In addition to the foregoing, the Company has backup coverages and super global catastrophe programs.

The back up catastrophe cover is in effect when there is a second occurrence after the primary coverage has been penetrated. This coverage is in 5 layers with a minimum retention of $35,000,000 up to a maximum of $150,000,000.

The super global catastrophe program covers all foreign and domestic AIG companies for property losses in excess of limits of the Domestic Property Catastrophe Program. The maximum liability under the super global program is $250,000,000.

Unauthorized reinsurance plays a major role in the Company's international operations. Deposits by and funds withheld from reinsurers at December 31, 1991 amounted to $4.5 billion from the AIG pool companies. An in-depth review was made of the letters of credit, trust agreements and funds withheld with no material discrepancies noted.

Agreement with Coral Reinsurance Company

In December of 1987, American Home Assurance Company, along with National Union Fire Insurance Company of Pittsburgh, Pennsylvania, Commerce and Industry Insurance Company, AIU Insurance Company, Birmingham Fire Insurance Company of Pennsylvania, The Insurance Company of the State of Pennsylvania ("AIG pool companies"), Lexington Insurance Company ("Lexington"), and Landmark Insurance Company ("Landmark") entered into a financial arrangement with Coral Reinsurance Company ("Coral Re"), a Barbados company, for the purpose of window dressing its balance sheet and to give the appearance of increasing its statutory surplus.

This agreement provides that Coral Re, for consideration, reimburse the AIG pool companies for reinsurance recoverable due from insolvent or impaired insurers or insurers that AIG unilaterally deemed financially impaired. In addition to the consideration paid, AIG pool companies assigned any reinsurance recoverable to Coral Re. In effect, AIG pool companies paid the present value of these recoverables to Coral Re and avoided the necessity of writing off the balances. The arrangement further enhances AIG pool companies' surplus by transferring to Coral Re liabilities reassumed by the AIG pool companies under commuted treaties. The cash received by AIG pool companies on commuted treaties is transferred to Coral Re and the liabilities under these treaties are assumed by Coral Re. Thus this arrangement enables AIG to avoid recording an underwriting loss on the commutations, which represents the difference between the cash received on the commutations and the related liabilities assumed.

In the calculation of the retrospective rating provision of the agreement the AIG pool companies are credited with yield on "investable funds" which represents premiums ceded to Coral Re, less losses paid, less applicable expenses. Since Coral Re is entitled to a tax exemption for a period of fifteen years under Barbados law, this financial arrangement enables the AIG pool companies to benefit from the higher tax free yield available on funds held offshore.

The following is a summary of the more significant aspects of this financial arrangement nominally called "Quota Share Replacement Treaty" with Coral Re (AIG has other similar agreements with Coral Re):

This agreement, incepted in December 1987, provides that the AIG pool companies be reimbursed for uncollectible reinsurance from insolvent or financially impaired reinsurers and liabilities assumed on commuted treaties. The contract was initiated in 1987, with an initial provisional consideration of $160 million. In addition $62 million was paid to Coral Re which represented consideration received by AIG pool companies on commuted treaties. The total consideration paid for the first contract period from December

18, 1987 to December 31, 1987 amounted to $222,089,747. While the premiums are determined separately for uncollectible reinsurers and for commuted treaties, the treaty limits are aggregate limits for both sections and are established for each contract period. The Company was unable to provide the examiners with any underwriting file to support the premiums paid to Coral Re.

The section of the contract pertaining to uncollectible reinsurance relates to loss and premium liability ceded, where the pool would incur a financial loss because of the inability of the assuming reinsurers to pay the amounts due by reason of "Financial Impairment" or "Government Regulation" as set forth in the preamble. In Article V of the contract "Financial Impairment" is defined as "... the date the prior reinsurer is prohibited from paying their liabilities due to government regulation or the date the Company (AIG) declares a financial impairment exists." (emphasis added). The contract allows the determination of financial impairment to include: "Standard accounting practice of the Company for amounts deemed uncollectible due to financial condition of prior Reinsurer." The Company was unable to provide the examiners with any specific guidelines that the Company utilizes to declare amounts uncollectible. Therefore, the Company can unilaterally, at its sole discretion, declare reinsurance recoverable from any entity it deems appropriate as uncollectible. This does not appear to be an arms length reinsurance contract provision.

In addition, the reinsurers to which business was originally ceded by the AIG pool companies are not a party to this agreement. This agreement does not constitute a retrocession from such reinsurers to Coral Re. The quota share agreement does not effect a transfer of underwriting risk; the element of risk assumed by Coral Re is simply a timing risk and a credit risk represented by unrecoverable balances on the original reinsurance contracts. Coral Re is acting as a guarantor of the performance of the original reinsurers. The long-standing position of the New York Insurance Department is that unless a reinsurance contract contains

an element of underwriting risk no credit shall be allowed for reinsurance in any accounting or financial statement of the ceding insurer.

