

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



FINANCIAL EXAMINATION

of

**Commonwealth Insurance Company of America
Seattle, Washington**

**NAIC CODE 10220
DECEMBER 31, 2008**

**Participating States:
Washington**

Order No. 10-12
Commonwealth Insurance Company
of America
Exhibit A

SALUTATION

Seattle, Washington
January 21, 2010

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, WA 98504

The Honorable Alfred W. Gross, Commissioner
Chair, NAIC Financial Condition (E) Committee
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, VA 23218

The Honorable Christina Urias, Director
Secretary, NAIC Western Zone
Arizona Department of Insurance
2910 North 44th Street, Suite 210
Phoenix, AZ 85018-7256

Dear Commissioners and Director:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

Commonwealth Insurance Company of America

of

Seattle, Washington

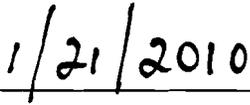
hereinafter referred to as "CICA," or the "Company" at the location of its parent company's home office, 595 Burrard Street, Suite 1500, Vancouver, BC, Canada V7X1G4. This report is respectfully submitted showing the condition of CICA as of December 31, 2008.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Commonwealth Insurance Company of America of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2008.



Patrick H. McNaughton
Chief Examiner



Date

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION	1
INSTRUCTIONS.....	1
COMMENTS AND RECOMMENDATIONS.....	4
COMPANY PROFILE.....	4
Company History.....	4
Capitalization.....	4
Territory and Plan of Operation.....	5
Growth of Company	5
Affiliated Companies.....	5
Intercompany Agreements.....	6
MANAGEMENT AND CONTROL	7
Board of Directors	7
Officers	7
Conflict of Interest.....	7
Fidelity Bond and Other Insurance.....	7
CORPORATE RECORDS	8
UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES.....	8
REINSURANCE.....	8
STATUTORY DEPOSITS.....	9
ACCOUNTING RECORDS AND INFORMATION SYSTEMS	9
SUBSEQUENT EVENTS	10
FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS	10
FINANCIAL STATEMENTS	10
Assets, Liabilities, Surplus and Other Funds.....	11
Statement of Income and Capital and Surplus Account	12
Reconciliation of Surplus for The Period Since The Last Examination	13
Analysis of Changes in Financial Statements Resulting From The Examination.....	14
NOTES TO THE FINANCIAL STATEMENTS.....	15
ACKNOWLEDGMENT	16
AFFIDAVIT.....	17

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2004 through December 31, 2008 and comprises a risk focused review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination through the end of field work, December 2, 2009.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2008 NAIC Financial Condition Examiners Handbook which requires the examiner to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess CICA's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and providing assurance on the Company's financial statements as of the examination date.

INSTRUCTIONS

The examiners reviewed the Company's filed 2008 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

1. Investment Agreement

The investment agreement between the Company and its affiliate investment advisor, Hamblin Watsa Investment Counsel, Ltd. (HW), contains a non-compliance issue related to the fee structure. The fee is not based on actual cost as required by RCW 48.31B.030(1)(a) and SSAP No. 70, paragraph 8.

The Company is instructed to comply with WAC 284-07-050(2) which requires adherence to the NAIC Accounting Practices and Procedures Manual, specifically SSAP No. 70,

paragraph 8. Also, the Company is instructed to comply with RCW 48.31B.030(1)(a), which requires the terms of the agreement to be fair and reasonable. Expenses under the terms of an investment agreement must be apportioned to the entities incurring the expense as if the expense had been paid solely by the incurring entity. Fees must be allocated to the affiliated companies in conformity with customary insurance accounting practices consistently applied. The books, accounts, and records of each party to all such transactions must be so maintained as to clearly and accurately disclose the nature and details of the transactions.

2. Board of Directors (BOD) and Annual Shareholders' Meetings

CICA's BOD and shareholders do not meet to document and approve corporate business such as BOD authorization of investment transactions under RCW 48.13.340, and the shareholder election of BOD members as required by RCW 48.07.040. The Company relies on its parent's, Commonwealth Insurance Company (CIC), Board of Directors to meet and authorize CICA's corporate transactions and affairs.

The Company is instructed to comply with RCW 48.07.040 which requires the Company to hold annual shareholder meetings according to its bylaws, to elect BOD members and to hold BOD meetings in compliance with its bylaws and to document approval of all Company investments and corporate affairs as required by RCW 48.13.340.

