (including base).

SCHEDULE D

1. Notices

Unless otherwise specified herein, all notices, instructions, advices or other matters covered or contemplated by this Agreement, shall be deemed duly given when received in writing (including by fax) by you or us, as applicable, at the address or fax number set forth below or such other address or fax number as shall be specified in a notice similarly given:

If to us:

COMMONWEALTH INSURANCE COMPANY OF AMERICA
C/o 1500 – 595 Burrard Street
Vancouver, B.C. V7X 1G4
Fax No.: (604) 683-8968

If to you:

HAMBLIN WATSA INVESTMENT COUNSEL LTD.
95 Wellington Street West
Suite 802
Toronto, Ontario
M5J 2N7
Fax No.: (416) 366-3993

and

FAIRFAX FINANCIAL HOLDINGS LIMITED
95 Wellington Street West
Suite 800
Toronto ON M5J 2N7
Fax No.: (416) 367-2201

2. Governing Laws; Jurisdiction; Service of Process

This Agreement shall be governed and construed in accordance with the laws of Washington our state of domicile. Each of the parties thereto submits to the jurisdiction of the state and federal courts of Washington, in any action or proceeding arising out of or relating to this Agreement and all claims in respect of any such action or proceeding may be heard or determined in any such court; and service of process, notices and demands of such courts may be made upon you by personal service to the person and at the address contained in Section 1 above as such person or address may be changed from time to time.

3. Insurance Department Approval

This Agreement may be subject to the non-disapproval or approval of the Washington Department of Insurance, and such terms and conditions hereof as may be required by the Washington Department of Insurance to be altered or amended shall be deemed acceptable to the parties hereto, to the extent same shall not change the substance and intent of this Agreement.

4. Inspection of Records

You and we and the duly authorized representatives of each of us shall, at all reasonable times, each be permitted access to all relevant books and records of the other pertaining to this Agreement. You and your duly authorized representatives shall provide to the Washington Department of Insurance, within fifteen (15) days of any request from the Washington Department of Insurance therefor, copies of all your books and records as they pertain to us (or any portion thereof as may be specifically requested).

5. Headings

The inclusion of headings in this Agreement is for convenience of reference only and shall not affect the construction or interpretation hereof.

6. Severability

Each of the provisions contained in this Agreement is distinct and severable and a declaration of invalidity or unenforceability of any such provision or part thereof by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision hereof.

7. Entire Agreement

This Agreement and the documents to be delivered pursuant hereto constitute the entire agreement between the parties pertaining to the subject matter of this Agreement.

8. Control

Notwithstanding any other provision of this Agreement, it is understood and agreed that we shall at all times retain the ultimate control of the investment of our investable funds and we reserve the right, upon written notice by us to you, to direct, approve, or disapprove any investment made by you hereunder or any action taken by you with respect to any such investment. Furthermore, it is understood and agreed that we shall at all times own and have custody of our general corporate accounts and records.

9. **Confidential Relationship**

The parties hereto will treat as confidential all information that is not publicly available received from the other party.

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EXCESS OF LOSS REINSURANCE AGREEMENT

(the "Agreement")

between

COMMONWEALTH INSURANCE COMPANY OF AMERICA
of Seattle, Washington, United States of America
(hereinafter called the "Company") of the one part,

and

NORTHBRIDGE INDEMNITY INSURANCE CORPORATION
of Vancouver, British Columbia, Canada
(hereinafter called the "Reinsurer") of the other part.

It is hereby understood and agreed that the Reinsurer participates in this Agreement for 100% of the risks and amounts covered as hereinafter provided. The premium payable to the Reinsurer as consideration for this Agreement shall likewise be 100% of the premium payable by the Company as hereinafter provided.

It is hereby understood and agreed as follows:

ARTICLE I: SCOPE

1. This Agreement shall apply to losses on policies of insurance underwritten by the Company in force at the inception of the Agreement (the "Subject Policies").
2. The Company shall be the sole judge of what constitutes one risk.

ARTICLE II: GENERAL CONDITIONS

1. The Company shall be at liberty where it deems it to be necessary to effect reinsurance elsewhere of a part or the whole of any business that would normally come within the scope of this Agreement where the Company considers such action would be in the mutual interest of both parties hereto.
2. The Company or the Reinsurer shall have, and may exercise at any time, the right to offset any balance or balances, whether on account of premium, losses, commissions, or otherwise, due from one party to the other under the terms of this Agreement. However, in the event of the insolvency of any party hereto, offset shall be allowed in accordance with the Insolvency Article.

ARTICLE III: PERIOD AND TERMINATION

1. This Agreement shall become effective on January 1, 2013 and shall remain in full force and effect until the latest policy end date of the Subject Policies. It is agreed that all times shall refer to the local time of each loss.
2. The reinsurer shall have no liability for losses occurring after expiration of this Agreement, and shall receive no premium earned after expiration of this Agreement.

ARTICLE IV: RETENTION AND LIMIT OF LIABILITY

1. The Reinsurer agrees for the consideration hereinafter appearing to pay to the Company that part of the Ultimate Net Loss which exceeds \$500,000 on account of each and every risk involving the Subject Policies reinsured hereunder, but the Reinsurer's liability shall not exceed \$3,000,000 for each and every risk involving the Subject Policies. However, if a loss arises from a policy that is listed on the attached Schedule A (the "Scheduled Policies"), then the Reinsurer agrees to pay to the Company a 100% of the Ultimate Net Loss on account of each and every risk involving the Scheduled Policies, and paragraph 2. of this Article, below, shall not apply.
2. In the event of a loss under this Agreement, the limit of liability of the Reinsurer is reduced by an amount equivalent to the amount of the Ultimate Net Loss payable by the Reinsurer from the date of the loss.
3. The Ultimate Net Loss as expressed herein may be expressed in United States dollars or the equivalent in other currencies.

ARTICLE V: GOVERNING LAW

This Contract shall be governed as to performance, administration and interpretation by the laws of the State of Washington, exclusive of conflict of law rules, and the courts of such state shall have jurisdiction in any dispute hereunder.

ARTICLE VI: DEFINITION - "NET RETAINED LINES" AND "ULTIMATE NET LOSS"

1. This Agreement shall apply only to that portion of any insurance which the Company retains net for its own account, and in calculating the amount of any loss hereunder and also in computing the amount in excess of which this Agreement attaches, only loss or losses in respect to that portion of any insurance which the Company retains net for its own account shall be included.
2. (a) The term "Ultimate Net Loss" shall mean the sum or sums paid or payable by the Company in settlement of losses for which the Company is liable after deducting all sums recoverable under other reinsurance whether recovered or not, and all recoveries and salvages; all expenses, legal costs and interest shall also be included. Loss shall include loss adjustment expense as defined in (b) (i) and (ii) below:
 - (b) (i) Loss adjustment expense means all costs and expenses allocable to a specific claim that are incurred by the Company in the investigation, appraisal, adjustment, settlement, litigation, defense or appeal of a specific claim, including court costs and costs of supersedeas and appeal bonds, and including (a) pre-

judgment interest, unless included as part of the award or judgment; (b) post-judgment interest; and (c) legal expenses and costs incurred in connection with coverage questions and legal actions connected thereto.

- (ii) Loss adjustment expense does not include unallocated loss adjustment expense. Unallocated loss adjustment expense includes, but is not limited to salaries and expenses of employees, and office and other overhead expenses.

3. Nothing however in this Article shall be construed as meaning that losses are not recoverable hereunder until the ultimate net loss of the Company has been ascertained.

4. Recoveries and salvages recovered or received subsequent to a loss settlement shall be applied as if recovered or received prior to such settlement and all necessary adjustments shall be made by the parties hereto.

ARTICLE VII: PREMIUM AND RATES

1. The premium payable by the Company to the Reinsurer shall be 21% of the Subject Policies' Gross Net Earned Premium Income. However, in respect of the Scheduled Policies, the premium payable by the Company to the Reinsurer shall be 100% of the Scheduled Policies' Gross Net Earned Premium Income.

2. The Company shall forward to the Reinsurer as soon as possible after the last day of March, June, September and December of each and every year a quarterly statement of the gross net earned premium income unless there is no activity during the period. The balance of the premium, if any, shall be calculated in accordance with paragraph 1 of this Article and shall thereupon be payable by the debtor party.

3. The expression "Gross Net Earned Premium income" shall mean the annual gross earned premiums of the Company on Subject Policies in force during the term of this Agreement on the business described in the Scope Article, after deduction of:

- (i) cancellations;
- (ii) return premiums;
- (iii) premiums paid or payable by the Company in respect of reinsurances which inure to the benefit of the Reinsurer hereon prior to the application of this agreement.

ARTICLE VIII: NOTICE OF LOSS AND LOSS SETTLEMENTS

1. The Company shall advise the Reinsurer promptly of all losses that, in the opinion of the Company, may result in a claim hereunder and of all subsequent developments thereto that may materially affect the position of the Reinsurer.

2. The Company agrees to investigate, defend and settle all claims arising under the Subject Policies with respect to which reinsurance is afforded by this Agreement and to keep the Reinsurer advised as to any developments which may affect the cost of any such claim. The Reinsurer shall have

the option, at their own expense, to participate jointly with the Company in the investigation, defense and settlement of claims to which, in the judgment of the Reinsurer, they are or might become exposed.

3. As respects losses subject to this Agreement, all loss settlements made by the Company, provided they are within the terms and conditions of the Subject Policies and the terms and conditions of this Agreement, shall be binding upon the Reinsurer, and the Reinsurer agrees to pay or allow, as the case may be, its share of each such settlement as soon as possible but in any event, no later than fifteen (15) days following receipt of proof of loss.

ARTICLE IX: CURRENCY

All transactions under this Agreement shall be made in United States dollars.

ARTICLE X: ALTERATIONS

Any alterations which may from time to time become necessary to this Agreement shall be made and agreed by both parties by correspondence or by an addendum, to be taken as forming part thereof and equally binding.

ARTICLE XI: ERRORS AND OMISSIONS

The Company shall not be prejudiced in any way by any involuntary omission, delay or error, it being understood that such omission, delay or error shall be corrected as soon as possible.

ARTICLE XII: INSOLVENCY

1. (a) In the event of the insolvency of the Company, recoveries under this Agreement shall be payable by the Reinsurer to the Company or to its liquidator, receiver or statutory successor on the basis of the Company's liability under the Subject Policies reinsured, without reduction because of the Company's insolvency. It is further agreed that the liquidator, receiver or statutory successor of the Company shall give written notice to the Reinsurer of the pendency of a claim against the Company on any of the Subject Policies reinsured within a reasonable time after such claim is filed in the insolvency proceedings, that during the pendency of such claim the Reinsurer may investigate such claim and interpose in the proceeding, where such claim is to be adjudicated any defense or defenses which it may deem available to the Company or its liquidator, receiver or statutory successor; the expense thus incurred by the Reinsurer shall be chargeable against the Company, subject to court approval, as part of the expense of liquidation to the extent of a proportionate share of the benefit which may accrue to the Company solely as a result of the defense undertaken by the Reinsurer.
- (b) Following the insolvency of the Company, the Reinsurer shall be entitled to deduct from any amounts which may be or may become due to the Company under this Agreement and any other Agreement, any amounts which are due to the Reinsurer by the Company under this Agreement and any other Agreement and any sums which are expressed herein and in any other Agreement to be payable at a fixed or stated date.

2. In the event of the insolvency of the Reinsurer, all amounts due but not paid to the Reinsurer by the Company on such date under this Agreement and any other Agreement, regardless of the date on which they become due, and all amounts which become due to the Reinsurer by the Company after that date under this Agreement and any other Agreement may be retained by the Company and set off against the amounts due by the Reinsurer under this Agreement and any other Agreement, whether they were due before the insolvency or become due after. The balance only, if any, shall be payable by the Company to the Reinsurer at the expiry of all liability under this Agreement and any other Agreement.

ARTICLE XIII: SERVICE OF SUIT

(Applicable to a Reinsurer not domiciled in the United States of America, and/or not authorized in any state, territory, and/or district of the United States where authorization is required by insurance regulatory authorities).

1. It is agreed that in the event of the failure of the Reinsurer to pay any amount claimed to be due under this Agreement, the Reinsurer, at the request of the Company, shall submit to the jurisdiction of any court of competent jurisdiction within the United States of America and shall comply with all requirements necessary to give such court jurisdiction, and all matters arising hereunder shall be determined in accordance with the laws and practice of such court. Nothing in this clause constitutes or should be understood to constitute a waiver of the Reinsurer's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States.

2. Service of process in such suit may be made upon Barger & Wolen LLP, 650 California Street, Ninth Floor, San Francisco, CA, 94108 (hereinafter, "agent for service of process") and in any suit instituted, the Reinsurer shall abide by the final decision of such court or of any appellate court in the event of an appeal.

3. The above named are authorized and directed to accept service of process on behalf of the Reinsurer in any such suit and/or upon the request of the Company to give a written undertaking to the Company that the agent for service of process shall enter a general appearance on behalf of the Reinsurer in the event such a suit shall be instituted.

4. Further, pursuant to any statute of any state, territory, or district of the United States of America which makes provision therefore, the Reinsurer hereby designates the Superintendent, Commissioner, or Director of Insurance or other officer specified for that purpose in the statute, or the successor or successors in office, as its true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Company or any beneficiary hereunder arising out of this Agreement, and hereby designates the agent for service of process as the firm to whom the said officer is authorized to mail such process or a true copy thereof.