The Company, on the portion of the treaty pertaining to commutations, does not record the ceded premium to Coral Re nor the loss on the commutation. Only a memo entry is made to replace the named reinsurer. This is inappropriate statutory accounting. It is recommended that the Company properly reflect the transaction in the corresponding general ledger accounts to fully disclose the separate transactions: the loss on the commutation and the subsequent cession to Coral Re.

The agreement contains a retrospective rating provision. The actual consideration is determined by the following formula: losses incurred less investment income on premium funds, plus a risk fee and applicable expenses. Coral Re is paid a fee for its participation in the financial arrangement.

The following summary of the retrospective rating provision of the contract with AIG pool companies, Lexington, and Landmark, from December 18, 1987 to December 31, 1991, clearly demonstrates that there is no transfer of underwriting risk:

Losses incurred	$1,076,056,130
Risk fee (1)	10,313,435
Applicable expenses (2)	13,125,554
Less Investment yield (3)	(201,918,836)
Retrospective consideration	$ 897,576,283
Less consideration paid	(887,843,491)
Difference (adjustment)	$ 9,732,792*
Excess of risk fee over adjustment ($9,732,792 - $10,313,435)	$ (580,643)

* No settlement was paid because consideration paid ($887,843,491) is the maximum consideration per the agreement.

(1) The risk fee is $700,000 plus 1% of the premium for each contract year. Subject to a minimum of $1,790,200 for each contract year. (1987, 1988, 1989, 1990, and 1991).

(2) The Company informed the examiners that applicable expenses pertained mostly to Coral Re's cost to obtain letters of credit for the benefit of the AIG pool companies.

(3) AIG pool companies are credited with yield on "investable funds" - premiums ceded less losses paid less applicable expenses.

The above calculation shows, that the amount paid since inception is within .06% of the retrospective plan calculation, after deducting the risk fee. This immaterial difference would not constitute a transfer of risk.

The quota share reinsurance agreement with Coral Re does not transfer underwriting risk. Therefore, it is recommended that the Company not take credit for the treaty with Coral Re.

The following additional items were noted during the examination of this agreement:

(a) In 1991, the AIG pool companies borrowed $190,000,000 from an affiliated company, AIG Funding Inc. and erroneously reported this loan as a sale of reinsurance recoverable on paid losses due from Coral Re. AIG pool companies did not make any filings with the Department for this transaction. Furthermore, there is no written agreement or contract detailing the transaction and the terms of borrowing. The failure to maintain written documentation of a transaction of this magnitude is evidence of poor financial management and lack of internal controls. This transaction also violates Section 1505(d)(1) of the New York Insurance Law which states:

> "The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing...at least thirty days prior... and he has not disapproved it within such period:
> (1) sales, purchases, exchanges, loans or extensions of credit, or investments, involving more than one-half of one percent but less than five percent of the insurer's admitted assets..."

The amount collected from Coral Re was $184,688,149, however, the amount subsequently paid to AIG Funding Inc. was exactly $190,000,000 plus interest. This confirms that this transaction is a loan from an affiliated company, rather than a sale of assets. The effect of the Company recording this transaction as a sale of reinsurance recoverable on paid losses, was to window dress the Company's balance sheet by avoiding the unauthorized penalty for reinsurance recoverable on paid losses due from Coral Re.

This report on examination will reflect an increase to the AIG pool companies' asset "Reinsurance recoverable on paid losses" (see Item 5) for $184,688,149 (100%), with American Home's share (36%) amounting to $66,487,733 and a corresponding increase to "Provision for reinsurance" net of any funds held (see Item 9). In addition, this report will establish a liability "Payable to affiliates" (see Item 10) amounting to $190,000,000 (100%), American Home's share (36%) being $68,400,000 representing the loan from AIG Funding Inc.

It is recommended that all transactions between the Company and its affiliates be evidenced by written agreements and such agreements be filed with the New York Insurance Department in accordance with Section 1505(d)(1) of the New York Insurance Law.

(b) In statements filed with the Department, the AIG pool companies reflected reinsurance recoverable from unauthorized reinsurers as collateralized in a manner allowed by Section 125.4(f) of Regulation 20 (11 NYCRR 125). Section 125.4(f) of Regulation 20 permits a non-insurer parent of a ceding insurer to provide funds as security for reinsurance recoverable due from certain named unauthorized reinsurers in lieu of funds provided by such reinsurers. The funds are in the form of a letter of credit ("LOC") purchased by the parent for the benefit of the ceding insurers. A ceding insurer may elect to use the

parental LOC to take credit as a deduction from loss and unearned premium reserves, for reinsurance recoverable from designated unauthorized reinsurers. The parental LOC must be available to the ceding insurer in instances where an unauthorized reinsurer fails or delays in meeting its contractual obligation. Rather than drawing down on the LOC provided by the parent company as required by Regulation 20, the AIG pool companies transferred the amounts due from unauthorized reinsurers to the Coral Re agreement, thus avoiding the necessity to draw down the LOC. The failure to draw down the LOC is a violation of Department Regulation 20 and Article 15 and defeats the purpose of the LOC as a vehicle to ensure payment of balances owed. The parental LOC is reduced to the role of window-dressing to be discarded when a draw down is imminent.

