REPORT ON EXAMINATION

OF THE

TRANSATLANTIC REINSURANCE COMPANY

AS OF

DECEMBER 31, 2004

| | |
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| DATE OF REPORT | MARCH 26, 2007 |
| EXAMINER | MARC ALLEN |

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

March 26, 2007

Mr. Eric Dinallo
Acting Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22391 dated August 11, 2005 attached hereto, I have made an examination into the condition and affairs of Transatlantic Reinsurance Company as of December 31, 2004, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Transatlantic Reinsurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's home office located at 80 Pine Street, New York, New York 10005.

## 1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1999. This examination covered the five-year period from January 1, 2000 through December 31, 2004. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2004. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants ("CPA"). A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners ("NAIC"):

History of Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Growth of Company
Business in force by states
Loss experience
Reinsurance
Accounts and records
Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

Transatlantic Reinsurance Company was incorporated on October 29, 1952, under the laws of the State of New York. It began business on December 2, 1952, with capital of $250,000 consisting of 50,000 shares of $5 par value per share of stock, all of it owned by the Excess Reinsurance Company of Philadelphia, Pennsylvania. On December 31, 1952, the Excess Reinsurance Company was merged into the Transatlantic Reinsurance Company. The newly constituted company commenced business on January 1, 1953, with $1,000,000 in capital. On September 30, 1967, all outstanding stock of the Company was acquired by the American Home Assurance Company, a member of the American International Group, Inc. ("AIG").

The Transatlantic Reinsurance Company was reorganized and recapitalized on December 15, 1977. The 32,000 outstanding shares, $50 par value per share, held by AIG (which had purchased all outstanding capital stock from American Home Assurance on June 30, 1977) were exchanged for 472,222 shares, $5 par value per share, in the reorganized company.

Additionally, 527,778 shares were sold at $75 each to seven unaffiliated insurers or to such insurers' wholly-owned subsidiaries. After the December 15, 1977 reorganization, financial control (52.8%) was held by the seven non-related shareholders. The remaining interest (47.2%) was transferred on December 15, 1977, via a surplus contribution, to American Home Assurance Company.

On December 27, 1979, American Home Assurance Company and the seven insurers contributed $50,000,000 to the gross paid-in and contributed surplus of the Company.

On April 23, 1984, the shares formerly owned by Walton Insurance Company of Bermuda were sold to General Reinsurance Corporation. On May 11, 1984, United States Fidelity and Guaranty Company sold half of its shares to Daido Mutual Life Insurance Company and the other half to Nichido Fire and Marine Insurance Company. Effective September 19, 1984, Metropolitan Reinsurance Company transferred 42,000 shares to Metropolitan Reinsurance (U.K.) Limited, a wholly-owned subsidiary.

On December 20, 1985, all shareholders approved an increase in capital from $5,000,000 consisting of 1,000,000 shares with a par value of $5 per share, to $6,041,655, consisting of 1,208,331 shares with a par value of $5 per share. The additional shares were subscribed to by four of the nine shareholders of record as of that date for $100 per share.

On September 28, 1988, Metropolitan Reinsurance Company, Metropolitan Tower Corporation and Metropolitan Reinsurance (U.K.) Limited transferred their 194,443 shares to Metropolitan Life Insurance Company.

On April 17, 1990, shareholders of the Company received common stock of PREINCO Holdings, Inc., a holding company incorporated in the State of Delaware, in exchange for all their shares. On April 18, 1990, the name of PREINCO Holdings, Inc. was changed to Transatlantic Holdings, Inc. (“Transatlantic”) and it became a public company in June, 1990.

The Company is currently a wholly-owned subsidiary of Transatlantic. As of December 31, 2004, AIG beneficially owned approximately 59% of Transatlantic’s outstanding common stock.

At December 31, 2004 the Company’s surplus was $1,294,779,421 which consisted of $862,899,655 in unassigned funds, $6,041,655 in capital stock and $425,838,101 in gross paid in and contributed surplus. The gross paid in and contributed surplus has not changed from the previous report on examination. In 2005 the Company’s direct parent Transatlantic Holdings Inc. contributed $745,000,000 to the Company’s gross paid in and contributed surplus.

## A. Management

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. The board met four times during each calendar year. At December 31, 2004, the board of directors was comprised of the following thirteen members:

| Name and Residence | Principal Business Affiliation |
|---|---|
| James Balog<br>Spring Lake, NJ | Retired Chairman,<br>1838 Investment Advisors, L.P. |
| C. Fred Bergsten<br>Annandale, VA | Director,<br>Institute for International Economics |
| Paul A. Bonny<br>Surrey, UK | Executive Vice President,<br>President-International Operations<br>Transatlantic Reinsurance Company |
| Maurice R. Greenberg<br>New York, NY | Chairman and Chief Executive Officer,<br>American International Group, Inc. |
| Tomio Higuchi<br>Tokyo, Japan | Chairman,<br>Millea Holdings<br>President,<br>Nichido Fire And Marine Insurance Company |
| John J. Mackowski<br>Little Compton, RI | Retired Chairman and Chief Executive Officer,<br>The Atlantic Mutual Companies |
| Edward E. Matthews<br>Princeton, NJ | Senior Advisor<br>American International Group, Inc. |
| Robert F. Orlich<br>New Canaan, CT | President/Chief Executive Officer,<br>Transatlantic Holdings, Inc. |
| Michael Sapnar<br>Rumson, NJ | Senior Vice President,<br>Chief Underwriting Officer-domestic operations<br>Transatlantic Reinsurance Company |
| Steven S. Skalicky<br>Larchmont, NY | Executive Vice President and Chief<br>Financial Officer,<br>Transatlantic Holdings Inc. |
| Howard I. Smith<br>Woodbury, NY | Executive Vice President and Chief<br>Financial Officer,<br>American International Group, Inc. |
| Thomas R. Tizzio<br>Middletown, NJ | Senior Vice Chairman<br>American International Group, Inc. |
| Javier E. Vijil<br>Miami, FL | Executive Vice President<br>President-Latin American Division<br>Transatlantic Holdings Inc. |

In March, 2005, Maurice R. Greenberg, Edward Matthews and Howard I. Smith resigned.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2004, the principal officers of the Company were as follows:

| Name | Title |
|---|---|
| Maurice R. Greenberg | Chairman of the Board |
| Robert F. Orlich | President and Chief Executive Officer |
| Steven S. Skalicky | Executive Vice President and Chief Financial Officer |
| Elizabeth M. Tuck | Secretary |

## B. Territory and Plan of Operation

As of the examination date, the Company was licensed to transact business in all states except Alabama, Hawaii, Maine, Missouri, Montana, New Hampshire, North Carolina, North Dakota, Oregon, Rhode Island, Tennessee, Virginia and Wyoming. The Company is authorized as an accredited reinsurer in all of the above states with the exception of Maine and New Hampshire. Maine and New Hampshire do not provide formal accreditation as a reinsurer; they do however allow cedants to take credit for reinsurance placed with the Company.

According to its certificate of authority, the Company was empowered to transact the kinds of business as set forth in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

| Paragraph | Line of Business |
|---|---|
| 3 | Accident & health |
| 4 | Fire |
| 5 | Miscellaneous property damage |
| 6 | Water damage |
| 7 | Burglary and theft |
| 8 | Glass |
| 9 | Boiler and machinery |
| 10 | Elevator |
| 12 | Collision |
| 13 | Personal injury liability |
| 14 | Property damage liability |
| 15 | Worker's compensation and employer's liability |
| 16 | Fidelity and surety |
| 19 | Motor vehicle and aircraft physical damage |
| 20 | Marine and inland marine |
| 21 | Marine protection and indemnity |

The Company is also authorized to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et seq. as amended), and as authorized by Section 4102(c) of the New York Insurance Law, to reinsure of every kind or description.

The Company holds a current certificate of authority issued by the United States Treasury, recognizing it as a certified surety company, doing business with the United States government and/or its agencies.

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13, 41 and 63 of the New York Insurance Law, Transatlantic Reinsurance Company is required to maintain a minimum surplus to policyholders in the amount of $35,000,000.

The Company, which operates as a treaty and a facultative reinsurer, generates most of its business through reinsurance intermediaries. All of its business is assumed reinsurance. It assumes business from anywhere in the world. It has established branch offices in foreign countries to gain access to overseas business. In addition it owns 100% of the stock of Trans Re Zurich Reinsurance Company and 40% of the shares of Kuwait Reinsurance Company. The shares of Kuwait Reinsurance Company were purchased in December, 2000.

C. Reinsurance

The Company writes no direct business, and it assumes premiums from direct writers and other reinsurance companies.

