

ASSUMPTION REINSURANCE AGREEMENT

THIS AGREEMENT made the 24th day of October, 2003

B E T W E E N:

**LOMBARD GENERAL INSURANCE COMPANY OF
CANADA**

(hereinafter called "**Lombard**")

OF THE FIRST PART;

- and -

FAIRFAX FINANCIAL HOLDINGS LIMITED

(hereinafter called "**Fairfax**")

OF THE SECOND PART;

- and -

DELOITTE & TOUCHE INC., in its capacity as Canadian
Liquidator of the insurance business in Canada of **THE HOME
INSURANCE COMPANY** and not in its personal capacity

(hereinafter called the "**Canadian Liquidator**")

OF THE THIRD PART;

- and -

ROGER SEVIGNY, Commissioner of Insurance for the State of
New Hampshire in his capacity as Liquidator of The Home
Insurance Company

(hereinafter called the "**U.S. Liquidator**")

OF THE FOURTH PART.

WHEREAS:

- A. The Home Insurance Company is in liquidation pursuant to an order made the 13th day of June, 2003 by the Superior Court of the State of New Hampshire and the U.S. Liquidator was appointed;
- B. By order of the Court (as defined herein) dated June 26, 2003 the insurance business in Canada of The Home Insurance Company was ordered wound-up and Deloitte & Touche Inc. was appointed Canadian Liquidator of The Home Insurance Company's insurance business in Canada;
- C. The Canadian Liquidator has agreed to cede and assign to Lombard, and Lombard has agreed to assume, the Home Canada Liabilities (as defined herein) on the terms and conditions hereinafter set forth.

NOW THEREFORE the parties agree as follows:

**ARTICLE I
INTERPRETATION**

1.1 Definitions.

In this Agreement, except as otherwise expressly provided, capitalized words or expressions shall have the meanings set out below:

- (a) **"Actuary"** means the qualified independent actuary selected pursuant to Section 2.3.
- (b) **"Agreement"** means this Agreement and all schedules annexed hereto and all instruments in amendment or in confirmation of it.
- (c) **"Business Day"** means every day except a Saturday, Sunday or a day which is a statutory holiday under the laws of Canada or Ontario.
- (d) **"Closing"** means the completion of the transactions described in this Agreement, and **"Closing Date"** or **"Date of Closing"** means the earlier of:

- (i) December 31, 2003 (or such later date as may be agreed upon by the parties); and
 - (ii) the last Business Day of the month in which all of the conditions set out in Sections 8.1(c), 8.1(d) and 8.1(e) have been satisfied, if all of such conditions have been satisfied.
- (e) “**Court**” means the Ontario Superior Court of Justice – Commercial List.
- (f) “**Effective Time**” means 12h01 a.m. on January 1, 2003.
- (g) “**Home Canada**” means the assets and insurance business of The Home Insurance Company under the control of the Canadian Liquidator pursuant to the order of the Court dated June 26, 2003.
- (h) “**Home Canada Liabilities**” means all liabilities which are, or are ultimately determined to be, liabilities of Home Canada arising out of or under policies of insurance and assumed reinsurance contracts (inward reinsurance), including all liabilities of Home Canada relating to unpaid claims and claims expenses (including case reserves and IBNR) as at the Effective Time, including liabilities related to claims settled but not yet paid and for greater certainty including such insurance liabilities of The Home Insurance Company as the Court may ultimately determine to be liabilities of Home Canada.
- (i) “**IBNR**” means claims incurred but not reported.
- (j) “**Loss Adjustment Expenses**” means all allocated loss adjustment expenses associated with or incurred in connection with the Home Canada Liabilities.
- (k) “**Person**” means an individual, partnership, joint venture, association, corporation, trust or governmental authority, body, agency or department.
- (l) “**Policies**” means the policies of insurance and assumed reinsurance contracts (inwards reinsurance) underlying the Home Canada Liabilities (which for greater certainty include, but are not limited to, those policies under which the open claims listed in Schedule “A” have arisen).

- (m) **“Records”** means all technical, business, financial books and records of account, books, manuals, data, reports, files, briefs, deeds, certificates, contracts, actuarial files, paper policy claim files, or similar documentation and information in any form or recording medium whatsoever relating to the Home Canada Liabilities in the Canadian Liquidator’s possession and control as at the date hereof.
- (n) **“Reinsurance”** means all reinsurance contracts to which The Home Insurance Company is a party and under which there is any right of recovery in respect of any of the Home Canada Liabilities or any Loss Adjustment Expenses.
- (o) **“Reserve”** has the meaning attributed to such term in Section 2.3.
- (p) **“Time of Closing”** means 2:00 p.m. (Toronto time) on the Closing Date.

1.2 **Interpretation.**

In this Agreement:

- (a) words denoting the singular include the plural and vice versa, and words denoting any gender include all genders;
- (b) the word “including” means “including without limitation”;
- (c) any reference to a statute shall mean the statute in force as at the date hereof, unless otherwise expressly provided;
- (d) the use of headings is for convenience of reference only and shall not affect the construction of this Agreement;
- (e) when calculating the period of time within which, or following which, any act is to be done or step taken, the date which is the reference day in calculating such period shall be excluded. If the last day of such period is not a Business Day, the period shall end on the next Business Day. A day shall run from 00:01 A.M. to 12:00 A.M. of the following day;
- (f) all dollar amounts are expressed in Canadian Funds.

**ARTICLE II
TRANSFER AND ASSUMPTION**

2.1 Transfer and Assumption.

The Canadian Liquidator hereby transfers to Lombard all right, title and interest of Home Canada under the Policies and the Reinsurance, and Lombard hereby assumes, with effect as of the Effective Time, the Home Canada Liabilities. With effect as of and from the Effective Time, Lombard shall discharge, perform and fulfill all of the Home Canada Liabilities including Home Canada's obligations under the Policies to the same extent as if such Policies had been originally issued or entered into by Lombard in its own name and in this regard Lombard agrees to substitute itself fully in the place and stead of Home Canada and The Home Insurance Company, and shall hold itself responsible to policyholders and claimants under the Policies and shall pay any amounts owing under the Policies, as well as any Loss Adjustment Expenses, as and when they become due. All claims and Loss Adjustment Expenses paid between the Effective Time and Closing shall be deemed to have been paid on behalf of Lombard, and the consideration payable to Lombard pursuant to Section 2.2 shall be adjusted accordingly pursuant to the provisions of that Section. The transfer and assumption contemplated by this Section 2.1 shall be effected on Closing (but with effect as at the Effective Time) by the execution and delivery on Closing by Lombard and the Canadian Liquidator of a Transfer and Assumption Agreement in the form attached as Schedule "B".

2.2 Consideration for Assumption.

In consideration of Lombard's assumption of the Home Canada Liabilities, on Closing the Canadian Liquidator will pay Lombard a sum equal to \$15,000,000, less the aggregate of:

- (i) the amount of all claims forming part of the Home Canada Liabilities which are paid in the period from the Effective Time to Closing; and
- (ii) all Loss Adjustment Expenses which are paid in the period from the Effective Time to Closing.

The amounts specified in clauses (i) and (ii) above will be set out in a certificate executed and delivered by the Canadian Liquidator on Closing.

No assets of Home Canada other than the amount specified in this Section 2.2 shall be transferred to Lombard in connection with the transaction contemplated by this Agreement.