It is recommended that the Company draw down the parental LOC as required under Regulation 20.

(c) The Department questions whether the Company "controls" Coral Re within the meaning of Section 1501(a)(2) of the New York Insurance Law which states,

> "Control", including the terms "controlling", "controlled by", and "under common control with", means the possession direct or indirect of the power to direct or cause the direction of the management and policies of a person whether through ownership of voting securities, by contract...or otherwise..."

The Company's "control" of Coral Re may be demonstrated by the following:

(1) The examiners reviewed the Executive Summary of the Private Placement Memorandum dated December 1987 ("the offering memorandum") which states, in part,

> "Investors ("Investors") are being solicited to jointly establish Coral Reinsurance Company Ltd. ("Coral" or the "Company") incorporated in Barbados. The Company is designed to reinsure certain risks from several of the US subsidiary insurance companies of American International Group, Inc. ("AIG"). AIG's interest in creating the Company (emphasis added) is to create a reinsurance facility which will permit its U.S. companies to write more U.S. premiums. For a U.S. domicile company, a high level of surplus is required to support insurance premiums in accordance with U.S. statutory requirements. The statutory requirements in Barbados are less restrictive. The proposed transaction involves incorporating a Barbados based reinsurance company to be capitalized with $60 million of equity provided by the investors."

(2) In addition, the examiners have reviewed a "Stock Subscription Agreement" dated December 17, 1987 by and between Coral Re and the Investors which states in Section 2.2 (e),

> "In addition to the Offering Memorandum, the Investor and the Investor's representatives, if any have been given the opportunity to examine all documents which Coral and American International Group, Inc. ("AIG") have submitted to or made available for inspection by the Investor relating to and, if applicable, executed in connection with the transactions contemplated. Coral and AIG have also provided the Investors with the opportunity to ask questions of, and receive answers from, Coral, AIG and their representatives concerning the terms and conditions of the Shares and obtain any additional information necessary to verify the information contained in the Offering Memorandum..."

(3) Coral Re was incorporated under the laws of Barbados on December 14, 1987. Only four days later, on December 18, 1987, the AIG pool companies sent $160 million dollars of premium covering $400 million of loss reserves to Coral Re which had only $52,680,000 in capital and $488,260 in retained earnings. The transfer of such a large liability to an undercapitalized insurer with no operating record is a further indication that AIG controls Coral Re.

The capital of Coral Re was reduced from $52,680,000 in 1987 to $15,000,000 in 1991. In accordance with the exit provision of the private placement memorandum, an investor that wants to terminate his investment is entitled to receive the book value of his entire investment in the common stock of Coral Re. In 1991, 628 common shares were redeemed, each investor received the book value of the common stock. The issued and paid common shares were reduced from 878 common shares to 250 common shares.

Coral Re has not written any business other than the premiums assumed from AIG companies. In 1991, Coral Re reported $1,009,866,399 in assumed losses outstanding from AIG pool companies with only $15,000,000 in capital and $104,732 in retained earnings. The continuation of this reinsurance relationship, in view of such a high leverage ratio, is further indication of control by the AIG pool companies.

4) In 1991, approximately 83% of Coral Re's assets were pledged for letters of credit with AIG pool companies as the beneficiaries.

5) A material amount of the premiums ceded to Coral Re is paid directly to Uberseebank, which is an affiliate of AIG. The bank acts as a collateral agent for the letters of credit to which the pool companies are the beneficiaries.

6) All of Coral Re's accounting and administrative functions are performed by American International Management Company (Barbados) Ltd., an affiliate of the AIG pool companies, through a management agreement effective December 1987.

7) Article V of the quota share replacement agreement with Coral Re defines "contract period" as the first contract period December 18, 1987 through December 31, 1987. Subsequent contract periods are January 1st to December 31st for each subsequent calendar year. A literal reading of the contract indicates that each contract period would be reviewed independently. If the experience for the transferred reinsurers developed such that the losses exceeded the contract year policy limit, the excess would not be covered by the agreement.

The AIG pool companies have aggregated the coverage limits for all contract periods, and would expect that any excess in a given period would be covered by any unused limits in a different contract period covered by the treaty. The AIG pool companies unilaterally aggregated all contract periods contrary to the reinsurance contract provisions. This further demonstrates AIG pool companies' control of Coral Re.

8) The following is a list of shareholders of Coral Re at December 31, 1991:

Shareholder	No. of Shares	Percent of Ownership
Abeille Reassurance Paris, France	24	9.6%
Abeille Assurance Paris, France	24	9.6%
CT Insurance Company Ltd. Bridgetown, Barbados	50	20.00%
First Transportation Indemnity Ltd. Bridgetown, Barbados	100	40.00%
The Molsons Company Ltd. Toronto, Canada	52	20.80%
Total	250	100.00%

The following was noted about 80% of the shareholders of Coral Re:

i) First Transportation Indemnity Ltd., formerly Laidlaw International Ltd., (Barbados) was also managed by American International Management Company Ltd. (Barbados).

ii) The President and CEO of the Molsons Company Ltd. is a Director of AIG.

iii) Abeille Assurance and Abeille Reassurance together own more than 19.2% of Coral Re stock. An Abeille Assurance affiliate, Abeille General Insurance Company is managed by an AIG subsidiary (North American Managers Inc.) and has common officers and a common chairman of the board with AIG. Abeille Assurance and Coral Re have a common director. Also reinsurance recoverable

balances from Abeille Reassurance are transferred to Coral Re in the quota share replacement treaty.