ARTICLE XIV: ACCESS TO RECORDS

The Reinsurer or its duly authorized representatives shall have the right to visit the offices of the Company to inspect, examine, audit, and verify any of the Policy, accounting or claim files ("Records") relating to business reinsured under this Contract during regular business hours after giving five working days prior notice. This right shall be exercisable during the term of this Contract or after the expiration of this Contract.

ARTICLE XV: ENTIRE AGREEMENT

No agreements exist between the parties that modify the terms of this Agreement at the time this Agreement is executed. However, this Agreement may at any time be altered by mutual consent of the parties either by signed Addendum or by signed correspondence, and such Addendum or correspondence shall be deemed to form an integral part of this Agreement.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of Company and Reinsurer as of the first date written above.

Commonwealth Insurance Company of America

By: [Signature]
Name: Stewart WBO
Title: CFO

By: [Signature]
Name: Donald Parry
Title: V.P. Finance

Northbridge Indemnity Insurance Corporation

By: [Signature]
Name: Stewart WBO
Title: SVP, Corporate Risk

By: [Signature]
Name: Donald Parry
Title: V.P. Finance

Schedule A

SCHEDULED POLICIES

Insured Name	Policy Number	Policy End Date
Earls Restaurants Limited	CICANB4002	October 1, 2013
Nordic Well Servicing	CICANB4004	May 1, 2013
North American Pipe & Steel Incorporated	CICA3426	February 16, 2013
Paramount Drilling US Limited Liability Company	CICANB4001	June 1, 2013
Rimex Supply	CICA3445	March 31, 2013
Savannah Energy Services Corporation	CICANB4000	June 1, 2013
SK Food Group Incorporated	CICANB4003	September 30, 2013

"Canadian Cross-border Policyholders" means those named insureds to which the Canadian Cross-border Policies were issued.

"Canadian Cross-border Business Renewals" means any and all insurance contracts, policies, or other evidence of coverage issued by the Purchaser or its Affiliate to those named insureds who were most recently Canadian Cross-border Policyholders immediately prior to the inception of such coverage from Purchaser.

"Effective Date" means the date which first appears in this Agreement.

"Governmental Entity" means any foreign, domestic, federal, territorial, state, provincial or local governmental authority, quasi-governmental authority, instrumentality, court or government, self-regulatory organization, commission, tribunal or organization or any political or other subdivision, department, branch or representative of any of the foregoing.

"Permit" means any approval, authorization, consent, registration, franchise, license, permit or certificate by any Governmental Entity.

"Purchaser" has the meaning set forth in the introduction.

"Renewal Rights" means all of Seller's (i) rights to renew or rewrite the Canadian Cross-border Policies upon the expiration, cancellation or anniversary thereof, to the extent such right does not violate Applicable Law, and (ii) rights to solicit renewals of or replacement coverages for the Canadian Cross-border Policies, to the extent such right does not violate Applicable Law; including policyholder and agent contact information necessary to undertake (i) and (ii); *provided* that Seller's rights under (i) and (ii) are subject to the rights and requirements of Seller's existing agency and brokerage agreements with the agents and brokers who produced the Canadian Cross-border Policies.

"Transferred Assets" means (i) the Renewal Rights; (ii) any and all goodwill related to the Canadian Cross-border Policies; and (iii) the right to make use of, in Purchaser's sole discretion, any of Seller's rates, rating plans, policy and endorsement forms relating to the Canadian Cross-border Policies.

ARTICLE II - TRANSFER OF ASSETS

Section 2.1 Transfer of Transferred Assets. On the Effective Date and subject to the terms and conditions of this Agreement, Seller hereby sells, assigns and transfers to Purchaser all of Seller's respective right, title and interest in the Transferred Assets.

Section 2.2 Writing of Canadian Cross-border Business Renewals.

(a) *Upon expiration or anniversary*: On and after the Effective Date, subject to Applicable Law and the rights and requirements of Seller's existing agency and brokerage agreements with the agents and brokers who produced the Canadian Cross-border Policies, Purchaser or its Affiliate may quote and issue Canadian Cross-border Business Renewals that meet Purchaser's underwriting guidelines and other requirements (as determined

RENEWAL RIGHTS TRANSFER AGREEMENT

This RENEWAL RIGHTS TRANSFER AGREEMENT (this "Agreement") is entered into on December 20, 2012 (the "Effective Date") between COMMONWEALTH INSURANCE COMPANY OF AMERICA ("CICA"), an insurance company domiciled in the State of Washington (referred to as "Seller") and NORTHBRIDGE INDEMNITY INSURANCE CORPORATION ("NIIC"), an insurance company incorporated under the laws of Canada (referred to as "Purchaser"), (the Seller and Purchaser sometimes individually referred to as a "Party" and collectively as "Parties").

RECITALS:

WHEREAS, Seller desires to sell, transfer and assign to Purchaser, and Purchaser desires to acquire from Seller, the Renewal Rights and other related Transferred Assets (as defined herein);

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and covenants set forth herein, and in reliance upon the representations, warranties, conditions and covenants contained herein and intending to be legally bound hereby, the Parties hereto hereby agree as follows:

ARTICLE I - DEFINITIONS

Section 1.1 Definitions. The following capitalized terms, when used in this Agreement, have the meanings set forth in this Section 1.1. Other capitalized terms are defined in the text of this Agreement and have the meanings ascribed to them.

"Affiliate" means, as applied to any person, any other person directly or indirectly controlling, controlled by or under common control with, that person. For the purposes of this definition, "control" (including with correlative meanings, the terms "controlling", "controlled by", and "under common control with") as applied to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that person, whether through ownership of voting securities or by contract or otherwise. For purposes of this definition, the term "person" means any natural person, corporation, general partnership, limited partnership, limited liability company or partnership, proprietorship, other business organization, trust, union, association or Governmental Entity.

"Applicable Law" means any applicable order, law, statute, regulation, rule, pronouncement, ordinance, bulletin, writ, injunction, directive, judgment, decree, principle of common law, constitution or treaty enacted, promulgated, issued, enforced or entered by any federal, territorial, state, provincial or local governmental authority or subdivision, department, branch, or commission thereof, or any court or judicial body, applicable to or having jurisdiction over the Parties hereto, or any of their respective businesses, properties or assets.

"Canadian Cross-border Policies" means the policies of commercial insurance issued by CICA to policyholders as listed in Schedule A, attached hereto.

by Purchaser in its sole discretion) on Purchaser's or its Affiliate's policy and endorsement forms (including any forms transferred to Purchaser with the Transferred Assets) and using Purchaser's or its Affiliate's rates (including rates developed from rating plans transferred to Purchaser with the Transferred Assets), upon the expiration or anniversary of Canadian Cross-border Policies; and

(b) *Upon policyholder-directed cancellation:* On and after the Effective Date, and subject to Applicable Law and the rights and requirements of Seller's existing agency and brokerage contracts with the agents and brokers who produced the Canadian Cross-border Policies, Purchaser or its Affiliate may quote and issue Canadian Cross-border Business Renewals to Canadian Cross-border Policyholders who desire the cancellation of their in-force Canadian Cross-border Policies prior to the stated expiration thereof and who meet Purchaser's or its Affiliate's underwriting guidelines and other requirements (as determined in Purchaser's or its Affiliate's sole discretion), on Purchaser's or its Affiliate's policy and endorsement forms (including any forms transferred to Purchaser with the Transferred Assets) and using Purchaser's or its Affiliate's rates (including rates developed from rating plans transferred to Purchaser with the Transferred Assets).

Section 2.3 Permission To Use Transferred Assets After Effective Date. Purchaser shall permit Seller to make reasonable use of the Transferred Assets after the Effective Date for the limited purposes of: (a) underwriting and issuing endorsements on Canadian Cross-border Policies by Seller after the Effective Date to the extent such endorsements attach to Canadian Cross-border Policies issued by the Seller prior to the Effective Date; (b) underwriting and issuing renewals of Canadian Cross-border Policies by Seller after the Effective Date to the extent such renewals are the result of quotations issued before the Effective Date; (c) underwriting and issuing renewals of Canadian Cross-border Policies by Seller after the Effective Date as required pursuant to contractual obligations or under Applicable Law; (d) administering and adjusting claims under Canadian Cross-border Policies; and (e) to the extent required by law or regulation, or by regulatory authorities or reinsurers of Seller in respect of the Canadian Cross-border Policies.

ARTICLE III - CONSIDERATION

Section 3.1 Consideration. In consideration, Purchaser shall pay to Seller \$15,000USD, which shall be payable within thirty (30) days of the date on which the Parties have signed this Agreement.

ARTICLE IV - EXCLUDED ITEMS AND LIABILITIES

Section 4.1 Liability for Losses and Loss Adjustment Expense and other policy liabilities. Seller will retain sole responsibility and liability for any losses and loss adjustment expenses, declaratory judgment expenses, insurance claim or coverage liabilities and any other liability now or hereafter arising under or relating to the Canadian Cross-border Policies, and Purchaser will have sole responsibility and liability for any losses and loss adjustment expenses,

declaratory judgment expenses and insurance claim or coverage liabilities or any other liability arising under the Canadian Cross-border Business Renewals.

Section 4.2 Liability for Commissions. Seller will retain sole responsibility and liability for any broker or agent commissions or compensation or any other compensation arrangements relating to the Canadian Cross-border Policies; and Purchaser will have sole responsibility and liability for any broker or agent commissions or compensation or any other compensation arrangements relating to the Canadian Cross-border Business Renewals.

Section 4.3 Employees, Leases, Office Space and Equipment. Purchaser is not acquiring any employees, leases, office space or equipment or any interest in or liabilities relating to same from Seller under the terms of this Agreement.

ARTICLE V - REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Purchaser that, as of the Effective Date:

Section 5.1 Corporate Authority. Seller has full power and authority to enter into and perform this Agreement and this Agreement, when executed, shall constitute binding obligations of Seller in accordance with its terms.

Section 5.2 Non-Contravention. The execution and delivery of, and performance by, Seller of their obligations under this Agreement shall not:

(a) result in a breach of any provision of the articles of incorporation or by-laws of either of Seller; or

(b) result in a breach of any order, judgment or decree of any court or Governmental Entity to which Seller is a Party or by which Seller is bound.

Section 5.3 Compliance with Laws. The Canadian Cross-border Policies have at all times been underwritten, produced, managed and otherwise conducted in all material respects in accordance with Applicable Law and there is no investigation, inquiry, order, decree or judgment of any court or any Governmental Entity or regulatory body outstanding or, to the knowledge of Seller, threatened against Seller which may have a material adverse effect upon the Transferred Assets.

Section 5.4 Exclusivity. Other than the rights and requirements of Seller's existing agency and brokerage contracts with the agents and brokers who produced the Canadian Cross-border Policies, the Renewal Rights are not the subject of any option, right to acquire, assignment, lien or hypothecation or other encumbrance whatsoever or the subject of any factoring arrangement, conditional sale or other sale agreement or other agreement inconsistent with the rights granted or described herein.

ARTICLE VI - REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser represents and warrants to Seller that, as of the Effective Date:

Section 6.1 Corporate Authority. Purchaser has full power and authority to enter into and perform this Agreement and this Agreement, when executed, shall constitute a binding obligation of Purchaser in accordance with its terms.

Section 6.2 Non-Contravention. The execution and delivery of, and performance by, Purchaser of its obligations under this Agreement shall not:

(a) result in a breach of any provision of the articles of incorporation or by-laws of Purchaser; or

(b) result in a breach of any order, judgment or decree of any court or Governmental Entity to which Purchaser is a Party or by which Purchaser is bound.

Section 6.3 Due Investigation. Purchaser has performed its own investigation, analysis and assessment of the Canadian Cross-border Policies and the Transferred Assets being transferred hereunder, and Purchaser is not relying on any representations or warranties of Seller, except those contained in this Agreement.

ARTICLE VII - COVENANTS

Section 7.1 Transfer of the Transferred Assets. Subject to Applicable Law regarding the protection and use of personal information, Seller covenant and agree to:

(a) Cooperate with Purchaser in making such communications with Canadian Cross-border Policyholders and insurance producers as are reasonably necessary and appropriate to refer Purchaser to Canadian Cross-border Policyholders and Canadian Cross-border Policyholders to Purchaser, with Seller and Purchaser to mutually agree on the content and method of such communications;

(b) Use commercially reasonable efforts to take such actions as are reasonably necessary to facilitate Purchaser's exercise of the Renewal Rights acquired by them with respect to the Canadian Cross-border Policyholders and otherwise permit Purchaser to make full use of the Transferred Assets;

(c) Cooperate with and provide reasonable assistance to Purchaser on and after the Effective Date with regard to transitioning Seller's agent and broker relationships associated with the Canadian Cross-border Policies; and

(d) Provide Purchaser, beginning on the Effective Date and continuing during the term of this Agreement, with reasonable access during normal business hours, following prior written notice, to all existing data, contracts and underwriting information relating to the Canadian Cross-border Policies, including, but not limited to, accurate and complete copies of all insurance policies, endorsements, correspondence with producers and

producer records; underwriting, loss prevention or engineering files, renewal and producer lists; actuarial reviews; loss runs pertaining to the Canadian Cross-border Policies; electronic aggregate claim loss data files for Canadian Cross-border Policyholders that become customers of Purchaser; and any rate and form filings, file notes and associated correspondence with state insurance departments relating to the Canadian Cross-border Policies. The Purchaser hereby agrees to maintain the confidentiality of all personal information relating to Canadian Cross-border Policyholders and comply with all Applicable Laws regarding the protection and use of such personal information.