3. Service and Cost-Allocation Agreement

The Service and Cost-Allocation Agreement between the Company and its parent, CIC, was not in compliance with RCW 48.31B.030(1)(a) or with SSAP No. 70, paragraph 8.

The agreement contained a clause related to charged fees that was not based on actual cost or a cost study as required by RCW 48.31B.030(1)(a) and SSAP No. 70, paragraph 8. It did not comply with RCW 48.31B.030(1)(a)(iii) which requires expenses incurred and payment received to be allocated to the insurer in conformity with customary insurance accounting practices consistently applied. The agreement did not comply with RCW 48.31B.030(1)(a)(iv) which requires the Company to maintain adequate records to support and disclose the nature and details of the charges. The documentation for such intercompany charges did not support that the charges were computed on a purely cost basis.

In addition, this agreement expired on June 30, 2007, and must be re-filed in accordance with RCW 48.31B.025(2)(c)(v) and RCW 48.31B.030(1)(b) and contain the appropriate terms as indicated above.

The Company is instructed to comply with WAC 284-07-050(2) which requires adherence to the NAIC Accounting Practices and Procedures Manual, specifically SSAP No. 70, paragraph 8. Also, the Company is instructed to comply with RCW 48.31B.030(1)(a) which requires the terms of the agreement to be fair and reasonable; expenses under the terms of a service and cost-allocation agreement must be apportioned to the entities incurring the expense as if the expense had been paid solely by the incurring entity; and, fees must be

allocated to the affiliated companies in conformity with customary insurance accounting practices consistently applied.

Also, the Company is instructed to comply with RCW 48.31B.025(2)(c)(v) and RCW 48.31B.030(1)(b) which require the Company to file all agreements with the commissioner.

4. Reinsurance Agreement

A review of the Excess of Loss Reinsurance Agreement between the Company and CIC did not include all required terms as outlined in SSAP No. 62, paragraph 8. The agreement did not include the following required terms:

- Recoveries due the ceding entity must be available without delay
- The agreement shall constitute the entire contract between the parties

The Company is instructed to comply with WAC 284-07-050(2) which requires adherence to the NAIC Accounting Practices and Procedures Manual, SSAP No. 62, paragraph 8(b) and (c), by including all the required terms.

5. Custodial Agreement

The Company responded in its 2008 NAIC Annual Statement General Interrogatories 26.01 that its custodial agreement with US Bank complied with the FCEH. However, it did not contain several provisions as required by the FCEH. RCW 48.05.250 requires a company to file a true statement of its financial condition, transactions, and affairs.

The Company is instructed to comply with RCW 48.05.250 by filing its financial statements in the form and context approved by the NAIC and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P. The Company is also instructed to execute a revised or amended custodial agreement that complies with the FCEH.

6. Premium Deficiency Reserves

CICA reported a zero balance for premium deficiency reserves for each year under examination. Zero balances for premium deficiency reserves were incorrectly calculated at the Company level rather than grouping policies in a manner consistent with how policies are marketed, serviced and measured as outlined in SSAP No. 53, paragraph 15. The incorrect calculation resulted in the Company offsetting premium deficiency reserves for certain lines of business such as ocean marine against other lines. An examination adjustment was made to increase premium deficiency reserves by \$1,650,124 for year ended December 31, 2008. (See Note No. 2 to the Financial Statements.)

The Company is instructed to comply with RCW 48.05.073, RCW 48.05.250, and WAC 284-07-050(2) in filing its NAIC 2008 Annual Statement in accordance with the AP&P and

the NAIC 2008 Annual Statement Instructions by properly calculating and reporting premium deficiency reserves in accordance with SSAP No. 53, paragraph 15.

7. Reinsurance Credit

CICA, a Washington domiciled insurer, admitted \$1,224,000 (\$1,622,000 less \$398,000 for provision for reinsurance) of reinsurance recoverables on unpaid case loss reserves from CIC, a Canadian insurer and the parent of CICA. CIC is not licensed to write insurance in Washington, and is therefore an unauthorized reinsurer. CICA admitted 100% of the reinsurance recoverable from CIC without obtaining cash collateral or a clean, irrevocable and unconditional letter of credit issued by a United States bank as security. RCW 48.12.160 requires cash collateral or a letter of credit in order to admit reinsurance recoverables from unauthorized reinsurers. (See Note No. 1 to the Financial Statements.)