Both the "Stock Subscription Agreement" and the "Private Placement Memorandum" were executed in December 1987 which clearly establishes AIG's involvement in creating Coral Re for the sole purpose of allowing AIG's U.S. companies to write more business and avoid limitations on such writings due to U.S. statutory requirements.

The AIG pool companies did not include Coral Re in their annual holding company filings with the Department since 1987 to the present. Also, AIG's senior management, in a meeting with the New York Insurance Department denied that AIG or its affiliates control Coral Re. The Department requested documentation to support $200 million dollars of investment yield on funds held by Coral Re. The Company responded that it did not control Coral Re and this was third party information which was not available to them.

In light of the above, the Department has advised the Company of its concerns that AIG and the Company may have "...the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of..." Coral Re. In an effort to alleviate the Department's concerns regarding the relationship between the AIG companies and Coral Re, the Company has agreed to the following actions:

Effective January 1, 1996 the Company will commute substantially all liability under the "replacement" agreement with Coral Re;

Not cede premium under any reinsurance replacement agreement without the approval of the New York Insurance Department;

Make certain that all reinsurance agreements comply with Chapter 22 of the NAIC's Accounting Practices and Procedures Manual.

The Company has also agreed to report any reinsurer that has characteristics similar to Coral Re as an affiliated reinsurer in future filings with state insurance regulators.

d) Section 310(a)(3) of the New York Insurance Law states as follows:

"The officers and agents of such insurer or other person shall facilitate such examination and aid such examiners in conducting the same so far as it is in their power to do so."

The AIG pool companies have failed to provide the following Department-requested information relevant to the examination which is in violation of the provisions of Section 310(a) of the New York Insurance Law:

1) A complete restated balance sheet reflective of the amounts that would have been reported had the Coral Re treaty not been entered into. This was requested in a meeting in the Department on February 4, 1993 and again on April 29, 1993.

2) The detailed calculation of the investment yield. The only response after numerous requests was that the interest rate was 8.76%. The examiners repeatedly requested further documentation and the Company responded that this was "third" party information which is not available to AIG. It is inconceivable that the Company would pay over $800 million dollars in consideration and could not receive detailed information supporting the investment yield in the final premium calculation, especially in view of the fact that Coral Re is managed by an affiliated company of the AIG pool companies.

3) The support for the applicable expenses in the retrospective premium calculation amounting to $13 million. The Company's response was that it primarily relates to the letters of credit commissions. When the examiner requested further detail information, the Company responded that this was not available to AIG as this represents Coral Re's internal documentation.

It is recommended that the Company comply with Section 310(a)(3) of the New York Insurance Law and provide information requested to facilitate the examination.

D. Holding Company System

American Home Assurance Company is wholly-owned by AIG, a Delaware holding company organized in 1967, which owns directly or indirectly all of the capital stock of several insurance companies including the American Home/National Union Group.

The Company, in turn, owns part of the companies listed below which are part of the same holding company system of which it is a member:

Company Ownership	Percent of Ownership
American International Recovery Inc.	100.00%
American International Ins. Co.	25.00%
AIG Equipment Lessors, Inc.	25.00%
AIG Hawaii Insurance Company	100.00%
AIG Realty, Inc.	30.96%
AIG Overseas Finance Europe, Inc.	100.00%
AIGOF Investments	100.00%
American International Life Assurance Co.	22.48%
American International Oil & Gas Corp.	30.00%
Transatlantic Reinsurance Corporation	33.00%

AGGREGATE LIABILITY ADVERSE LOSS DEVELOPMENT AGREEMENT OF REINSURANCE

between

COLOGNE REINSURANCE COMPANY (DUBLIN) LIMITED
An Irish corporation
having its principal offices at
1 George's Dock
I.F.S.C.
Dublin 1, Ireland

(the "Company")

and

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH
a Pennsylvania corporation
having its principal offices at
175 Water Street, New York, New York, United States 10038

(the "Reinsurer")

In consideration of the promises set forth in this Agreement, the parties agree as follows:

Article I - SCOPE OF AGREEMENT

As a condition precedent to the Reinsurer's obligations under this Agreement, the Company shall cede to the Reinsurer the business described in this Agreement, and the Reinsurer shall accept such business as reinsurance from the Company. The terms of this Agreement shall determine the rights and obligations of the Company.