1. Schedule F-Part 1

A review of the NAIC "Assumed Reinsurance Property" Jumpstart report, which compares the assumed payable on paid and case losses and loss adjustment expenses reported by the Company with the corresponding amounts reported as receivable by the ceding companies indicated significant differences, as follows:

| Year | Assumed Per Company | Per Ceding Company | Difference |
|---|---|---|---|
| 2000 | $ 739,450,000 | $ 969,528,000 | $(230,078,000) |
| 2001 | $ 880,324,000 | $1,281,999,000 | $(401,675,000) |
| 2002 | $1,017,450,000 | $1,423,991,000 | $(406,541,000) |
| 2003 | $1,249,185,000 | $1,598,687,000 | $(349,502,000) |
| 2004 | $1,496,971,000 | $1,819,896,000 | $(322,925,000) |

Although some variation is expected due to timing differences, the above differences were deemed significant enough to warrant further review. The review revealed several reporting issues concerning Schedule F-Part 1 reporting, as follows:

i. The Company does not have the ability to separate reinsurance payable on paid losses and loss adjustment expenses from assumed premiums receivable; therefore, it reported the net amount as assumed premiums receivable and nothing in Schedule F Part 1, Column 6 – "Reinsurance on paid losses and loss adjustment expenses." This is further discussed in item F of this report.

It is recommended that the Company complete the required information in Schedule F-Part 1-Column 6 of the annual statement.

ii. In its Schedule F-Part 1, the Company included the loss and premium data for various other affiliated companies in the numbers for American Home Assurance Company. Most of the affiliated companies included under the American Home caption were alien insurance companies.

It is recommended that the Company report loss and premium data in Schedule F-Part 1 under the heading of the appropriate ceding company.

iii. NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") 62, paragraph 37 states the following: "A lag will develop between the time of the entry of the underlying policy transaction on the books of the ceding entity and the transmittal of information and entry on the books of the assuming entity. Assuming companies shall estimate unreported premiums and related costs to the extent necessary to prevent material distortions in the loss development contained in the assuming entity's annual statement schedules where calendar year premiums are compared to accident year losses."

The Company recorded loss and premium accruals in an inconsistent manner across its branches when the cedant's statement of account for business assumed during the current reporting period was not received prior to the Company's reporting period. The Company maintains that accruals were established on the Home Office books sufficient for the Company to comply with SSAP 62, paragraph 37. The Company further maintains that, since the completion of the examination, an accrual function has been added to its reinsurance system and is in active use for domestic business. The accrual function records an accrual at the end of each quarter treaty by treaty based upon the difference between expected premium and actual reported premium. The Company maintains that it will assess whether reliable expected premium information exists at the individual treaty level in each branch to support the accrual function's calculations and will activate the accrual function if and when feasible for individual branches.

It is recommended that the Company promote a consistent accrual methodology across the branches that are material to its financial statements.

iv. The Company failed to fill out Schedule F-Part 1-Column 10, which requires the Company to report the assumed premiums receivable for each ceding company as of the annual statement date. The annual statement instructions require the Company to include for each ceding company listed, all premiums receivable from assumed reinsurance less commissions payable.

It is recommended that the Company comply with the annual statement instructions and complete the information required in Schedule F-Part 1-Column 10 of the annual statement.

v. The annual statement instructions require that the Company report in Schedule F-Part 1-Column 9 for each ceding company listed, all contingent commission adjustments that are included in the liability for commissions and similar adjustments reported on Line 4 of the Annual Statement Liabilities page. The Company failed to complete Column 9 on a ceding company basis but instead reported bulk numbers.

It is recommended that the Company comply with the annual statement instructions and report all contingent commissions payable in Column 9 of Schedule F-Part 1 on a per ceding company basis.

vi. The Company reported $35,948,000 funds held by the Medical Liability Mutual Insurance Company ("MLMIC") in Schedule F-Part 1, Column 12 of the 2004 annual statement. The bulk of this amount related to a three-year excess liability quota share reinsurance agreement effective July 1, 1998 with MLMIC. The $35,948,000 represents an amount which is referred to as the 'notional account' in the reinsurance contract. The notional account basically serves as a loss corridor between the Company's first level of responsibility for losses with a limit up to 35% of the subject premium and its next level of responsibility after the losses then exceed the notional account value. The reinsurance contract clearly states that the notional account is to be maintained for the sole purpose of calculating MLMIC's retained aggregate ultimate net loss. The Company adjusted its loss reserves to compensate for the additional recorded asset.

It is recommended that the Company reflect the terms of the reinsurance contract in its annual statement reporting.

2. Schedule F-Part Three

There is an NAIC 'Jumpstart' report on ceding business that compares the paid and case loss recoverables reported by the Company in Schedule F-Part 3 with the paid and case loss reserves reported by the assuming companies in their Schedule F-Part 1. This report only compares United States insurers that file an annual statement. The examiner noted material differences in the NAIC Ceded 'Jumpstart' report as well.

The examination review revealed a number of reporting issues concerning Schedule F-Part 3. These issues are cited below. The first two issues cited are contributing factors to the differences indicated above in the NAIC 'jumpstart' report on assumed business.

i. The Company improperly identified several transactions with reinsurers as being pool transactions in Schedule F Part 3.

It is recommended that the Company exercise greater care in identifying the precise nature of its reinsurance relationships, comply with the annual statement instructions and report all reinsurance transactions in the appropriate manner."

ii. Certain branch offices of the Company improperly netted premiums payable against reinsurance recoverable on paid losses in violation of paragraph 19 of SSAP 62. This includes the Company's London branch office; its second largest after New York.

SSAP 62, paragraph 19 states the following:

"Reinsurance Recoverables on loss payments is an admitted asset. Notwithstanding the fact that reinsurance recoverables on paid losses may meet the criteria for offsetting under the provisions of SSAP 64-offsetting and netting of assets and liabilities(SSAP 64), reinsurance recoverables on paid losses shall be reported as an asset without any available offset**.** Unauthorized reinsurance is included in this asset and reflected as a separate liability to the extent required. Penalty for overdue authorized reinsurance shall be reflected as a liability."

It is recommended that the Company put the proper controls in place to provide for uniform reinsurance accounting and to ensure compliance with the provisions of paragraph 19 of SSAP 62.

iii. The Company erroneously classified Midland National Life Insurance Company as an authorized reinsurer in its 2004 annual statement filing and as a result failed to include Midland's $6,366,000 in loss recoverables in its provision for reinsurance.

It is recommended that the Company exercise due care in its classification of reinsurers in Schedule F-Part 3 as authorized or unauthorized.

It is further recommended that the Company comply with Part 125.6(b) of Department Regulation 20 and not take credit for reinsurance ceded to unauthorized reinsurers without appropriate collateral in place. The Company subsequently corrected the erroneous classification in its 2005 annual statement.

iv. The Company erroneously reported a negative funds held liability of $11,760,000 in its 2004 annual report in Schedule F-Part 3-Column 19 as a receivable from Axa Corporate Solutions Reinsurance Company of Delaware. A review of the reinsurance contract involved and TRC workpapers indicated that this amount is actually comprised of a contingent commission calculation and premium adjustments. Accordingly this amount should have been reported in Schedule F-Part 3-Column 14, 'contingent commissions' and/or Column 17-'other amounts due to reinsurers' with the total of the Columns-$11,760,000 reported in Column 18-'Net amount recoverable from reinsurers'. The Company recorded similar amounts in 2003 and 2005. At the end of 2006 the Company had not yet collected the receivable.

The review of the reinsurance contract further revealed that the Company erroneously classified the $11,760,000 in reinsurance recoverables as a receivable from Axa Corporate Solutions Reinsurance Company of Delaware, an authorized reinsurance Company, when the recoverable was due from Axa Corporate Solutions Reassurance-Paris, an unauthorized reinsurer. There was no collateral in place securing this receivable and accordingly the amount should have been added to the Company's provision for reinsurance liability. The Company failed to add this balance to its provision for reinsurance and is therefore not in compliance with Department Regulation 20, Part 125.6(b) which states in part:

"Other than as permitted pursuant to Section 125.4(e), (f) or (g) of this part, credit taken by a ceding insurer for reinsurance ceded to an unauthorized reinsurer, which is not an accredited reinsurer, shall not exceed the amounts withheld under a reinsurance treaty with such unauthorized insurer as security for the payment of obligations thereunder, provided such funds are held subject to withdrawal by, and under the control of, the ceding insurer…"

It is recommended that the Company exercise due care in the completion of Schedule F and record all figures under the correct company name and in the correct columns.

It is again recommended that the Company comply with Part 125.6(b) of Department Regulation 20 and not take credit for reinsurance ceded to unauthorized reinsurers without appropriate collateral in place.

The examiner did not change the financial statements to reflect these changes in the liability "Provision for reinsurance".

v. Items (ii), (iii), and (iv) above indicate either a company practice or specific instances which reduced the Company's provision for reinsurance liability. It

> should be pointed out that the Company also had in place a $13,033,305 reserve for uncollectible reinsurance liability at the examination date. Statutory accounting does not provide for the establishment of such a liability. This liability number has remained constant throughout the exam period and indeed goes back prior to 2000. Statutory accounting provides for uncollectible reinsurance recoverables through the provision for reinsurance and by providing for writing off assets of dubious value. The Company subsequently eliminated the reserve for uncollectible reinsurance in its 2005 annual statement filing.

It is recommended that the Company properly and appropriately report its reinsurance liabilities as required by New York Insurance Law and statutory accounting.