2.3 Adjustment to Closing Consideration.

The first \$8,000,000 of the sum payable by the Canadian Liquidator pursuant to Section 2.2 shall be deemed fully earned by Lombard. On or before February 28, 2008, the Canadian Liquidator and Lombard shall agree upon the valuation of the actuarial liabilities attributable to the Home Canada Liabilities as at December 31, 2007. If by February 28, 2008, the Canadian Liquidator and Lombard are unable to agree upon such valuation the Canadian Liquidator and Lombard shall jointly engage the services of a qualified independent actuary (the "Actuary") to prepare and deliver to the Canadian Liquidator and Lombard, on or before March 31, 2008, a report setting out the Actuary's assessment and valuation of the actuarial liabilities attributable to the Home Canada Liabilities as of December 31, 2007, provided that if the parties have been unable to agree upon who should act as the Actuary by February 28, 2008, the Actuary shall be selected by an Arbitrator appointed in accordance with the provisions of Section 13.1 and the Actuary shall be instructed to deliver his report within thirty (30) days of his engagement. Such valuation shall be prepared on a basis consistent with, and using the same assumptions as, David Oakden's report and valuation with respect to the Home Canada Liabilities as at December 31, 2002. The amount of the actuarial liabilities attributable to the Home Canada Liabilities as at December 31, 2007, as reflected in valuation agreed upon by the Canadian Liquidator and Lombard, or, failing agreement, as reflected in the Actuary's assessment and valuation as aforesaid, is hereafter referred to as the "Reserve". Immediately after the determination of the amount of the Reserve in accordance with the foregoing, Lombard shall pay to the Canadian Liquidator 50% of the difference between \$15,000,000 and the greater of (a) \$8,000,000 and (b) the sum of the Reserve and all losses and Loss Adjustment Expenses actually paid in connection with the Home Canada Liabilities from and after the day following the Effective Time up to and including December 31, 2007. The amount of loss and Loss Adjustment Expenses actually paid from and after the day after Closing up to and including December 31, 2007 shall be set out and itemized in a certificate of a senior officer of Lombard which will be delivered by Lombard to the Canadian Liquidator simultaneously with the making of the payment provided for in this Section 2.3. The Canadian Liquidator and its representatives and advisors shall be given access to the books and records maintained by Lombard in respect of the Home Canada Liabilities for

the purpose of enabling the Canadian Liquidator to verify the accuracy of such certificate. Lombard agrees that, whether or not the Canadian Liquidator assigns all of its rights and obligations hereunder to the U.S. Liquidator pursuant to Section 14.14, the Canadian Liquidator may, at any time after Closing, upon prior written notice to Lombard, assign all of its rights and obligations under this Section 2.3 to the U.S. Liquidator, and upon Lombard's receipt of notice of assignment of the Canadian Liquidators' rights and obligations under this Section 2.3, the Canadian Liquidator shall, without further act or formality, be deemed to be released from all of its obligations under this Section 2.3, and the U.S. Liquidator shall be deemed to have assumed all such obligations.

2.4 Fairfax Guarantee.

On Closing, Fairfax shall execute and deliver to and in favour of the Canadian Liquidator a guarantee of the full and prompt performance by Lombard of Lombard's obligations under this Agreement in the form attached as Schedule "C".

2.5 Records.

On Closing, the Canadian Liquidator shall transfer, convey and assign to Lombard all of its right, title and interest in the Records.

2.6 Assumption Certificates.

Lombard agrees, at its expense, to prepare and deliver to the holders of Policies under which there are open claims (and such other holders of Policies as the Office of the Superintendent of Financial Institutions may reasonably request) an assumption certificate in respect of its assumption of the Home Canada Liabilities within sixty (60) days following the Closing. Such assumption certificate will be in a form satisfactory to the Canadian Liquidator, acting reasonably.

2.7 Responsibility for Claims Arising From Administration.

For greater certainty, from and after the Closing and as between the Canadian Liquidator on the one hand and Lombard, Lombard will have all liability and responsibility for claims, damages, liabilities, costs or expenses (including claims for punitive damages) arising out of or

attributable to Lombard's (or any third party administrator appointed by Lombard) administration of any liability expressly assumed by it pursuant to the provisions of this Agreement.

2.8 Reinsurance Contracts.

After Closing, Lombard will notify the U.S. Liquidator, with reasonable detail, of all claims and Loss Adjustment Expenses paid or incurred in respect of the Home Canada Liabilities and the U.S. Liquidator will advise Lombard as to whether such amounts are covered in whole or in part by the Reinsurance. The U.S. Liquidator will use all commercially reasonable efforts to collect amounts owing under the Reinsurance, if any, in respect of such claims and Loss Adjustment Expenses, including the filing of all required notices or proofs of claim under the Reinsurance, subject to Lombard providing all such reasonable co-operation and information as the U.S. Liquidator may request to assist it in taking such steps. All amounts recovered by the U.S. Liquidator under the Reinsurance referable to the Home Canada Liabilities will be received by the U.S. Liquidator in trust for Lombard and remitted to Lombard forthwith.

2.9 Non-Booked Policies.

To the extent any of the Policies are not recorded on the Records, the U.S. Liquidator will make available to Lombard such records in her possession or control as are necessary for the administration thereof.

**ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE CANADIAN LIQUIDATOR**

3.1 Representations and Warranties.

The Canadian Liquidator hereby makes the following representations and warranties and acknowledges that Lombard is relying on such representations and warranties in entering into this Agreement:

- (a) Authority. Deloitte & Touche Inc. was appointed Canadian Liquidator by order of the Court dated June 26, 2003, and such order remains in full force and effect. Subject only to obtaining the approval of the Court, the Canadian Liquidator has the authority to enter into this Agreement and all other documents contemplated

herein to which it is or will be a party, to perform the obligations of the Canadian Liquidator hereunder and thereunder, and to carry out the transactions contemplated hereby and thereby.

- (b) Validity of this Agreement. This Agreement and all other documents referred to herein to which the Canadian Liquidator is or will be a party are or will be as at Closing duly and validly executed and delivered and constitute or will at Closing constitute legal, valid and binding obligations of the Canadian Liquidator, enforceable against the Canadian Liquidator in accordance with the terms hereof and thereof.
- (c) Canadian Liquidator's Right to Transfer Records. The Canadian Liquidator has the right to transfer and assign Home Canada's right, title and interest in the Records and the Policies and the Canadian Liquidator has not done any act to encumber, and shall not encumber, any of such Records or Policies.

ARTICLE IV LIMITATIONS ON REPRESENTATIONS AND WARRANTIES

4.1 Disclaimer of Liability.

The Canadian Liquidator does not make and shall not be deemed to make any representation or warranty as to the quantum, nature or scope of the Home Canada Liabilities or as to the accuracy of any information which has been provided to Lombard (including, without limitation, the Records) or may after the date hereof be provided to Lombard in connection with the Home Canada Liabilities, and all liability relating thereto or resulting from reliance on such information by Lombard or others is hereby expressly and specifically disclaimed.

4.2 Survival.

The representations and warranties of the Canadian Liquidator contained in Section 3.1 shall survive the execution of this Agreement and Closing for a period of one (1) year from Closing.

**ARTICLE V
REPRESENTATIONS AND WARRANTIES OF THE U.S. LIQUIDATOR AND
LIMITATIONS ON REPRESENTATIONS AND WARRANTIES**

5.1 Representations and Warranties.

The U.S. Liquidator hereby makes the following representations and warranties and acknowledges that Lombard is relying on such representations and warranties in entering into this agreement:

- (a) Authority. The Commissioner of Insurance for the State of New Hampshire was appointed U.S. Liquidator by Order of the Superior Court of the State of New Hampshire dated June 13, 2003, and such Order remains in full force and effect. Subject only to obtaining the approval of the Superior Court of the State of New Hampshire, the U.S. Liquidator has the authority to enter into this Agreement, and to perform the obligations of the U.S. Liquidator hereunder.
- (b) Validity of this Agreement. Subject only to obtaining the approval of the Superior Court of the State of New Hampshire, this Agreement has been duly and validly executed and delivered by the U.S. Liquidator and constitutes a legal, valid and binding obligation of the U.S. Liquidator, enforceable against the U.S. Liquidator in accordance with the terms hereof.

5.2 Disclaimer of Liability

The U.S. Liquidator does not make and shall not be deemed to make any representation or warranty as to the quantum, nature or scope of the Home Canada Liabilities or as to the accuracy of any information which has been provided to Lombard (including, without limitation, the Records) or may after the date hereof be provided to Lombard in connection with the Home Canada Liabilities, and all liability relating thereto or resulting from reliance on such information by Lombard or others is hereby expressly and specifically disclaimed.

5.3 Survival.

The representations and warranties of the U.S. Liquidator contained in Section 5.1 shall survive the execution of this agreement and closing for a period of one year from closing.