Section 7.2 Facilitating Canadian Cross-border Business Renewals. In order to facilitate Purchaser's writing the Canadian Cross-border Business Renewals, Seller specifically covenants, beginning on the Effective Date, subject to the rights and requirements of Seller's existing agency and brokerage contracts with the agents and brokers who produced Canadian Cross-border Policies: (i) to cooperate with Purchaser or its Affiliate in making, and making itself, communications with Canadian Cross-border Policyholders as are necessary and appropriate to refer Purchaser or its Affiliate to Canadian Cross-border Policyholders and any of their brokers and agents; (ii) to use commercially reasonable efforts to take such actions as are reasonably necessary to help facilitate Purchaser's exercise of its Renewal Rights with respect to Canadian Cross-border Policyholders; and (iii) to waive any short-rate penalties on any Canadian Cross-border Policies cancelled mid-term which Purchaser or its Affiliate desire to renew, and otherwise refund premium to such Canadian Cross-border Policyholders on a pro-rata basis.

Section 7.3 Expenses. Except as otherwise specifically provided in this Agreement, Seller and Purchaser will bear their respective expenses incurred in connection with the preparation, execution and performance of this Agreement and the consummation of the transactions contemplated hereby.

Section 7.4 Cooperation.

(a) Purchaser covenants to use commercially reasonable efforts to obtain all consents, approvals and agreements of, and to give and make all notices and filings with, any Governmental Entity necessary to authorize, approve or permit the consummation of the transactions contemplated by this Agreement and any other agreements contemplated hereby. Seller covenant to cooperate with Purchaser in Purchaser's efforts to obtain any such regulatory approvals. Purchaser will provide Seller and their counsel the opportunity to review in advance and comment on all such filings with any Governmental Entity. Purchaser will keep Seller informed of the status of matters relating to obtaining any such regulatory approvals.

(b) Following the Closing, Purchaser and Seller will provide commercially reasonable assistance to each other with the investigation of, response to or defense of any suit, action or proceeding with a third party that relates to the Canadian Cross-border Policies or Canadian Cross-border Business Renewals, other than ordinary course claims litigation.

Section 7.5 Notices of Certain Events. Each Party will promptly notify the other Party of:

(a) any notice or other communication received from any individual, corporation, partnership, limited liability company, Governmental Entity, estate, or other entity alleging that the consent of such is or may be required in connection with the transactions contemplated by this Agreement;

(b) any notice or other communication received relating to the transactions contemplated by this Agreement and any other significant notices or other communications from any Governmental Entity; and

(c) any actions, suits, claims (other than claims under contracts in the ordinary course of business consistent in all material respects with past practice), investigations or proceedings commenced or, to such Party's knowledge, threatened against, relating to or involving or otherwise affecting such Party that relates to the Canadian Cross-border Policies or Canadian Cross-border Business Renewals, or that relates to the consummation of a transaction contemplated by this Agreement.

Section 7.6 Licenses and Permits; Regulatory Compliance.

(a) Purchaser covenants to use commercially reasonable efforts to obtain, or ensure its Affiliate obtains, all Permits necessary to enable them to write Canadian Cross-border Business Renewals contemplated by this Agreement upon the cancellation or expiration of the Canadian Cross-border Policies and to perform its obligations under this Agreement.

(b) Purchaser, Seller and their respective professional advisors will comply with all Applicable Laws relating to their conduct in performing their obligations under this Agreement. Seller will cooperate (and will continue to cooperate if such filing has already been made) with Purchaser or its Affiliate in making, as soon as practicable following the date hereof, all regulatory filings, if any, required for the Purchaser to be in compliance with Applicable Law as regards the covenants and agreements herein and the transactions contemplated hereby.

(c) Seller will be responsible, at Seller's sole cost and expense, for all non-renewal and cancellation notifications and other requirements under Applicable Law with respect to the Canadian Cross-border Policies. Nothing in this Agreement shall be deemed to prohibit Seller or any of their Affiliates from issuing any notice of non-renewal required under Applicable Law with respect to any Canadian Cross-border Policies.

Section 7.7 Exclusivity. Seller acknowledges that the intent of this Agreement is to convey, subject to the requirements of existing agent or broker contracts and Applicable Law, all right, title and interest in the Transferred Assets to Purchaser hereunder. Seller will not retain and will not sell, assign, transfer or otherwise convey any Renewal Rights and will not assign, transfer or facilitate (including conducting any marketing activity with respect to the Canadian Cross-border Policies on behalf of anyone other than Purchaser) the transfer of Canadian Cross-border Policies to any individual, corporation, partnership, limited liability company, Governmental Entity, estate, or other entity other than the Purchaser, except where required under Applicable Law.

Section 7.8 Non-Compete. Subject to the exceptions set forth below, Seller shall not, without Purchaser's prior written consent, directly or indirectly with respect to risks located in the United States, underwrite or issue any insurance business which would comprise the Canadian Cross-border Policies.

Notwithstanding anything to the contrary, nothing in this Section 7.8 shall be deemed to prohibit Seller from renewing any Canadian Cross-border Policies they are required to renew either pursuant to contractual obligations or under Applicable Law.

Section 7.9 Public Announcements and Disclosure. Except with the prior consultation and cooperation with, and the written approval of, the other Party, neither Seller nor Purchaser shall, directly or indirectly, make any press releases or otherwise disclose to the public or to any third party any information concerning this Agreement and/or the transactions contemplated hereby; other than disclosures to financial, legal and other advisors and to Governmental Entities as required or as may, in the reasonable opinion of counsel, be required by Applicable Law and disclosures to reinsurers and reinsurance intermediaries in connection with the reinsurance of the Canadian Cross-border Policies.

Section 7.10 No Limitations on Seller's Operations.

(a) Nothing in this Agreement will limit in any way Seller's ability to merge, consolidate, restructure, reorganize, or effectuate a partial or complete withdrawal from any or all lines, kinds or classes of business, or take any actions similar to or in furtherance of the foregoing.

(b) Nothing in this Agreement shall be deemed to prohibit Seller or any of their Affiliates from issuing any notice of non-renewal required under Applicable Law with respect to any Canadian Cross-border Policies.

Section 7.11 No Guaranteed Renewals. Purchaser acknowledges and agrees that Seller does not have the power or ability to require any Subject Business Policyholder or any broker or agent to renew or cancel and rewrite any Canadian Cross-border Policies with Purchaser.

Section 7.12 Confidentiality. Each Party hereto will hold, and will use commercially reasonable efforts to cause its Affiliates, and their respective professional advisors to hold, in strict confidence, all documents and information concerning the other Party or any of its Affiliates furnished to it by the other Party or such other Party's professional advisors in connection with this Agreement or the transactions contemplated hereby, except with the prior written consent of the other Party or unless (i) compelled to disclose by judicial or administrative process (including without limitation in connection with obtaining the necessary approvals of this Agreement and the transactions contemplated hereby of governmental or regulatory authorities) or by other requirements of Applicable Law, including in connection with an offering of securities, or of any stock exchange, (ii) disclosed in an action or proceeding brought by a Party hereto in pursuit of its rights or in the exercise of its remedies hereunder or (iii) disclosed in conjunction with such Party's communications with any agent, producer or broker, or with reinsurers and reinsurance intermediaries in connection with the reinsurance of the Canadian Cross-border Policies.

Section 7.13 Further Assurances. Seller and Purchaser shall use commercially reasonable efforts to take, or cause to be taken, all actions or do, or cause to be done, all things or execute any documents necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement, the Ancillary Agreements and any other agreements contemplated hereby or thereby, subject to their respective terms. Seller and Purchaser shall execute any additional documents, instruments or conveyances and make any filings of any kind which may be reasonably necessary to carry out any of the provisions of this Agreement, including, without limitation, putting Purchaser in full possession and control of the Transferred Assets.

ARTICLE VIII - INDEMNIFICATION and SURVIVAL

Section 8.1 Survival. The representations, warranties, covenants and agreements of the Parties contained in this Agreement will survive the transfer hereunder of the Transferred Assets until the two (2) years following the effective date of this Agreement, whereupon they shall expire, excluding any obligations relating to or arising under Section 7.4(b). Notwithstanding the preceding sentence:

(a) any representation, warranty, covenant or agreement in respect of which indemnity may be sought under this Agreement will survive beyond the time at which it would otherwise terminate pursuant to the preceding sentence, if (i) notice of the breach thereof giving rise to such right of indemnity will have been given to the Party against whom such indemnity may be sought prior to the end of such two-year period, and (ii) with respect to matters involving Third Party Claims, proceedings in respect of such Third Party Claim have commenced within twelve (12) months of the Indemnified Party having provided the Indemnifying Party notice of such Third Party Claim prior to the end of such two-year period in accordance with Section 9.12 hereof. The Parties acknowledge and agree that the provisions of this Article VIII will be the sole and exclusive remedy for any breaches of this Agreement; and

(b) Any claim for indemnity pursuant to Section 8.2(a) (ii) or (b)(ii) shall survive subject to the applicable statute of limitations.

Section 8.2 Indemnification.

(a) Seller hereby agrees to indemnify Purchaser and their respective parents, subsidiaries and other Affiliates, and the officers, directors, employees, agents, representatives, successors and assigns of each (collectively, "indemnified parties"), against and agrees to hold each of them harmless from any and all damage, loss, liability and expense (including, without limitation, reasonable attorneys' fees and reasonable expenses of investigation in connection with any action, suit or proceeding), incurred or suffered by them, arising directly out of (i) any misrepresentation or breach of warranty, covenant or agreement made or to be performed by Seller pursuant to this Agreement; (ii) any claim, demand or legal proceeding brought or actions taken against any of the Purchaser or the other indemnified parties arising out of or relating to the Canadian Cross-border Policies including Seller's conduct in underwriting or issuing Canadian Cross-border Policies or adjusting or settling claims in respect of the Canadian Cross-border Policies or effecting the transfer of the Transferred Assets to

Purchaser hereunder; or (iii) the enforcement of the indemnified parties' rights under this Section 8.2(a).

(b) Purchaser hereby agrees to indemnify Seller and their respective parents, subsidiaries and other Affiliates, and the officers, directors, employees, agents, representatives, successors and assigns of each (collectively, "indemnified parties"), against and agrees to hold each of them harmless from any and all damage, loss, liability and expense (including, without limitation, reasonable attorneys' fees and reasonable expenses of investigation in connection with any action, suit or proceeding), incurred or suffered by them, arising directly out of (i) any misrepresentation or breach of warranty, covenant or agreement made or to be performed by Purchaser pursuant to this Agreement; (ii) any claim, demand or legal proceeding brought or actions taken against any of Seller or the other indemnified parties arising out of or relating to the Canadian Cross-border Business Renewals including the Purchaser's conduct in underwriting or issuing the Canadian Cross-border Business Renewals or adjusting or settling claims in respect of the Canadian Cross-border Business Renewals or effecting the transfer of the Transferred Assets to Purchaser hereunder; or (iii) the enforcement of the indemnified parties' rights under this Section 8.2(b).

(c) The Parties hereto shall make available to each other all relevant information in their possession relating to any liability claimed under this Section 8.2 (except to the extent that such action would result in a loss of attorney-client privilege as to any material matter) and shall cooperate with each other in any defense thereof.

(d) Each indemnified party shall be obligated to use its commercially reasonable efforts to mitigate the amount of any damages for which it is entitled to seek indemnification hereunder, and the indemnifying party hereunder shall not be required to make any payment to an indemnified party in respect of such damages to the extent such indemnified party has failed to comply with the foregoing obligation.

Section 8.3 Specific Performance. It is agreed that any Party hereto shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof, in addition to any other remedy to which they are entitled hereunder or otherwise.

ARTICLE IX - MISCELLANEOUS PROVISIONS

Section 9.1 Entire Agreement. This Agreement including all schedules and exhibits attached hereto or thereto, constitute the entire agreement between the Parties and there are no understandings other than as expressed in this Agreement. Upon execution this Agreement supersedes any prior understandings, agreements or representations by or among the Parties, whether written or oral, relating to the subject matter hereof, including any terms sheet which may have preceded this Agreement. Any amendment or modification hereto will be null and void unless made by written amendment and signed by the Parties affected by such amendment.

Section 9.2 Assignment; Binding Effect. No assignment of this Agreement or of any rights or obligations hereunder may be made by any Party to this Agreement without the prior

written consent of the other Parties, which consent shall not be unreasonably withheld, and without such any such assignment shall be void; provided, however, that Purchaser may assign any rights, interests or obligations hereunder to any of its Affiliates without the prior written consent of Seller, provided that in the event of any such assignment Purchaser shall remain liable with respect to their obligations hereunder. This Agreement will apply to, and inure to the benefit of and be binding upon and enforceable against, each Party hereto and its respective successors and permitted assigns.

Section 9.3 No Third-Party Beneficiaries. Nothing in this Agreement is intended or will be construed to give any person, other than the Parties hereto, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein, unless otherwise expressly provided herein.

Section 9.4 Invalidity. Unless the invalidity or unenforceability of any provision or portion thereof frustrates the intent of the Parties or the purpose of this Agreement or any of any Ancillary Agreement, such invalidity or unenforceability will not affect the validity or enforceability of the other provisions or portions thereof. In the event that such provision will be declared unenforceable by a court of competent jurisdiction, such provision or portion thereof, to the extent declared unenforceable, will be stricken. However, in the event any such provision or portion thereof will be declared unenforceable due to its scope, breadth or duration, then it will be modified to the scope, breadth or duration permitted by law and will continue to be fully enforceable as so modified.

