[redacted]

From: [redacted]
Sent: Thursday, December 09, 1999 10:45 AM
To: [redacted]
Cc: [redacted] @New York
Subject: Urgent Reinsurance Contract (Uniseg/Forex)

I discussed the above with [redacted] yesterday. Since I am due to leave for Japan this evening and the proposals involve AIRCO, I thought I should summarise my understanding of the situation. [redacted] has also been involved in discussions about this.

I understand that we have a foreign exchange loss of $44m in our Brazilian life operations and we are being asked to come up with a reinsurance contract before the end of the year which will somehow "cancel" out the loss. The source of the request is from Joe Umansky's team, apparently based on Howie Smith's instructions.

The first suggestion was that AIRCO Life should effect reinsurance on part of the Brazilian Life business with a Barbados company Union Excess. AIRCO would make a reinsurance recovery under the contract. Clearly there could be problems getting approval for this from our auditors, and I felt that we should also run the proposals past Mike Murphy to see if he is happy with it. There was also the tricky issue of finding a suitable block of business in Brazil and a reinsurance structure that would work.

The deal is apparently very urgent, since we need a contract in place in time for it to be approved at a board meeting of Union Excess on Tuesday 14th Dec.

I had further discussions with [redacted] (of Umansky's team) yesterday and the details are now quite different from what we originally thought. It seems that it does not need to be a reinsurance contract based on Brazil after all: any block of Life business would be OK. Also, since Union Excess is not licensed to accept life business, it would have to be "non-life" business coming from the Life Division, which probably means A&H.

As it stands now, I think all we can do is locate a suitable block of A&H business within the Life Division that could be used. The wording of the reinsurance contract would depend on what we are reinsuring, but we have received a draft of how this would be handled on the Gen side, and I understand that [redacted] is now involved with this. [redacted] discussed some of the accounting issues yesterday evening, but it appears that we do not yet have a clear picture of what has to be achieved.

Regards

[redacted]

[redacted]
From: [redacted]
Sent: Wednesday, August 30, 2000 2:42 PM
To: [redacted]
Cc: Umansky, Joseph; [redacted] Smith, Howard; [redacted]@70 Pine; [redacted]
Subject: FW: Nan Shan 2000

Importance: High

Following-up as to the status of the 2000 agreement. Will anything be book in the 3rd quarter as previously discussed.
Please advise.
Thanks

[redacted]
AIG - Life Management Division - Wilmington, DE
Phone: [redacted] Fax: [redacted]
Internet E-Mail: [redacted]@AIG.com

-----Original Message-----
From: [redacted]
Sent: Tuesday, May 16, 2000 11:50 AM
To: [redacted]
Subject: FW: Nan Shan 2000
Importance: High

[redacted]
Before I send an e-mail to [redacted] asking for projected premiums, claims, expenses, etc. as last year, please confirm the amounts (I take it that this is a continuation of Brazil F/X).

-----Original Message-----
From: [redacted]
Sent: Wednesday, May 10, 2000 4:05 PM
To: [redacted]
Cc: Umansky, Joseph
Subject: Nan Shan 2000
Importance: High

[redacted] attached is a draft reinsurance agreement for the 2000 accident year of the same structure as the 1999 cover. The 2000 cover is designed to yield a 28m underwriting benefit (2m premium and 30m recovery). [redacted] informed me that 28m is the desired underwriting benefit.

Unlike last years the attachment point is designed to be sure of consuming the full 30m limit of the policy. I am using a 38% attachment rather than last years 40%.

Could you look at the latest full year loss ratio and premium volume projections for the subject business of this contract and let me know if we have comfort that the full limit will be consumed.

Reinsurance Cover 2000.doc

EXECUTION COPY

SETTLEMENT AGREEMENT

This SETTLEMENT AGREEMENT (the "Settlement Agreement"), dated as of March 14, 2005, is entered into by and between AMERICAN INTERNATIONAL SPECIALTY LINES INSURANCE COMPANY, an Alaska stock insurance company (the "Company"), and the STATE OF ALASKA, DIVISION OF INSURANCE (the "Division").

WITNESSETH:

WHEREAS, the Division has completed its statutory financial examination of the Company for the three year period ending December 31, 2002 and issued a final report of examination (the "Examination Report") containing various "Findings" and "Recommendations;"

WHEREAS, the Company is required under Alaska law to comply with such Recommendations;

WHEREAS, the Company disagrees with some of the Recommendations contained in the Examination Report and by letter dated December 23, 2004, requested a hearing relating to the Examination Report under AS 21.06.180;

WHEREAS, the Company and the Division have engaged in extensive settlement negotiations and believe that an agreed-upon settlement would be in the best interests of both the Company and the Division; and

WHEREAS, concurrently with the effectiveness of the Settlement Agreement, the Company will withdraw its hearing request relating to the Examination Report.

NOW, THEREFORE, the Company and the Division each hereby agree as follows:

1. After the Examination Report was sent to the Company recommending that the Company remove the Coventry Life Settlements Program from its book of business, the Company assigned and transferred all rights, obligations, duties, and liabilities under the Coventry Life Settlements Program Insurance Agreement and the related reinsurance agreements to American International Reinsurance Company, Ltd., a Bermuda insurance company and an affiliate of the Company. Under the transfer agreements, copies of which are attached hereto as Exhibit A, the Company received a full release of liability from all parties. The transfer agreements were made effective October 1, 2004.