ARTICLE VI
REPRESENTATIONS AND WARRANTIES OF LOMBARD AND FAIRFAX

6.1 Representations and Warranties.

Lombard and Fairfax hereby make the following representations and warranties and acknowledge that the Canadian Liquidator is relying on such representations and warranties in entering into this Agreement:

- (a) Due Incorporation. Each of Lombard and Fairfax is a company duly incorporated under the laws of Canada, and has not been dissolved. Lombard is duly licensed to carry on business as an insurer in all of the provinces and territories of Canada for liability, and possesses all such licenses as are required in all of the provinces and territories of Canada to be the insurer under the Policies. Lombard and Fairfax each have the corporate authority to enter into this Agreement and all other documents contemplated herein to which it is or will be a party, and to perform its obligations hereunder and thereunder, together with the transactions contemplated hereby and thereby.

- (b) Validity of Agreement. This Agreement and all other documents referred to herein to which each of Lombard and/or Fairfax is or will be a party are or will be as at Closing duly and validly executed and delivered and constitute or will as at Closing constitute legal, valid and binding obligations of Lombard and Fairfax, as the case may be, enforceable against such parties in accordance with the terms hereof and thereof.

6.2 Survival.

The representations and warranties of Lombard and Fairfax contained in Section 6.1 shall survive the execution of this Agreement and Closing for a period of one (1) year from Closing.

**ARTICLE VII
INTERIM COVENANTS**

7.1 Conduct Prior to Closing.

During the period from the date of this Agreement to the Time of Closing, the Home Canada Liabilities will continue to be administered in the ordinary course.

7.2 Consents and Approvals.

The Canadian Liquidator shall forthwith use its reasonable efforts to ensure that as of the Time of Closing, the approval of the Court referred to in subparagraph 8.1(c) has been obtained, and Lombard shall render all such assistance in connection therewith as the Canadian Liquidator may reasonably request. Lombard shall forthwith use all reasonable efforts to ensure that as of the Time of Closing, the actions, consents and approvals listed in subparagraph 8.1(d) have been taken and obtained, and the Canadian Liquidator agrees to render all such assistance in connection therewith as Lombard may reasonably request. As used herein, reasonable efforts shall not, except as expressly provided otherwise herein, include the obligation to expend any funds other than such administrative fees as may be charged by a Person from whom any action, consent or approval is sought, and legal fees.

**ARTICLE VIII
CONDITIONS OF CLOSING IN FAVOUR OF LOMBARD**

8.1 Conditions.

The obligation of Lombard to complete the transactions provided for herein and otherwise perform the obligations of Lombard to be performed on and after Closing is subject to the fulfilment, performance and satisfaction of each of the conditions set forth below. The Canadian Liquidator acknowledges that the following conditions are for the exclusive benefit of Lombard:

- (a) Representations and Warranties. All representations and warranties of the Canadian Liquidator and the U.S. Liquidator made in or pursuant to this Agreement shall be true and correct as at the Time of Closing with the same force and effect as if made at and as of such time and date, and Lombard shall have received on Closing a certificate from a senior officer of the Canadian Liquidator

(in the case of the Canadian Liquidator's representations and warranties) and the U.S. Liquidator (in the case of the U.S. Liquidator's representations and warranties) to such effect.

- (b) Performance of Covenants. The Canadian Liquidator shall have performed or complied with in all respects all of the obligations, covenants and agreements in this Agreement which are to be performed or complied with by the Canadian Liquidator at or prior to the Time of Closing, and Lombard shall have received on Closing a certificate from a senior officer of the Canadian Liquidator to such effect.
- (c) Court Approval. The Canadian Liquidator and U.S. Liquidator shall have obtained from their respective supervising court orders in a form satisfactory to Lombard acting reasonably approving this Agreement and the fulfilment of the Canadian Liquidator's and U.S. Liquidator's obligations hereunder.
- (d) Minister of Finance Approval. Lombard shall have obtained the approval of the Minister of Finance to the transactions contemplated herein pursuant to Section 254 of the *Insurance Companies Act* (Canada).
- (e) No Action to Restrain. No action or proceeding seeking to restrain or prohibit completion of the transactions contemplated by this Agreement shall be pending in any court or before any governmental authority, body, agency or department.

8.2 Satisfaction or Waiver.

If any of the conditions set out in Section 8.1(c) or (d) have not been fulfilled, performed and satisfied at or prior to the Closing Date, this Agreement will automatically terminate without further act or formality and without prejudice to Lombard's right to claim for damages arising from the non-fulfilment or non-performance of any covenant of the Canadian Liquidator contained herein. If any of the other conditions set forth in this Article have not been fulfilled, performed and satisfied at or prior to the Closing Date, Lombard may, by written notice to the Canadian Liquidator, terminate all of its obligations hereunder, without prejudice to Lombard's right to claim for damages arising from the non-fulfilment or non-performance of any covenant of the Canadian Liquidator contained herein. Any of these conditions, with the exception of the

conditions set out in Sections 8.1(c) or (d) may be waived in whole or in part by Lombard by instrument in writing, without prejudice to any of its rights of termination in the event of non-performance of any other condition, obligation or covenant in whole or in part, and without prejudice to its right to complete the transactions contemplated by this Agreement and claim damages for breach of representation, warranty or covenant.

ARTICLE IX CONDITIONS IN FAVOUR OF THE CANADIAN LIQUIDATOR

9.1 Conditions.

The obligations of the Canadian Liquidator to complete the transactions provided for herein and perform the other obligations to be performed by the Canadian Liquidator on or prior to Closing is subject to the fulfilment, performance and satisfaction of each of the conditions set forth below. Lombard and Fairfax acknowledge that the following conditions are for the exclusive benefit of the Canadian Liquidator.

- (a) Representations and Warranties. All representations and warranties of Lombard and Fairfax made in or pursuant to this Agreement shall be true and correct as at the Time of Closing with the same force and effect as if made at and as of such time and date, and the Canadian Liquidator shall have received on Closing a certificate from a senior officer of each of Lombard and Fairfax to such effect.
- (b) Performance of Covenants. Lombard and Fairfax shall have performed or complied with in all respects all of the obligations, covenants and agreements in this Agreement which are to be performed or complied with by such parties at or prior to the Time of Closing, and the Canadian Liquidator shall have received on Closing a certificate from a senior officer of each of such parties to such effect.
- (c) Court Approval. The Canadian Liquidator shall have obtained an order of the Court in a form satisfactory to the Canadian Liquidator, acting reasonably, approving this Agreement and the fulfilment of the Canadian Liquidator's obligations hereunder, and confirming that from and after Closing, the Canadian Liquidator and Home Canada shall have no liability in respect of the Home Canada Liabilities.

- (d) Other Approvals. The approval described in subparagraph 8.1(d) shall have been obtained.
- (e) No Action to Restrain. No action or proceeding seeking to restrain or prohibit completion of the transactions contemplated by this Agreement shall be pending in any court or before any governmental authority, body, agency or department.

9.2 Waiver.

If any of the conditions set out in Sections 9.1(c) or (d) have not been fulfilled, performed and satisfied at or prior to the Closing Date, this Agreement will automatically terminate without further act or formality and without prejudice to the Canadian Liquidator's right to claim for damages arising from non-fulfilment or non-performance of any covenant of Lombard contained herein. If any of the other conditions set forth in this Article have not been fulfilled, performed and satisfied at or prior to the Closing Date, the Canadian Liquidator may, by written notice to Lombard, terminate all of its obligations hereunder without prejudice to the Canadian Liquidator's right to claim for damages arising from the non-fulfilment or non-performance of any covenant of Lombard contained herein except for Sections 9.1(c) and (d). Any of these conditions, with the exception of the conditions set out in Sections 9.1(c) and (d), may be waived in whole or in part by the Canadian Liquidator by instrument in writing, without prejudice to any of its rights of termination in the event of non-performance of any other condition, obligation or covenant in whole or in part, and without prejudice to its right to complete the transactions contemplated by this Agreement and claim damages for breach of representation, warranty or covenant.

**ARTICLE X
INDEMNIFICATION**

10.1 Indemnification by the Canadian Liquidator.

The Canadian Liquidator shall indemnify and hold Lombard harmless from and against any claim, loss, damages, award, liabilities, costs or expenses (including reasonable legal fees) which may be made or brought against Lombard, or which Lombard may suffer or incur as a result of any inaccuracy in, or breach of, any of the Canadian Liquidator's representations or

warranties set forth in Section 3.1 hereof, whether such claim, loss, damages, award, liabilities, costs or expenses (including reasonable legal fees) arise before or after Closing.