Section 9.5 Governing Law. This Agreement will be deemed to have been made under and governed by the laws of British Columbia, and the laws of Canada applicable therein.

Section 9.6 Jurisdiction. Each of the Parties hereto irrevocably and unconditionally submits to the exclusive jurisdiction of the courts of the Province of British Columbia, for purposes of enforcing this Agreement. In any such action, suit or other proceeding, each of the Parties hereto irrevocably and unconditionally waives and agrees not to assert by way of motion, as a defense or otherwise any claims that it is not subject to the jurisdiction of the above court, that such action or suit is brought in an inconvenient forum or that the venue of such action, suit or other proceeding is improper.

Section 9.7 Counterparts. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

Section 9.8 Headings. The headings in this Agreement are for the convenience of reference only and will not affect its interpretations.

Section 9.9 Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction will, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so

broad as to be unenforceable, the provision will be interpreted to be only so broad as would be enforceable.

Section 9.10 Interpretation. The Parties hereto have participated jointly in the negotiation and drafting of this Agreement. Consequently, in the event that an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the Parties hereto, and no presumption or burden of proof will arise favoring or disfavoring any Party by virtue of the authorship of any provision of this Agreement.

Section 9.11 Time of the Essence. Time shall be of the essence of this Agreement due to the time-sensitive nature of the Renewal Rights.

Section 9.12 Notices. All notices and other communications under this Agreement will be in writing and will be delivered personally, sent by overnight courier or certified, registered or express mail, postage prepaid. Any such notice or other communication will be deemed given: (i) upon actual delivery if presented personally, (ii) one business day following delivery to an overnight courier or (iii) three business days following deposit in the United States mail, if sent by certified or registered mail, postage prepaid, in each case to the following addresses:

(i) If to Purchaser:

Northbridge Indemnity Insurance Corporation
c/o Northbridge Financial Corporation
105 Adelaide St. West
Toronto, ON
CANADA M5H 1P9

Attn: General Counsel

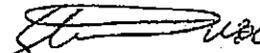
(ii) If to Seller:

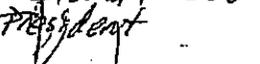
Commonwealth Insurance Company of America
c/o Northbridge Financial Corporation
105 Adelaide St. West
Toronto, ON
CANADA M5H 1P9

Attn: General Counsel

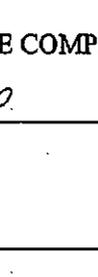
IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of Purchaser and Seller this 20th day of December, 2012.

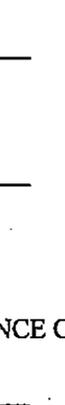
COMMONWEALTH INSURANCE COMPANY OF AMERICA

By: 
Name: Stewart Wao
Title: President

By: 
Name: GRACE KOSTIN
Title: VP UNDERWRITING

NORTHBRIDGE INDEMNITY INSURANCE CORPORATION

By: 
Name: CRAIG PINNOCK
Title: CFO

By: 
Name: Stewart Wao
Title: SVP, Corporate Risk

Schedule A

CANADIAN CROSS BORDER POLICIES

<u>Insured Name</u>	<u>Policy Number</u>	<u>Policy End Date</u>
Earls Restaurants Limited	CICANB4002	October 1, 2013
Nordic Well Servicing	CICANB4004	May 1, 2013
North American Pipe & Steel Incorporated	CICA3426	February 16, 2013
Paramount Drilling US Limited Liability Company	CICANB4001	June 1, 2013
Rimex Supply	CICA3445	March 31, 2013
Savannah Energy Services Corporation	CICANB4000	June 1, 2013
SK Food Group Incorporated	CICANB4003	September 30, 2013

MANAGEMENT SERVICES AGREEMENT

This Management Services Agreement (this "Agreement") is made and entered into as of January 1, 2013 (the "Effective Date") by and among Commonwealth Insurance Company of America, a Washington stock insurance company (the "Insurer"), and RiverStone Resources LLC, a Delaware limited liability company (the "Manager" and together with Insurer, the "Parties").

WHEREAS, Manager and Insurer are each indirect subsidiaries of Fairfax Financial Holdings Limited ("FFH"); and

WHEREAS, Manager provides management services to certain of FFH's subsidiaries; and

WHEREAS, the Parties desire for Manager to provide Insurer such services on the terms and conditions set forth herein; and

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Definitions.

In this Agreement, unless the context otherwise requires, the following expressions will have the following meanings:

"Business Day" means a day other than a Saturday or Sunday or a public holiday in the United States;

"Indemnified Party" shall have the meaning set forth in Sections 6.2 and 6.3.

"Management Fee" shall have the meaning set forth in Section 3.1.

"Manager's Services" means the services set forth on Schedule A, attached hereto and incorporated herein and such other services as may be agreed to by the Parties from time to time.

2. Services.

2.1 Manager shall provide Manager's Services in accordance with the terms and conditions of this Agreement commencing at such time as the parties mutually agree. The Parties agree that in providing the Manager's Services, Manager will act in good faith and with reasonable care and skill and in accordance with any laws and regulations applicable to Insurer or Manager, respectively, and in accordance with and subject to any guidelines or procedures provided to it by the Insurer.

2.2 Insurer hereby authorizes Manager to exercise on its behalf such powers as are necessary or expedient for the provision and performance by Manager of Manager's Services. Without limiting the generality of the foregoing, Insurer appoints Manager as its legal representative and true and lawful attorney to act on its behalf and in its name in the course of

providing the Services. The appointment of Manager hereunder is not exclusive. Further, Manager may use the services of subcontractors in performing services on behalf of Insurer, provided Manager shall not be relieved of any of its obligations to Insurer with respect to services performed by a subcontractor. Manager shall remain liable to Insurer for any and all actions of its subcontractors. Notwithstanding anything contained herein, the Insurer shall retain ultimate control for any service being provided by Manager on its behalf and Insurer may withdraw Manager's authority, in whole or in part, at any time.

3. Fees.

3.1 Insurer shall pay to Manager fees for the Manager's Services (the "Management Fee"). The Management Fee shall be equal to the Insurer's share of the costs, overhead and general expenses incurred by the Manager in providing services hereunder.

3.2 The Manager shall prepare a budget detailing the estimated cost of providing the Manager's Services. Manager shall present an annual budget to the Insurer. The Parties shall then discuss and agree on the budgeted cost for the Manager's Services.

3.3 The Management Fee, based on the agreed annual budget, shall be payable quarterly in advance in four equal payments due on January 1, April 1, July 1 and October 1 of each year. The total actual cost incurred by the Manager in providing services hereunder shall be computed annually and any adjustment resulting in a Management Fee greater than the total quarterly advances for the applicable year shall be paid to Manager within 15 days of delivery to Insurer of a statement of such annual cost, or credited to Insurer for the succeeding quarterly advances if such adjustment results in a Management Fee less than the quarterly advances for the applicable year.

3.4 If this Agreement is terminated for any reason, a report showing the calculation of the Management Fee shall be delivered to the Insurer not later than 30 days following the end of the calendar quarter in which such termination takes effect and the amount of any adjustment over the quarterly advances paid by Insurer shall be settled not later than 15 days after delivery of such report.

3.5 Direct out-of-pocket costs incurred in connection with any third party service providers engaged by the Manager on behalf of Insurer or in furtherance of the Manager's Services shall be paid by Insurer either directly to the third party service provider or to the Manager, at the Manager's election.

3.6 Insurer shall be responsible for all sales, use, property, value-added or other taxes, if any, based on the services rendered pursuant to this Agreement excluding any taxes based solely upon the net income of Manager (defined as "Sales Tax"). Accordingly, Insurer agrees to indemnify Manager from and against a final determination of Sales Tax made by any taxing authority, administrative, or judicial body resulting from this Agreement. Insurer and Manager agree to reasonable cooperation with each other to determine the appropriate Sales Tax, if any, resulting from this Agreement.

4. Term and Termination

4.1 Term. This Agreement shall be effective as of the Effective Date and shall remain in effect until terminated as provided herein.

4.2 Termination.

A. This Agreement may be terminated immediately upon mutual agreement of the Parties (or effective as of such date as they mutually agree).

B. This Agreement may be terminated by either party upon sixty (60) days advance written notice to the other party.

C. This Agreement shall automatically terminate as to a party in the event Manager is hereafter prohibited from performing the Services by law, regulation or an order of a court or governmental authority having jurisdiction over the Parties or the activities being performed pursuant to this Agreement.

D. This Agreement may be terminated by a party by written notice served on the other party, which notice when served shall take effect immediately, if:

(i) The other party shall at any time be in material breach of any of its obligations hereunder and, in the case of a material breach capable of remedy, fails to remedy the same within thirty (30) days after receiving written notice from the aggrieved party requiring it do so; or

(ii) The other party shall at any time become insolvent, suspend payment of its debts, enter into any arrangement with its creditors, convene a meeting of its creditors or cease or threaten to cease to carry on its business or enter into liquidation (voluntary or involuntary) or have a receiver appointed over any of its assets.

4.3 Records. Manager shall maintain true and correct records relating to the Manager's Services provided herein. All such records shall be the property of Insurer. Such records shall be maintained during the term of this Agreement and for a period of three (3) years after termination of this Agreement. Manager shall make such books available for inspection (including on-site inspections, audit and copying) by Insurer at any time upon reasonable notice to Manager, during the term hereof and for a period of three (3) years thereafter, at which time any and all records pertaining to Insurer may be provided to Insurer or be destroyed, at Insurer's option.

5. Confidentiality

5.1 The Parties acknowledge that in the course of dealings between each other, they each will acquire from the other information about business activities and operations, technical information and trade secrets, all of which are highly confidential and proprietary ("Confidential Information"). Confidential Information shall not include (i) information already known to a party; (ii) information which now is or hereafter becomes publicly known through no wrongful act of a party, (iii) information received by a party from a third party without similar restriction and without breach of this Agreement; (iv) information independently developed by a party; (v) information approved for release by written authorization of the other party; and (vi) information which, after notice to a party providing a reasonable opportunity to contest disclosure, must be disclosed pursuant to the requirements of a governmental agency or a final binding order of a court of competent jurisdiction. A party's Confidential Information shall be safeguarded by the other party with at least as great a degree of care as that party uses to safeguard its own most confidential materials or data relating to its own business.

5.2 In the course of providing Manager's Services under this Agreement, Insurer may provide Manager or Manager may gain access to and generate non-public personally identifiable, financial and/or health information of Insurer's consumers, customers, insureds or claimants (hereinafter collectively "Protected Information"), the use and protection of which may be subject to federal, state and local laws. Manager acknowledges and agrees that it shall only use the Protected Information for the purposes for which it was provided to Manager under the Agreement and for no other purpose except pursuant to a written agreement signed by the Parties or as otherwise permitted by law. Except as required by applicable law or as necessary to carry out its obligations under the Agreement, Manager shall not disclose Protected Information to a third party, provided however, that each insured shall be given reasonable access to data concerning it, unless restricted by law. Each party shall be solely responsible for maintaining the security of such Protected Information in its possession and for complying with all federal, state and local laws, regulations, or other requirements governing the privacy and non-disclosure of such information.

5.3 The provisions of this Section 5 shall survive the termination of this Agreement.

6. Indemnification.

6.1 Manager shall not be liable to Insurer in respect of its appointment under this Agreement or any services provided under this Agreement except in respect of loss arising as a result of any willful default, dishonesty or gross negligence on the part of Manager or of any of its managers, officers or employees in the performance of Manager's obligations under this Agreement.

6.2 Insurer agrees to indemnify and hold harmless Manager, its managers, agents and employees ("Indemnified Party") from and against any and all liabilities, losses, expenses, claims, demands, suits, fines or judgments including, but not limited to, reasonable attorneys' fees, costs and expenses incident thereto which may be suffered by, accrued against, charged to or recoverable from the Indemnified Party, its managers, officers, agents or employees, by reason of or arising out of or in connection with (i) any negligent or willful act or omission of Insurer; (ii) any act or omission of Manager taken or omitted to be taken at the direction or with the approval of Insurer; (iii) any breach of this Agreement by Insurer; and (iv) any act taken or

omitted to be taken by Manager in good faith in performance of its duties under this Agreement.

6.3 Manager agrees to indemnify and hold harmless Insurer, its officers, directors, agents, and employees ("Indemnified Party") from and against all liabilities, losses, expenses, claims, demands, suits, fines, or judgments including, but not limited to, reasonable attorneys' fees, costs, and expenses incident thereto which may be suffered by, accrued against, be charged to or recoverable from the Indemnified Party, its officers, directors, agents, or employees, by reason of or arising as a result of any willful default, dishonesty or gross negligence on the part of Manager or of any of its managers, officers or employees in the performance of Manager's obligations under this Agreement.

6.4 Notices with Respect to Indemnification. The Indemnified Party shall provide Manager or Insurer, as the case may be, notice of any proceedings to which this Section 6 applies as soon as the Indemnified Party learns of such proceedings. A party's failure to provide such notice shall not relieve the party of its obligations pursuant to this section.

6.4 Survival. The provisions of this Section 6 shall survive the expiration or termination of this Agreement or cessation of Manager's Services.

7. Notices.

Any notice or other communication required or permitted under this Agreement shall be in writing and shall be delivered personally, by facsimile or sent by certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally, by facsimile or, if mailed, on the date of receipt as follows:

If to Insurer:

Commonwealth Insurance Company of America
c/o RiverStone Resources
250 Commercial St., Suite 5000
Manchester, NH 03101

Attention: Chief Executive Officer

If to Manager:

RiverStone Resources LLC
250 Commercial St., Suite 5000
Manchester, NH 03101

Attention: General Counsel

8. Disputes.

A. Any dispute or difference arising with reference to the applicable interpretation or effect of this Agreement, or any part thereof, shall be referred to a Board of Arbitration (the "Board") of two arbitrators and an umpire. The members of the Board shall be U.S. citizens and shall be active or retired disinterested officers of insurance or reinsurance companies.