As a transfer to an affiliate, the Company was required to seek and obtain approval from the Division prior to the transfer and to file and have approved a Form D. The Company did not seek nor obtain the required approvals from the Division. However, as part of this settlement, the Division will not require the Company to unwind the transfer.

2. The Company will record the transfer agreements as the correction of an error in previously issued financial statements under SSAP No. 3. More specifically, the Company will:

a. adjust surplus in its 2004 Annual Statement, as provided in paragraph 10 of SSAP No. 3, by approximately $3.7 million (representing less than 1% of the company's surplus at December 31, 2003) representing the net impact of all activity recorded under the Insurance Agreement and related reinsurance from October 2, 2001 (inception) through December 31, 2003, net of taxes;

b. reverse the activity recorded under the Insurance Agreement and related reinsurance from January 1, 2004 through September 30, 2004 in its 2004 Annual Statement; and

c. make the disclosures set forth in paragraph 13 of SSAP No. 3 in its 2004 Annual Statement. The format and wording of the disclosures shall be as set forth in Exhibit B hereto.

3. The Company's response letter to the Recommendations set forth in the Examination Report is attached as Exhibit C hereto.

4. The Company shall provide a certification in the form set forth as Exhibit D hereto signed by its President to the effect that the Company's 2004 Annual Statement, as filed with the Division and the NAIC, reflects the implementation of all Recommendations cited in the Examination Report as applied to the 2004 activity of the Company.

5. The Company shall pay a civil fine of $400,000 for violations of Alaska law arising out of the Coventry Life Settlements Trust Program and related transactions.

6. Concurrently with the execution and delivery of this Settlement Agreement, the Company shall withdraw its request for a hearing on the Examination Report dated December 23, 2004.

7. The Company and the Division each agree that:

a. the foregoing represents a full and final settlement of their disagreements on any and all matters identified in the Examination Report;

b. it has been represented by counsel in connection with the settlement effected herein, and has not relied upon any representations made by the other party in entering into this Settlement Agreement, other than any representations made by a party to the other in writing; and

c. the Division will take no further action against, and will seek no further fines or penalties from, the Company, its parents, directors, officers, and affiliates relating to any and all matters identified in the Examination Report; provided, however, that this Settlement Agreement shall not preclude the Division from taking action against the Company for any future failure to comply with the Recommendations set forth in the Examination Report or for seeking fines or penalties from the Company for any future failure to comply with such Recommendations or Alaska law.

IN WITNESS WHEREOF, the parties hereto have caused this Settlement Agreement to be executed by their duly authorized representatives as of the date first set forth above.

AMERICAN INTERNATIONAL SPECIALTY LINES INSURANCE COMPANY

By: [redacted]
Name: [redacted]
Title: [redacted]

STATE OF ALASKA,
DIVISION OF INSURANCE

By: [redacted]
Name: [redacted]
Title: [redacted]

Office of
M. R. Greenberg
Chairman

April 16, 2001

Mr. David Fields

There have been more and more situations by viatical sales schemes. The latest one is in Florida.

It seems to me that anybody doing anything in the field stands the risk of adverse PR.

I am concerned that we get ourselves into another "bail bond" problem - I am uneasy about this.

MRG

Attachment

Office of
M. R. Greenberg
Chairman

March 12, 2001

Mr. David Fields

RE: Forbes article entitled, "Death Wish" 3/19/01

Not very attractive.

MRG

MRG/mb
Attachment

agents—promise investors lush returns.

This is a pretty ghoulish way to make a buck, but as a cold-blooded investment it sounds good. Too bad for a lot of viatical investors that their capital expires before the patients do.

That's happening to [redacted] 79, a retiree from Collins, Iowa who in 1997 plunked down $46,000 for a partial interest in four policies, each insuring someone dying from AIDS. Documents from viatical firm Dedicated Resources guaranteed her a fixed return of 128% in two years.

Well, three years later, all the patients are still alive. Not only that, turns out the sales contract requires [redacted] to start chipping in for the patients' premiums after three years. And the 128% guaranteed return? An inflated number. Seems this was really 28%; the 100% part was just getting back her principal. By next year [redacted] premiums will have whittled her aftertax return to just 4.5%, calculates [redacted], a Kalamazoo, Mich. fee-only insurance expert. And if the patients live any longer than that, she will start losing money. [redacted] an attorney for Delray Beach, Fla.-based Dedicated, says the company does not guarantee returns. That may be true now, but on [redacted] paperwork a 28% return is promised and other words contradicting that claim are buried.

Don't investors at least get to check out, before paying, the real medical situation of the patients and the particulars of their policies? Not usually. Some viatical firms don't even provide enough information to show that the patients exist and their policies remain paid up and in force, says [redacted] author of *Viatical Settlements: An Investor's Guide* (Bialkin Books, 1998). Even when they do furnish copies of medical records and policies, what does that tell you? Not much. Because of this opacity, says planner [redacted] "An astute investor should throw a viatical salesman out the door."

Beyond these questions, the viatical industry lately has been hit with a batch of outright fraud complaints.