The Company is instructed to comply with RCW 48.12.160 by collateralizing the unauthorized reinsurance recoverable or non-admitting any un-collateralized reinsurance recoverable from CIC and RCW 48.05.250 by filing a true statement of its financial condition, transactions, and affairs. An examination adjustment was made to recognize the penalty for this unauthorized reinsurance recoverable for \$1,224,000. This amount represents the reinsurance recoverable that CICA reported on unpaid loss reserves as of December 31, 2008 of \$1,622,000 less the provision balance of \$398,000 that pertains to CIC's recoverable.

COMMENTS AND RECOMMENDATIONS

None

COMPANY PROFILE

Company History

CICA was created by its parent CIC, a Canadian property and casualty insurance company, with the purpose of entering the United States (U.S.) property and casualty market. CICA specializes in underwriting medium to large commercial and industrial property risks; inland and ocean marine for all areas of the oil and gas industry, including petrochemicals, corporate and residential real estate as additional coverage for U.S. operations of CICA's Canadian policyholders.

Capitalization

The Company has 10 million shares of common stocks authorized at a \$10 par value, with 300,000 shares outstanding for a common capital stock balance of \$3 million. No dividends have been declared by CICA nor have any surplus contributions been made in the last five years.

Territory and Plan of Operation

CICA is currently authorized to transact business in forty five (45) states and in the District of Columbia. Over 57% of the Company's direct premium volume is written in the states of Washington (16.9%), Texas (12.2%), Illinois (6.0%), Michigan (4.9%), Alaska (4.7%), New Jersey (4.6%), Colorado (4.3%), and Georgia (4.0%). CICA's authorized lines of business are property, ocean marine, and inland marine. More than 64% of the 2008 premiums were written under the commercial multiple peril coverage lines.

Growth of Company

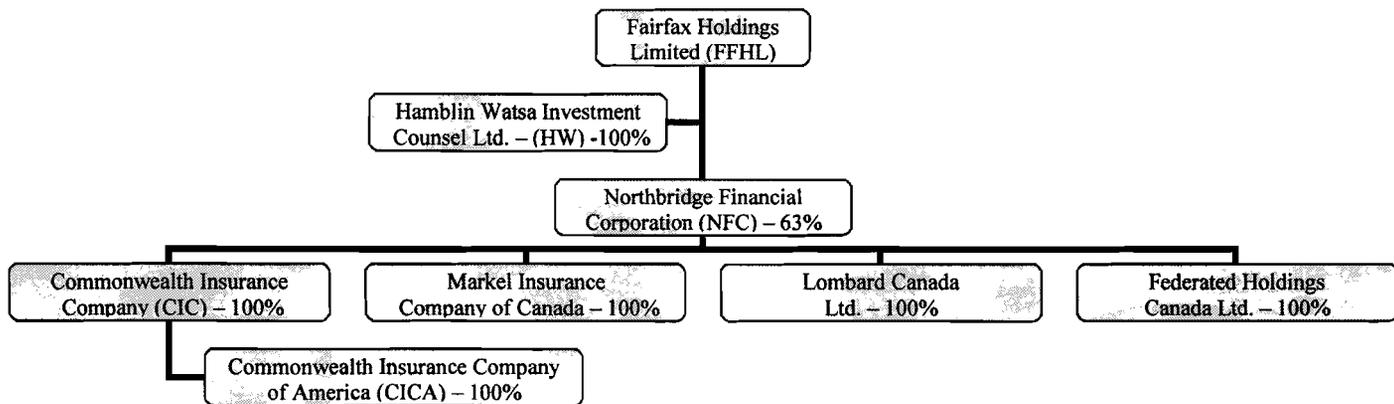
Year	Admitted Assets	Liabilities	Capital & Surplus
2008	\$54,001,588	\$30,317,654	\$23,683,934
2007	50,063,406	28,459,739	21,603,667
2006	51,506,904	29,288,614	22,218,290
2005	53,861,439	34,412,345	19,449,094
2004	44,270,813	23,439,191	20,831,622

Year	Premiums Earned	Net Underwriting Gain (Loss)	Net Investment Gain (Loss)	Net Income
2008	\$11,601,056	(\$2,400,275)	\$2,299,133	\$138,913
2007	8,886,116	(1,250,417)	1,767,167	429,429
2006	11,694,600	(56,440)	1,823,993	1,210,717
2005	11,185,192	(3,085,270)	1,750,061	(774,861)
2004	12,244,741	(1,318,834)	1,263,802	(333,476)

Affiliated Companies

CICA is a wholly-owned subsidiary of CIC. CIC is 100% owned by Northbridge Financial Corporation (NFC), a publicly traded company on the Toronto Stock Exchange. Fairfax Holdings Limited (FFHL), a publicly traded company on the Toronto Stock Exchange and the New York Stock Exchange, owned 63% of NFC, with the remaining percentage of NFC owned by investors.