B. One arbitrator shall be chosen by the party initiating the arbitration and designated in the letter requesting arbitration. The other party shall respond, within thirty (30) days, advising of its arbitrator. The umpire shall thereafter be chosen by the two arbitrators. In the event either party fails to designate its arbitrator as indicated above, the other party is hereby authorized and empowered to name the second arbitrator, and the party which failed to designate its arbitrator shall be deemed to have waived its right to designate an arbitrator and shall not be aggrieved thereby. The two arbitrators shall then have thirty (30) days within which to choose an umpire. If they are unable to do so, an umpire, meeting the qualifications set forth above, shall be chosen by the American Arbitration Association. Each party shall bear the fees and expenses of the arbitrator selected by or on its behalf, and the Parties shall bear the fees and expenses of the umpire as determined by the Board.

C. Each party shall submit its case to the Board within one month from the date of the appointment of the umpire, but this period of time may be extended by unanimous written consent of the Board. The Board shall make its decision with regard to the custom and usage of the insurance and reinsurance business. The Board is released from all judicial formalities and may abstain from the strict rules of law. The written decision of a majority of the Board shall be rendered within sixty (60) days following the termination of the Board's hearings, unless the Parties consent to an extension. Such majority decision of the Board shall be final and binding upon the Parties both as to law and fact, and may not be appealed to any court of any jurisdiction. Judgment may be entered upon the final decision of the Board in any court of proper jurisdiction.

D. The arbitration shall take place in Manchester, New Hampshire unless otherwise agreed in writing by the Parties.

9. Books and Records.

9.1 Insurer and Manager and their respective duly authorized representatives shall, at all reasonable times, be permitted access to all relevant books and records of the other party pertaining to the Manager's Services provided pursuant to the provisions of this Agreement.

9.2 The Commissioner of Insurance for the State of Washington (or equivalent official), or his or her representatives shall, at all reasonable times, be permitted access to all relevant books and records of Manager. In order to assure itself of Manager's compliance with the terms of this Agreement, Insurer, upon reasonable notice to Manager, shall have the right to conduct audits of the files and the books and records of Manager as they pertain directly to the Manager's Services. Insurer shall retain ownership of any and all of its records.

10. Force Majeure

10.1 Neither party shall incur any liability to the other in respect of any default in the

performance of its obligations arising from circumstances outside the Parties' control.

10.2 Non-exhaustive illustrations of such circumstances include Act of God, War, Riot, Explosion, Abnormal Weather Conditions, Fire, Flood, Government Action, Strikes and Lockouts.

10.3 If either party is prevented from carrying out its obligations in such circumstances, it shall notify the other party within two business (2) days of the event.

10.4 If the circumstances preventing this Agreement from being carried out continue for a period exceeding three (3) months from and including the date when the party sends such notice, then either party may give written notice to the other terminating this Agreement. Such written notice must be received whilst the circumstances are still continuing.

11. Miscellaneous Provisions.

11.1. This Agreement constitutes the entire contract between the Parties and there are no other understandings between them with respect to the subject matter of this Agreement other than as is expressed herein or in a duly executed addendum and supersedes all prior agreements and understandings between the Parties with respect to such subject matter. This Agreement may be amended, supplemented or modified, and any provision hereof may be waived only pursuant to a written instrument making specific reference to this Agreement signed by each of the Parties hereto. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

11.2. This Agreement may be executed in multiple counterparts, each of which shall be an original.

11.3 This Agreement shall inure to the benefit of the Parties and be binding upon their successors and permitted assigns. Nothing in this Agreement shall create or be deemed to create any third party beneficiary rights in any person not a party to this Agreement. No assignment, delegation or other transfer of this Agreement or of any rights or obligations hereunder may be made by any party to this Agreement (in whole or in part, voluntary or involuntary, by operation of law or otherwise, other than by operation of law in a merger) without the prior written consent of the other party.

11.4 The provisions set forth in this Agreement are severable. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable in any jurisdiction or against its regulatory or public policy, the remainder of this Agreement, and the application of such provision to other persons or circumstances, shall not be affected thereby and shall remain valid and enforceable in such jurisdiction, and any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. Upon determination that any term, provision, covenant or restriction is invalid, void or unenforceable or against the regulatory or public policy of the governing jurisdiction, the Parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible to the fullest extent permitted by applicable law in an acceptable manner to the end that

the transactions contemplated by this Agreement are fulfilled to the extent possible.

11.5 Insurer and Manager are not partners or joint venturers and nothing in this Agreement shall be construed as to make them such partners or joint venturers, or impose any liability as such on either of them. Each is an independent contractor of the other.

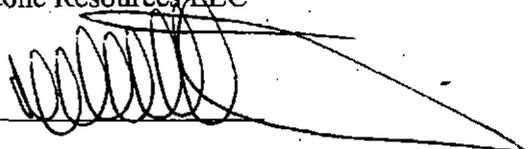
11.6 This Agreement shall be governed by and construed in accordance with the laws of the State of Washington without giving effect to the principles of conflicts of laws thereof.

[Signature Page Follows]

IN WITNESS WHEREOF, this Agreement is hereby executed by duly authorized representatives of the Parties as of the date first written above.

RiverStone Resources LLC

By:



Title:

~~PRESIDENT & CHIEF EXECUTIVE OFFICER~~
EXECUTIVE OFFICER

Name:

NICHOLAS C. BAILEY

Commonwealth Insurance Company of America

By: _____

Title: _____

Name: _____

IN WITNESS WHEREOF, this Agreement is hereby executed by duly authorized representatives of the Parties as of the date first written above.

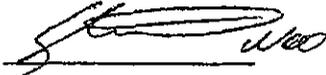
RiverStone Resources LLC

By: _____

Title: _____

Name: _____

Commonwealth Insurance Company of America

By: 

Title: CFO

Name: Stewart W. Lee

Schedule A

MANAGER'S SERVICES

Manager's Services may include the provision of any of the following, in whole or in part, and may also include the oversight thereof:

1. Financial Services, including, without limitation, preparation of financial statements, management of daily operations, tax services, actuarial analysis and related services, treasury functions and accounts payable.
2. Human Resources, including, without limitation, use of employees, recruiting services and benefits management.
3. Reinsurance Services, including, without limitation, all reasonable and necessary administration, management and collection services, security analysis and administration of letters of credits and other security arrangements and commutations.
4. Legal related services, including, without limitation, corporate secretary function, litigation management and regulatory compliance and oversight.
5. Administration and management services necessary for the daily operations of Insurer.
6. Strategic planning advice.

CLAIM ADMINISTRATION SERVICES AGREEMENT

This Claim Administration Services Agreement (this "Agreement"), effective as of January 1, 2013 (the "Effective Date"), is entered into by and between RiverStone Claims Management LLC ("RiverStone"), a Delaware limited liability company and Commonwealth Insurance Company of America ("Insurer"), an insurance company organized and existing under the laws of the State of Washington (each sometimes individually referred to as a "Party" and collectively as "Parties").

WHEREAS, Insurer has an existing book of insurance and assumed reinsurance business, and related ceded reinsurance business, under which claims have arisen and will continue to arise; and

WHEREAS, it is the Parties' mutual desire that RiverStone will provide Insurer with claim administration services as more fully described herein, and that Insurer will reimburse RiverStone for the reasonable costs associated with providing such services;

NOW, THEREFORE, in consideration of the promises and agreements contained herein, the Parties hereby mutually agree as follows:

I. Appointment of RiverStone

- A. Insurer hereby appoints RiverStone as its claims manager, legal representative and true and lawful attorney to act on its behalf and in its name in the course of providing the Services as hereinafter defined, subject to the conditions and limitations hereinafter described; it being understood that RiverStone's appointment hereunder is non-exclusive. RiverStone hereby accepts such appointment and agrees to comply with the provisions, conditions and limitations set forth in this Agreement.
- B. RiverStone represents and warrants that it has the legal and regulatory authority and holds all licenses and approvals necessary to perform and provide the Services in each and every jurisdiction as the performance of such Services may require.

II. Responsibilities and Duties of RiverStone

- A. Services to be Provided: Commencing at such time as the Parties may mutually agree and continuing for so long as this Agreement is in effect, RiverStone shall provide Insurer with the following services (collectively, the "Services") relating to insurance policies issued by or on behalf of Insurer and assumed reinsurance agreements issued by Insurer or in which Insurer participates, subject to such limitations and in accordance with such procedures as Insurer may provide to RiverStone in writing from time to time:
 1. Insurance Claims Administration – RiverStone shall provide Insurer with all reasonable and necessary claims management and administration services in respect of losses and claims notified under insurance policies issued by or on behalf of Insurer ("Insurer Insurance Business"), including the investigation, adjustment, settlement, payment, resistance and resolution of claims; appointment of defense

counsel for insureds where necessary; and the engagement of counsel and the participation in coverage litigation arising out of Insurer Insurance Business on behalf of Insurer.

2. Assumed Reinsurance Claims Administration – RiverStone shall provide Insurer with all reasonable and necessary reinsurance claims management and administration services in respect of claims ceded under assumed reinsurance agreements issued by or participated in by Insurer as an assuming reinsurer (“Insurer Assumed Reinsurance Business”), including the investigation, adjustment, settlement, payment, resistance and resolution of ceded claims; involvement with ceding company counsel and policyholder counsel where necessary; the engagement of counsel and the management of litigation or arbitration arising out of Insurer Assumed Reinsurance Business on behalf of Insurer and commutations.
- B. RiverStone shall also provide Insurer with such information, reports, data, and actuarial and accounting support in respect of the Insurer Insurance Business and the Insurer Assumed Reinsurance Business, in such form and amount, as the parties may mutually agree; it being agreed that such services are included within the defined term “Services” as used herein.
 - C. Insurer shall provide RiverStone with all such information and co-operation as are reasonably required by RiverStone to enable RiverStone to provide the Services as required under the terms of this Agreement. Insurer shall also make its claims processing systems and support available to RiverStone.
 - D. RiverStone shall promptly notify Insurer regarding any inquiries or notifications received from governmental entities or of any litigation or arbitrations filed by or against Insurer. The parties agree to cooperate and coordinate in resolving any and all inquiries or proceedings, including determining which party should respond.
 - E. Notwithstanding any of the foregoing provisions, it is specifically understood that the ultimate control regarding the settlement and management of claims, litigation and arbitrations is retained by Insurer and, as such, Insurer may assume the handling of any such claim or matter at any time.

III. Service Standards

- A. RiverStone shall monitor closely its delivery of the Services and undertakes to disclose to Insurer any development that would have a material impact on its ability to carry out the Services effectively.
- B. RiverStone shall provide the Services with due care, skill and diligence and expeditiously in such cases where time is of the essence, and in all respects in accordance with all applicable laws and regulations.

IV. Servicing Fees

- A. Insurer shall pay to RiverStone fees for the RiverStone's Services (the "RiverStone Fee"). The RiverStone Fee shall be equal to the Insurer's share of the costs, overhead and general expenses incurred by the RiverStone in providing services hereunder.
- B. RiverStone shall prepare a budget detailing the estimated cost of providing the RiverStone's Services. RiverStone shall present an annual budget to the Insurer. The Parties shall then discuss and agree on the budgeted cost for the RiverStone's Services. The RiverStone Fee, based on the agreed annual budget, shall be payable quarterly in advance in four equal payments due on January 1, April 1, July 1 and October 1 of each year. The total actual cost incurred by the RiverStone in providing services hereunder shall be computed annually and any adjustment resulting in a RiverStone Fee greater than the total quarterly advances for the applicable year shall be paid to RiverStone within 15 days of delivery to Insurer of a statement of such annual cost, or credited to Insurer for the succeeding quarterly advances if such adjustment results in a RiverStone Fee less than the quarterly advances for the applicable year.
- C. If this Agreement is terminated for any reason, a report showing the calculation of the RiverStone Fee shall be delivered to the Insurer not later than 30 days following the end of the calendar quarter in which such termination takes effect and the amount of any adjustment over the quarterly advances paid by Insurer shall be settled not later than 15 days after delivery of such report.
- D. Direct out-of-pocket costs incurred in connection with any third party service providers engaged by the RiverStone on behalf of Insurer or in furtherance of the RiverStone's Services shall be paid by Insurer either directly to the third party service provider or to the RiverStone, at the RiverStone's election.
- E. Insurer shall be responsible for all sales, use, property, value-added or other taxes, if any, based on the services rendered pursuant to this Agreement excluding any taxes based solely upon the net income of RiverStone (defined as "Sales Tax"). Accordingly, Insurer agrees to indemnify RiverStone from and against a final determination of Sales Tax made by any taxing authority, administrative, or judicial body resulting from this Agreement. Insurer and RiverStone agree to reasonable cooperation with each other to determine the appropriate Sales Tax, if any, resulting from this Agreement.