[redacted] 52, a former medical technologist from Occidental, Calif., contends that viatical firm Mutual Benefits altered life expectancies on the policies he bought to convince him that 20 patients were on their deathbeds, leading him to believe they would expire within four years. That was four years ago. According to his lawsuit against Fort Lauderdale, Fla.-based Mutual Benefits, he invested $570,000 and the patients are still living. An attorney for Mutual Benefits declines to comment.

DISCLOSURE OF DYING PEOPLE'S INSURANCE POLICIES AND THEIR MEDICAL RECORDS IS SPOTTY.

It gets worse. Some viatical firms use "senior settlements," recruiting older folks who are neither terminally nor even chronically ill to take out life insurance policies, to which unsuspecting investors buy rights.

Trouble is, insurers can rescind policies that are quickly sent to viatical-land. Insurer [redacted] is going to court to rescind five policies with a total death benefit of $5 million sold to old people in Florida allegedly recruited by brokers who had the policies flipped to viatical firm [redacted] Investors stand to get screwed if [redacted] succeeds in the case, set to go to trial in May in Miami's U.S. district court.

Yet another viatical scam, called "clean sheeting," involves recruiting people who really are terminally ill but uninsured. The recruits then take out an insurance policy by claiming to be healthy. The trick is to make sure the death benefit is small enough—often $100,000 or less—that a medical exam isn't required. Of course, buying one of these viaticated policies is deadly for investors: Should the underwriter discover the fraud within two years, it will cancel the coverage, even if the insured person has died. Investors get stiffed.

That was Alpha Capital Group's modus operandi when the New York company signed up AIDS patients to take out several policies each, claiming their last doctor's visit was for innocuous reasons like a flu shot. Some patients pocketed as much as $500,000 apiece for their part in the 1998–2000 scheme. Alpha executives, who pleaded guilty to money laundering and mail fraud, are awaiting sentencing in Tennessee. Several patients were also convicted.

Another egregious viatical scam was masterminded by [redacted] owner of now-defunct [redacted] His Ponzi scheme took 5,000 investors for $117 million. [redacted] Investors were told [redacted] owned $117 million of life insurance policies from the terminally ill and promised a 42% return on a 36-month investment. But [redacted] actually purchased policies worth only $6.5 million and misappropriated the remaining funds to support [redacted] lavish lifestyle—exotic automobiles, boats, helicopters and vacation homes. [redacted] was sentenced to 55 years in federal prison in January.

Don't count on government regulators to monitor this industry. "No one can stop viatical firms from thumbing their noses at regulators," says [redacted] professor emeritus of insurance at Indiana University. There are 25 states, including Georgia, Wyoming, South Carolina and Nebraska, with no licensing requirements for viatical selling. Even real estate agents hawk them.

The Securities & Exchange Commission has tried to get involved by charging one viatical firm, Life Partners, with selling unregistered securities. The SEC won in a Washington, D.C. federal district court, but that ruling was overturned on appeal. Reason: These rotten investments are "insurance," overseen by the states, not "securities," regulated by the SEC. F

AMERICAN INTERNATIONAL COMPANY LTD.

P.O. Box HM 152, Hamilton, Bermuda HMAX
(441) 295-2121

FACSIMILE

	TO		FROM	
	NAME:	M. R. Greenberg	NAME:	Mike Murphy
	COMPANY:	AIG	COUNTRY:	Bermuda
	FAX #:	1 212 344 6828	FAX #:	(441) 295-6983
	TOTAL PAGES:	2	DATE:	August 16, 2001

See attached

cc: David Fields - 1 212 482 6098

Document2

Coventry
AIG Risk Finance
9/26

AIG RISK FINANCE
"THE UNCONVENTIONAL SOLUTIONS GROUP"
70 PINE STREET
NEW YORK, NY 10270

DAVID N. FIELDS, ACAS
PRESIDENT

PHONE: 212/770-5814
FACSIMILE: 212/482-6098

RECEIVED IN
EXECUTIVE FILES
OCT 0 1 2001

9-26-01

DATE: September 26, 2001

TO: Mr. M.R. Greenberg

FROM: D.N. Fields

RE: **Life Settlements Update**

9-19-01

Per your request, the following is an update from my note last week on the above captioned.

Coventry will sign documents partnering with us as soon as practicable - which at the latest should be Monday, October 1st. We expect premium production of at least $10 Million before the end of that week. We have already begun review of policies that can be acquired.

I will drop you a short note upon completion of our deal with Coventry. Please let me know if you wish a more in depth report.

[redacted]

cc: [redacted]

8/4

MEMO

RECEIVED
AUG 21 2003
EXECUTIVE FILES

AIG

Howard I. Smith
Vice Chairman,
Chief Financial Officer,
Chief Administrative Officer
70 Pine Street
New York, N.Y. 10270
Tel: (212) 770-6800
~~Fax: (212) 509-4543~~

8-4-03

Date: August 4, 2003

To: M.R. Greenberg

Re: Accounting Treatment for Life Settlement Business

Attached is a copy of the response I plan to send to Audit Committee members in connection with the anonymous letter (copy attached) we received on this issue.

Separately, you had asked about the volume of business we have transacted, inception to date. The following is a summary of the relevant P&L items through June 30, 2003:

Net written/earned premium	$927 million
Losses incurred	$851 million ($247 in paid losses)
Expenses	Virtually zero net of cede commission
GAAP U/W profit	$76 million

Please let me have your comments on the draft and I will forward to the Audit Committee members.