Article II - PARTIES TO THE AGREEMENT

This Agreement is solely between the Company and the Reinsurer. When more than one Company is named as a party to this Agreement, the first Company named shall be the agent of the other companies as to all matters pertaining to this Agreement. Performance of the obligations of each party under this Agreement shall be rendered solely to the other party. However, if the Company becomes insolvent, the liability of the Reinsurer shall be modified to the extent set forth in the article entitled INSOLVENCY OF THE COMPANY. In no instance shall any insured or reinsured of the Company or any claimant against an insured or reinsured of the Company have any rights under this Agreement.

Article III - BUSINESS SUBJECT TO THIS AGREEMENT

This Agreement shall apply to Ultimate Net Loss which the Company is or becomes obligated to pay under the Original Reinsurance Contracts written by the Company and listed in Schedule A.

Article IV - TERM

This Agreement shall become effective at 12:01 a.m., Central European Time on March 31, 2001 and shall remain in force and effect until the obligations hereunder have been discharged.

Article V - LIABILITY OF THE REINSURER

The Reinsurer shall pay to the Company 100% of the Company's Net Retained Liability of 50% for Ultimate Net Loss paid by the Company on and after March 31, 2001 on the business reinsured hereunder, subject to an overall limit of liability to the Reinsurer of US $300,000,000.

Article VI - DEFINITIONS

(a) Ultimate Net Loss means the sum actually paid or payable by the Company in settlement of losses for which it is liable under the Original Reinsurance Contracts, including Allocated Adjustment Expense, after deduction of salvage, subrogation and other recoveries and after deduction of amounts due from all other reinsurance, whether collectible or not. If the Company becomes insolvent, this definition shall be modified to the extent set forth in the article entitled INSOLVENCY OF THE COMPANY.

Notwithstanding the provisions of the article entitled MANAGEMENT OF CLAIMS AND LOSSES, this term shall also include 100% of Losses in Excess of Policy Limits and 100% of Extra Contractual Obligations.

Nothing in this definition shall imply that losses are not recoverable under this Agreement until the Company's Ultimate Net Loss has been finally ascertained.

(b) Allocated Adjustment Expense means expenditures by the Company within the terms of the Company's policies in the direct defense of claims and in connection with Losses in Excess of Policy Limits and Extra Contractual Obligations and as allocated to an individual claim or loss (other than for office expenses and for the salaries and expenses of employees of the Company or of any subsidiary or related or wholly owned company of the Company) made in connection with the disposition of a claim, loss, or legal proceeding including investigation,

negotiation, and legal expenses; court costs; prejudgment interest; and postjudgment interest.

(c) Losses in Excess of Policy Limits and Extra Contractual Obligations

(1) "Loss in Excess of Policy Limits" means a payment made to a third party claimant in excess of the policy limit which the Company is legally obligated to pay resulting from an action taken by the insured or assignee arising from a third party claimant being awarded an amount in excess of the Company's policy limit as a result of the Company's failure to settle within the policy limit or of the Company's alleged or actual negligence or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of any action against its insured or in the preparation or prosecution of an appeal consequent upon such action.

(2) "Extra Contractual Obligation" means a loss which the Company is legally obligated to pay, which is not covered under any other provision of this Agreement and which arises from the Company's handling of any claim on the business reinsured hereunder.

The date on which a Loss in Excess of Policy Limits or an Extra Contractual Obligation is incurred by the Company shall be deemed, in all circumstances, to be the date of the original Occurrence.

There shall be no coverage hereunder where the Loss in Excess of the Policy Limit or the Extra Contractual Obligation has been incurred due to the fraud or criminal conduct of a member of the Board of Directors, a corporate officer of the Company, or any other employee of the Company, acting individually or collectively or in collusion with any individual or corporation or any other organization or party involved in the investigation, defense or settlement of any claim covered hereunder.

Any insurance or reinsurance, whether collectible or not, which indemnifies or protects the Company against claims which are the subject matter of this definition and any contribution, subrogation, or recovery shall inure to the benefit of the Reinsurer and shall be deducted to arrive at the amount of the Company's Net Loss.

(d) Occurrence means each accident or occurrence or series of accidents or occurrences arising out of one event regardless of the number of employees or employers involved, except as modified below.

As respects an occupational or other disease or cumulative injury under workers' compensation or employers' liability policies for which the employer is liable:

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(1) Which arises from a specific sudden and accidental event limited in time and place, such occupational or other disease suffered by one or more employees of one or more employers shall be deemed to be an Occurrence within the meaning of this Agreement and the date of Occurrence shall be deemed to be the date of the sudden and accidental event.

(2) Which does not arise from a specific sudden and accidental event limited in time and place, such occupational or other disease or cumulative injury shall be deemed to be an Occurrence within the meaning of this Agreement, and the date of Occurrence shall be deemed to be the date of the beginning of the disability for which compensation is payable if the case is compensable under the Workers' Compensation law; or the date that disability due to said disease actually began if the case is not compensable under the Workers' Compensation law.

Each case of an employee contracting such occupational or other disease or cumulative injury for which the employer insured by the Company is held liable shall be considered a separate Occurrence regardless of the date of loss.

(e) **Original Reinsured** means the insurance company or reinsurance company to which the Company issued an Original Reinsurance Contract.