3. Review of Reinsurance Contracts

The examiner reviewed a sample of the ceded and assumed reinsurance contracts in effect during the examination period. These contracts were reviewed for required and standard clauses. It was noted that the Company's reinsurance contracts, both ceded and assumed, do not consistently contain a "Severability" clause. The Department considers this to be a standard clause. It is recommended that the Company include a severability clause that generally conforms to the following example in its future reinsurance contracts:

> "If any provision of this contract shall be rendered illegal or unenforceable by laws, regulation or public policy of any state, such provision shall be considered void in such state, but shall not affect the validity or enforceability of any other provision of this contract or the enforceability of such provision in any other jurisdiction."

4. Ceded Reinsurance Program

The following reflects the significant aspects of the Company's 2004 ceded reinsurance program other than its quota share agreement with its 100% owned subsidiary, Putnam Reinsurance Company, which is described in item 5 below.

| Type of Contract | Cession |
|---|---|
| Property Business-General Treaty Coverage | |
| Catastrophe excess of loss-4 layers | $225,000,000 excess of $125,000,000 |

| Type of Contract | Cession |
|---|---|
| Underlying Non-Peak Excess of loss-2 layers-non-peak refers to regions outside of the United States, Northern Europe, and Japan | $60,000,000 excess of 20,000,000 |
| Backup cover-excess of loss-3 layers-per occurrence: | |
| Layer 1 – Company retains first 35M of losses in the aggregate before coverage applies | $35,000,000 excess of $30,000,000 any one occurrence (notwithstanding the above, the retrocessionaires are not liable for the first $35,000,000 in the aggregate) |
| Layer 2-Company must first sustain by reason of any one loss occurrence an ultimate net loss of $65,000,000 after which the Company retains the first $15 million in losses before indicated coverage applies. | $15,000,000 excess of $65,000,000 any one occurrence. |
| Layer 3-Company must first sustain by reason of any one loss occurrence an ultimate net loss of $80,000,000 after which the Company retains the first $20 million in losses before indicated coverage applies. | $20,000,000 excess of $80,000,000 any one occurrence. |
| Property Business-Worldwide facultative Coverage | |
| Per Risk Excess of loss-3 layers | $45,000,000 excess of $5,000,000 |
| Per risk terrorism excess of loss | $5,000,000 excess of $5,000,000 |
| Catastrophe excess of loss- 2 layers | $30,000,000 excess of $10,000,000 |
| International Property-Outside of the Americas | |
| Per risk excess of loss - Company retains $6 million in otherwise recoverable losses before coverage kicks in | $3,000,000 excess of $2,000,000 |
| Per risk excess of loss-3 layers | $14,000,000 excess of $7,500,000 |
| Per risk excess of loss-natural perils only-2 layers | $8,000,000 excess of $4,000,000 |
| Asia regional specific excess of loss | $10,000,000 excess of $10,000,000 |
| Engineering-International | |
| Engineering Facultative-Quota share | 24% quota share up to $35 million |
| Engineering facultative-excess of loss-3 layers per risk (protections the Company's net retention after application of facultative quota share above) | $15,000,000 excess of $3,000,000 |

| Type of Contract | Cession |
|---|---|
| Engineering Clash-treaty | \$3,500,000 excess of \$4,000,000 |
| Marine and Aviation | |
| Aviation excess-coverage after 2nd ILW (industry loss warranty) event of \$500 million or greater but no coverage for event greater than \$1.5 billion | \$5,000,000 excess of \$100,000 |
| Aviation excess retro- 3 layers: | |
| Layer 1 activated by a \$1 billion ILW | \$20,000,000 excess of \$15,000,000 |
| Layer 2 activated by a \$1 billion ILW | \$20,000,000 excess of \$35,000,000 |
| Layer 3 activated by a \$1.5 billion ILW | \$10,000,000 excess of \$55,000,000 |
| Marine and Energy excess retro 5 layers | |
| Layer 1 with coverage of \$2.5 million excess of \$2.5 million only covers risks written by the New York office | \$37,500,000 excess of \$2,500,000 |
| Marine Energy and Aviation excess retro \$500 million ILW (aviation only) activation requirement | \$10,000,000 excess of \$5,000,000 |
| Guaranty | |
| Surety, trade credit & political risk Quota Share Retro | 25% cession up to \$20 million |

5. Quota Share agreement with Putnam Reinsurance Company

The Company entered in a quota share agreement with its 100% owned subsidiary, Putnam Reinsurance Company, which was effective from the close of business at December 31, 1994. The agreement provides for TRC to cede to Putnam a 5% share of the Company’s net retained business after cessions through its external reinsurance contracts.

## D. Holding Company System

The Company is a wholly-owned subsidiary of Transatlantic Holdings Inc. (formerly PREINCO Holdings, Inc.), a Delaware corporation which became a public company in June 1990. As of the examination date, American International Group, Inc. (“AIG”), a Delaware corporation, beneficially owned approximately 59% of Transatlantic Holdings, Inc.'s outstanding common stock. AIG is the ultimate controlling person.

At the examination date, the Company owned directly or indirectly 100% of the stock of five subsidiaries including Putnam Reinsurance Company, which was jointly examined with the Company. In addition, the Company owns Trans Re Zurich Reinsurance Company (“TRZ”) and three minor subsidiaries which serve as representative offices in Brazil, Argentina, and Poland.

At the examination date, the shares of TRZ were valued at $225,468,339, representing 17.4% of the Company’s December 31, 2004 surplus per this report on examination. The Company arrived at this valuation by adjusting from the surplus reported in TRZ’s December 31, 2004 audited financials. The financials were prepared utilizing the accounting standards promulgated by the Swiss profession rather than generally accepted accounting principles (“GAAP”). There are significant differences between the accounting principles of the Swiss accounting profession and GAAP or United States (“U.S.”) statutory accounting. The surplus per the December 31, 2004 financials in U.S. dollars was $85,831,930. The Company adjusted this number by $139,536,409 to arrive at the statutory value reported in the 2004 annual statement.

SSAP 88 and its predecessor SSAP 46 both make references to GAAP audited financial statements. SSAP 88, which became effective as of January 1, 2005, makes specific references to foreign insurance subsidiaries and clearly requires GAAP audited financial statements. SSAP 88, paragraph 8b(iv) states:

> "Investments in foreign insurance SCA entities shall be recorded based on the underlying audited U.S. GAAP equity of the respective entity adjusted to a statutory basis of accounting in accordance with paragraph 9 and adjusted for reserves of the foreign insurance SCA with respect to the business it assumes directly and indirectly from a U.S. insurer using the statutory accounting principles promulgated by the NAIC in the Accounting Practices and Procedures Manual."

The 2005 TRZ financial statement was prepared in accordance with the standards of the Swiss profession rather than GAAP. The Company is therefore not in compliance with the requirements of SSAP 88 for 2005.

The Company held subsequent discussions with the Department concerning compliance with SSAP 88. It was agreed that the Company will be in compliance with SSAP 88 if its accounting firm includes a footnote in TRZ’s Swiss audited financials that includes a reconciliation of the Surplus number to a GAAP surplus number.

It is recommended that the Company have its accounting firm include a footnote in Trans Re Zurich’s yearly audited financials, starting in 2006, reconciling the surplus in the financial statement that was determined in accordance with the standards of the Swiss profession to a GAAP surplus number.

It is also recommended that the Company direct its auditing firm to prepare workpapers clearly documenting the reconciliation of the Swiss statutory surplus to the GAAP and statutory surplus figures. The workpapers should provide a clear trail from the Swiss statutory financial statements to TRZ’s trial balance. It should clearly document and provide evidence of Swiss laws and statutory principles and be quite clear and specific on how the GAAP reserve numbers are developed.

It is further recommended that, in the future, the Company resolve all statutory compliance issues with the Department in advance rather than address an issue after the fact as was the case with the valuation of the Company’s ownership interest in TRZ.

The Company failed to provide the Department with the 90 day prior notice, required by Department Regulation 53, on the formation of the subsidiaries in Argentina, Brazil, and Poland. In addition the Company formed a new subsidiary in Panama in 2006 for which it also failed to meet the 90 day prior notification requirement of Department Regulation 53. Section 81-1.1 of Department Regulation 53 states in part:

> “An Insurer shall notify the superintendent of its intention to organize or acquire a subsidiary pursuant to Section 1603 of the Insurance Law. At least 90 days prior to such organization or acquisition, a statement containing the following information (to the extent such items are applicable to the proposed subsidiary acquisition or organization) shall be filed with the superintendent…”

Section 1603(a) of the New York Insurance Law states in part:

> “No acquisition of a majority of any corporation’s outstanding common shares shall be made pursuant to this article unless a notice of intention of such proposed acquisition shall have been filed with the superintendent not less than

> ninety days, or such shorter period as may be permitted by the superintendent, in advance of such proposed acquisition …"

It is recommended that in the future the Company comply with Section 1603(a) of the New York Insurance Law and with Department Regulation 53 and provide a 90 day notification to the Department referencing the acquisition or formation of a subsidiary.

The Company failed to comply with the filing requirements of Part 81-1.2 of Department Regulation 53. Part 81-1.2 states in part:

> "Every insurer owning a subsidiary pursuant to article 16 of the Insurance Law shall file a report containing the following information with the superintendent on or before March 1st of each year, or within such longer period as the superintendent, on good cause, may permit…"

While American International Group did prepare a filing with the Department per the requirements of Department Regulation 52 this filing did not appear to describe any activity between TRC and its subsidiaries such as TRZ. There is, for example, no mention of dividends received by the Company from Putnam Reinsurance Company and TRZ.