[redacted]
Attachment

PRIVATE AND CONFIDENTIAL

(This memorandum is based on personal interviews with AIG employees and assumes the accuracy of their comments).

TO: M.R. Greenberg   DATE: January 31, 1992

[redacted]

FROM: [redacted]

RE: AIGRM and AI Global Operations
Summary of Attached Memorandum

Privileged + Confidential Communication of Counsel

ILLEGAL CONDUCT

The conduct of AIG in connection with the domestic workers compensation ("WC"), general liability ("GL") and auto liability ("AL") business written by Division 55, Division 50 and AI Global involves various kinds of intentional violations of State and Federal law. Such conduct would also be a violation of the new Federal insurance fraud law if it is enacted in early 1992 as expected. Under the U.S. Sentencing Commission Guidelines which became law on November 1, 1991, the illegal activities are such that a Federal criminal conviction would expose AIG to fines and penalties in the hundreds of millions of dollars and would jeopardize the careers of numerous long-time employees. The major elements of illegality include false reporting of WC premiums as GL premiums, exceeding maximum legal WC premiums, avoiding residual market and other WC-related assessments and expenses, avoiding premium taxes, overcharging clients for residual market assessments and premium taxes, booking fictitious premiums and assets, SEC reporting violations, illegal rebates to insureds and intentional use of unfiled, unapproved WC contracts which would not qualify for regulatory approval in most States.

CORRECTIVE ACTIONS

1. Cessation Of Illegal Conduct. Instructions should be given immediately to all relevant parties that all false reporting of WC premiums as GL premiums and related illegal conduct described in the attached memorandum must cease immediately.

2. Housecleaning. In order for AIG to meet the requirements of the U.S. Sentencing Commission Guidelines concerning an effective Compliance Program, all employees who were aware of the illegal conduct over the years and who participated in, or had supervisory authority over those who committed the illegal acts, will have to be terminated or removed from positions of "substantial discretionary authority". Employees affected include J. Smetana, [redacted], [redacted], [redacted], [redacted], [redacted], [redacted] and numerous others.

3. Restitution. The amount of monetary damages to insureds, State tax authorities and other insurers caused by AIG's employees must be calculated and a method of restitution must be devised.

4. Compliance Program. Pursuant to the U.S. Sentencing Commission Guidelines, a monitoring and compliance program must be instituted to assure cessation of the illegal conduct and to detect and prevent any future illegal conduct.

PRIVATE AND CONFIDENTIAL

(This memorandum is based on personal interviews with AIG employees and assumes the accuracy of their comments).

TO: M.R. Greenberg [redacted] DATE: January 31, 1992

FROM: [redacted]

RE: AIGRM and AI Global Operations

I have now completed some preliminary informal information gathering and following are the results:

The conduct of AIG in connection with the domestic workers compensation ("WC"), general liability ("GL") and auto liability ("AL") business written by Division 55, Division 50 and AI Global* is permeated with illegality. The result is that AIG makes millions of dollars illegally each year. This conduct currently involves intentional violations of State and Federal law and assuming that, as expected, the Federal insurance fraud law is enacted early in 1992, this conduct will be a violation of the new insurance fraud law. Under the U.S. Sentencing Commission Guidelines which took effect on November 1, 1991, the level of management involvement and culpability, the amount of money involved and the widespread nature of the illegal activities are such that a Federal conviction would expose AIG to fines and penalties in the hundreds of millions of dollars and would cause the loss of jobs and careers of numerous long-time employees of AIG. The situation is so serious that it could threaten the continued existence of senior management in its current form. There are 13 primary elements of illegality involved, as follows:

(1) GENERAL REPORTING AND FILING VIOLATIONS. By various methods, AIGRM and AI Global ("AIGRM/Global") falsely report a substantial portion

*I understand that AI Global is being renamed and that its domestic WC, GL and AL business is being transferred to Division 55 and Division 50.

of their WC premiums as GL premiums. This is a violation of State statutes and regulations which require that premiums be reported by line of business. In addition, in many cases, guaranteed cost WC policy forms are filed and are the only forms approved for use by AIG in the particular States. However, the approved guaranteed cost forms are intentionally ignored by AIG employees, who write the business on Indemnity Agreement forms which have not been filed or approved and which would not qualify for approval in most States.

(2) <u>18 MONTH CLOSEOUT PROGRAM</u>. Under this program, AIGRM purports to terminate the WC policy at the first adjustment point 18 months after inception, calculates the refund of WC premium due to the insured and records the refund on its books as having been paid to the insured. Simultaneously, AIGRM records on its books that an amount equal to the WC refund was paid to AIG as a "Stop-Gap Liability Policy" premium, which premium is reported as GL premium. These are book entries only; no cash refund is paid. In addition, any further premiums generated at later adjustment points by the WC business for which the policy was terminated are also booked by AIGRM as GL premiums. This constitutes one of the methods by which AIGRM falsely reports WC premiums as GL premiums.

(3) <u>EXCEEDING MAXIMUM LEGAL PREMIUMS</u>. AIGRM/Global's false reporting of WC premiums as GL premiums enables them to collect WC premiums in excess of the maximum amount permitted by law for a particular policy and to avoid reporting such collections.