The U.S. Liquidator shall indemnify and hold Lombard harmless from and against any claim, loss, damages, award, liabilities, costs or expenses (including reasonable legal fees) which may be made or brought against Lombard, or in which Lombard may suffer or incur as a result of any inaccuracy in, or breach of, any of the U.S. Liquidator's representations or warranties set forth in Section 5.1 hereof, whether such claim, loss, damages, award, liabilities, costs or expenses (including reasonable legal fees) arise before or after Closing. The recourse of Lombard for the indemnity set forth in this paragraph shall be limited to the assets of The Home Insurance Company in the possession of the U.S. Liquidator.

The indemnities set forth above will terminate on the first anniversary of Closing. However, the termination of such indemnity will not extinguish the Canadian Liquidator's or the U.S. Liquidator's (as the case may be) obligations thereunder with respect to damage or actions or claims of which the Canadian Liquidator is notified by Lombard prior to termination.

10.2 Indemnification by Lombard and Fairfax.

Lombard and Fairfax shall jointly and severally indemnify and hold the Canadian Liquidator harmless from and against any claim, loss, damages, award, liabilities, costs or expenses (including reasonable legal fees) which may be made or brought against the Canadian Liquidator, or which the Canadian Liquidator may suffer or incur as a result of:

- (a) any inaccuracy in, or breach of, any of Lombard's or Fairfax's representations or warranties set forth in Section 6.1 hereof; or
- (b) the failure of Lombard to discharge any liability to be assumed by Lombard pursuant to the provisions of Article II,

whether such claim, loss, damages, award, liabilities, costs or expenses (including reasonable legal fees) arise before or after Closing.

The indemnity set forth in subparagraph (a) above will terminate on the first anniversary of Closing, and the indemnity set forth in subparagraph (b) will survive Closing indefinitely.

However, the termination of the indemnity set forth in subparagraph (a) will not extinguish Lombard's and Fairfax's obligations under such indemnity with respect to damage or actions or claims of which Lombard is notified by the Canadian Liquidator prior to termination.

10.3 Procedure for Indemnification.

- (a) Claims Other Than Third Party Claims. Following receipt from a party (the "**Indemnified Party**"), of a written notice of a claim for indemnification which has not arisen in respect of a Third Party Claim (as defined in section 10.3(b) below), the party who is in receipt of such notice (the "**Indemnifying Party**") shall have 30 days to make such investigation of the claim as the Indemnifying Party considers necessary or desirable. For the purpose of such investigation, the Indemnified Party shall make available to the Indemnifying Party the information relied upon by the Indemnified Party to substantiate the claim. If the Indemnified Party and the Indemnifying Party agree at or prior to the expiration of such 30 day period (or any mutually agreed upon extension thereof) to the validity and amount of the claim, the Indemnifying Party shall immediately pay to the Indemnified Party the full agreed upon amount of the claim. If the Indemnified Party and the Indemnifying Party do not agree within such period (or any mutually agreed upon extension thereof), such dispute shall be resolved by arbitration as set out in Section 13.1.
- (b) Third Party Claims. The Indemnified Party shall notify the Indemnifying Party in writing as soon as is reasonably practicable after being informed in writing that facts exist which may result in a claim originating from a Person other than the Indemnified Party (a "**Third Party Claim**") and in respect of which a right of indemnification given pursuant to section 10.1 or 10.2 may apply. The Indemnifying Party shall have the right to elect, by written notice delivered to the Indemnified Party within 10 days of receipt by the Indemnifying Party of the notice from the Indemnified Party in respect of the Third Party Claim, at the sole expense of the Indemnifying Party, to participate in or assume control of the negotiation, settlement or defence of the Third Party Claim, provided that:
- (i) such will be done at all times in a diligent and bona fide manner;

- (ii) the Indemnifying Party acknowledges in writing its obligation to indemnify the Indemnified Party in accordance with the terms contained in this Agreement in respect of that Third Party Claim; and
- (iii) the Indemnifying Party shall pay all reasonable out-of-pocket expenses incurred by the Indemnified Party as a result of such participation or assumption.

If the Indemnifying Party elects to assume such control, the Indemnified Party shall cooperate with the Indemnifying Party and its counsel and shall have the right to participate in the negotiation, settlement or defence of such Third Party Claim at its own expense. If the Indemnifying Party does not so elect or, having elected to assume such control, thereafter fails to proceed with the settlement or defence of any such Third Party Claim, the Indemnified Party shall be entitled to assume such control. In such case, the Indemnifying Party shall cooperate where necessary with the Indemnified Party and its counsel in connection with such Third Party Claim and the Indemnifying Party shall be bound by the results obtained by the Indemnified Party with respect to such Third Party Claim. In no event, however, may the Indemnified Party settle a Third Party Claim without the prior written consent of the Indemnifying Party (which consent, in circumstances where the Indemnified Party has assumed control of the Third Party Claim, will not be unreasonably withheld).

10.4 Additional Rules and Procedures.

The obligation of the parties to indemnify each other pursuant to this Article X shall also be subject to the following:

- (a) if any Third Party Claim is of a nature such that the Indemnified Party is required by applicable law to make a payment to any Person (a “**Third Party**”) with respect to such Third Party Claim before the completion of settlement negotiations or related legal proceedings, the Indemnified Party may make such payment and the Indemnifying Party shall, forthwith after demand by the Indemnified Party, reimburse the Indemnified Party for any such payment. If the amount of any liability under the Third Party Claim in respect of which such a payment was made, as finally determined, is less than the amount which was paid

by the Indemnifying Party to the Indemnified Party, the Indemnified Party shall, forthwith after receipt of the difference from the Third Party, pay such difference to the Indemnifying Party; and

- (b) the Indemnifying Party and the Indemnified Party shall provide each other on an ongoing basis with all information which may be relevant to the other's liability hereunder and shall supply copies of all relevant documentation promptly as they become available.

ARTICLE XI CLOSING PROCEDURE

11.1 Closing.

The Closing shall take place at the offices of Goodmans LLP at the Time of Closing.

11.2 Procedure.

At the Time of Closing, upon satisfaction of all of the conditions set out in Articles VIII and IX which have not been waived as provided therein, the Canadian Liquidator shall make the payment required by Article II, and the Canadian Liquidator and Lombard shall do such other things and execute and deliver such other documents as are required to be done and executed on Closing.

ARTICLE XII CONFIDENTIALITY AND RECORDS

12.1 Non-Disclosure of Home Canada Information.

Any non-public information that Lombard may obtain from the Canadian Liquidator or the U.S. Liquidator in connection with or in the course of the negotiation of and/or entry into this Agreement and any information relating to the negotiation or terms of this Agreement, shall be deemed confidential and Lombard shall not disclose any such information to any third party (other than its directors, officers and employees and representatives of its advisors whose knowledge thereof is necessary in order to facilitate the consummation of the transactions contemplated hereby) or use such information to the detriment of Home Canada or the Canadian Liquidator; provided that:

- (a) Lombard may use and disclose any such information which has been publicly disclosed (other than by Lombard in breach of its obligations hereunder) or which has rightfully come into the possession of Lombard (other than from Home Canada or the Canadian Liquidator);
- (b) Lombard may use and disclose any such information to the extent reasonably considered by it to be necessary to obtain the approvals listed in Section 8.1; and
- (c) to the extent that Lombard may be compelled by legal or regulatory requirements to disclose any of such information, Lombard may disclose such information if it shall have used all reasonable efforts to obtain and shall have afforded the Canadian Liquidator the opportunity to obtain an appropriate protective order or other satisfactory assurance of confidential treatment for the information compelled to be disclosed.

In the event of termination of this Agreement, Lombard shall use all reasonable efforts to cause to be delivered to the Canadian Liquidator, and shall retain no copies of, any documents, work papers and other materials obtained by Lombard or on its behalf from the Canadian Liquidator, pursuant to or in connection with this Agreement or the negotiation of this Agreement whether so obtained before or after the execution hereof.

The foregoing obligations of Lombard shall cease to apply to information pertaining to the Home Canada Liabilities upon Closing and shall terminate in their entirety on December 31, 2007.