It is recommended that the Company comply with the provisions of Department Regulation 53 and file the annual report required of all insurers owning subsidiaries.

It was noted that the Company failed to include any of its subsidiaries, with the exception of Putnam Reinsurance Company, in Part 2 of Schedule Y of its filed annual statements for the examination period and 2005.

It was further noted that the Company failed to report all of the required transactions in Schedule Y-Part 2. The annual statement instructions provide that all insurer members of a holding company group shall prepare a common schedule. The annual statement instructions further provide that transactions that are less than one-half of one percent of the largest insurers admitted assets should be excluded with the exception of shareholder dividends, capital contributions, and reinsurance recoverable (payable). The only transactions reported for the Company, in 2004, are the $27,500,000 in dividends paid to Transatlantic Holdings Inc. and the $12,500,000 in dividends received from Putnam Reinsurance Company. There is considerable reinsurance activity with affiliates that need to be reported as well as dividends and other activities with TRZ. It was noted that in 2005 the Company failed to record the $745,000,000 capital contribution from its parent Transatlantic Holdings Inc.

It is recommended that the Company comply with the annual statement instructions and include all affiliates and subsidiaries in Schedule Y-Part 2 as well as report all required transactions.

In December 2000, the Company acquired a 40% stake in Kuwait Reinsurance Company making it the largest shareholder of that Company without informing the Department. This violated Section 1603(a) of the New York Insurance Law and Department Regulation 53.

It is again recommended that in the future the Company comply with Section 1603(a) of the New York Insurance Law and with Department Regulation 53 and provide a 90 day notification to the Department referencing the acquisition or formation of a subsidiary.

Furthermore Section 1501 of the New York Insurance law states that control shall be presumed if any one person controls ten percent or more of the voting securities of a company. A controlled entity is considered part of a company's holding system and would be subject to valuation requirements of Article 15 of the New York Insurance Law and SSAP 88. The controlled entity would need to be included in the Company's Regulation 52 and 53 filings and Schedule Y of the annual statement. The Company failed to include Kuwait Reinsurance in the aforementioned filings. It subsequently claimed that it did not control Kuwait Reinsurance Company.

The Company subsequently applied to the Department for a determination of non-control per Section 1501(c) of the New York Insurance Law. The Department subsequently determined that the Company does not control Kuwait Reinsurance Company.

It is recommended that in the future, the Company obtain any required determinations of non-control per Section 1501(c) of the New York Insurance Law in a timely manner.

Section 1505(d) of the New York Insurance Law states in part:

> "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 of its intention to enter into any such

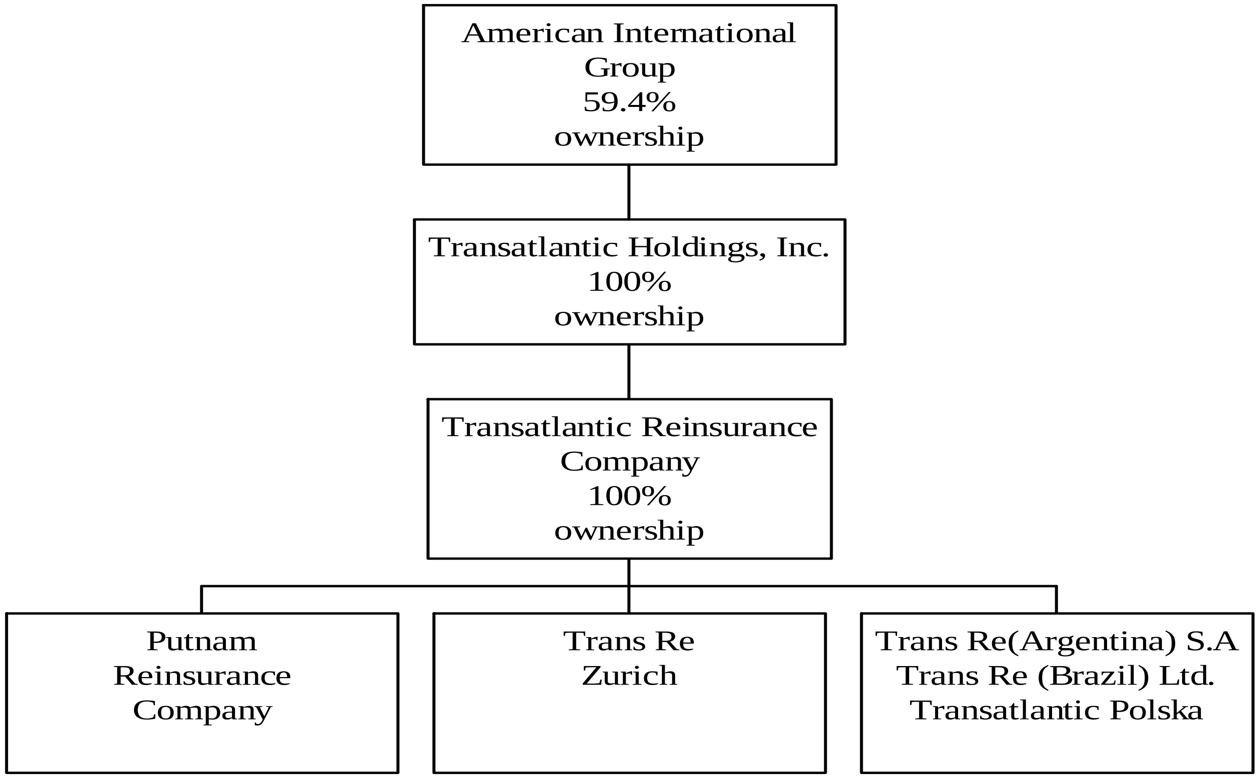
> transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved of it within such period:…(2) reinsurance treaties or agreements…"

The Company came to an agreement with the Department exempting it from filing assumed agreements where (1) the Company is not the lead insurer and (2) together with other AIG affiliated insurers the Company has less than 10% of the risk reinsured. The Company includes a list of such exempt filings in its Regulation 52 filings.

A review of a sample of the Company's assumed reinsurance contracts with affiliates, during the examination period, indicated that the Company has not been in compliance with Section 1505(d) of the New York Insurance Law. The Company either failed to make the required filings or failed to file on a timely basis. The Company did not report most treaties with alien affiliates prior to 2004.

It is recommended that the Company put the proper controls in place to ensure compliance with Section 1505(d) of the New York Insurance Law.

The following is an abridged chart of the holding company system at December 31, 2004.




At December 31, 2004, the Company was party to the following agreements with other members of its holding company system:

1. Service and Expense Agreement with American International Group Inc. (AIG)

The Company is a party to a service and expense agreement with AIG, the Company's ultimate parent, whereby AIG provides office space, including certain services and personnel necessary for the conduct of its business. On December 2, 1977, the Department approved the service and expense agreement.

2. Investment Management Agreement with AIG Global Investors Inc.

The Company has an investment management agreement with AIG Global Investors, Inc. ("Global"), a wholly-owned AIG subsidiary, whereby Global acts as the manager of the Company's investment portfolio. The Department's approval for this agreement was granted on August 7, 1986.

3. Investment Custodian Agreement with AIG Global Investment Trust Services Limited

The Company has an investment custodian agreement with AIG Global Investment Trust Services Limited ("AIG Global"), a wholly-owned subsidiary of AIG based in Dublin, Ireland. This agreement was dated October, 1996 and was amended in January, 2000. It was noted in the last report on examination that the Company had failed to file this agreement with the Department in accordance with Section 1505(d)(3) of the New York Insurance Law. The Company subsequently filed and obtained Department approval for the agreement in 2002. The agreement was updated in 2006. The updated agreement was not submitted until after its effective date in violation of Section 1505(d)(3) of the New York Insurance Law. This agreement covers the Company's Paris branch office.

4. Tax Allocation Agreement with Transatlantic Holdings, Inc.

The Company files a consolidated federal income tax return with its parent, Transatlantic Holdings, Inc., and its 100% owned subsidiary, Putnam Reinsurance Company. The return is filed pursuant to the provisions of a tax allocation agreement approved by the Department on February 28, 1991.

5. AIG Parental Letter of Credit

AIG has provided a parental letter of credit to the Company to be used to take credit for reinsurance recoverables for which the ceding company has not provided collateral.

6. Service Agreement between TRC and American International Group KK

AIG KK will provide services to the Company's Japanese branch office. These services include but are not limited to general affairs, public relations, internal auditing, human resource management, and English training. The agreement was approved by the Department on December 30, 2003.

7. Management Agreement with Putnam Reinsurance Company

This agreement became effective on January 1, 1991 and broadly appoints the Company as the manager for the affairs of Putnam Reinsurance Company.

8. Quota Share Agreement with Putnam Reinsurance Company

This agreement was effective from the close of business December 31, 1994 and remains in force until canceled. The agreement provides for the Company to cede to Putnam a 5% share of the Company's net retained business after cessions through its external reinsurance contracts.

9. Operating Expense Sharing Agreement with AIG Canadian Subsidiaries

This agreement provides for the Company, or specifically its Canadian branch, to share underwriting expenses incurred with specified AIG companies located in Canada. All underwriting expenses are initially paid by Commerce and Insurance Company of Canada. The agreement became effective January 1, 1985. The agreement has been in place a long time and there is no record of this agreement being filed with the Department.