(4) <u>AVOIDING RESIDUAL MARKET ASSESSMENTS</u>. AIGRM/Global's false reporting of WC premiums as GL premiums enables them to report a much lower volume of WC premiums than they actually write. Since WC residual market assessments against AIG are based on its reported WC premium volume, this results in a substantial reduction of such assessments against AIG. Rough estimates are that the amount of WC premiums not being reported is in the range of $300-$400 million or more annually at current levels of business, and that this results in an unlawful benefit to AIG in the range of $60-$80 million or more annually. The amount of residual market assessments which AIG avoids by this technique is, of necessity, paid as additional assessments by the other insurance companies subject to WC residual market assessments.

(5) <u>OVERCHARGING CLIENTS FOR RESIDUAL MARKET ASSESSMENTS</u>. Concerning Division 50's "50% Pay-In Program", AIGRM, with respect to the uncollected portion of the standard premium, does not pass along to the insured the benefit of the reduced residual market assessments described in paragraph (4) above. Instead, AIGRM charges the insured a residual market loading ("RML") equal to the amount the RML would have been if AIGRM had not falsely under-reported its WC premium volume and had collected and reported 100%

of the standard premium instead of a lesser portion. The result is that AIGRM is charging its insureds for residual market assessments on the uncollected portion of the standard premium which are not made against AIG and which AIG does not pay.

(6) AVOIDING STATE PREMIUM TAXES. Since AIG's State WC premium tax obligations are based on its reported WC premium volume and since the GL premium tax rate is generally somewhat lower than the WC tax rate, AIGRM/Global's false reporting of WC premiums as GL premiums enables AIG to pay lower premium taxes than it is legally obligated to pay. In addition, State laws require that WC premiums be reported and paid to every State where an insured's employees are located, while GL premiums are required only to be reported and paid to a single State, usually the domiciliary of the named insured. The result is that, not only is AIG paying less taxes than it is legally obligated to pay, but individual States are losing substantial tax revenues to which they are legally entitled.

(7) OVERCHARGING CLIENTS FOR STATE PREMIUM TAXES. Concerning Division 50's "50% Pay-In Program", AIGRM, with respect to the uncollected portion of the standard premium, does not pass along to the insured the benefit of the reduced premium tax payments described in paragraph (6) above. Instead, AIGRM charges the insured a premium tax loading equal to the amount the premium tax would have been if AIGRM had not falsely under-reported its WC premium volume and had collected and reported 100% of the standard premium instead of a lesser portion. The result is that AIGRM is charging its insureds for premium taxes on the uncollected portion of the standard premium which AIG does not report and does not pay.

(8) AVOIDING GUARANTY FUND AND SPECIAL PURPOSE FUND ASSESSMENTS. Most States have Guaranty Funds and Special Purpose Funds that levy assessments against insurers based on their reported WC premium volume. In these States, AIGRM/Global's false reporting of WC premiums as GL premiums enables AIG to pay substantially lower assessments for Guaranty Funds and Special Purpose Funds than it is legally obligated to pay. The amount of such assessments which AIG avoids is, of necessity, paid as additional assessments by the other insurance companies subject to Guaranty Fund and Special Purpose Fund assessments.

(9) AVOIDING REINSURANCE PREMIUMS DUE MINNESOTA REINSURANCE FACILITY. Minnesota requires all WC insurers to purchase a mandatory WC reinsurance cover for a designated excess layer of coverage. The reinsurance premium paid by each WC direct writer is based on its reported WC premium volume in Minnesota. AIGRM/Global's false reporting of WC premiums as GL premiums enables AIG to pay lower reinsurance premiums to the Minnesota facility than it is legally obligated to pay.

(10) BOOKING FICTITIOUS PREMIUMS AND ASSETS. In Division 50's "50% Pay-In Program", only 50% of the designated maximum premium is collected at the inception of the policy. However, an amount equal to the uncollected portion of the premium is recorded by AIGRM at the inception of the policy as a reinsurance assumed premium and as an asset. These constitute fictitious premiums and assets on the books of AIG, as there are no reinsurance contracts and these are not reinsurance premiums.

(11) BOOKING FICTITIOUS PREMIUMS AND ASSETS. A study has been performed which estimates the amount of retrospective WC premiums expected to be collected on the subject business during the next decade. A practice has been instituted of taking down $25 million each quarter of the expected WC retro premiums and recording it as premium income on an accrual basis. This premium income is booked as reinsurance assumed premiums instead of WC premiums. This violates State statutes and regulations which require that premiums be reported by line of business. Also, such premiums and assets constitute fictitious income and assets on the books of AIG since there are no reinsurance contracts and these are not reinsurance premiums. In addition, this method avoids the payment of State premium taxes, residual market assessments and other fees and assessments that apply to written direct WC premiums but don't apply to reinsurance premiums. The annual unlawful benefit to AIG could be in the range of $15-$20 million.

(12) SEC REPORTING VIOLATIONS. The reporting of fictitious premiums and assets referred to in items (10) and (11) above exists in the Form 10-K and Form 10-Q filings which AIG makes to the SEC. Assuming the amounts involved and the related circumstances constitute "material facts", this would trigger Section 78ff of the U.S.C.A., the penalty provision for false reports to the SEC. Section 78ff prescribes a penalty of up to $1 million and a jail term of up to 10 years for each person who willfully and knowingly makes or causes to be made a false report. It is possible that, for purposes of this provision, each quarterly and annual report would constitute a separate false report.