On December 9, 2008, FFHL made a formal offer to purchase the remaining outstanding shares of NFC in order to take NFC private. The transaction was completed in February 2009 and NFC became a wholly owned subsidiary of FFHL.



Intercompany Agreements

The following intercompany agreements were in-force as of December 31, 2008:

Intercompany Reinsurance Agreement

The Company entered into an excess of loss reinsurance agreement with its parent on January 1, 2008. The agreement provided excess of loss reinsurance coverage by CIC to CICA for 100% percent of the amount by which CICA's ultimate net loss, as defined by the agreement, exceeded \$500,000 on each and every risk.

Management Services Agreement

CIC provided operating and management services to CICA in accordance with the intercompany management agreement among the two companies.

Investment Services Agreement

The Company entered into an investment agreement with Hamblin Watsa Investment Counsel Ltd., (HW) on January 1, 2003. HW agreed to manage an investment account on behalf of CICA within the investment guidelines.

MANAGEMENT AND CONTROL

Management of the Company is vested in a Board of Directors as provided for by the Company's Bylaws. (See Instruction No. 2.)

Board of Directors (BOD)

The following directors were serving the Company as of December 31, 2008:

Timothy Ius	Chairman of the Board
Craig Hurford	Vice Chairman
Bryan Davies	Director
Edward Hunter	Director
Dennis Shave	Director

Officers

Officers as of December 31, 2008:

Timothy Ius	President
Noel Phillips	Chief Financial Officer
Donald Parry	Secretary
Edward Hunter	Chief Operating Officer
Thomas Wilson	Vice President

Conflict of Interest

The Company does not have any employees, as it operates with the use of CIC's employees. CIC has a Corporate Code of Conduct Policy, which requires conflict of interest questionnaires to be completed and signed by the directors, officers, and employees for disclosure of any potential conflicts. The Company reviews the signed statements annually and takes appropriate actions.

Fidelity Bond and Other Insurance

CICA and other affiliates are named insureds on an extensive portfolio of insurance which covers catastrophic losses and other types of losses including, but not limited to, fidelity, directors and officers' (D&O) liability coverage, fire, building, building personal property, business income for Company properties owned or leased, automobile, stop-gap employers liability, fiduciary liability, errors and omissions, commercial general liability; computer property; earthquake and flood insurance coverage, workers' compensation, and employers' liability. The Company's fidelity coverage meets the NAIC's minimum recommended amount.

CORPORATE RECORDS

Officers of the Company and its parent's BOD managed the property and business of CICA and were actively involved in the Company's affairs. Corporate records were reviewed for the period under examination. However, CICA's BOD does not meet. (See Instruction No. 2.)

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

<u>Year</u>	<u>Loss Reserves</u>	<u>LAE Reserves</u>
2008	\$12,410,113	\$1,257,619
2007	10,569,266	871,205
2006	11,290,709	1,183,769
2005	12,611,717	1,244,223
2004	7,944,182	837,370

As shown above, the reserves carried by the Company for these liabilities were \$12,410,113 and \$1,257,619 respectively, as of December 31, 2008. These reserves were reviewed by the property and casualty actuarial staff employed by the OIC. CICA provided loss and loss adjustment expense development data by accident year and line of business, as of December 31, 2008. The OIC actuarial staff obtained additional information through interviews with Company employees. They also reviewed an actuarial report prepared by the Company's appointed actuary with J.S. Cheng & Partners, Inc., in connection with the appointed actuary's Statement of Actuarial Opinion as of December 31, 2008.

The OIC actuarial staff's estimates indicated that the Company's reserves for losses and loss adjustment expenses, on a net basis, were within a range of reasonable estimates. Therefore, CICA's loss and loss adjustment expense reserves were accepted as reported in the Company's NAIC 2008 Annual Statement.