10. Investment Management Contract between AIG Global Investment Corp. (Canada) and the Canadian Branch of Transatlantic Reinsurance Company

This agreement became effective January 1, 2000 and provides for AIG Global Investment Corporation (Canada) to provide investment advisory services to the Company's Canadian branch office. The agreement provides AIG Global Investment Corporation (Canada) full discretion and authority in accordance with guidelines attached to the agreement. This agreement was not filed with the Department as is required by Section 1505(d)(3) of the New York Insurance Law.

11. Securities Lending Agreement with AIG Global Securities Lending Corporation

This agreement was approved by the Department in April, 1999. The agreement went into effect on July 6, 1999.

12. Investment Management Agreement with American International Assurance Co. (Australia) Limited

The agreement commenced in 2002 whereby American International Assurance Company (Australia) will provide investment advisory services to the Company's Australian Branch. This agreement was not filed with the Department as is required by Section 1505(d)(3) of the New York Insurance Law.

13. Human Resource Service Agreement with AIG Europe (UK) Limited

Subsequent to the examination period, the Company entered into a service agreement with AIG Europe Ltd., whereby that Company would provide specified human resource services to the Company's United Kingdom branch. The agreement was not filed with the Department as is required by Section 1505(d)(3) of the New York Insurance Law.

It is noted that four of the above referenced agreements were not filed in accordance with Section 1505(d)(3) of the New York Insurance Law. There is also the 1985 Canadian operating expense sharing agreement where there is no record indicating whether this was filed or not.

The Company has violated Section 1505(d)(3) of the New York Insurance Law regarding its failure to submit the four agreements with affiliates noted by the examiner. It is recommended that the Company file the four agreements that have not been submitted to the Department, as well as the 1985 Canadian operating expense sharing agreement, for non-disapproval as is required by Section 1505(d)(3) 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 of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period:…(3) rendering of services on a regular or systematic basis;…"

It is noted that all of the service agreements which were not filed with the Department related to the Company's branch offices outside of New York. It appears that the branch offices entered into various service agreements with affiliated companies without informing the home office.

It is recommended that the Company put in a system of controls to ensure that all service agreements are submitted to the New York office to file with the Department before the agreements are put into affect.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2004, based upon the results of this examination:

| | |
|---|---|
| Net premiums written in 2004 to Surplus as regards policyholders | 248.98% |
| Liabilities to Liquid assets (cash and invested assets less investments in affiliates) | 97.70% |
| Premiums in course of collection to Surplus as regards policyholders | * |

The net premiums written to surplus and the liabilities to liquid assets ratios fall within the benchmark ranges established by the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

* There was no value inserted in the premiums in course of collection to surplus ratio. The reason for this is that the Company nets its reinsurance payable on paid losses against premiums receivable in its premiums in the course of collection figure. It also includes cash advances to ceding companies to ceding companies in its premiums in the course of collection figure. The premiums receivable figure provided by the Company is not the appropriate figure to use in the ratio in question. The examiner does not have a correct figure available-as noted elsewhere in this report under the caption "Accounts and Records" and "Reinsurance".

The underwriting ratios presented below are on an earned/incurred basis and encompass the five year period covered by this examination:

| | Amounts | Ratios |
|---|---|---|
| Losses and loss adjustment expenses incurred | $8,941,470,031 | 81.17% |
| Other underwriting expenses incurred | 3,081,517,232 | 27.98 |
| Net underwriting loss | (1,007,014,411) | ( 9.15) |
| Premiums earned | $11,015,972,852 | 100.00% |

F. Accounts and Records

i. Premiums and Considerations

The review of line 12.1 of the December 31, 2004 Annual Statement (uncollected premiums and agents' balances in course of collection) indicated that the Company includes its liability for reinsurance payable on paid loss and loss adjustment expenses in the figure reported. These liabilities or credit balances are netted against the premium receivable or debit balances.

The netting of reinsurance payable on paid losses against premiums receivable violates the statutory accounting principles set forth in SSAP 64 and SSAP 62.

SSAP 64-paragraph 3 states the following:

> "Assets and liabilities that meet the criteria for offset shall not be netted when prohibited by specific statements of statutory accounting principles. An example of such is the case of reinsurance recoverables on paid losses and ceded premiums payable as provided for in SSAP 62-Property and Casualty Reinsurance."

SSAP 62-paragraph 40 states in part:

> "…Assumed reinsurance payable on paid losses shall be classified as a separate liability item on the balance sheet…"

It is recommended that the Company comply with statutory accounting principles and report reinsurance payable on paid losses as a liability on the balance sheet and not as a reduction of premiums receivable.

The Company's accounting system, at the time of the examination, was incapable of separating out reinsurance payable on paid losses from premiums receivable.

It is recommended that the Company upgrade its accounting system to make possible the separate reporting of premiums receivable and reinsurance payable on paid losses.

The Company's inability to segregate the liability-'Reinsurance payable on paid losses' from the premium receivable asset also affected the completion of Schedule F-Part 1 which is noted elsewhere in this report under the caption "Reinsurance".

The examination review indicated that the Company included approximately $85,000,000 in cash loss advances in line 12.1-'Uncollected premiums and agents' balances in the course of collection', in the 2004 annual statement. The cash loss advances disbursed to the Company's cedants should not be recorded as a premium receivable asset. The annual statement instructions require cash loss advances to be included under the asset caption-'Funds held by or deposited with reinsured companies'. This funds held asset is supposed to have been recorded on line 13.2 on the asset page in the 2004 annual statement. Specifically the instructions in reference to this line state in part:

> "include….advances from the reinsurer to the ceding company for the payment of losses before an accounting is made by the ceding company.'

It is recommended that the Company comply with the annual statement instructions and classify cash loss advances paid to ceding companies as a funds held asset and not as a premium receivable.

The examination review indicated that the Company nets cash loss advances against premiums collected on the cash flow page in the annual statement. These payments should not be netted against premiums received. The annual statement instructions indicate that changes to funds held by or deposited with reinsured companies should only be included on line 1, of the statement of cash flows, to the extent such changes relate to premiums and other changes should be recorded on line 3-Miscellaneous income.

It is recommended that the Company record the cash flows relating to cash loss advances on line 3 of the statement of cash flows.

The Company failed to non-admit premiums receivable in accordance with Section 1301(a)(11) of the New York Insurance Law. Section 1301 of the New York Insurance Law enumerates various admitted assets. Section 1301(a)(11) describes the admitted asset status of premiums receivable and states in part:

> "Premiums in the course of collection, other than life insurance premiums, not more than ninety days past due, less commissions payable thereon. The foregoing limitation of ninety days shall not apply to: ..(ii) reinsurance premiums payable by ceding insurers authorized to transact such business in this state, or (iii) reinsurance premiums payable which may be offset by amounts carried by the assuming insurer as liabilities for amounts due to the ceding insurer for unpaid losses or other mutual debts…"

The Company failed to follow the requirements of Section 1301(a)(11) of the New York Insurance Law in non-admitting premiums receivable. This would require maintaining a schedule of premiums receivable by ceding company and then aging those premiums. Premiums receivable that are over 90 days past due and due from non-authorized companies who have not provided collateral would be non-admitted.

The Company was not able to perform the above procedure because its accounting system nets reinsurance payable against the gross premiums receivable and is incapable of separating the numbers. The Company would need to have a gross premium receivable number by ceding insurer to be able to comply with Section 1301(a)(11).

In 2004 the Company non-admitted $99,142 in premiums receivable based on a review of only facultative premiums receivable.

It is recommended that the Company non-admit premiums receivable in accordance with the requirements of Section 1301(a)(11) of the New York Insurance Law.

The Company reported $104,067,238 in deferred premiums receivable on line 12.2 of the 2004 annual statement. Approximately $73 million of this amount is comprised of earned premiums which are not yet due from the ceding companies. The reinsurance contracts involved provide that the ceding companies do not have to pay over the premiums to the Company until the premiums are collected by the cedants. This is generally due to the ceding company allowing its policyholders to pay their premiums on an installment basis. The examination review of a sample of these receivables indicated that there is a significant amount of dated balances in this amount that may need to be written off. Refer to item 2 and 3 in Section (ii), Retention of Records below for information regarding the examiner sampling of deferred premium receivable records and the Company's system of recording deferred premiums receivable.

It is recommended that the Company review its deferred premium balances in order to determine which balances need to be written off.

ii. Retention of Records

Part 243.2 (b),(7) of Department Regulation 152 states the following:

> "Except as otherwise required by law or regulation, an insurer shall maintain:
>
> A financial record necessary to verify the financial condition of an insurer, including ledgers, journals, trial balances, annual and quarterly statement workpapers, evidence of asset ownership, and source documents…."

The examination covered a number of instances where the Company had not maintained the records required by Department Regulation 152. The instances are as follows:

1. The Company could not provide the necessary third party documentation to support the requested sample of uncollected premiums and agents balances. The Company could only provide supporting documentation for 79 out of 89 requested record types. Over 11% of the requested records were not available.