12.2 Non-Disclosure of Lombard Information.

Any non-public information that the Canadian Liquidator may obtain from Lombard in connection with or in the course of the negotiation of and/or entry into this Agreement and any information relating to the negotiation or terms of this Agreement, shall be deemed confidential and the Canadian Liquidator shall not disclose any such information to any third party (other than employees of the Office of the Superintendent of Financial Institutions, employees of the Canadian Liquidator, the Canadian Liquidator's directors, officers and employees and such representatives of its advisors whose knowledge thereof is necessary in order to facilitate the consummation of the transactions contemplated hereby, and inspectors appointed in connection

with the liquidation of Home Canada), or use such information to the detriment of Lombard; provided that:

- (i) The Canadian Liquidator may use and disclose any such information which has been publicly disclosed (other than by the Canadian Liquidator in breach of his obligations hereunder) or which has rightfully come into the possession of the Canadian Liquidator (other than from Lombard);
- (ii) The Canadian Liquidator may use and disclose any such information to the extent reasonably considered by it to be necessary to obtain the approvals listed in Section 9.1; and
- (iii) to the extent that the Canadian Liquidator may be compelled by legal or regulatory requirements to disclose any of such information, the Canadian Liquidator may disclose such information if it shall have used all reasonable efforts to obtain, and shall have afforded Lombard the opportunity to obtain, an appropriate protective order or other satisfactory assurance of confidential treatment for the information compelled to be disclosed.

In the event of termination of this Agreement, the Canadian Liquidator shall use all reasonable efforts to cause to be delivered to Lombard, and shall retain no copies of, any documents, work papers and other materials obtained by the Canadian Liquidator from Lombard pursuant to or in connection with this Agreement or the negotiation of this Agreement, whether so obtained before or after the execution hereof.

The foregoing obligations of the Canadian Liquidator will terminate on December 31, 2007.

12.3 Retention of Records.

Lombard shall retain the Records until June 30, 2008 or such longer period as may be required by law, and shall keep the Canadian Liquidator advised of the location of such Records. Lombard shall permit the Canadian Liquidator and its representatives to inspect such Records at any time, upon reasonable notice, during normal business hours. If Lombard intends to destroy

any Records it shall first so notify the Canadian Liquidator and afford it the opportunity to take copies of the Records to be destroyed.

ARTICLE XIII ARBITRATION

13.1 Arbitration.

Any controversy or claim arising out of or relating to this Agreement or any agreement delivered pursuant hereto, if arising prior to the discharge of the Canadian Liquidator, shall be resolved by the Court, and thereafter shall be settled by arbitration in accordance with the following procedures:

- (i) Arbitration shall proceed in accordance with the rules for the conduct of arbitrations of the Arbitration and Mediation Institute of Ontario Inc. (the "Rules") in effect at the date of commencement of such arbitration by one arbitrator (the "Arbitrator") appointed by the parties hereto, or failing agreement within five Business Days of one party giving notice to the other that it wishes a controversy or a claim hereunder to be resolved through arbitration, appointed in accordance with the Rules.
- (ii) If there are no Rules in effect at the date of the commencement of the arbitration, the arbitration shall proceed in accordance with the *Arbitrations Act*, S.O. 1991 (the "Act") as may be amended from time to time.
- (iii) The arbitration shall take place in the City of Toronto unless otherwise agreed in writing by the parties hereto.
- (iv) The procedures and substance of the arbitration shall be governed by the laws of the Ontario.
- (v) The language to be used in the arbitration shall be English.
- (vi) Where a controversy or disagreement is to be referred to arbitration pursuant hereto, the making of an award by the Arbitrator shall be a

condition precedent of any right of action by either of the parties hereto, or their successors or assigns against the other party or its successors or assigns.

- (vii) The Arbitrator shall have the right to determine all questions of law and jurisdiction including questions as to whether a claim is arbitrable and shall have the right to grant final and interim damages awards and shall have the discretion to award costs including reasonable legal fees and expenses, reasonable expert fees and expenses, reasonable witnesses' fees and expenses, pre-award and post-award interest and the costs of the arbitration.
- (viii) The award of the Arbitrator shall be final and binding on the parties hereto and their successors and assigns. There is no right of appeal from the Arbitrator's award. The parties hereto shall be bound by any award granted by the Arbitrator and the parties hereto consent to judgment upon the award granted by the Arbitrator being entered in any court of competent jurisdiction.

ARTICLE XIV GENERAL

14.1 Failure to Deliver Assumption Certificates.

Lombard agrees that the failure to deliver any assumption certificate as provided herein shall not in any manner eliminate, reduce or alter any of its obligations under this Agreement, and further agrees not to raise in any manner, or in any forum, judicial or otherwise, such failure as a defence to its failure, actual or alleged, to satisfy in full its obligations hereunder.

14.2 Access.

After Closing, the Canadian Liquidator shall on reasonable prior notice be provided with access to Lombard's books and records with respect to the Home Canada Liabilities (and Lombard's activities in connection therewith) to enable the Canadian Liquidator to confirm Lombard's compliance with this Agreement.

14.3 Public Disclosure.

No public disclosure of any kind shall be made or permitted in respect of the subject matter of this Agreement by any party without consultation with and the written consent of the other party (such consent not to be unreasonably withheld). Notwithstanding the foregoing, a party may without the other party's consent make such disclosure of this Agreement as is required by law, the regulations of any stock exchange, or in connection with obtaining the consent and approvals listed in Sections 8.1 and 9.1, or to any third party to whom a party is expressly permitted to provide information pursuant to Section 12.1 or Section 12.2.

14.4 Notice.

All notices required or permitted by this Agreement shall be in writing and delivered by hand or sent by facsimile transmission to:

The Canadian Liquidator:

Address: Deloitte & Touche Inc.
TD Centre
Maritime Life Tower
79 Wellington St. West, 19th Floor
Toronto, Ontario
M5K 1B9

Attention: Robert Paul

Fax Number: (416) 601-6390

with a copy to: Goodmans LLP
250 Yonge Street
Suite 2400
Toronto, Ontario
M5B 2M6

Attention: Gale Rubenstein
Daniel J. Gormley

Fax Number: (416) 979-1234

The U.S. Liquidator:

Address: 56 Old Suncook Road
Concord, NH 03301-5151

Attention: Roger Sevigny
Commissioner of Insurance State of New Hampshire

Fax Number: (603) 271-2261

with a copy to: The Home Insurance Company, in Liquidation
59 Maiden Lane
New York, New York 10038

Attention: Peter Bengelsdorf, Special Deputy Liquidator

Fax Number: (212) 530-6143

Lombard:

Address: 105 Adelaide Street West
Toronto, Ontario
M5H 1P9

Attention: Jane Gardner, CFO

Fax Number:

Fairfax:

Address: 95 Wellington Street West
Suite 800
Toronto, Ontario
M5J 2N7

Attention: Jean Cloutier, VP and Chief Actuary

Fax Number: (416) 367-4946

or at such other address or fax number of which the addressee may from time to time have notified the addressor. A notice shall be deemed to have been sent and received on the day it is delivered by hand or on the day on which transmission is confirmed, if telecopied. If such day is not a Business Day or if the notice is received after ordinary office hours (time of place of receipt), the notice shall be deemed to have been sent and received on the next Business Day.

14.5 Costs.

Except as otherwise provided in this Agreement, each party shall be responsible for its own fees, expenses, and other costs incurred in connection with the transactions contemplated hereby.

14.6 Time of the Essence.

Time is of the essence to every provision of this Agreement. Extension, waiver or variation of any provision of this Agreement shall not be deemed to affect this provision and there shall be no implied waiver of this provision.

14.7 Further Acts.

The parties acknowledge that their co-operation is required to facilitate the Closing. The parties shall do or cause to be done all such further acts and things as may be necessary or desirable to give full effect to this Agreement.

14.8 Jurisdiction.

This Agreement shall be governed by the laws of the Province of Ontario and the laws of Canada applicable therein, save and except that the provisions of Section 2.3 shall be governed by the laws of the State of New Hampshire. Each party hereby irrevocably attorns to the non-exclusive jurisdiction of the courts of the Province of Ontario.

14.9 Amendment.

This Agreement may be amended only by written agreement of the parties.