REINSURANCE

CICA participates in quota share and excess loss treaties. The Company does not assume any business.

Reinsurance agreements were found to be in compliance with Washington State reinsurance statutes except for an excess of loss reinsurance agreement that did not contain all requirements as outlined by SSAP No. 62, paragraph 8 (b) and (c). (See Instruction No. 4.) In addition, the Company incorrectly admitted, on its 2008 NAIC Annual Statement, \$1,244,000 of reinsurance recoverables from an unauthorized reinsurer. (See Instruction No. 7.)

The agreements are all properly classified in Schedule F of the Company's 2008 NAIC Annual Statement. The Company has controls in place to monitor its reinsurance program including the financial condition of the reinsurers.

CICA utilizes the services of a reinsurance intermediary, Guy Carpenter & Company, Inc., to solicit, negotiate, and place reinsurance cessions on its behalf. Guy Carpenter & Company, Inc., is an international reinsurance intermediary owned by Marsh & McLennan and is licensed in Washington State.

STATUTORY DEPOSITS

CICA maintained the following statutory deposits as of December 31, 2008:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Fair Value</u>
Georgia	Bond	\$ 25,000	\$ 25,000
New Hampshire	Bond	677,507	759,655
New Mexico	Bond	358,660	409,594
Oklahoma	Certificate of Deposit	600,000	600,000
Virginia	Bond	250,000	250,000
Washington	Bond	5,388,952	5,388,991
Total		<u>\$ 7,300,119</u>	<u>\$ 7,433,240</u>

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) modified accrual basis of accounting and adjusts to Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company was audited annually by the certified public accounting firm, PricewaterhouseCoopers (PwC). The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

Management of the Company has sufficient knowledge of information systems (IS) issues and provides direction and oversight through its IS Steering Committee. Systems development, acquisition and maintenance controls were evaluated to gain assurance that appropriate internal controls are in place. The IS Department maintains written policies and procedures for the system development life cycle, systems design standards, programming standards and the document standards. Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed and the internal controls exercised to maintain data security. The Company has sufficient internal controls in place to monitor system activity and processes.

The Company has a formal, written disaster recovery plan for the restoration of the information system and a formal, written business continuity plan that addresses the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as recommended by NAIC guidelines.

SUBSEQUENT EVENTS

There were no material events impacting the Company between the examination date and the last day of our field work.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions and recommendations were corrected and satisfactorily addressed.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of the Commonwealth Insurance Company of America as of December 31, 2008:

- Assets, Liabilities, Surplus and Other Funds
- Statement of Income and Capital and Surplus Account
- Reconciliation of Surplus for the Period Since the Last Examination
- Analysis of Changes in Financial Statements Resulting from the Examination

Commonwealth Insurance Company of America
Assets, Liabilities, Surplus and Other Funds
December 31, 2008

Assets	Balance Per Company	Examination Adjustments	Balance Per Examination	Notes
Bonds	\$1,246,004	\$0	\$1,246,004	
Cash and short-term investments	47,280,646		47,280,646	
Subtotal, cash and invested assets	48,526,650	0	48,526,650	
Investment income due and accrued	13,270		13,270	
Uncollected premiums and agents' balances in course of collection	2,799,049		2,799,049	
Reinsurance:				
Amount recoverable from reinsurers	1,760,817		1,760,817	
Net deferred tax asset	769,948		769,948	
Guaranty funds receivable or on deposit	131,854		131,854	
Total Assets	\$54,001,588	\$0	\$54,001,588	
Liabilities, Surplus and other Funds				
Losses	\$12,410,113	\$0	\$12,410,113	
Loss adjustment expenses	1,257,619		1,257,619	
Other expenses	32,988		32,988	
Taxes, licenses and fees (excluding federal and foreign income taxes)	(12,487)		(12,487)	
Current federal and foreign income taxes	395,107		395,107	
Unearned premiums	7,683,878		7,683,878	
Ceded reinsurance premiums payable	3,395,842		3,395,842	
Provision for reinsurance	3,654,985	1,224,000	4,878,985	1
Payable to parent, subsidiaries and affiliates	1,499,609		1,499,609	
Aggregate write-ins for liabilities	0	1,650,124	1,650,124	2
Total Liabilities	30,317,654	2,874,124	33,191,778	
Common capital stock	3,000,000		3,000,000	
Gross paid in and contributed surplus	16,929,710		16,929,710	
Unassigned funds (surplus)	3,754,224	(2,874,124)	880,100	1, 2
Surplus as regards policyholders	23,683,934	(2,874,124)	20,809,810	
Total Liabilities, Surplus and other Funds	\$54,001,588	\$0	\$54,001,588	