2. The Company could not provide 14 out of 29 requested sample files to support the Company's deferred premium receivable balance. The 14 files that could not be provided all contained balances that were several years old and most probably need to be written off-refer to item 5 in section (i) of accounts and records.

3. The Company did not have sufficient records in place to support the composition of a deferred premium balance on a particular treaty. A deferred premium balance on a particular treaty may include premiums written over several different periods that have not been collected, by the ceding company, and therefore would still be classified as deferred by the Company. The Company's system only details the premiums written and the amount collected by the ceding company in a particular period. These entries are typically made quarterly as they are based on statements from the ceding insurer which are usually provided on a quarterly basis.

   The deferred premium balances are made up of a series of mostly quarterly entries. In order to provide support documentation to the examiners a great deal of work needed to be performed by the Company documenting each quarters entries and going back to an original starting balances. This took a considerable amount of time and was not always successful. Unfortunately, most of the ceding companies did not provide TRC a deferred premium balance as of a particular date but instead provided just a series of rolling entries-premiums written for this quarter, and premiums collected. One result of this cumbersome and confusing system is that the Company was unaware of the large number of dated balances that made up the deferred premiums receivable figure as of December 31, 2004 (refer to item 5 in section (i) of accounts and records). The current system provides no figure to tie in to and therefore there is no control check when input or other errors are made.

4. The Company could not provide documentation on four securities listed on Schedule D of the 2004 annual statement. The securities involved did not constitute a material sum.

5. The Company did not have readily available documentation to respond to the examinations request for treaty level detail support for the Company's 2004 Schedule F-part 3. It took almost a year for the Company to respond to the examination request.

It is recommended that the Company take the steps necessary to ensure future compliance with the records requirements of Department Regulation 152.

It is further recommended that the Company put a system in place so that there is a clear record of the composition of the deferred premium balances. Putting in place such a system would facilitate an examination of these records and allow the Company to spot balances that need to be adjusted or written off.

iii. Annual Statement Reporting

The Company failed to correctly respond to item 20.1 and 20.2 in the 2004 annual statement General Interrogatories-Part 1. The Company responded "yes" to item 20.1 which asks if all Schedule D securities are exclusively under the control of the Company when in fact this is not the case as the Company has a securities lending program in place with a total of approximately $670,000,000 (market value) in securities loaned out as of December 31, 2004. The Company failed to respond correctly to the same general interrogatory question in other annual statement years covered by this examination and in 2005.

Item 20.2 requires a response if there is an affirmative response to item 20.1. The Company did not complete 20.2 as it gave an erroneous response of 'no' to item 20.1. The Company needed to indicate that it had $670,000,000 in securities that were not under its exclusive control and that these were loaned to others. The Company failed to respond correctly to the same general interrogatory question in other annual statement years covered by this examination and in 2005.

It is recommended that, on a general basis, the Company carefully review its response to annual statement questions and on a specific note, correctly respond to questions regarding control of its owned securities.

The annual statement instructions require the Company to insert an 'LS' designation in column 3 of Schedule D-Parts 1 and 2 for all securities loaned out as the annual statement date. The Company failed to include this designation during the period covered by this examination and in 2005.

It is recommended that the Company, in future annual statements, include the required 'LS' designation on Schedule D for all securities loaned out as of the annual statement date.

It was noted that during the examination period, the Company inserted the foreign exchange revision to line 1 of the 'Schedule D-verification between years'. The annual statement instructions require the Company to record these on line 6 of the 'verification between years' and to include the foreign exchange adjustment. The adjustments on line 6 need to be reflected in the appropriate foreign exchange adjustment columns on individual security basis on Schedule D-parts 1, 2, and 4. The Company also failed to complete the foreign exchange adjustment columns during the examination period.

The Company subsequently amended its annual statement reporting practices and completed Schedule D correctly in 2005.

It was noted during the examination that the Company failed to include all security deposits with governmental entities on Schedule E-part 3-Special Deposits. The examination noted five special deposits that the Company failed to report out of Schedule E, four were based out of the Company's Paris branch and one out of its Japanese branch.

It is recommended that the Company report all deposits with government entities on Schedule E-Part 3.

SSAP 23, paragraph 5 states in part:

> "Foreign currency transactions made in support of insurance operations denominated in the same foreign currency, such as foreign branches, shall be accounted for as follows…all other foreign insurance operations must be translated into U.S. dollars as follows: each financial statement line shall be translated to U.S. dollars by applying the following exchange rates: (i) for assets and liabilities, the exchange rate at the balance sheet date shall be used…"

The Company operates as a branch system with a large number of foreign branches constituting a significant percentage of the Company's premium volume. SSAP 23 provides that "assets and liabilities denominated in foreign currencies shall be accounted for at their U.S. dollar equivalent values using exchange rates at the balance sheet date. Income and expenses recognized during an accounting period shall be recorded at an appropriately weighted average exchange rate."

The chief purpose of SSAP 23 is to avoid distortion of the Company's income statement by differentiating between operational revenues and expenses and gains or losses due to foreign currency fluctuations. The opening reserve liabilities from the previous year cannot be altered, pursuant to the annual statement instructions and the current reserve liabilities must be reported at the exchange rate at the current balance sheet date. In order to avoid distorting its underwriting ratios, the Company adjusts its losses paid to an amount that would remove the affects of foreign exchange fluctuations on the incurred losses for a given reporting period. The adjustment to paid losses for the foreign currency fluctuation is reported as a surplus adjustment under the caption "change in net unrealized foreign exchange capital gain (loss)."

Paid losses as presented on the annual statement are distorted by the foreign exchange adjustments described in the previous paragraph. The examiner feels that the methodology is acceptable as the annual statement does not currently appear to offer a superior alternative. Further, it is noted that paid losses have not been utilized to determine the Company's reserve liabilities.

It is recommended that the Company include a footnote in its annual statement clearly stating the Company's methodology in accounting for foreign exchange adjustments for balance sheet items denominated in currencies other than United States dollar particularly as this affects the paid loss figure reported.

iv. Miscellaneous Accounts and Records Comments

The examination's review and verification of the Company's invested assets was unnecessarily tedious due to the Company's record format. In order to expedite future audits and to improve on the Company's system of internal controls, it is recommended that the Company maintain:

> (1) A single schedule of brokerage accounts which specifies the currency the account is maintained in;
>
> (2) A reconciliation between the par value of each of the securities in each brokerage statement and the matching schedule D securities. This reconciliation should indicate the currency exchange rate utilized where applicable and a listing of CUSIP numbers listed on the annual statement if different than that listed on the brokerage statement. In addition an overall par value reconciliation reconciling the total par values reported on schedule D with a total of par values per the brokerage statements should be maintained;
>
> (3) An updated list of contact names, addresses, and phone numbers should be maintained for each brokerage account.

While the Company is in compliance with the requirements of Section 1404 of the New York Insurance Law as respects permitted investments it does not have a company-wide written investment plan in place. It is recommended that the Company adopt a formal plan, approved by the board of directors, that includes the Company's general investment philosophy, specified guidelines regarding speculative investments, as well as the procedures that need to be followed to invest outside of the specified guidelines.

The written contracts by which the Company engaged its CPA firm for the years 2000 through 2004 did not contain the provisions required by the Department Regulation 118, Part 89.2 which states in part:

> "Every insurer subject to this Part shall retain an independent Certified Public Accountant who agrees by written contract with such insurer to comply with the provisions of Section 307(b) of the Insurance Law, this part and the Code of ethics and professional standards adopted by the American Institute of Certified Public Accountants ("AICPA"). Such contract must specify:

a. on or before May 31, the CPA shall provide an audited financial statement and opinion for the prior calendar year and an evaluation of the insurer's accounting procedures and internal control systems as are necessary to the furnishing of the opinion;

b. any determination by the CPA that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital and surplus requirements set forth in the Insurance Law shall be given by the CPA, in writing, to the Superintendent within 15 calendar days following such determination; and

c. the workpapers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent. The CPA must retain for review such workpapers and communications for a period of not less than five years."

It is recommended that the Company include in all future contracts written to engage CPA firms the provisions required by Department Regulation 118.

Transatlantic Holdings, Inc. instituted a stock based compensation plan for employees of the Company in 2003. The plan issues restrictive stock units and falls under the heading of a compensatory plan per SSAP 13. SSAP 13, paragraph 6 states in part:

> "…a reporting entity recognizes compensation cost for stock issued through compensatory plans unless the employee pays an amount that is at least equal to the quoted market price of the stock at the measurement date."

The Company indicated that the expense of the stock-based compensation plan was left on the books of the Company's parent-Transatlantic Holdings. It is recommended that this expense be recognized on the Company's income statement as the expense properly belongs at the insurance company level in keeping with the accounting principles of matching income and expenses.

v. Custodian Agreement

Management answered affirmatively to item 23 of the 2004 General Interrogatory-part 1:

> “Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity’s offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1-General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook.”