(13) ILLEGAL REBATES. In AIGRM's "Cash Collateral" program, AIGRM, with respect to some of the business, has dispensed with the Notes for which cash was previously held as collateral, and just accepts the cash which is booked as premium income. If Notes are used, the Notes can be booked as premium income, the cash deposits are collateral for the Notes, and interest can legally be paid to the insureds on the cash deposits collateralizing the Notes. However, when the Notes are eliminated and the cash is booked as premium income, as is the current practice for some of the business, it is illegal to pay interest on the cash because

such interest constitutes a rebate to the insureds. Most, if not all, States have laws prohibiting insurers from paying rebates to their insureds.

A jury could find that the above conduct constitutes various kinds of State and Federal civil and criminal violations, including common law fraud, mail fraud, Securities Act violations, RICO violations, State statutory and regulatory violations, State tax fraud and breach of contract. In addition, this conduct would be a violation of the proposed new Federal insurance fraud statute if it becomes law in early 1992 as expected. The RICO statute, in addition to stringent criminal penalties, provides a treble damages civil action to private plaintiffs. Potential plaintiffs who could take advantage of this and the other causes of action are the other insurance companies who have to pick up AIG's share of residual market assessments and other assessments, the States who lose premium tax payments to which they are legally entitled and AIG's insureds who pay for residual market assessments and premium taxes that AIG does not report or pay. Also possible are class actions by such plaintiffs seeking bad faith and punitive damages. If successful, such class actions would result in astronomical damages awards against AIG.

CORRECTIVE ACTIONS

Compliance with State and Federal laws, as well as fulfillment of the fiduciary duties of senior management, require that the following corrective actions be taken immediately.

1. Cessation of Illegal Conduct. Instructions should be given immediately to all relevant parties that all illegal conduct must cease immediately. The instructions should specifically state that:

1) All WC premiums must be booked and reported as WC premiums and no WC premiums will be booked and reported as GL or any other line of premiums.

2) All additional premiums paid at the adjustment points under the Retrospective and Indemnity Agreements which are generated by WC business must be booked and reported as WC premiums and not GL or AL premiums.

3) The "18-month Closeout Program" under which the WC policy is purported to be terminated and the WC refund plus all additional WC premiums are booked and reported as Stop Gap Liability Policy premiums must be halted immediately.

4) The practice of booking a reinsurance assumed premium in the amount of the uncollected portion of the WC premium in Division 50's "50% Pay-In Program" must be halted immediately.

5) The practice of booking reinsurance assumed premiums in the amount of $25 million per quarter in connection with the accrual of future WC retro premiums must be halted immediately.

6) No premiums for a particular policy should be collected in excess of the maximum permitted by applicable law.

7) All residual market and other WC-related assessments, premium taxes, and any other applicable fees and expenses must be paid on the basis of full and accurate booking and reporting as WC premiums of all premiums generated by the WC business, including adjustment premiums paid under Retrospective or Indemnity Agreements.

2. Housecleaning. Whenever illegal acts by its employees are discovered by a corporation, corrective actions include disciplinary action against the employees involved in or responsible for the misconduct. Ordinarily, this would mean termination of those employees directly involved. In addition, in order to meet the requirements of the U.S. Sentencing Commission Guidelines (which became law on November 1, 1991) concerning an effective Compliance Program, AIG must not delegate substantial discretionary authority to individuals "with a propensity to engage in illegal activities". To comply, AIG will have to remove from positions of substantial discretionary authority all employees who were aware of the illegal conduct over the years and who participated in or had supervisory authority over those who committed the illegal acts. Employees who would be affected by such compliance include [redacted] as well as numerous others. Since there is no statutory or case law yet which defines precisely what is meant by "with a propensity to engage in illegal activities", it is possible that any others in the AIG chain of command above Messrs. Smetana and [redacted] who had knowledge of the illegal conduct and approved or condoned it would also be affected.

If senior management fails to implement a Compliance Program meeting the above requirements, and such failure results in a substantially higher fine for a future conviction than would otherwise have been imposed, senior management and the AIG Board of Directors will be exposed to derivative suits and class action suits by AIG shareholders for intentional misconduct, breach of fiduciary duty and negligence.

3. Restitution. Whenever illegal acts by its employees are discovered by a corporation, corrective actions include restitution for any harm caused by the employee misconduct. This would require AIG to calculate the amount of monetary damages that the acts of its employees have caused to other insurers subject to residual market assessments, States which have lost premium taxes, insureds who have been charged for residual market assessments and premium taxes which AIG did not pay, State Guaranty Funds, and any others who have been harmed by AIG's conduct. A fair method of restitution to injured parties must be devised.

4. Compliance Program. Whenever illegal acts by its employees are discovered by a corporation, corrective actions include instituting a monitoring and compliance program to prevent any recurrence of the illegal activity. This means a system must be set up to independently monitor the activities which have been the subject of illegality to assure prevention and detection of any additional illegal conduct in the future. An audit team of employees from units other than those in which the illegal conduct occurred, or from an outside firm, will be necessary for this function.

Joseph H. Umansky

March 4, 2003

TO: M. R. Greenberg
H. I. Smith

RE: Special Re

Please see attached.

Joe

JHU:ge
Attachments

3/18
- London Life [illegible] - [illegible]
- do more [illegible] deals - Xoll [redacted] - (475 mil)
- Reduce performance.