14.10 Waiver.

No waiver of any provision of this Agreement shall be binding unless it is in writing. No indulgence or forbearance by a party shall constitute a waiver of such party's right to insist on performance in full and in a timely manner of all covenants in this Agreement. Waiver of any provision shall not be deemed to waive the same provision thereafter, or any other provision of this Agreement at any time.

14.11 Entire Agreement.

This Agreement and the Schedules attached to this Agreement constitute the entire agreement among the parties pertaining to all the matters herein.

14.12 Severability.

If any provision of this Agreement is invalid or unenforceable, such provision shall be severed and the remainder of this Agreement shall be unaffected thereby but shall continue to be valid and enforceable to the fullest extent permitted by law.

14.13 Counterparts.

This Agreement may be executed in one or more counterparts which, together, shall constitute one and the same Agreement. This Agreement shall not be binding upon any party until it has been executed by each of the parties and delivered to all other parties.

14.14 Assignment.

Neither this Agreement nor any rights or obligations hereunder may be assigned, directly or indirectly, by any party without the prior written consent of the other parties, except as expressly provided herein. Any assignment without such consent shall be null and void. Notwithstanding the foregoing, after Closing the Canadian Liquidator may, without consent, but on prior written notice to Lombard and Fairfax, assign its rights and obligations hereunder to the U.S. Liquidator. Lombard and Fairfax acknowledge that, on such assignment, the Canadian Liquidator shall have no further obligations hereunder.

14.15 Enurement and Binding Effect.

This Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors, heirs, executors, administrators, personal representatives and permitted assigns.

14.16 Third Party Beneficiaries.

Except as expressly set forth herein, each party hereto intends that this Agreement shall not benefit or create any right or cause of action in or on behalf of any person, other than the

parties hereto, and that no Person other than the parties hereto shall be entitled to rely on the provisions hereof in any action, suit, proceeding, hearing or other forum.

14.17 Recourse.

The Canadian Liquidator shall have no personal liability under or by virtue of this Agreement, whether in contract, tort or under any other legal or equitable theory, and Lombard's recourse in respect of the representations, warranties and covenants contain herein will be limited to the assets under the control of the Canadian Liquidator from time to time pursuant to the order of the Court referred to in Recital B hereof. Nothing herein shall limit or delay the discharge of the Canadian Liquidator.


14.18 Substitution of Assuming Entity.

If the condition described in Section 8.1(d) has not been satisfied by December 15, 2003, and the reason for the non-satisfaction of such condition is indicated by the Office of the Superintendent of Financial Institutions to be the status or financial condition of Lombard, Fairfax will select another subsidiary of Fairfax capable of making all representations and warranties made by Lombard hereunder and which is acceptable to the Office of the Superintendent of Financial Institutions as the assuming entity hereunder (the "New Assuming Entity") to assume the Home Canada Liabilities hereunder in the place and stead of Lombard. In such event, the parties hereto and the New Assuming Entity shall execute an amendment of this Agreement, in which:

- (a) all references to Lombard herein are replaced with references to the New Assuming Entity; and
- (b) the reference to December 31, 2003 in this Agreement's definition of "Closing" and the "Closing Date" is replaced with a reference to March 31, 2004.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

**LOMBARD GENERAL INSURANCE
COMPANY OF CANADA**

Per: 

**FAIRFAX FINANCIAL HOLDINGS
LIMITED**

Per: 

**DELOITTE & TOUCHE INC., in its capacity
as Canadian Liquidator of the insurance
business in Canada of THE HOME
INSURANCE COMPANY and not in its
personal capacity**

Per: _____

**ROGER SEVIGNY, Commissioner of
Insurance for the State of New Hampshire in
his capacity as Liquidator of The Home
Insurance Company, by his Special Deputy
Liquidator**

Per: _____

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

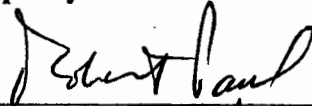
**LOMBARD GENERAL INSURANCE
COMPANY OF CANADA**

Per: _____

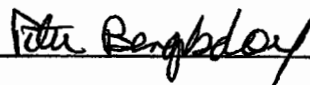
**FAIRFAX FINANCIAL HOLDINGS
LIMITED**

Per: _____

**DELOITTE & TOUCHE INC., in its capacity
as Canadian Liquidator of the insurance
business in Canada of THE HOME
INSURANCE COMPANY and not in its
personal capacity**

Per: 
SENIOR VICE-PRESIDENT

**ROGER SEVIGNY, Commissioner of
Insurance for the State of New Hampshire in
his capacity as Liquidator of The Home
Insurance Company, by his Special Deputy
Liquidator**

Per: 

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

**LOMBARD GENERAL INSURANCE
COMPANY OF CANADA**

Per: _____

**FAIRFAX FINANCIAL HOLDINGS
LIMITED**

Per: _____

**DELOITTE & TOUCHE INC., in its capacity
as Canadian Liquidator of the insurance
business in Canada of THE HOME
INSURANCE COMPANY and not in its
personal capacity**

Per: _____

**ROGER SEVIGNY, Commissioner of
Insurance for the State of New Hampshire in
his capacity as Liquidator of The Home
Insurance Company, by his Special Deputy
Liquidator**

Per: *Peter Bengtson*

SCHEDULE "A"

THE HOME INSURANCE COMPANY, IN LIQUIDATION CLAIMS AS AT OCTOBER 1, 2003

Treaty No.	Claim No.	DD	Date of Loss			U/W Year	% Share
			MM	YY			
OPEN CLAIMS							
1	518176	18	1	95		N/A	
2	518178	1	10	68		N/A	
3	100212	17	10	90		N/A	
4	100950	25	9	89		N/A	
5	101336	10	4	82		N/A	
6	102020	13	5	95		N/A	
7	103279	12	1	95		N/A	
8	103357	1	11	95		N/A	
9	103399	6	2	94		N/A	
10	103408	1	1	93		N/A	
11	103455	1	2	95		N/A	
12	103510	1	4	93		N/A	
13	103519	1	4	93		N/A	
14	103523	1	2	94		N/A	
15	103524	1	2	95		N/A	
16	103525	1	1	93		N/A	
17	103527	21	10	94		N/A	
18	103534	31	12	81		N/A	
19	103535	1	4	93		N/A	
20	103537	19	9	79		N/A	
21	103538	19	9	80		N/A	
22	103539	19	9	83		N/A	
23	103540	31	12	93		N/A	
24	103541	4	1	94		N/A	
25	103542	11	8	94		N/A	
26	103543	21	5	95		N/A	
27	103544	1	2	95		N/A	
28	103545	1	4	93		N/A	
29	103546	1	4	93		N/A	

ASSUMED EXCESS

1	2656	9486	21	9	73		
2	2656	9656	16	05	76	1975	100%
3	2656	9660	01	01	77	1976	100%
4	30138	4515	08	10	86	1986	6.0%
5	30098	0109	14	11	87	1987	5.0%
6	30138	0140	20	04	87	1987	5.0%
7	30138	4521	16	6	88	1988	5.0%
8	30148	0001	12	09	88	1988	2.0%
9	30162	0005	19	12	88	1988	9.0%
10	30138	0097	19	04	89	1989	5.0%
11	30138	0091	09	11	89	1989	5.0%
12	30138	0011	18	07	89	1989	5.0%
13	30138	0136	16	6	89	1989	5.0%
14	30138	0140	16	6	89	1989	5.0%
15	30148	0001	17	09	89	1989	2.0%
16	30138	0076	6	12	90	1990	5.0%
17	30138	0121	05	12	90	1990	5.0%
18	30138	0051	04	08	90	1990	5.0%
19	30138	0019	20	06	90	1990	5.0%
20	30138	0125	15	01	90	1990	5.0%
21	30138	0141	16	6	90	1990	5.0%
22	30198	0003	03	02	90	1990	2.5%
23	30198	0004	25	02	90	1990	2.5%
24	30199	0003	01	04	91	1990	5.0%

FACULTATIVE

1	FP-50165-89	A89-1468-1	23	03	89	1989	3.5%
2	DE-64015-90	A91-449-1	21	11	90	1990	10.7%
3	FP-63789-90	A91-559-1	11	11	90	1990	5.0%

SCHEDULE "B"
TRANSFER AND ASSUMPTION AGREEMENT

THIS AGREEMENT made as of the ● of ●, 2003.