Commonwealth Insurance Company of America
Statement of Income and Capital and Surplus Account
December 31, 2008

	Balance Per Company	Examination Adjustments	Balance Per Examination	Notes
Underwriting Income				
Premiums earned	\$11,601,056	\$0	\$11,601,056	
Deductions				
Losses incurred	8,242,126		8,242,126	
Loss expenses incurred	1,567,731		1,567,731	
Other underwriting expenses incurred	4,191,474		4,191,474	
Total underwriting deductions	<u>14,001,331</u>		<u>14,001,331</u>	
Net underwriting gain or (loss)	<u>(2,400,275)</u>	<u>0</u>	<u>(2,400,275)</u>	
Investment Income				
Net investment income earned	1,050,289		1,050,289	
Net realized capital gains or (losses)	1,248,844		1,248,844	
Net investment gain or (loss)	<u>2,299,133</u>	<u>0</u>	<u>2,299,133</u>	
Other Income				
Net gain or (loss) from agents' or premium balances charged off	4,227		4,227	
Total other income	<u>4,227</u>	<u>0</u>	<u>4,227</u>	
Net income, after dividends to policyholders but before federal and foreign income taxes	(96,915)		(96,915)	
Federal and foreign income taxes incurred	(235,828)		(235,828)	
Net income	<u>\$138,913</u>	<u>\$0</u>	<u>\$138,913</u>	
Capital and Surplus Account				
Surplus as regards policyholders, December 31 prior year	\$21,603,667	\$0	\$21,603,667	
Gains and (Losses) in Surplus				
Net income	138,913		138,913	
Net unrealized capital gains or (losses)	15,287		15,287	
Change in net deferred income tax	221,731		221,731	
Change in nonadmitted assets	(18,834)		(18,834)	
Change in provision for reinsurance	1,723,170	(1,224,000)	499,170	1
Aggregate write-ins for gains and losses in surplus	0	(1,650,124)	(1,650,124)	2
Change in surplus as regards policyholders for the year	<u>2,080,267</u>	<u>(2,874,124)</u>	<u>(793,857)</u>	
Surplus as regards policyholders, December 31 current year	<u>\$23,683,934</u>	<u>(\$2,874,124)</u>	<u>\$20,809,810</u>	

Commonwealth Insurance Company of America
Reconciliation of Surplus
For the Period Since the Last Examination

	2008	2007	2006	2005	2004
Surplus as regards policyholders, December 31, previous year	<u>\$ 21,603,667</u>	<u>\$ 22,218,290</u>	<u>\$ 19,449,094</u>	<u>\$ 20,831,622</u>	<u>\$ 19,364,056</u>
Net income	138,913	429,429	1,210,717	(774,861)	(333,476)
Net unrealized capital gains or (losses)	15,287	(15,287)	16,951	(2,947)	354,494
Change in net deferred income tax	221,731	(100,961)	(36,047)	191,157	297,155
Change in nonadmitted assets	(18,834)	(131,649)	14,535	91,646	92,096
Change in provision for reinsurance	1,723,170	(796,155)	1,563,040	(887,523)	1,057,297
Change in surplus as regards policyholders for the year	<u>2,080,267</u>	<u>(614,623)</u>	<u>2,769,196</u>	<u>(1,382,528)</u>	<u>1,467,566</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$ 23,683,934</u></u>	<u><u>\$ 21,603,667</u></u>	<u><u>\$ 22,218,290</u></u>	<u><u>\$ 19,449,094</u></u>	<u><u>\$ 20,831,622</u></u>

Commonwealth Insurance Company of America
 Analysis of Changes in Financial Statements
 Resulting from the Examination
 As of December 31, 2008

	<u>Per Company</u>	<u>Per Examination</u>	<u>Examination Adjustment Reference</u>	<u>Increase (Decrease) in Surplus</u>	<u>Total</u>
Capital and Surplus, December 31, 2008 - Per Annual Statement					\$23,683,934
Provision for reinsurance	3,654,985	4,878,985	1	(1,224,000)	
Premium deficiency reserves	0	1,650,124	2	(1,650,124)	
Change in surplus					<u>(2,874,124)</u>
Capital and Surplus, December 31, 2008 - Per Examination					<u><u>\$20,809,810</u></u>

NOTES TO THE FINANCIAL STATEMENTS

The Company obtained a special consent order issued by the state of Washington with an effective date January 1, 2008 to allow the Company to own and purchase mutual funds if certain requirements have been met.