Special Re – notes and observations

The attached schedule indicates a $103 million shortfall (NPV over funds available). This should be viewed relative to the funds available ($4.3B), credit taken ($6.1B), payout (10+ years), and the subjective nature of the estimate.

I am executing the 2003 plan I outlined to you in November, 2002. Key elements and their status are:

- Capco has been liquidated and the AIG contracts novated.
- Newbridge (equity linked notes) have been liquidated and the funds reinvested.
- Union Excess' reliance on SICO has been reduced.
- The implied discount has been reduced by $100M vs. $150M target; the difference being the new workers comp treaty.
- 2003 contracts are being limited to the DBG Aggregate Stop Loss and the AIU Aggregate. (est. $425M of Gross Premium ceded).
- The older deals will stay in place until their natural expiry. They will begin to pay out this year.

Other matters:

- ✓ I am being asked by profit centers for discounting treaties – the most significant request from Environmental. I indicated that we have ceased placing those treaties unless specifically authorized.
- At this point, we will need to use Hannover Re in order to complete the 2003 placement. Hannover Re took the largest share of our 2002 treaties and the other reinsurers are cutting back this year.
- The cost of reinsurance is increasing somewhat and the scrutiny by reinsurers is increasing significantly. London Life Re will not be participating in 2003; their underwriting authority has been restricted. The situation is manageable, I just want to make you aware of the trend.
- Last month, [redacted] sold their interest in Union Excess to a new shareholder controlled by [redacted]. [redacted] and [redacted] are also interested in selling. No serious buyers have been identified yet.
- The retrocession of the assumed workers comp book ($50M of premium for $92M of limit) was executed last month with a new reinsurer. I am approaching new reinsurers cautiously.

February 28, 2003

N.Y. is raising questions re the AIIC contract and + Enterprise (not on schedule)

– [redacted] looking for Life Re – LOC capacity issue. –

CONFIDENTIAL

AIG-D 002357

SPECIAL REINSURANCE

(in millions)

		Ultimate Loss	NPV of Ultimate	Funds Available	Over (Short)	Credit Taken
	AGGREGATE EXCESS / STOP LOSS					
1.	Aggregate Excess - 1984-1985	206	164	166	2	206
2.	Abeille - 1988 - Retrospective	352	329	329	0	352
3.	Abeille - 1991 - 10 Yr.	140	124	121	(3)	139
4.	AIGRM Stop Loss - 1994	50	43	44	1	25
5.	Division 50 - Blown Max - 1997	34	27	25	(2)	25
6.	Aggregate Loss Ratio / Excess - 1996	625	328	275	(51)	548
7.	Aggregate Loss Ratio / Excess - 1997	733	436	370	(66)	574
8.	Aggregate Loss Ratio / Excess - 1998	800	455	378	(77)	583
9.	Aggregate Loss Ratio / Excess - 1999	620	328	282	(46)	435
10.	Aggregate Loss Ratio / Excess - 2000 (B)	652	337	296	(41)	460
11.	Aggregate Loss Ratio / Excess - 2001 (B)	635	404	359	(45)	679
12.	Aggregate Loss Ratio / Excess - 2002 (B)	900	368	368	0	640
13.	DBG - Fac Obligatory - Aggregate Excess - 1999	361	224	224	0	361
14.	AIU - Aggregate Excess - 1999	30	18	18	0	30
15.	AIU - Aggregate Excess - 2000	30	17	17	0	30
16.	DBG - Aggregate Excess - 1999	60	40	40	0	60
17.	DBG - Aggregate Excess - 2000	60	33	33	0	60
18.	Foreign General Aggregate - 2000	51	32	32	0	51
19.	Foreign General Aggregate - 2001	64	38	38	0	64
20.	Foreign General Aggregate - 2002	5	5	5	0	5
21.	Personal Lines Auto Aggregate - 2000-2002	224	122	52	(70)	159
22.	DBG Divisional Stop Loss - 7/2000 (B)	200	125	125	0	150
23.	DBG Divisional Stop Loss - 1/2001 (B)	210	121	121	0	210
24.	DBG Divisional Stop Loss - 7/2001 (B)	190	120	120	0	190
25.	Starr Excess - Excess of Loss - 2001-2002	95	25	25	0	0
26.	Workers Compensation Quota Share - 2002 (B)	92	50	50	0	92
	Total Aggregate Excess / Stop Loss	7,619	4,311	3,913	(398)	6,117
	MISCELLANEOUS					
27.	Other - Active Contracts	62	62	144	82	29
28.	Other - Commuted & Cancelled Contracts (A)	0	0	218	218	0
	Total Miscellaneous	62	62	357	296	29
	TOTAL SPECIAL REINSURANCE	7,681	4,373	4,270	(103)	6,146

(A) Commuted & Cancelled Accounts Funds:

Global Catastrophe Cover	131
Lexington Warehouse	117
DBG Replacement Treaties	(80)
Professional Liability (NU Agg X/S)-Div 65	(3)
All Others Including Interest on Balance	48
Total Commuted & Cancelled Contracts	218

[illegible]

(B) Fund is recorded as funds withheld by DBG and accrues interest

SPECIAL RE
September 25, 2001

1. Funding of aggregate trusts: $100M done; additional amounts to come from AG/Security National reserve which will be ceded offshore. This approach is preferable to "capital loss" approach.