B E T W E E N:

**LOMBARD GENERAL INSURANCE COMPANY OF
CANADA**

(hereinafter called "**Lombard**")

OF THE FIRST PART;

- and -

DELOITTE & TOUCHE INC., in its capacity as Canadian
Liquidator of the insurance business in Canada of **THE HOME
INSURANCE COMPANY** and not in its personal capacity

(hereinafter called the "**Canadian Liquidator**")

OF THE SECOND PART.

WHEREAS Lombard has agreed to assume, and the Canadian Liquidator has agreed to transfer the Policies and the Home Canada Liabilities (as hereafter defined);

NOW THEREFORE, the parties agree as follows:

ARTICLE I
INTERPRETATION

1.1 Definitions.

In this Agreement, except as otherwise expressly provided, capitalized words or expressions shall have the meanings set out below:

- (a) "**Business Day**" means every day except a Saturday, Sunday or a day which is a statutory holiday under the laws of Canada or Ontario.
- (b) "**Effective Time**" means 12h01 a.m. on January 1, 2003.
- (c) "**Home Canada**" means the assets and insurance business of The Home Insurance Company under the control of the Canadian Liquidator pursuant to an order of the Ontario Superior Court of Justice (Commercial List) dated June 26, 2003.
- (d) "**Home Canada Liabilities**" means all liabilities which are, or are ultimately determined to be, liabilities of Home Canada arising out of or under policies of

insurance and assumed reinsurance contracts (inward reinsurance), including all liabilities of Home Canada relating to unpaid claims and claims expenses (including case reserves and IBNR) as at the Effective Time, including liabilities related to claims settled but not yet paid and for greater certainty including such insurance liabilities of The Home Insurance Company as the Court may ultimately determine to be liabilities of Home Canada.

- (e) **"IBNR"** means claims incurred but not reported.
- (f) **"Loss Adjustment Expenses"** means all allocated loss adjustment expenses associated with or incurred in connection with the Home Canada Liabilities.
- (g) **"Policies"** means the policies of insurance and assumed reinsurance contracts (inwards reinsurance) underlying the Home Canada Liabilities (which for greater certainty include, but are not limited to, those policies under which the open claims listed in Schedule "A" have arisen).
- (h) **"Reinsurance"** means all reinsurance contracts to which The Home Insurance Company is a party and under which there is any right of recovery in respect of any of the Home Canada Liabilities or any Loss Adjustment Expenses.

1.2 **Construction.**

In this Agreement:

- (a) words denoting the singular include the plural and vice versa and words denoting any gender include all genders;
- (b) the word "including" means "including without limitation" "includes" means "includes without limitation";
- (c) the use of headings is for convenience of reference only and shall not affect the construction of this Agreement; and
- (d) the parties hereto agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other documents will be construed against the party drafting such agreement or document.

ARTICLE II TRANSFER AND ASSUMPTION

2.1 **Assumption.**

For good and valuable consideration and subject to the following, the Canadian Liquidator hereby cedes, transfers, assigns and conveys to Lombard, irrevocably, all right, title and interest of Home Canada in the Policies, the Reinsurance and the Home Canada Liabilities and Lombard hereby assumes the Policies and the Home Canada Liabilities, with effect as the

Effective Time. Lombard agrees to discharge, perform and fulfill all of the Home Canada Liabilities including Home Canada's obligations under the Policies to the same extent as if such Policies had been originally written, issued or entered into by Lombard in its own name and in this regard, Lombard agrees to substitute itself fully in place and stead of Home Canada and The Home Insurance Company, and shall hold itself responsible to policyholders and claimants under the Policies and shall pay any amounts owing under the Policies, as well as any Loss Adjustment Expenses as and when they become due and the Canadian Liquidator shall have no further liability therefore. The right to file and pursue claims arising under the Policies shall be directly with Lombard and Lombard hereby consents to be subject to direct action by any holder of a Policy.

ARTICLE III GENERAL

3.1 Time of the Essence.

Time is of the essence to every provision of this Agreement. Extension, waiver or variation of any provision of this Agreement shall not be deemed to affect this provision and there shall be no implied waiver of this provision.

3.2 Further Acts.

The parties shall do or cause to be done all such further acts and things as may be necessary or desirable to give full effect to this Agreement.

3.3 Jurisdiction.

This Agreement shall be governed by the laws of the Province of Ontario and the laws of Canada applicable therein. Each party hereby irrevocably attorns to the non-exclusive jurisdiction of the courts of the Province of Ontario.

3.4 Notice.

All notices required or permitted by this Agreement shall be in writing and delivered by hand or sent by facsimile to:

The Canadian Liquidator:

Address: Deloitte & Touche Inc.
TD Centre
Maritime Life Tower
79 Wellington St. West, 19th Floor
Toronto, Ontario
M5K 1B9

Attention: Robert Paul

Fax Number: (416) 601-6390

with a copy to: Goodmans LLP
250 Yonge Street
Suite 2400
Toronto, Ontario
M5B 2M6

Attention: Gale Rubenstein
Daniel J. Gormley

Fax Number: (416) 979-1234

Lombard:

Address: 105 Adelaide Street West
Toronto, Ontario
M5H 1P9

Attention: Jane Gardner, CFO

Fax Number:

or at such other address or fax number of which the addressee may from time to time have notified the addressor. A notice shall be deemed to have been sent and received on the day it is delivered by hand or on the day on which transmission is confirmed, if facsimiled. If such day is not a Business Day or if the notice is received after ordinary office hours (time of place of receipt), the notice shall be deemed to have been sent and received on the next Business Day.

3.5 Severability.

If any provision of this Agreement is invalid or unenforceable, such provision shall be severed and the remainder of this Agreement shall be unaffected thereby, but shall continue to be valid and enforceable to the fullest extent permitted by law.

3.6 Counterparts.

This Agreement may be executed in one or more counterparts which, together, shall constitute one and the same agreement. This Agreement shall not be binding upon any party until it has been executed by each of the parties and delivered to all other parties.

3.7 Assignment.

Neither this Agreement, nor any rights or obligations hereunder, may be assigned, directly or indirectly, by any party without the prior written consent of the other parties. Any assignment without such consent shall be null and void.

3.8 Enurement and Binding Effect.

This Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors, heirs, executors, administrators, personal representatives and permitted assigns.

3.9 Term of Agreement.

The parties' obligations in this Agreement will continue in full force and effect until such time as all of the Home Canada Liabilities have been discharged or have otherwise expired. This Agreement will be perpetual, permanent and non-cancellable by Lombard or the Canadian Liquidator. Neither Lombard, nor the Canadian Liquidator, has the right or power to cause the reversion or recapture of the Policies.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

**LOMBARD GENERAL INSURANCE
COMPANY OF CANADA**

Per: _____

**DELOITTE & TOUCHE INC., in its capacity
as Canadian Liquidator of the insurance
business in Canada of THE HOME
INSURANCE COMPANY and not in its
personal capacity**

Per: _____

SCHEDULE "A"