V. Confidentiality

Each Party recognizes the confidential nature of the information to be delivered or shared by Insurer under this Agreement. Therefore, each Party will use the same care and discretion to avoid disclosure, publication or dissemination of information received as the care and discretion used by it to avoid disclosure, publication or dissemination of its own confidential information. Without limiting the generality of the foregoing, RiverStone acknowledges that in the course of providing services under this Agreement, RiverStone may gain access to and generate non-public personally identifiable, financial and/or health information of Insurer's consumers, customers,

insureds or claimants (hereinafter collectively "Protected Information"), the use and protection of which may be subject to federal, state and local laws. RiverStone acknowledges and agrees that it shall only use the Protected Information for the purposes for which it was provided to RiverStone under the Agreement and for no other purpose except pursuant to a written agreement signed by the Parties or as otherwise permitted by law. Except as required by applicable law or as necessary to carry out its obligations under the Agreement, RiverStone shall not disclose Protected Information to a third party, provided however, that each insured shall be given reasonable access to data concerning it, unless restricted by law.

The provisions of this Section V shall survive the termination of this Agreement.

VI. Term and Termination

- A. Term. This Agreement shall be effective as of the Effective Date and shall remain in effect until terminated as provided herein.
- B. This Agreement may be terminated immediately upon mutual agreement of the Parties (or effective as of such date as they mutually agree).
- C. This Agreement may be terminated by either party upon sixty (60) days advance written notice to the other party.
- D. This Agreement shall automatically terminate as to a party in the event RiverStone is hereafter prohibited from performing the Services by law, regulation or an order of a court or governmental authority having jurisdiction over the Parties or the activities being performed pursuant to this Agreement.
- E. This Agreement may be terminated by a party by written notice served on the other party, which notice when served shall take effect immediately, if:
 - (i) The other party shall at any time be in material breach of any of its obligations hereunder and, in the case of a material breach capable of remedy, fails to remedy the same within thirty (30) days after receiving written notice from the aggrieved party requiring it do so; or
 - (ii) The other party shall at any time become insolvent, suspend payment of its debts, enter into any arrangement with its creditors, convene a meeting of its creditors or cease or threaten to cease to carry on its business or enter into liquidation (voluntary or involuntary) or have a receiver appointed over any of its assets.
- F. In the event of any termination, RiverStone shall transfer to Insurer (or to such replacement service-provider as Insurer may direct) all records (including claim files) created or maintained by RiverStone relating to the Services as soon as reasonably possible and shall in all ways assist in the transfer, to enable the continued and uninterrupted provision of the Services either by Insurer itself or by the designated third party.

- G. In the case of a termination of this Agreement in accordance with paragraphs A or B above, or in the event that Insurer begins to obtain the Services or a material portion thereof from another provider while this Agreement is still in effect, the Parties will accommodate the financial impact on RiverStone occasioned by the displacement of those RiverStone employees dedicated to providing the Services.

VII. Indemnification

- A. RiverStone shall not be liable to Insurer in respect of its appointment under this Agreement or any services provided under this Agreement except in respect of loss arising as a result of any wilful default, dishonesty or gross negligence on the part of RiverStone or of any of its managers, officers or employees in the performance of RiverStone's obligations under this Agreement.
- B. Insurer agrees to indemnify and hold harmless RiverStone, its managers, agents and employees ("Indemnified Party") from and against any and all liabilities, losses, expenses, claims, demands, suits, fines or judgments including, but not limited to, reasonable attorneys' fees, costs and expenses incident thereto which may be suffered by, accrued against, charged to or recoverable from the Indemnified Party, its managers, officers, agents or employees, by reason of or arising out of or in connection with (i) any negligent or wilful act or omission of Insurer; (ii) any act or omission of RiverStone taken or omitted to be taken at the direction or with the approval of Insurer; (iii) any breach of this Agreement by Insurer and (iv) any act taken or omitted to be taken by RiverStone in good faith in performance of its duties under this Agreement.
- C. RiverStone agrees to indemnify and hold harmless Insurer, its officers, directors, agents, and employees ("Indemnified Party") from and against all liabilities, losses, expenses, claims, demands, suits, fines, or judgments including, but not limited to, reasonable attorneys' fees, costs, and expenses incident thereto which may be suffered by, accrued against, be charged to or recoverable from the Indemnified Party, its officers, directors, agents, or employees, by reason of or arising as a result of any wilful default, dishonesty or gross negligence on the part of RiverStone or of any of its managers, officers or employees in the performance of RiverStone's obligations under this Agreement.
- D. Notices with Respect to Indemnification. The Indemnified Party shall provide RiverStone or Insurer, as the case may be, notice of any proceedings to which this Section 6 applies as soon as the Indemnified Party learns of such proceedings. A party's failure to provide such notice shall not relieve the party of its obligations pursuant to this section.
- E. The indemnification obligations set forth above shall survive any termination of this Agreement.

VIII. Notices and Other Communications

- A. All notices, requests, demands hereunder (aside from any routine business communications under Parts II. and IV. of this Agreement) must be in writing and shall be deemed to have

been duly given if delivered by hand, facsimile or mailed by first class, registered mail, return receipt requested, postage and registry fees prepaid and addressed as follows:

1. If to RiverStone:

250 Commercial St. Suite 5000
Manchester, NH 03101

Attention: General Counsel

2. If to Insurer:

Commonwealth Insurance Company of America
c/o RiverStone Resources LLC
250 Commercial St., Suite 5000
Manchester, NH 03101

Attention: General Counsel

- B. Routine business communications under Parts II and IV of this Agreement must be in writing and may be transmitted via either (i) hand; (ii) first class mail; (iii) fax; or (iv) electronic mail. If sent via electronic mail, email addresses shall be notified to either party as required.

IX. Disputes

- A. Any dispute or difference arising with reference to the applicable interpretation or effect of this Agreement, or any part thereof, shall be referred to a Board of Arbitration (the "Board") of two arbitrators and an umpire. The members of the Board shall be U.S. citizens and shall be active or retired disinterested officers of insurance or reinsurance companies.
- B. One arbitrator shall be chosen by the party initiating the arbitration and designated in the letter requesting arbitration. The other party shall respond, within thirty (30) days, advising of its arbitrator. The umpire shall thereafter be chosen by the two arbitrators. In the event either party fails to designate its arbitrator as indicated above, the other party is hereby authorized and empowered to name the second arbitrator, and the party which failed to designate its arbitrator shall be deemed to have waived its right to designate an arbitrator and shall not be aggrieved thereby. The two arbitrators shall then have thirty (30) days within which to choose an umpire. If they are unable to do so, an umpire, meeting the qualifications set forth above, shall be chosen by the American Arbitration Association. Each party shall bear the fees and expenses of the arbitrator selected by or on its behalf, and the Parties shall bear the fees and expenses of the umpire as determined by the Board.
- C. Each party shall submit its case to the Board within one month from the date of the appointment of the umpire, but this period of time may be extended by unanimous written consent of the Board. The Board shall make its decision with regard to the custom and usage of the insurance and reinsurance business. The Board is released from all judicial formalities and may abstain from the strict rules of law. The written decision of a majority of the Board

shall be rendered within sixty (60) days following the termination of the Board's hearings, unless the Parties consent to an extension. Such majority decision of the Board shall be final and binding upon the Parties both as to law and fact, and may not be appealed to any court of any jurisdiction. Judgment may be entered upon the final decision of the Board in any court of proper jurisdiction.

D. The arbitration shall take place in Manchester, New Hampshire unless otherwise agreed in writing by the Parties.

X. Force Majeure

A. Neither party shall incur any liability to the other in respect of any default in the performance of its obligations arising from circumstances outside the Parties' control.

B. Non-exhaustive illustrations of such circumstances include Act of God, War, Riot, Explosion, Abnormal Weather Conditions, Fire, Flood, Government Action, Strikes and Lockouts.

C. If either party is prevented from carrying out its obligations in such circumstances, it shall notify the other party within two business (2) days of the event.

D. If the circumstances preventing this Agreement from being carried out continue for a period exceeding three (3) months from and including the date when the party sends such notice, then either party may give written notice to the other terminating this Agreement. Such written notice must be received whilst the circumstances are still continuing.

XI. Miscellaneous

A. This Agreement constitutes the entire contract between the Parties and there are no other understandings between them with respect to the subject matter of this Agreement other than as is expressed herein or in a duly executed addendum and supersedes all prior agreements and understandings between the Parties with respect to such subject matter. This Agreement may be amended, supplemented or modified, and any provision hereof may be waived only pursuant to a written instrument making specific reference to this Agreement signed by each of the Parties hereto. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

B. This Agreement may be executed in multiple counterparts, each of which shall be an original.

C. This Agreement shall inure to the benefit of the Parties and be binding upon their successors and permitted assigns. Nothing in this Agreement shall create or be deemed to create any third party beneficiary rights in any person not a party to this Agreement. No assignment, delegation or other transfer of this Agreement or of any rights or obligations hereunder may be made by any party to this Agreement (in whole or in part, voluntary or involuntary, by operation of law or otherwise, other than by operation of law in a merger) without the prior written consent of the other party.

D. The provisions set forth in this Agreement are severable. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable in any jurisdiction or against its regulatory or public policy, the remainder of this Agreement, and the application of such provision to other persons or circumstances, shall not be affected thereby and shall remain valid and enforceable in such jurisdiction, and any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. Upon determination that any term, provision, covenant or restriction is invalid, void or unenforceable or against the regulatory or public policy of the governing jurisdiction, the Parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible to the fullest extent permitted by applicable law in an acceptable manner to the end that the transactions contemplated by this Agreement are fulfilled to the extent possible.

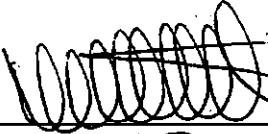
E. Insurer and RiverStone are not partners or joint venturers and nothing in this Agreement shall be construed as to make them such partners or joint venturers, or impose any liability as such on either of them. Each is an independent contractor of the other.

F. This Agreement shall be governed by and construed in accordance with the laws of the State of Washington without giving effect to the principles of conflicts of laws thereof.

Signature Page Follows

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their respective duly authorized officers.

RIVER STONE CLAIMS MANAGEMENT LLC

By: 
Name: NICHOLAS BEVERLY
Title: PRESIDENT & CHIEF EXECUTIVE OFFICER
Date: 1/4/2013

COMMONWEALTH INSURANCE COMPANY OF AMERICA

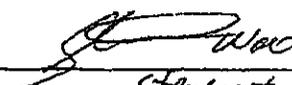
By: _____
Name: _____
Title: _____
Date: _____

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their respective duly authorized officers.

RIVER STONE CLAIMS MANAGEMENT LLC

By: _____
Name: _____
Title: _____
Date: _____

COMMONWEALTH INSURANCE COMPANY OF AMERICA

By:  _____
Name: Stewart Wood
Title: CFO
Date: Jan 4, 2013

TIG HOLDINGS, INC.
INTER-COMPANY TAX ALLOCATION AGREEMENT

The purpose of this agreement (the "Agreement") is to determine the amount of federal and (where applicable) state income tax allocated to members of the affiliated group (as described below) and the amount each will pay to or receive from TIG Holdings, Inc. This Agreement is between TIG Holdings, Inc., a Delaware corporation ("Parent"), and the undersigned subsidiary corporation or corporations (hereafter collectively called the "Subsidiaries" or individually called "Subsidiary"). Parent and the Subsidiaries are sometimes hereafter collectively referred to as the "Group".

1. The members of the Group are affiliated corporations and have elected to file a consolidated federal income tax return with Fairfax, Inc. under the provisions of Section 1501, et seq., of the Internal Revenue Code of 1986, as amended, (the "Code").

2. Each Subsidiary shall compute and pay to the Parent its federal income tax liability as if computed on a separate return. Each Subsidiary shall have first use of all of its respective current operating losses and credits. The calculation of the separate federal income tax liability of each Subsidiary shall be made pursuant to the Code and its regulations, as well as applicable cases, rulings, etc., and shall be determined by utilizing the maximum applicable corporate income tax rate.

3. Each Subsidiary shall pay such separate return tax liability to the Parent by no later than the applicable due date or dates that such payments would have been required by the Internal Revenue Service if the Subsidiary had filed a separate return, or as soon thereafter as possible.

4. If a Subsidiary would not have to pay any federal income tax or would have a claim for refund of federal income taxes, the Parent will pay to such Subsidiary an amount equal to the refund such Subsidiary would have been entitled to obtain from the Internal Revenue Service. The Parent shall make the payment to the Subsidiary by no later than the applicable due date or dates that payment would have been made by the Internal Revenue Service if such Subsidiary had filed a timely claim for refund, or as soon thereafter as possible.

5. If all or a portion of the Group is required or has elected to file a unitary or combined state income tax return (each such Group hereafter called a "State Group"), the parent of the particular State Group will compute, report and pay the State Group's state income tax liability in accordance with the applicable state laws and regulations and will file the State Group's required annual return. Within thirty (30) days from the filing of the State Group's annual return, the parent of the State Group will calculate and assess to each member of the State Group its share of the State Group's state income tax liability based on (i) the methodology required or established by state income tax law or, (ii) if none, the percentage of each member's separate income or tax divided by the total separate income or tax of the State Group. Within thirty (30) days of such assessment, each member will pay to the Parent its share of the state income tax liability.

6. If after the filing of a return it is determined that the liability computed hereunder is incorrect, whether by reason of an Internal Revenue Service or state audit, discovery of error, the learning of new information, or otherwise, appropriate payments, including allocations of penalty and/or interest, if applicable, shall be made promptly to reflect the payments that should have been made.

7. In lieu of actual payments, adjustments to inter-company payables and receivables may be made, and any net balances due will be paid within 90 days of each adjustment. All payments under this Agreement, including subsequent changes in the amount of a Subsidiary's tax liability or reimbursement payment, shall be considered an inter-company payable or receivable, as the case may be, until such adjustment is paid, and shall not be considered a dividend or surplus contribution.