2. Offshore PV shortfall is $100M+; the biggest increment coming from the personal lines treaty.

3. New Divisional Stop Loss and new personal lines treaty will be in place by Friday, September 28. Div Stop Loss is $114M of net premium and $175 of ceded losses - $60M benefit.

4. Stress on structure:
   - Investment yield decreasing
   - Newbridge Trust ($250M) yield is –0- for now.
   - Losses are emerging faster than anticipated.
   - Losses are beginning to be ceded from reinsurer to reinsurer, thus creating greater scrutiny by auditors who will question reinsurance recoverables of our reinsurers. This puts great stress on the structure.

5. Several shareholders of Union Excess have express interest in selling their shares.

6. Hannover Re is a shareholder and a major reinsurer.

7. 1988 Aggregate: reinsurers [redacted] and [redacted] are not very cooperative; [redacted] is giving us static. Both acknowledge liability of $400 ultimately. $50M of ultimate is unsecured (25 each).

8. Warranty structure (Capco) is working. 2001 will be second year end. I want to close down the structure as soon as possible.

9. 2002 treaties need to be redone with the objective of strengthening the structure.

10. Will need additional resources to deal with offshore "administrative" issues.

Special Re May 22, 2002

The attached schedule shows a $104 million present value shortfall. The shortfall can change significantly as a result of a relatively minor shift in the payout pattern. The $90 million shortfall in the Personal Lines treaty will be repaid over the next three years.

The strains on the structures, and capacity constraints are becoming more severe and although I believe that they are manageable for the remainder of this year, 2003 will be a challenge. Specific points and notes follow:

- The adverse development on a number of our contracts should be obvious to the reinsurers, and should be a major concern to them, their auditors and their actuaries. This has implications for each of the reinsurer's retro covers and the related recoverables. To date I have heard of no serious questions. The action I took last year could have satisfied some of the concerns. The last audits are due to be completed within a few weeks.

- Mike Murphy would like to replace Astral on the Union Excess/Astral agreement. There are a number of obstacles. The issue will be revisited next month.

- A few of our reinsurers now have large concentrations of our reinsurance risk. We will be cutting back on the largest, the Hannover Re group with >$2 billion as shown on our Schedule F (that number includes traditional reinsurance). Others have indicated that they will need to reduce their shares next year. The total reinsurance recoverable from the group of reinsurers approximates $5.9 billion.

- Three of the Union Excess shareholders interested in selling their stakes are OPL (in runoff), [redacted] (in trouble), and [redacted] has indicated an interest in buying the OPL shares but has raised a number of issues that I believe can be resolved. I have not heard from [redacted] or [redacted] recently on this matter.

- The Capco structure needs to be revamped in order to put us farther from criticism in today's environment. These changes will be implemented before year-end.

- The 1989 Aggregate (#2) was placed with two reinsurers, [redacted] and [redacted] Part of the balance is unsecured. We are completing the novation of the [redacted] share into Capco that will fully secure their 50% share. Discussions with [redacted] have been delayed due to [redacted] departure.

- The $100 million American General/Superior National contract is included on the attached list. We are assuming that there will be no claim.

- We will be ceding $510 million of premium as part of the 2002 program, the vast majority of it on a funds withheld basis. Two additional contracts are being considered: a discounting treaty for Environmental and a spread loss for RMG.

- Not included in funds available are approximately $65 million of unrealized capital gains. These gains are somewhat phantom because the ultimate losses are discounted using the higher yields. I factor in the unrealized gain when I evaluate the implications of taking back a contract.

JHU:[redacted]
Attachment

MEMORANDUM

November 16, 2000

CONFIDENTIAL ATTORNEY-CLIENT COMMUNICATION

TO: M. R. Greenberg
[redacted]

FROM: Joseph H. Umansky

RE: Special Reinsurance

Investments held in excess of NPV is shown $26 million. The decrease from the previous report is principally attributable to the Personal Lines treaty (#22) offset by the gains on the AIG Cat treaty (#20). The deficiency in the Personal Lines treaty of $43 million will be made up over the next three years.

- The Warranty treaty (#21) is designed to cover $210 million of losses through a unique structure. The cash has been transferred into the structure and is shown on our balance sheet as assets; nothing has yet been charged to expense. The expectation is that as the losses develop and are recovered from the reinsurer, a capital loss will be recognized. On this and future schedules I will be showing this contract with no over/(short).

- The Newbridge Trust securities ($250 million), yielding approximately 8.8% are now included in the investment portfolios. We are now planning for the second tranche.

- Year to date we took back $280 million as a result of commutations and $50 million in losses recovered. I expect an additional $50 million in recoveries before year end.

- Excluding APs, premiums to be ceded for 2000 treaties approximate $480 million. $260 million of the $480 million is on a funds withheld basis. To date only $23 million of the balance has been paid. The $480 million does not include the $210 million cash transferred related to the Warranty treaty.

- The deferral of premium payments combined with an acceleration of loss recoveries is putting a strain on the overall position. While we are managing it for now, if the condition continues the indicated cushion will quickly disappear.

- The Foreign Gen Aggregate treaty is a stop loss designed to cover catastrophes. I understand that a $70 million claim is expected which will generate a $35 million AP.

[redacted]
Attachment

cc: H. I. Smith
[redacted]