(f) **Original Reinsurance Contract** means all binders, policies, certificates, agreements, treaties, bonds, or contracts or reinsurance or retrocession authorized by the Company to Original Reinsureds under the same Reinsurance Form covering the same liability, whether issued in one layer or more than one layer, and appearing on Schedule A.

(g) **Reinsurance Form** means the type of liability reinsurance afforded by the Company to its cedants and retrocedants.

(h) **Net Retained Liability** means, and this Agreement shall only apply to, that portion of any Original Reinsurance Contract covered by this Agreement which the Company retains net for its own account, and in calculating Ultimate Net Loss only loss or losses in respect of that portion of any insurance or reinsurance which the Company retains net for its own account shall be included. It is understood and agreed that the amount of the Reinsurer's liability under this Agreement shall not be increased due to the Company's failure to retrocede in accordance with its normal practice, nor by reason of the inability of the Company to collect from any other reinsurer, whether specific or general, any amounts which may have been due from them, whether that inability arises from the insolvency of the other reinsurer or otherwise.

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Article VII - EXCLUSIONS

This Agreement shall not apply to any liability excluded by the Original Reinsurance Contracts.

Article VIII - MANAGEMENT OF CLAIMS AND LOSSES

The Company shall investigate and settle or defend all claims and losses. When requested by the Reinsurer, the Company shall permit the Reinsurer, at the expense of the Reinsurer, to be associated with the Company in the defense or control of any claim, loss, or legal proceeding which involves or is likely to involve the Reinsurer. All payments of claims or losses by the Company within the terms and limits of its policies which are within the limits set forth in the applicable Agreement shall be binding on the Reinsurer, subject to the terms of this Agreement.

Article IX - RECOVERIES

The Company shall pay to or credit the Reinsurer with the Reinsurer's portion of any recovery obtained from salvage, subrogation, or other insurance. Allocated Adjustment Expense for recoveries shall be deducted from the amount recovered. However, if the Allocated Adjustment Expense incurred in obtaining recoveries exceeds the amount recovered, if any, the excess Allocated Adjustment Expense shall be apportioned between the parties in proportion to the liability of each party for the loss before the recovery was obtained.

The Reinsurer shall be subrogated to the rights of the Company to the extent of its loss payments to the Company. The Company agrees to enforce its rights of salvage, subrogation, and its rights against insurers or to assign these rights to the Reinsurer.

Recoveries under this Agreement shall be distributed to the parties in an order inverse to this in which their liabilities accrued.

Article X - LOSS TRANSFER PAYMENT AND CONSIDERATION

The Company shall pay to the Reinsurer a loss transfer payment of US $250,000,000 within thirty business days after the execution of this Agreement. Ninety-eight percent (98%) of this sum shall be withheld and retained within an experience account (the "Experience Account") by the Company from which the Company shall make claim payments due from the Reinsurer hereunder.

Article XI - REPORTS AND REMITTANCES

(a) Claims and Losses

Within 90 days of the end of each year the Company shall render to the Reinsurer an annual status report of the Experience Account during the preceding year showing:

Credit Items:

A) Credit balance forward from the previous statement

B) Withheld premiums equal to 98% of reinsurance premiums due

C) Interest on the positive balance within the account calculated at a rate of 3% per year on the beginning balance brought forward from the previous statement

Debit Items:

A) Ultimate Net Loss payments made by the Company during the year.

(b) Within 90 days of the end of each year the Company shall prepare a report for the Reinsurer showing:

A) Outstanding reserves, including Allocated Adjustment Expenses, at the beginning of the year, plus

B) The sum of reserves, including Allocated Adjustment Expenses, increased or established during the year, minus

C) Claims and Allocated Loss Adjustment Expenses paid during the year, equals

D) Outstanding reserves, including Allocated Adjustment Expenses, at the end of the year.

Upon receipt of this report the Reinsurer shall authorize the Company to draw payment from the experience account for the balance due in respect of claims paid during the year. If the balance in the experience account is insufficient to satisfy the obligation of the Reinsurer, then the Reinsurer shall pay the amount owed in excess of the balance of the experience account within 90 days after receipt of the report. All balances shall be converted to United States Dollars at the exchange rate used in the Reinsurer's books.

(b) General

In addition to the reports required by (a) above, the Company shall furnish such other information as may be required by the Reinsurer for the completion of the Reinsurer's quarterly and annual statements and internal records.

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All reports shall be rendered on forms or in format acceptable to the Company and the Reinsurer.

Article XII - ERRORS AND OMISSIONS

The Reinsurer shall not be relieved of liability because of an error or accidental omission of the Company in reporting any claim or loss or any business reinsured under this Agreement, provided that the error or omission is rectified promptly after discovery. The Reinsurer shall be obligated only for the return of the premium paid for business reported but not reinsured under this Agreement.

Article XIII - SPECIAL ACCEPTANCES

Business not within the terms of this Agreement may be submitted to the Reinsurer for special acceptance and, if accepted by the Reinsurer, shall be subject to all of the terms of this Agreement except as modified by the special acceptance.