8. The Parent agrees to indemnify and reimburse each Subsidiary for any and all claims, demands and expenses in the event that the Internal Revenue Service levies upon the assets of such Subsidiary for unpaid taxes, including penalties and interest, in excess of that amount for which such Subsidiary may be liable pursuant to the terms of this Agreement.

9. This Agreement shall be applicable only with respect to periods for which the parties are members of the same affiliated Group filing a consolidated federal income tax return. No adjustments hereunder shall be made with respect to periods for which either the Parent or one or more of the Subsidiaries are not members of the same affiliated Group. If at any time the Parent or Subsidiary acquires, creates, or otherwise adds one or more entities that are includable members of the Group (as defined under Section 1504 of the Code), it is understood that any such entity shall automatically be made subject to this Agreement to the same extent as if such entity had been an original party to the Agreement.

10. This Agreement shall take effect as of January 1, 2000 and shall continue until terminated by the mutual written agreement of all of the parties. In the event any party ceases to be affiliated with the Group, this Agreement automatically terminates only with respect to that member. This Agreement shall also terminate if the Group fails to file a consolidated federal income tax return for any tax year of this Agreement. Notwithstanding the termination of this

Agreement, its provisions will remain in effect, with respect to any period of time during the tax year in which termination occurs, for which the income of the terminating party must be included in the consolidated federal income tax return.

11. This Agreement may, from time to time, be amended, modified, and supplemented in such manner as may be mutually agreed upon by the parties, subject to the approval of any regulatory authorities as required by law. Any amendment, modification or supplement to this Agreement shall be in writing and shall be executed by a duly appointed representative of each of the parties.

12. Every article, term, condition and provision of this Agreement is declared to be independent of and severable from all other articles, terms, conditions and provisions of the Agreement. Invalidation, whether judicial or otherwise, of any article, term, condition or provision contained in this Agreement shall in no way affect any other provisions of this Agreement, all of which shall remain in full force and effect.

13. The books, accounts, tax returns and records of the Parent and the Subsidiaries shall be maintained so as to clearly and adequately disclose the precise nature and details of the obligations and liabilities under this Agreement. All materials relating to the tax returns, including but not limited to the returns, supporting schedules, work papers, and correspondence, shall be available for inspection at any time during normal business hours by the Parent or any Subsidiary. Each party to this Agreement shall maintain, at its principal or home office, records of all tax allocations, and any subsequent Internal Revenue Service or state review or adjustment. The provisions of this section shall survive termination of this Agreement.

14. This Agreement has been approved by the Board of Directors of each party to this Agreement to the extent required by regulatory authorities. This Agreement shall be effective upon approval of regulatory authorities as required by law.

15. This Agreement is not assignable by any party without the prior written consent of the other parties.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by duly authorized officers to be effective January 1, 2000.

TIG HOLDINGS, INC.,
a Delaware corporation

By: William N. Nuss, Jr.
Name: William N. Nuss, Jr.
Title: SUP

TIG INSURANCE GROUP

By: William N. Nuss, Jr.
Name: William N. Nuss, Jr.
Title: VP

TIG INSURANCE COMPANY

By: William N. Nuss, Jr.
Name: William N. Nuss, Jr.
Title: VP

TIG PREMIER INSURANCE COMPANY

By: William N. Nuss, Jr.
Name: William N. Nuss, Jr.
Title: VP

TIG INDEMNITY COMPANY

By: W N Huff
Name: William N. Huff, III
Title: VP
FAIRMONT INSURANCE COMPANY

By: W N Huff
Name: William N. Huff, III
Title: VP

TIG SPECIALTY INSURANCE COMPANY

By: W N Huff
Name: William N. Huff, III
Title: VP

TIG INSURANCE COMPANY OF MICHIGAN

By: W N Huff
Name: William N. Huff, III
Title: VP

TIG INSURANCE CORPORATION OF AMERICA

By: W N Huff
Name: William N. Huff, III
Title: VP

TIG INSURANCE COMPANY OF COLORADO

By: W N Huff
Name: William N. Huff, III
Title: VP

COUNTRYWIDE CORPORATION

By: W N Nuss III
Name: William N. Nuss, III
Title: VP
TIG HOLDINGS 1, INC.

By: W N Nuss III
Name: William N. Nuss, III
Title: VP

TIG HOLDINGS 2, INC.

By: W N Nuss III
Name: William N. Nuss, III
Title: VP

TIG HOLDINGS 4, INC.

By: W N Nuss III
Name: William N. Nuss, III
Title: VP

TIG HOLDINGS 5, INC.

By: W N Nuss III
Name: William N. Nuss, III
Title: VP

RUSCO SERVICES INC.

By: W N Nuss III
Name: William N. Nuss, III
Title: VP

PRIORIS, INC.

By: W N Huff
Name: William N. Huff, III
Title: VP

TIG LATIN AMERICA, INC.

By: W N Huff
Name: William N. Huff, III
Title: VP

TIG (BERMUDA) LTD.

By: W N Huff
Name: William N. Huff, III
Title: SUP

TIG COMMONWEALTH HOLDINGS, INC.

By: W N Huff
Name: William N. Huff, III
Title: VP

COMMONWEALTH INSURANCE COMPANY OF AMERICA

By: D M Parry
Name: DONALD M. PARRY
Title: AVP - CORPORATE SECRETARY

ODYSSEY AMERICA REINSURANCE CORPORATION

By: D L Smith
Name: Donald L. Smith
Title: Senior VP

ODYSSEY REINSURANCE CORPORATION

By: Donald L. Smith
Name: Donald L. Smith
Title: Senior VP

HUDSON INSURANCE COMPANY

By: Donald L. Smith
Name: Donald L. Smith
Title: VP

TIG RE UK HOLDINGS CORPORATION

By: [Signature]
Name:
Title:

RANGER INSURANCE COMPANY

By: Philip J. Broughton
Philip J. Broughton
President & CEO

RANGER INSURANCE MANAGERS, INC.

By: Philip J. Broughton
Philip J. Broughton
President & CEO

RANGER INSURANCE FINANCE COMPANY

By: Philip J. Broughton
Philip J. Broughton
President & CEO

RANGERS MANAGERS CORP.

By: _____

Philip J. Broughton
Philip J. Broughton
President & CEO

AMENDMENT NO. [1] TO INTER-COMPANY TAX ALLOCATION AGREEMENT

This Amendment No. [1] to the Inter-Company Tax Allocation Agreement ("Amendment No. [1]") is made and entered into as of August 17th, 2010 by and among General Fidelity Insurance Company, a South Carolina stock (the "Insurer"), and TIG Holdings, Inc., a Delaware corporation (the "Parent").

WHEREAS, the Parent is a party to an Inter-Company Tax Allocation Agreement as of January 1, 2000 (the "Prior Agreement") which sets forth a method to allocate and settle the Federal income tax liability of the participants in the Inter-Company Tax Allocation Agreement,

NOW THEREFORE, in consideration of the mutual covenants contained herein, the parties agree as follows:

1. Effective Date. This Amendment No. [1] shall have effect for all taxable periods, beginning on or after [January 1, 2011].
2. Additions to Parties to the Prior Agreement. The Insurer is hereby added as a party to and shall be made subject to the Prior Agreement to the same extent as if the Insurer had been an original party to the Prior Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, this Amendment No. [1] is hereby executed by duly authorized officers of the parties hereto as of the date first above written.

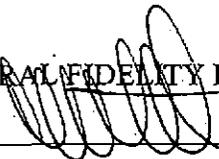
TIG HOLDINGS, INC.

By: 

Title: VICE PRESIDENT

Name: JOHN K. CASSIL

GENERAL FIDELITY INSURANCE COMPANY

By: 

Title: PRESIDENT & CHIEF EXECUTIVE OFFICER

Name: NICHOLAS BENTRLEY

AMENDMENT NO. 2 TO INTER-COMPANY TAX ALLOCATION AGREEMENT

This Amendment No. 2 to the Inter-Company Tax Allocation Agreement ("Amendment No. 2") is made and entered into as of July 1, 2011 by and among Valiant Insurance Group, Inc., a Delaware corporation; Valiant Insurance Company, a Delaware stock insurer; Valiant Specialty Insurance Company, a Delaware stock insurer; and Investment & Administrative Services Company, a Delaware corporation (collectively, the "Companies") and TIG Holdings, Inc., a Delaware corporation (the "Parent").

WHEREAS, the Parent is a party to an Inter-Company Tax Allocation Agreement as of January 1, 2000 (the "Prior Agreement") which sets forth a method to allocate and settle the Federal income tax liability of the participants in the Inter-Company Tax Allocation Agreement.

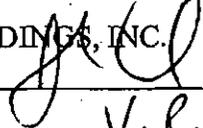
NOW THEREFORE, in consideration of the mutual covenants contained herein, the parties agree as follows:

1. Effective Date. This Amendment No. 2 shall have effect for all taxable periods, beginning on or after [July 1, 2011].
2. Additions to Parties to the Prior Agreement. The Companies are hereby added as additional parties to and shall be made subject to the Prior Agreement to the same extent as if they had been an original party to the Prior Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, this Amendment No. 2 is hereby executed by duly authorized officers of the parties hereto as of the date first above written.

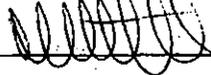
TIG HOLDINGS, INC.

By: 

Title: V.P.

Name: John Cassil

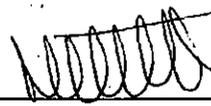
VALIANT INSURANCE GROUP, INC.

By: 

Title: CHIEF EXECUTIVE OFFICER

Name: NICHOLAS C. BENTLEY

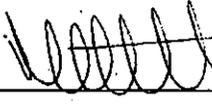
VALIANT INSURANCE COMPANY

By: 

Title: CHIEF EXECUTIVE OFFICER

Name: NICHOLAS C. BENTLEY

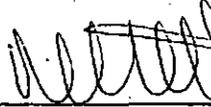
VALIANT SPECIALTY INSURANCE COMPANY

By: 

Title: CHIEF EXECUTIVE OFFICER

Name: NICHOLAS C. BENTLEY

INVESTMENT AND ADMINISTRATIVE SERVICES COMPANY

By: 

Title: CHIEF EXECUTIVE OFFICER

Name: NICHOLAS C. BENTLEY

AMENDMENT NO. 3 TO INTER-COMPANY TAX ALLOCATION AGREEMENT

This Amendment No. 3 to the Inter-Company Tax Allocation Agreement ("Amendment No. 3") is made and entered into as of January 1, 2013 by and among Commonwealth Insurance Company of America, a Washington corporation (the "Company"); and TIG Holdings, Inc., a Delaware corporation (the "Parent").

WHEREAS, the Parent is a party to an Inter-Company Tax Allocation Agreement as of January 1, 2000 (the "Prior Agreement") which sets forth a method to allocate and settle the Federal income tax liability of the participants in the Inter-Company Tax Allocation Agreement.

NOW THEREFORE, in consideration of the mutual covenants contained herein, the parties agree as follows:

1. Effective Date. This Amendment No. 3 shall have effect for all taxable periods, beginning on or after January 1, 2013.

2. Additions to Parties to the Prior Agreement. The Company is hereby added as an additional party to and shall be made subject to the Prior Agreement to the same extent as if they had been an original party to the Prior Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, this Amendment No. 3 is hereby executed by duly authorized officers of the parties hereto as of the date first above written.

TIG HOLDINGS, INC.
By: *[Signature]*
Title: President
Name: John Cassi

COMMONWEALTH INSURANCE COMPANY OF AMERICA

By: _____
Title: _____
Name: _____

IN WITNESS WHEREOF, this Amendment No. 3 is hereby executed by duly authorized officers of the parties hereto as of the date first above written.

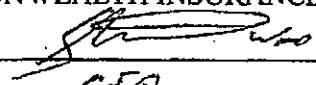
TIG HOLDINGS, INC.

By: _____

Title: _____

Name: _____

COMMONWEALTH INSURANCE COMPANY OF AMERICA

By: 

Title: CFO

Name: Stewart Wbo

TAX AND COMPLIANCE SERVICES AGREEMENT

This Tax and Compliance Services Agreement is made and entered into as of January 1, 2013, by and between Commonwealth Insurance Company of America, a stock insurer ("Insurer") and Fairfax (US), Inc., a Delaware corporation, ("Fairfax" and together with the Insurer, the "Parties").

WHEREAS, Insurer and Fairfax are each indirect subsidiaries of Fairfax Financial Holdings Limited ("FFH"); and

WHEREAS, Fairfax provides regulatory and tax consulting services, among other services, to FFH and certain of its subsidiaries including FFH; and

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Definitions.

1.1 "Indemnified Insurer Persons" shall mean the Insurer and its respective directors, officers, agents or employees.

1.2 "Indemnified Fairfax Persons" shall mean Fairfax or any of its managers, directors, officers, agents or employees.

1.3 "Fairfax Services" shall mean the services provided by Fairfax to Insurer as shall be requested by Insurer and agreed between the Parties from time to time. Without limiting the generality of the foregoing, such services shall include consulting services on regulatory and tax matters as well as compliance services. These services shall include, but will not be limited to, Federal, State and International Tax return preparation, Federal, State and International tax planning, preparation of checks and wires for Federal, State and International tax filings, bank reconciliation and escheat compliance with respect to the preparation of checks, and research, and compliance related to tax reporting in financial statements.

1.4 "Fairfax Fee" shall have the meaning set forth in Section 3.1.