1. Provision for Reinsurance

CICA admitted \$1,224,000 of reinsurance recoverables on unpaid case loss reserves from an unauthorized affiliated reinsurer without obtaining cash collateral or a clean irrevocable letter of credit as required by RCW 48.12.160.

This adjustment was posted as an increase to the Provision for Reinsurance. (See Instruction No. 7.)

2. Premium Deficiency Reserves

CICA reported a zero balance for premium deficiency reserves that was incorrectly calculated by the Company. CICA calculated premium deficiency reserves by using unsustainable investment yields as well as calculating the reserves at the Company level rather than grouping policies in a manner consistent with how policies are marketed, serviced and measured as outlined in SSAP No. 53, paragraph 15. The incorrect calculation resulted in the Company offsetting the need for premium deficiency reserves for certain lines of business such as ocean marine against other lines. (See Instruction No. 6.)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Commonwealth Insurance Company of America and its affiliates during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Timoteo L. Navaja, CFE, CIE, Property and Casualty Field Supervisor; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Susan Campbell, CPA, FLMI, CFE, Reinsurance Specialist; D. Lee Barclay, FCAS, MAAA, Senior Actuary; Timothy F. Hays, CPA, JD, Investment Specialist; James Antush, Actuarial Analyst; and Edsel R. Dino, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'T. Subbagh', is written over a horizontal line.

Tarik Subbagh, CPA, CFE
Examiner in Charge
State of Washington



COMMONWEALTH

RECEIVED

January 11, 2010

JAN 12 2010

James Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
P.O. Box 40255
Olympia, WA 98504-0255

INSURANCE COMMISSIONER
COMPANY SUPERVISION

Dear Mr. Odiorne:

Re: FINANCIAL EXAMINATION REPORT OF COMMONWEALTH
INSURANCE COMPANY OF AMERICA (THE COMPANY) AS OF
DECEMBER 31, 2008

Concerning your report of December 22, 2009, the following are our comments
on your exceptions noted in the draft of the referenced report.

1. Investment Agreement

Agreed. The company will discuss the situation with its investment
advisor in order to ensure compliance as noted.

2. Board of Directors and Annual Shareholders' Meetings

Agreed. The Company will hold separate Board of Directors and Annual
Shareholder's meetings in accordance with its bylaws and to ensure
compliance as noted.

3. Service and Cost Allocation Agreement

Agreed. The Company submitted a revised Service and Cost Allocation
Agreement to be reviewed by the Office of Insurance Commissioner
(OIC). The approval for the new agreement, which is based purely on
costs, has been recently received and the new agreement has been
executed effective January 1, 2010.

4. Reinsurance Agreement

Agreed. The Company has drafted a new Excess of Loss Reinsurance
Agreement, which shall be effective January 1, 2010 and includes the
noted terms. This new agreement was submitted to the OIC on
December 21, 2009 for approval.

COMMONWEALTH INSURANCE COMPANY

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tel: 604 683 5511 fax: 604 683 8968

TORONTO

150 King Street West, Suite 1601
PO Box 66, Sun Life Financial Tower
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tel: 416 915 2770 fax: 416 915 2769

COMMONWEALTH INSURANCE COMPANY
OF AMERICA

SEATTLE

1700 Seventh Avenue, Suite 1850
Seattle, WA 98101 - 1397
tel: 206 382 6670 fax: 206 382 6669

5. Custodial Agreement

Agreed. The Company is working with Mr. Tim Hays of the OIC and representatives from US Bank to create a new custodial agreement which will contain all the required provisions.

6. Premium Deficiency Reserves

Agreed. The process has been modified to incorporate a realistic return on investment as well as calculating an independent reserve for each line of business rather than on an aggregate basis.

7. Reinsurance Credit

Agreed. The company shall non-admit any uncollateralized reinsurance recoverables from unauthorized companies. Note that there is a departure in methodology from the NAIC which allows the Company's previous practice.

We agree with all other facts and figures as presented in the report.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tim R. Ius', with a long horizontal flourish extending to the right.

Tim R. Ius
President