Article XIV - RESERVES AND TAXES

The Reinsurer shall maintain the required reserves as to the Reinsurer's portion of unearned premium, if any, claims, losses, and Allocated Adjustment Expense.

The Company shall be liable for all premium taxes on premium ceded to the Reinsurer under this Agreement. If the Reinsurer is obligated to pay any premium taxes on this premium, the Company shall reimburse the Reinsurer; however, the Company shall not be required to pay taxes twice on the same premium.

Article XV - OFFSET

The Company or the Reinsurer may offset any balance, whether on account of premium, commission, claims or losses, Adjustment Expense, salvage, or otherwise, due from one party to the other under this Agreement or under any other agreement heretofore or hereafter entered into between the Company and the Reinsurer.

Article XVI - INSPECTION OF RECORDS; CONFIDENTIALITY

A) Inspection of records Subject to paragraph B, Confidentiality, the Company shall allow the Reinsurer to inspect, at reasonable times, the records of the Company relevant to the business reinsured under this Agreement, including the Company's files concerning claims, losses, or legal proceedings which involve or are likely to involve the Reinsurer. The inspection may only be conducted by representatives of the Reinsurer who execute a confidentiality agreement in a form satisfactory to the Company.

B) Confidentiality The Reinsurer acknowledges that the Original Reinsurance Contracts and the Company's records with respect to those contracts constitute valuable privileged, commercial and confidential information not generally known about the operations or clientele of the Company ("Company confidential information"). Neither the Reinsurer nor

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its representatives shall, directly or indirectly, disclose, divulge or make available any Company confidential information whether acquired before or after the date of this Agreement, including but not limited to information relating to investment, financial, accounting, names and addresses of clients, carrier relationships, insurance broker/agent relationships, merchandising, marketing and selling practices, and the services, functions, systems, computer programs, procedures, or work products contemplated by, or produced by the Reinsurer or its representatives pursuant to this Agreement or which they are to use or perform in connection with the Agreement. As used in this Agreement, "Company confidential information" does not include information which (a) is or becomes generally available to the public other than as a result of a disclosure by the Reinsurer or its representatives, (b) was available to the Reinsurer on a non-confidential basis prior to its disclosure by the Reinsurer or its representatives, or (c) becomes available to the Reinsurer on a non-confidential basis from a person other than the Company or its representatives who is not otherwise bound by a confidentiality agreement with the Company or its representatives, or is not otherwise prohibited from transmitting the information to the Reinsurer.

Article XVII - ARBITRATION

All unresolved differences of opinion between the Company and the Reinsurer relating to this Agreement, including its formation and validity, shall be submitted to arbitration consisting of one arbitrator chosen by the Company, one arbitrator chosen by the Reinsurer, and a third arbitrator chosen by the first two arbitrators.

The party demanding arbitration shall communicate its demand for arbitration to the other party by registered or certified mail, identifying the nature of the dispute and the name of its arbitrator, and the other party shall then be bound to name its arbitrator within 30 days after receipt of the demand.

Failure or refusal of the other party to so name its arbitrator shall empower the president of the Insurance Institute of Ireland to name the second arbitrator. If the first two arbitrators are unable to agree upon a third arbitrator after the second arbitrator is named, each arbitrator shall name three candidates, two of whom shall be declined by the other arbitrator, and the choice shall be made between the two remaining candidates by drawing lots. The arbitrators shall be impartial and shall be active or retired officers of property or casualty insurance or reinsurance companies.

The arbitrators shall adopt their own rules and procedures and are relieved from judicial formalities. In addition to considering the rules of equity and the customs and practices of the international insurance and reinsurance business, the arbitrators shall make their award with a view to effecting the intent of this Agreement.

The arbitration shall take place in London and English law shall apply to the conduct of the arbitration.

The decision of the majority of the arbitrators shall be in writing and shall be final and binding upon the parties.

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Each party shall bear the cost of its own arbitrator and shall jointly and equally bear with the other party the expense of the third arbitrator and other costs of the arbitration. In the event both arbitrators are chosen by one party, the fees of all arbitrators shall be equally divided between the parties.

The arbitration shall be held at the times and places agreed upon by the arbitrators.

Article XVIII - INSOLVENCY OF THE COMPANY

In the event of the insolvency of the Company, the reinsurance proceeds will be paid to the Company or the liquidator, with reasonable provision for verification, on the basis of the claim allowed in the insolvency proceeding without diminution by reason of the inability of the Company to pay all or part of the claim, except as otherwise specified in the statutes of any state having jurisdiction of the insolvency proceedings or except where the Agreement, or other written agreement, specifically provides another payee of such reinsurance in the event of insolvency.

The Reinsurer shall be given written notice of the pendency of each claim against the Company on the contract(s) reinsured hereunder within a reasonable time after such claim is filed in the insolvency proceedings. The Reinsurer shall have the right to investigate each such claim and to interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defenses which it may deem available to the Company or its liquidator. The expense thus incurred by the Reinsurer shall be chargeable, subject to court approval, against the insolvent Company as part of the expense of liquidation to the extent of a proportionate share of the benefit which may accrue to the Company solely as a result of the defense undertaken by the Reinsurer.