THE HOME INSURANCE COMPANY, IN LIQUIDATION CLAIMS AS AT OCTOBER 1, 2003

Treaty No.	Claim No.	DD	Date of Loss		YY	U/W Year	% Share
			MM	YY			
OPEN CLAIMS							
1	518176	18	1		95		N/A
2	518178	1	10		68		N/A
3	100212	17	10		90		N/A
4	100950	25	9		89		N/A
5	101336	10	4		82		N/A
6	102020	13	5		95		N/A
7	103279	12	1		95		N/A
8	103357	1	11		95		N/A
9	103399	6	2		94		N/A
10	103408	1	1		93		N/A
11	103455	1	2		95		N/A
12	103510	1	4		93		N/A
13	103519	1	4		93		N/A
14	103523	1	2		94		N/A
15	103524	1	2		95		N/A
16	103525	1	1		93		N/A
17	103527	21	10		94		N/A
18	103534	31	12		81		N/A
19	103535	1	4		93		N/A
20	103537	19	9		79		N/A
21	103538	19	9		80		N/A
22	103539	19	9		83		N/A
23	103540	31	12		93		N/A
24	103541	4	1		94		N/A
25	103542	11	8		94		N/A
26	103543	21	5		95		N/A
27	103544	1	2		95		N/A
28	103545	1	4		93		N/A
29	103546	1	4		93		N/A
ASSUMED EXCESS							
1	2656	9486	21	9	73		
2	2656	9656	16	05	76	1975	100%
3	2656	9660	01	01	77	1976	100%
4	30138	4515	08	10	86	1986	6.0%
5	30098	0109	14	11	87	1987	5.0%
6	30138	0140	20	04	87	1987	5.0%
7	30138	4521	16	6	88	1988	5.0%
8	30148	0001	12	09	88	1988	2.0%
9	30162	0005	19	12	88	1988	9.0%
10	30138	0097	19	04	89	1989	5.0%
11	30138	0091	09	11	89	1989	5.0%
12	30138	0011	18	07	89	1989	5.0%
13	30138	0136	16	6	89	1989	5.0%
14	30138	0140	16	6	89	1989	5.0%
15	30148	0001	17	09	89	1989	2.0%
16	30138	0076	6	12	90	1990	5.0%
17	30138	0121	05	12	90	1990	5.0%
18	30138	0051	04	08	90	1990	5.0%
19	30138	0019	20	06	90	1990	5.0%
20	30138	0125	15	01	90	1990	5.0%
21	30138	0141	16	6	90	1990	5.0%
22	30198	0003	03	02	90	1990	2.5%
23	30198	0004	25	02	90	1990	2.5%
24	30199	0003	01	04	91	1990	5.0%
FACULTATIVE							
1	FP-50165-89	A89-1468-1	23	03	89	1989	3.5%
2	DE-64015-90	A91-449-1	21	11	90	1990	10.7%
3	FP-63789-90	A91-559-1	11	11	90	1990	5.0%

SCHEDULE "C"
GUARANTEE

THIS GUARANTEE made the _____ of _____ by Fairfax Financial Holdings Limited [insert address] (the "**Guarantor**") is made in favour of Deloitte & Touche Inc., in its capacity as Canadian Liquidator of the insurance business in Canada of The Home Insurance Company and not in its personal capacity (the "**Beneficiary**").

1. Guarantee.

- (a) In order to induce the Beneficiary to enter into an Assumption Reinsurance Agreement made as of the _____ day of _____, 2003 (the "**ARA**") among Lombard General Insurance Company of Canada (the "**Obligor**"), the Guarantor, the Beneficiary and Roger Sevigny, Commissioner of Insurance for the State of New Hampshire in his capacity as Liquidator of The Home Insurance Company and in consideration of the Beneficiary doing so, the Guarantor unconditionally and irrevocably guarantees to the Beneficiary and its permitted successors, endorsers and assigns under the ARA and all documents executed and delivered by the Obligor pursuant to the ARA (the ARA and such documents being referred to collectively as the "Agreement"), the full and prompt payment and performance by Obligor of all obligations and liabilities of the Obligor under the Agreement (the "**Obligations**").
- (b) The Guarantor's obligations under this Guarantee shall not be affected by the invalidity or unenforceability of the Obligations as against Obligor.
- (c) This is a guarantee of payment and performance, not of collection. The Beneficiary shall not be obligated to proceed against Obligor before claiming under this Guarantee, nor, in the event that Obligor becomes subject to a bankruptcy, reorganization or similar proceeding to file any claim relating to the Obligation, and the failure of the Beneficiary so to proceed or so to file shall not affect the Guarantor's obligations hereunder.

2. Taxes.

All payments under this Guarantee are to be made without any deduction or withholding for or on account of any tax, duty, governmental charge or withholding required to be made by applicable law (collectively, a "**Tax**"). If, at any time, the Guarantor is required by law to make any such deduction or withholding in respect of any such tax or of any payment due hereunder, the sum due from the Guarantor in respect of such payment shall be increased to the extent necessary to ensure that, after making such deduction or withholding, the Beneficiary receives and retains a net sum equal to the sum which it would have received had not such deduction or withholding been required to be made and the Guarantor shall pay the amount so deducted or withheld to the relevant taxation or other authorities in accordance with applicable law.

3. Consents, Waivers and Renewals.

The Guarantor agrees that without notice to or further consent of the Guarantor, the Beneficiary and Obligor may at any time and from time to time, either before or after the maturity thereof, agree to extend the time of payment of, or renew any of the obligations under the Agreement and may also make any agreement with any other party to or person liable on any of the obligations of said Agreement, or interest therein, for the extension, renewal, payment, compromise, discharge or release thereof, in whole or in part, or for any modification of the terms thereof or of any agreement between the Beneficiary and Obligor or any such other party or person, without in any way impairing or affecting this Guarantee.

4. Expenses.

The Guarantor agrees to pay on demand all out-of-pocket expenses (including the reasonable fees and expenses of the Beneficiary's counsel as well as other legal fees) in any way relating to the enforcement of the rights of the Beneficiary hereunder.

5. Subrogation.

The Guarantor will not exercise any rights that it may acquire by way of subrogation until all obligations of Obligor under the Agreement shall have been paid in full. If any amount shall be paid to the Guarantor in violation of the preceding sentence, such amount shall be held in trust for the benefit of the Beneficiary and shall forthwith be paid to the Beneficiary to be credited and applied to the obligations of Obligor under the Agreement, whether matured or unmatured.

6. No Waiver/Cumulative Rights.

No failure on the part of the Beneficiary to exercise, and no delay in exercising, any right, remedy or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by the Beneficiary of any right, remedy or power hereunder preclude any other or future exercise of any right, remedy or power. Each and every right, remedy and power hereby granted to the Beneficiary or allowed it by law or other agreement shall be cumulative with and not exclusive of any other, and may be exercised by the Beneficiary from time to time.

7. Waiver of Notice.

The Guarantor waives notice of the acceptance of the Guarantee and of the making of any loans or extensions of credit by the Beneficiary to Obligor.

8. Representations and Warranties.

The Guarantor represents and warrants, as of the date of this Guarantee, as follows:

- (a) The Guarantor is an entity duly existing under the laws of Canada.
- (b) The Guarantor is duly authorized to execute, deliver and perform the Guarantee.
- (c) The execution, delivery and performance of the Guarantee do not conflict with any provision of law or any regulation or of the Guarantor's charter or by-laws or of any agreement binding upon it.

- (d) No consents, licences, approvals and authorizations of and registrations with or declarations to any governmental authority are required in connection with the execution, delivery and performance of this Guarantee.
- (e) The Guarantor's obligations under the Guarantee constitute its legal, valid and binding obligations, enforceable in accordance with its terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or other laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

9. Assignment.

The Guarantor may not assign or delegate its rights, interest or obligations hereunder to any other person without the prior written consent of the Beneficiary.

10. Continuing Guarantee.

The Guarantee shall remain in full force and effect until, and shall terminate upon, the termination of the Agreement and the satisfaction in full of the Obligations.

Notwithstanding the foregoing, if any amount paid by Obligor under the Agreement is rescinded or must be otherwise restored or returned by the Beneficiary due to the insolvency, bankruptcy or reorganization of Obligor or the Guarantor, the Guarantor's obligations under this Guarantee with respect to such amount shall be reinstated.

11. Successors.

This Guarantee shall also enure to the benefit of Obligor's permitted successors and assigns under the Agreement.

12. Notices.

Any notice to the Guarantor will be sufficiently given if in writing (by mail, hand delivery, or courier) at the address first written above to the attention of: Brad Martin.

13. Governing Law.

This Guarantee shall be governed by, and construed in accordance with, the laws of the Province of Ontario, without reference to choice of law doctrine.

14. Submission to Jurisdiction.

With respect to any claim arising out of this Guarantee, the Guarantor hereby submits to the exclusive jurisdiction of the courts located in the Province of Ontario and irrevocably waives any objection which it may have at any time to the laying of venue of any suit, action or proceeding arising out of or relating to this Guarantee brought in any such court, irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum and further irrevocably waives the right to object, with respect

to such claim, suit, action or proceeding brought in any such court, that such court does not have jurisdiction over the Guarantor.

15. Effectiveness.

This Guarantee is deemed effective concurrent with the date of the Agreement.

IN WITNESS WHEREOF, this Guarantee has been duly executed and delivered by the Guarantor to the Beneficiary as of the date first above written.

FAIRFAX FINANCIAL HOLDINGS LIMITED

Per: _____

Title

Per: _____

Title