The Company then indicated in item 23.01 that the agreements with the following custodians met the requirements of the NAIC Financial Condition Examiners Handbook:

- Mellon Bank
- Royal Trust Company
- AIG Global Investment Trust Services Ltd

However, examination review indicated that the Company’s custodial agreements did not contain all of the protective covenants set forth in Part 1 Section IV. J of the NAIC Financial Condition Examiners Handbook. Paragraph 2 of this section contains the following protective covenants:

2a. The custodian is obligated to indemnify the insurance company for any insurance company's loss of securities in the custodian's custody, except that, unless domiciliary state law, regulation, or administrative action otherwise require a stricter standard (Section 2.b. sets forth an example of such a stricter standard), the bank or trust company shall not be so obligated to the extent that such loss was caused by other than the negligence or dishonesty of the custodian;

2b. If domiciliary state law, regulation, or administrative action requires a stricter standard of liability for custodians of insurance company securities than that set forth in Section 2.a., then such stricter standard shall apply. An example of a stricter standard that may be used is that the custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the custodian's custody occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction;

2c. In the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced;

2d. The custodian shall not be liable for any failure to take any action required to be taken hereunder in the event and to the extent that the taking of such action is prevented or delayed by war (whether declared or not and including existing wars), revolution, insurrection, riot, civil commotion, act of God, accident, fire, explosions, stoppage of labor, strikes or other differences with employees, laws, regulations, orders or other acts of any governmental authority, or any other cause whatever beyond its reasonable control;

2e. In the event that the custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the custodian. If the agent is governed by laws that differ from the regulation of the custodian, the Commissioner of Insurance of the state of domicile may accept a standard of liability applicable to the agent that is different from the standard liability;

2f. If the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner;

2g. During regular business hours, and upon reasonable notice, an officer or employee of the insurance company, an independent accountant selected by the insurance company and a representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, its records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the insurance company;

2h. The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation or the Federal Reserve book-entry system which the clearing corporation or the Federal Reserve permits to be redistributed and reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control;

2i. To the extent that certain information maintained by the custodian is relied upon by the insurance company in preparation of its annual statement and supporting schedules, the custodian agrees to maintain records sufficient to determine and verify such information;

2j. The custodian shall provide, upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian;

2k. The custodian shall secure and maintain insurance protection in an adequate amount;

2l. The foreign bank acting as a custodian, or a U.S. custodian's foreign agent, or a foreign clearing corporation is only holding foreign securities or securities required by the foreign country in order for the insurer to do business in that country. A US custodian must hold all other securities.

It was noted that the custodial agreement with Mellon Bank of New York did not include provisions 2e, 2f, and 2l.

It was noted that the custodial agreement with Royal Trust Corporation of Canada did not include provisions 2b, 2c, 2e, 2f, 2g, 2h, 2i, 2j, 2k, and 2l.

It was noted that the custodial agreement with AIG Global Investment Trust Services Ltd. did not include provisions 2b, 2e, 2f, 2h, 2i, 2j, and 2k.

It is recommended that the Company amend its custodial agreements to incorporate all of the protective covenants included in the NAIC Financial Condition Examiners Handbook.

vi. Internal Control/Corporate Compliance

The Company needs to improve internal control over its compliance with New York State filing requirements. The need is demonstrated by:

- The significant amount of time it took the Company to respond to examination requests. This significantly increased the length of the examination.
- The failure to follow the annual statement instructions as indicated by the significant number of comments regarding annual statement reporting contained in this report.
- The failure to make certain required filings on a timely basis or, in some cases, at all.
- The large number of violations of law and regulations cited in this report.

It is recommended that the Company take the necessary steps to improve its internal controls over its compliance with New York State laws and regulations.

## 3. FINANCIAL STATEMENTS

### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2004 as determined by this examination and as reported by the Company:

| Assets | Assets | Examination Assets Not Admitted | Net Admitted Assets | Company Net Admitted Assets | Surplus Increase (Decrease) |
|---|---|---|---|---|---|
| Bonds | $5,407,767,881 | $ 0 | $5,407,767,881 | $5,407,767,881 | $0 |
| Preferred stocks | 17,948,222 | 0 | 17,948,222 | 17,948,222 | 0 |
| Common stocks | 931,671,297 | 32,453,536 | 899,217,761 | 931,671,297 | (32,453,536) |
| Cash, cash equivalents and short-term Investments | 144,571,810 | 0 | 144,571,810 | 144,571,810 | 0 |
| Other invested assets | 178,254,841 | 0 | 178,254,841 | 178,254,841 | 0 |
| Investment income due and accrued | 80,296,906 | 0 | 80,296,906 | 80,296,906 | 0 |
| Uncollected premiums and agents' balances in the course of collection | 282,666,079 | 0 | 282,666,079 | 282,666,079 | 0 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 104,067,238 | 0 | 104,067,238 | 104,067,238 | 0 |
| Amounts recoverable from reinsurers | 45,229,970 | 0 | 45,229,970 | 45,229,970 | 0 |
| Funds held by or deposited with reinsured companies | 128,139,386 | 0 | 128,139,386 | 128,139,386 | 0 |
| Current federal and foreign income tax recoverable and interest thereon | 26,343,041 | 0 | 26,343,041 | 26,343,041 | 0 |
| Net deferred tax asset | 123,582,653 | 0 | 123,582,653 | 123,582,653 | 0 |
| Receivables from parent, subsidiaries and Affiliates | 3,532,749 | 0 | 3,532,749 | 3,532,749 | 0 |
| Miscellaneous Receivables | 8,908,103 | 0 | 8,908,103 | 8,908,103 | 0 |
| Total assets | $7,482,980,176 | $32,453,536 | $7,450,526,640 | $7,482,980,176 | $(32,453,536) |

| Liabilities, surplus and other funds<br>Liabilities | Examination | Company | Surplus Increase (Decrease) |
|---|---|---|---|
| Losses | $4,784,736,661 | $4,167,519,480 | $(617,217,181) |
| Loss adjustment expenses | 247,063,339 | 247,063,339 | 0 |
| Commissions payable, contingent commissions and other similar Charges | 30,873,433 | 30,873,433 | 0 |
| Other expenses (excluding taxes, licenses and fees) | 13,072,982 | 13,072,982 | 0 |
| Unearned premiums | 821,237,415 | 821,237,415 | 0 |
| Stockholders (dividends declared and unpaid) | 9,500,000 | 9,500,000 | 0 |
| Ceded reinsurance premiums payable (net of ceding commissions) | 45,703,361 | 45,703,361 | 0 |
| Funds held by company under reinsurance treaties | 30,757,208 | 30,757,208 | 0 |
| Provision for reinsurance | 105,209,727 | 105,209,727 | 0 |
| Payable to parent, subsidiaries and affiliates | 6,612,645 | 6,612,645 | 0 |
| Payable for securities | 23,779,504 | 23,779,504 | 0 |
| Other Liabilities | 23,217,639 | 23,217,639 | 0 |
| Accumulated postretirement benefit obligation | 950,000 | 950,000 | 0 |
| Reserve for Uncollectible Reinsurance | 13,033,305 | 13,033,305 | 0 |
| Total liabilities | $6,155,747,219 | $5,538,530,038 | $(617,217,181) |
| Surplus and other funds | | | |
| Common capital stock | $ 6,041,655 | $ 6,041,655 | $ 0 |
| Gross paid in and contributed surplus | 425,838,101 | 425,838,101 | 0 |
| Unassigned funds (surplus) | 862,899,665 | 1,512,570,382 | (649,670,517) |
| Surplus as regards policyholders | $1,294,779,421 | $1,944,450,138 | $(649,670,517) |
| Totals liabilities and surplus and other funds | $7,450,526,640 | $7,482,980,176 | $ (32,453,536) |

NOTE: The Internal Revenue Service ("IRS") has examined the consolidated income tax returns of the Company through 2001. Audits for subsequent tax years have yet to commence. The examiner is unaware of any potential exposure of the Company of any further tax assessment and no liability has been established herein relative to such contingency.

This balance sheet does not reflect the potential income tax benefit related to the examination increase in the loss and loss adjustment expense reserve liabilities.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased $147,791,533 during the five year examination period January 1, 2000 through December 31, 2004, detailed as follows:

Statement of Income

| | | |
|---|---|---|
| Premiums earned | | $11,015,972,852 |
| Deductions: | | |
| Losses incurred | $8,569,645,051 | |
| Loss adjustment expenses incurred | 371,824,980 | |
| Other underwriting expenses incurred | 3,081,517,232 | |
| Total underwriting deductions | | 12,022,987,263 |
| Net underwriting gain or (loss) | | $(1,007,014,411) |
| Investment Income | | |
| Net investment income earned | $1,120,455,796 | |
| Net realized capital gain | 46,572,205 | |
| Net investment gain or (loss) | | 1,167,028,001 |
| Other Income | | |
| Net gain or (loss) from agents' or premium balances charged off | $ 1,031,949 | |
| Aggregate write-ins for miscellaneous income | (598,029) | |
| Total other income | | 433,920 |
| Net income before dividends to policyholders and before federal and foreign income taxes | | $ 160,447,510 |
| Federal and foreign income taxes incurred | | 229,443,000 |
| Net income | | $ (68,995,490) |

Note: This statement of income does not reflect the potential tax benefit related to the examination increase in loss and loss adjustment expenses incurred.