Article XIX Cancellation

This Agreement may be immediately cancelled on written notice by either party if:

A) The performance in whole or in part of this Agreement is prohibited or rendered impossible de jure or de facto, in particular, and without prejudice to the generality of the preceding words, in consequence of any law or regulation which is or shall be in force in any country or territory, or if any law or regulation shall directly or indirectly prevent the payment of any or all of the sums due to or from either party;

B) The other party has become insolvent or unable to pay its debts or has lost the whole or any part of its capital;

C) There is any material change in ownership or control of the other party;

D) The country or territory in which the other party resides or has its headquarters or is incorporated is involved in armed hostilities with any other country, whether war is declared or not, or is partly or wholly occupied by another power; or

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E) The other party fails to comply with any of the terms and conditions of this Agreement.

This Agreement may be cancelled by the Company at any time on 90 days written notice to the Reinsurer.

Written notices under this article shall be sent by Telex, facsimile or registered mail and shall be deemed received when sent or, where communications between the parties are interrupted, upon the attempt to send. All outstanding losses and other reserves, if any, for business covered by this Agreement shall be commuted as of the date of cancellation upon payment to the Company of the amount equal to the credit balance of the Experience Account as of the date of cancellation. Payment and acceptance of that amount shall constitute a full and final mutual release of all liabilities of the parties under this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in duplicate,

this _____ day of _____, 2001,

COLOGNE REINSURANCE COMPANY (DUBLIN) LIMITED

[redacted]

Attest: _____ Financial Controller

and this 28 day of _____, 2001.

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH

_____

Attest: _____

AGGREGATE LIABILITY ADVERSE LOSS DEVELOPMENT AGREEMENT OF REINSURANCE

between

COLOGNE REINSURANCE COMPANY (DUBLIN) LIMITED
An Irish corporation
having its principal offices at
1 George's Dock
I.F.S.C.
Dublin 1, Ireland

(the "Company")

and

NATIONAL UNION FIRE INSURANCE COMPANY OF PITTSBURGH
a Pennsylvania corporation
having its principal offices at
175 Water Street, New York, New York, United States 10038

(the "Reinsurer")

In consideration of the promises set forth in this Agreement, the parties agree as follows:

Article I - SCOPE OF AGREEMENT

As a condition precedent to the Reinsurer's obligations under this Agreement, the Company shall cede to the Reinsurer the business described in this Agreement, and the Reinsurer shall accept such business as reinsurance from the Company. The terms of this Agreement shall determine the rights and obligations of the Company.

Article II - PARTIES TO THE AGREEMENT

This Agreement is solely between the Company and the Reinsurer. When more than one Company is named as a party to this Agreement, the first Company named shall be the agent of the other companies as to all matters pertaining to this Agreement. Performance of the obligations of each party under this Agreement shall be rendered solely to the other party. However, if the Company becomes insolvent, the liability of the Reinsurer shall be modified to the extent set forth in the article entitled INSOLVENCY OF THE COMPANY. In no

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instance shall any insured or reinsured of the Company or any claimant against an insured or reinsured of the Company have any rights under this Agreement.

Article III - BUSINESS SUBJECT TO THIS AGREEMENT

This Agreement shall apply to Ultimate Net Loss which the Company is or becomes obligated to pay under the Original Reinsurance Contracts written by the Company and listed in Schedule A.

Article IV - TERM

This Agreement shall become effective at 12:01 a.m., Central European Time on December 1, 2000 and shall remain in force and effect until the obligations hereunder have been discharged.

Article V - LIABILITY OF THE REINSURER

The Reinsurer shall pay to the Company 50% of the Company's Net Retained Liability for Ultimate Net Loss paid by the Company on and after December 1, 2000 on the business reinsured hereunder, subject to an overall limit of liability to the Reinsurer of US $300,000,000.

Article VI - DEFINITIONS

(a) Ultimate Net Loss means the sum actually paid or payable by the Company in settlement of losses for which it is liable under the Original Reinsurance Contracts, including Allocated Adjustment Expense, after deduction of salvage, subrogation and other recoveries and after deduction of amounts due from all other reinsurance, whether collectible or not. If the Company becomes insolvent, this definition shall be modified to the extent set forth in the article entitled INSOLVENCY OF THE COMPANY.

Notwithstanding the provisions of the article entitled MANAGEMENT OF CLAIMS AND LOSSES, this term shall also include 100% of Losses in Excess of Policy Limits and 100% of Extra Contractual Obligations.

Nothing in this definition shall imply that losses are not recoverable under this Agreement until the Company's Ultimate Net Loss has been finally ascertained.

(b) Allocated Adjustment Expense means expenditures by the Company within the terms of the Company's policies in the direct defense of claims and in connection with Losses in Excess of Policy Limits and Extra Contractual Obligations and as allocated to an individual claim or

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