2. Services.

2.1 Fairfax shall provide Fairfax Services in accordance with the terms and conditions of this Agreement. The parties agree that in providing the Fairfax Services, Fairfax will act in good faith and with reasonable care and skill and in accordance with any laws and regulations applicable to Insurer or Fairfax, respectively, and in accordance with and subject to any guidelines or procedures provided to it by the Insurer.

2.2 Insurer hereby authorizes Fairfax to exercise on its behalf such powers as are necessary or expedient for the provision and performance by Fairfax of the Fairfax Services. The appointment of Fairfax hereunder is not exclusive. Further, Fairfax may use the services of subcontractors in performing services on behalf of Insurer, provided that Fairfax shall not be relieved of any of its obligations to insurer with respect to services performed by a subcontractor. Fairfax shall remain liable to Insurer for any and all actions of its subcontractors. Notwithstanding anything contained herein, the Insurer shall retain ultimate control for any service being provided by Fairfax on its behalf and Insurer may withdraw Fairfax's authority, in whole or in part, at any time. Services shall commence upon mutual agreement of the parties.

3. Fees.

3.1 Insurer shall pay Fairfax fees for Fairfax Services. Fairfax Fees shall be based upon Fairfax's costs, overhead and general expenses incurred in providing services ("Fairfax Fees").

3.2 Fairfax shall prepare an annual budget detailing the estimated cost of providing its Services each quarter for the upcoming year. Budgets shall be presented no later than ten (10) business days before commencement of the provision of Services, and annually thereafter.

3.3 Insurer shall pay to Fairfax an amount equal to one-fourth of the annual budget quarterly, due no later than April 15th, June 15th, September 15th and December 15th of each year. The total actual cost incurred in providing Services hereunder shall be computed quarterly and any adjustment resulting in a quarterly Fee greater than the applicable total quarterly advance for such quarter shall be paid to Fairfax within fifteen (15) business days of delivery of a statement of such quarterly cost, or credited to Insurer for the succeeding quarterly advances if such adjustment results in a Fee less than the quarterly advances for the applicable year. If this Agreement is terminated for any reason, a report showing the calculation of the Fees shall be delivered by Fairfax to Insurer not later than thirty (30) business days following the end of the calendar quarter in which such termination takes effect and the amount of any adjustment shall be settled not later than fifteen (15) business days after delivery of such report. Late payments shall bear interest at the lesser of 2% per month or the maximum rate permitted by law.

3.4 Direct out-of-pocket costs incurred in connection with any third party service providers engaged by Fairfax on behalf of Insurer, shall be paid either directly to the third party provider by the party on whose behalf the services are being provided, or Fairfax at Fairfax's election.

3.5 Insurer shall be responsible for all sales, use, property, value-added or other taxes, if any, based on the services rendered pursuant to this Agreement excluding any taxes based solely upon the net income of Fairfax (defined as "Sales Tax").

4. Term and Termination.

4.1 Term. This Agreement shall be effective as of the date first shown above and shall remain in effect until terminated as provided herein.

4.2 Termination.

A. This Agreement may be terminated immediately upon mutual agreement of the Parties (or effective as of such date as they mutually agree).

B. Either party may terminate this Agreement upon sixty (60) days written notice to the other party.

C. This Agreement shall automatically terminate as to a party in the event Fairfax is hereafter prohibited from performing the Services by law, regulation or an order of a court or governmental authority having jurisdiction over the parties, or the activities being performed pursuant to this Agreement.

D. This Agreement may be terminated by a party by written notice served on the other party, which notice when served shall take effect immediately, if:

(i) The other party shall at any time be in material breach of any of its obligations hereunder and, in the case of a material breach capable of remedy, fails to remedy the same within thirty (30) days after receiving written notice from the aggrieved party requiring it do so; or

(ii) The other party shall at any time become insolvent, suspend payment of its debts, enter into any arrangement with its creditors, convene a meeting of its creditors or cease or threaten to cease to carry on its business or enter into liquidation (voluntary or involuntary) or have a receiver appointed over any of its assets.

4.3 Records. Fairfax shall maintain true and correct records relating to the Fairfax Services provided herein. Such records shall be maintained during the Term of this Agreement and for a period of three (3) years after termination of this Agreement. Fairfax shall make such books available for inspection (including on-site inspections, audit and copying) by Insurer at any time upon reasonable notice to Fairfax, during the Term hereof and for a period of three (3) years thereafter, at which time any and all records pertaining to Insurer shall be provided to Insurer or shall be destroyed, at Insurer's option.

5. Confidentiality.

5.1 The parties acknowledge that in the course of dealings between each other, they each will acquire from the other information about business activities and operations, technical information and trade secrets, all of which are highly confidential and proprietary ("Confidential Information"). Confidential Information shall not include (i) information already known to a party; (ii) information which now is or hereafter becomes publicly known through no wrongful act of a party; (iii) information received by a party

from a third party without similar restriction and without breach of this Agreement; (iv) information independently developed by a party; (v) information approved for release by written authorization of the other party; and (vi) information which, after notice to a party providing a reasonable opportunity to contest disclosure, must be disclosed pursuant to the requirements of a governmental agency or a final binding order of a court of competent jurisdiction. A party's Confidential Information shall be safeguarded by the other party with at least as great a degree of care as that party uses to safeguard its own most confidential materials or data relating to its own business.

5.2 In the course of providing Services under this Agreement, Insurer may provide Fairfax or Fairfax may gain access to and generate non-public personally identifiable, financial and/or health information of Insurer's consumers, customers, insureds or claimants (hereinafter collectively "Protected Information"), the use and protection of which may be subject to federal, state and local laws. Fairfax acknowledges and agrees that it shall only use the Protected Information for the purposes for which it was provided to Fairfax under the Agreement and for no other purpose except pursuant to a written agreement signed by the parties or as otherwise permitted by law. Except as required by applicable law or as necessary to carry out its obligations under the Agreement, Fairfax shall not disclose Protected Information to a third party; provided, however, that each insured shall be given reasonable access to data concerning it, unless restricted by law. Each party shall be solely responsible for maintaining the security of such Protected Information in its possession and for complying with all federal, state and local laws, regulations, or other requirements governing the privacy and non-disclosure of such information.

5.3 The provisions of this Section 5 shall survive the termination of this Agreement.

6. Indemnification.

6.1 Fairfax shall not be liable to Insurer in respect of its appointment under this Agreement or any services provided under this Agreement except in respect of loss arising as a result of any willful default, dishonesty or negligence on the part of Fairfax or any of its directors, officers, or employees in the performance of Fairfax's obligations under this Agreement. Fairfax shall indemnify, defend and hold Indemnified Insurer Persons harmless from and against any and all Liabilities resulting from or arising out of any willful act or negligence of Fairfax taken or omitted to be taken pursuant to this Agreement.

6.2 Insurer shall indemnify, defend and hold Indemnified Fairfax Persons harmless from an against any and all damage, loss, costs, and expenses (including reasonable attorney's fees and litigation expenses) (collectively "Liabilities") resulting from or arising out of (i) any negligent or willful act or omission of Insurer taken or omitted to be taken pursuant to this Agreement; (ii) any act or omission of Fairfax taken or omitted to be taken at the direction or with the approval of Insurer; (iii) any breach of this Agreement by Insurer and (iv) any act taken or omitted to be taken by Fairfax in good faith in performance of its duties under this Agreement.

6.3 Survival. The provisions of this Section 6 shall survive the expiration or termination of this Agreement or cessation of Services.

7. Notices.

Any notice or other communication required or permitted under this Agreement shall be in writing and shall be delivered personally, by facsimile or sent by certified, registered or express mail, postage prepaid. Any such notice shall be deemed given when so delivered personally, by facsimile or, if mailed, on the date of receipt as follows:

If to Insurer: Commonwealth Insurance Company of America
c/o RiverStone Resources LLC
250 Commercial St., Suite 5000
Manchester, NH 03101
Facsimile: 603-656-2257
Attention: General Counsel

If to Fairfax: Fairfax (US), Inc.
2850 Lake Vista Drive, Suite 150
Lewisville, Texas 75067
Attn: Tax Director

By notice given in accordance with this article to the other party, either party may designate another address or person for receipt of notice hereunder.

8. Disputes.

A. Any dispute or difference arising with reference to the applicable interpretation or effect of this Agreement, or any part thereof, shall be referred to a Board of Arbitration (the "Board") of two arbitrators and an umpire. The members of the Board shall be U.S. citizens and shall be active or retired disinterested officers of insurance or reinsurance companies.

B. One arbitrator shall be chosen by the party initiating the arbitration and designated in the letter requesting arbitration. The other party shall respond, within thirty (30) days, advising of its arbitrator. The umpire shall thereafter be chosen by the two arbitrators. In the event either party fails to designate its arbitrator as indicated above, the other party is hereby authorized and empowered to name the second arbitrator, and the party which failed to designate its arbitrator shall be deemed to have waived its right to designate an arbitrator and shall not be aggrieved thereby. The two arbitrators shall then have thirty (30) days within which to choose an umpire. If they are unable to do so, an umpire, meeting the qualifications set forth above, shall be chosen by the American Arbitration Association. Each party shall bear the fees and expenses of the arbitrator selected by or on its behalf, and the parties shall bear the fees and expenses of the umpire as determined by the Board.

C. Each party shall submit its case to the Board within one month from the date of the appointment of the umpire, but this period of time may be extended by unanimous written consent of the Board. The Board shall make its decision with regard to the custom and usage of the insurance and reinsurance business. The Board is released from all judicial formalities and may abstain from the strict rules of law. The written decision of a majority of the Board shall be rendered within sixty (60) days following the termination of the Board's hearings, unless the parties consent to an extension. Such majority decision of the Board shall be final and binding upon the parties both as to law and fact, and may not be appealed to any court of any jurisdiction. Judgment may be entered upon the final decision of the Board in any court of proper jurisdiction.

D. The arbitration shall take place in Manchester, New Hampshire unless otherwise agreed in writing by the parties.

9. Books and Records.

9.1 Insurer and Fairfax and their respective duly authorized representatives shall, at all reasonable times, be permitted access to all relevant books and records of the other party pertaining to the Services provided pursuant to the provisions of this Agreement.

9.2 The Commissioner of Insurance for the state of Washington (or equivalent official), or his or her representatives shall, at all reasonable times, be permitted access to all relevant books and records of Fairfax. In order to assure itself of Fairfax's compliance with the terms of this Agreement, Insurer, upon reasonable notice to Fairfax, shall have the right to conduct audits of the files and the books and records of Fairfax as they pertain directly to the Services. Insurer shall retain ownership of any and all of its records.

10. Force Majeure

10.1 Neither party shall incur any liability to the other in respect of any default in the performance of its obligations arising from circumstances outside the Parties' control.

10.2 Non-exhaustive illustrations of such circumstances include Act of God, War, Riot, Explosion, Abnormal Weather Conditions, Fire, Flood, Government Action, Strikes and Lockouts.

10.3 If either party is prevented from carrying out its obligations in such circumstances, it shall notify the other party within two business (2) days of the event.

10.4 If the circumstances preventing this Agreement from being carried out continue for a period exceeding three (3) months from and including the date when the party sends such notice, then either party may give written notice to the other terminating this Agreement. Such written notice must be received whilst the circumstances are still

continuing.

11. Miscellaneous Provisions.

11.1. This Agreement constitutes the entire contract between the Parties and there are no other understandings between them with respect to the subject matter of this Agreement other than as is expressed herein or in a duly executed addendum and supersedes all prior agreements and understandings between the parties with respect to such subject matter. This Agreement may be amended, supplemented or modified, and any provision hereof may be waived only pursuant to a written instrument making specific reference to this Agreement signed by each of the parties hereto. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

11.2. This Agreement may be executed in multiple counterparts, each of which shall be an original.

11.3 This Agreement shall inure to the benefit of the parties and be binding upon their successors and permitted assigns. Nothing in this Agreement shall create or be deemed to create any third party beneficiary rights in any person not a party to this Agreement. No assignment, delegation or other transfer of this Agreement or of any rights or obligations hereunder may be made by any party to this Agreement (in whole or in part, voluntary or involuntary, by operation of law or otherwise, other than by operation of law in a merger) without the prior written consent of the other party.

11.4 The provisions set forth in this Agreement are severable. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable in any jurisdiction or against its regulatory or public policy, the remainder of this Agreement, and the application of such provision to other persons or circumstances, shall not be affected thereby and shall remain valid and enforceable in such jurisdiction, and any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. Upon determination that any term, provision, covenant or restriction is invalid, void or unenforceable or against the regulatory or public policy of the governing jurisdiction, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible to the fullest extent permitted by applicable law in an acceptable manner to the end that the transactions contemplated by this Agreement are fulfilled to the extent possible.

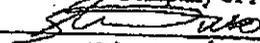
11.5 Insurer and Fairfax are not partners or joint venturers and nothing in this Agreement shall be construed as to make them such partners or joint venturers, or impose any liability as such on either of them. Each is an independent contractor of the other.

11.6 This Agreement shall be governed by and construed in accordance with the laws of the State of Washington without giving effect to the principles of conflicts of laws thereof.

[Signature Page follows]

IN WITNESS WHEREOF, the parties hereto have caused this instrument to be duly executed by their respective corporate officers as of the date first shown above.

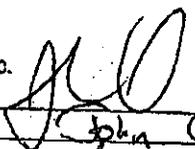
Commonwealth Insurance Company of America

By: 

Name Printed: STUART WOOD

Title: CFO

Fairfax (US), Inc.

By: 

Name Printed: John Cassin

Title: Vice President