Capital and Surplus Account

| | Gains in Surplus | Losses in Surplus | |
|---|---|---|---|
| Surplus as regards policyholders per report on examination as of December 31,1999 | | | $ 1,442,570,954 |
| Net income | | $ 68,995,490 | |
| Net unrealized capital gains or (losses) | $ 93,595,632 | | |
| Change in net unrealized foreign exchange capital gain (loss) | | 109,175,312 | |
| Change in net deferred income tax | 262,251,010 | | |
| Change in nonadmitted assets | | 133,639,491 | |
| Change in provision for reinsurance | | 81,027,882 | |
| Dividends to stockholders | | 110,800,000 | |
| Net increase (decrease) in surplus | $355,846,642 | $503,638,175 | (147,791,533) |
| Surplus as regards policyholders per report on examination as of December 31, 2004 | | | $1,294,779,421 |

## 4. COMMON STOCKS

The examination admitted asset of $899,217,761 is $32,453,536 less than the $931,671,297 reported by the Company in its December 21, 2004 filed annual statement. The difference is attributable to a change in the valuation of the Company's 100% owned subsidiary, Putnam Reinsurance Company.

A concurrent examination of Putnam Reinsurance Company resulted in a surplus reduction of $32,453,536. This reduction was due to an examination increase in the loss reserves of Putnam Reinsurance Company.

## 5. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $5,031,800,000 is $617,217,181 more than the $4,414,582,819 reported by the Company in its December 31, 2004, filed annual statement.

It should be noted that the financial statements presented in this report do not reflect the potential income tax benefit related to the examination increase in the loss and loss adjustment expenses.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records and in its filed annual statements.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained three recommendations as follows (page numbers refer to the prior report):

| ITEM | | PAGE NO. |
|---|---|---|
| A. | Holding Company System | |
| | Investment Custodian Agreement with AIG Global Investment Trust Services Limited | |
| | It is recommended that the Company submit this agreement to the Department in accordance with Section 1505(d)(3) of the New York Insurance Law. | 14 |
| | The Company has complied with this recommendation. | |
| B. | Accounts and Records | |
| I | Investment Accounts | |
| (a) | It is recommended the Company insist that AIG Global Investor Inc. provide accurate and correct investment account identifying number detail to facilitate the examination process | 14-15 |

The Company has complied with this recommendation.

(b) It is recommended that the Company obtain, at a minimum, quarterly custodian bank statements from its custodial bank in Japan. 15

The Company has complied with this recommendation.

C. Custodian Agreement

It is recommended that the Company amend its custodian agreement to incorporate the appropriate protective covenants. 16

The required covenants subsequently changed and the Company failed to incorporate the new covenants in its custodial agreements necessitating a similar recommendation

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

| ITEM | | PAGE NO. |
|---|---|---|
| A. | Reinsurance | |
| i. | It is recommended that the Company complete the required information on Schedule F-Part 1, Column 6 of the annual statement. | 8 |
| ii. | It is recommended that the Company report loss and premium data in Schedule F-Part 1 under the heading of the appropriate ceding company. | 9 |
| iii. | It is recommended that the Company promote a consistent accrual methodology across its branches that are material to its financial statements. | 9 |
| iv. | It is recommended that the Company comply with the annual statement instructions and complete the information required in Schedule F-Part 1, Column 10 of the annual statement. | 9 |
| v. | It is recommended that the Company comply with the annual statement instructions and report all contingent commissions payable in Column 9 Schedule F-Part 1on a ceding basis. | 10 |
| vi. | It is recommended that the Company reflect the terms of its reinsurance contracts in its annual statement reporting. | 10 |
| vii | It is recommended that the Company exercise greater care in identifying | |

| ITEM | | PAGE NO. |
|---|---|---|
| | the precise nature of its reinsurance relationships, comply with the annual statement instructions and report all reinsurance transactions in the appropriate manner." | 11 |
| viii. | It is recommended that the Company put the proper controls in place to provide for uniform reinsurance accounting and to ensure compliance with the provisions of paragraph 19 of SSAP 62. | 11 |
| ix. | It is recommended that the Company exercise due care in its classification of reinsurers in Schedule F-Part 3 as authorized or unauthorized. | 11 |
| x. | It is recommended that the Company exercise due care in its completion of Schedule F-Part 3 and record all reinsurance recoverable figures under the correct company name and in the correct columns. | 12 |
| xi | It is recommended that the Company comply with Part 125.6(b) of Department Regulation 20 and not take credit for reinsurance ceded to unauthorized reinsurers without appropriate collateral in place. | 12 |
| xii. | It is recommended that the Company set up reinsurance liabilities only as required by New York Insurance law and statutory accounting. | 13 |
| xiii | It is recommended that the Company include a severability clause in its reinsurance contracts. | 13 |
| B. | <u>Holding Company System</u> | |
| i | It is recommended that the Company have its accounting firm include a footnote in Trans Re Zurich's yearly audited financials, starting in 2006, reconciling the Swiss statutory surplus figure to a GAAP surplus number. | 17 |
| ii. | It is recommended that the Company direct its auditing firm to prepare workpapers clearly documenting the reconciliation of Swiss statutory surplus of TRZ to GAAP and statutory figures. | 17 |
| iii. | It is recommended that the Company resolve all statutory compliance issues with the Department in advance rather than after the fact as was the case with the valuation of the Company's ownership interest in TRZ. | 18 |
| iv. | It is recommended that the Company comply with Section 1603(a) of the New York Insurance Law as well as Department Regulation 53 and provide a 90 day notification to the Department referencing the | 18, 19 |

| ITEM | | PAGE NO. |
|---|---|---|
| | acquisition or formation of a subsidiary. | |
| v. | It is recommended that the Company comply with the provisions of Department Regulation 53 and file the annual report required of all insurers owning subsidiaries. | 18 |
| vi. | It is recommended that the Company comply with the annual statement instructions and include all affiliates and subsidiaries in Schedule Y-Part 2 as well as report all required transactions. | 19 |
| vii | It is recommended that in the future the Company obtain any required determinations of non-control per Section 1501(c) of the New York Insurance law in a timely manner. | 19 |
| viii | It is recommended that the Company put the proper controls in place to ensure compliance with Section 1505(d)(2) of the New York Insurance Law. | 20 |
| ix. | It is recommended that the Company file any service agreements with affiliates that have not been filed as required by Section 1505(d)(3) of the New York Insurance Law. | 24 |
| x. | It is recommended that the Company put in place a system of controls to ensure all service agreements are submitted to its New York office for filing with the Department before the agreements are put into affect. | 25 |
| C. | Accounts and Records | |
| i. | It is recommended that the Company follow statutory accounting principles and report reinsurance payable on paid losses as a liability on the balance sheet and not as a reduction of premiums receivable. | 26 |
| ii. | It is recommended that the Company upgrade its accounting system to make possible the separate reporting of premiums receivable and reinsurance payable on paid losses. | 26 |
| iii. | It is recommended that the Company comply with the annual statement instructions and classify cash loss advances paid to ceding companies as a funds held asset and not as a premium receivable. | 27 |
| iv. | It is recommended that the Company record the cash flows relating to cash loss advances on line 3 of the statement of cash flows. | 27 |
| v. | It is recommended that the Company non-admit premiums receivable in accordance with the requirements of Section 1301(a)(11) of the New York Insurance Law. | 28 |

| ITEM | | PAGE NO. |
|---|---|---|
| xviii. | It is recommended that the Company amend its custodial agreements to incorporate all of the protective covenants included in the NAIC Financial Condition Examiners Handbook. | 37 |
| xix. | It is recommended that the Company take the steps necessary to improve its internal controls relative to its compliance with New York state laws and regulations. | 37 |
| E. | Common Stocks | |
| | The examination reduced the value of the Company's common stock investments by $32,453,536. The reduction reflected a decrease in the common stock value of the Company's 100% owned subsidiary Putnam Reinsurance Company. The reduction was due to an examination increase in the loss reserves of Putnam. | 41 |
| F. | Losses and Loss Adjustment Expenses | |
| | The examination increased the Company's loss reserve liability by $617,217,181 based on an analysis conducted in accordance with generally accepted actuarial principles. | 42 |

Respectfully submitted,

___________/S/________________
Marc Allen,
Associate Insurance Examiner

STATE OF NEW YORK )
)SS.
)
COUNTY OF NEW YORK)

**MARC ALLEN**, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

___________/S/________________
Marc Allen

Subscribed and sworn to before me

this _____ day of _________________ 2007.

*Appointment No 22391*

*STATE OF NEW YORK*
*INSURANCE DEPARTMENT*

*I,* HOWARD MILLS, *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

**Marc Allen**

*as proper person to examine into the affairs of the*

**TRANSATLANTIC REINSURANCE COMPANY**

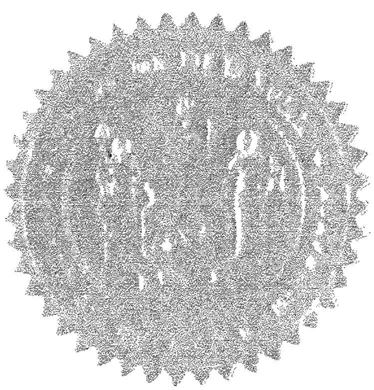
*and to make a report to me in writing of the condition of the said*

**Company**

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,*

*this* 11th *day of August, 2005*



*HOWARD MILLS*
*Superintendent of Insurance*