

REPORT ON EXAMINATION
OF THE
AIG NATIONAL INSURANCE COMPANY, INC.
AS OF
DECEMBER 31, 2001

REPORT DATE:

OCTOBER 14, 2004

EXAMINER:

ALFRED W. BLOOMER, JR.

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

October 14, 2004

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21858, dated March 22, 2002, attached hereto, I have made an examination into the condition and affairs of the AIG National Insurance Company, Inc. as of December 31, 2001 and submit the following report thereon.

The examination was conducted at the Company's administrative office located at 4501 North Point Parkway, Alpharetta, GA, 30022.

Wherever the designations "the Company" or "AIG National" appear herein without qualification, they should be understood to indicate the AIG National Insurance Company, Inc.

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

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2000. This examination covered the twelve month period through December 31, 2001. Where deemed appropriate, transactions subsequent to the current examination period were reviewed.

The examination comprised a complete verification of assets and liabilities as of December 31, 2001, a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. 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:

- History of the Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of the Company
- Loss experience
- Reinsurance
- Accounts and records

A review was also made to ascertain what action was taken by the Company with regard to comments 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 require explanation or description.

2. DESCRIPTION OF COMPANY

AIG National (formerly known as Abeille General Insurance Co., Inc.) commenced business as a United States Branch of a foreign insurer on September 4, 1975. On December 16, 1994, the Company was incorporated in New York State. On July 16, 1996, AIG National was acquired as a wholly owned subsidiary of New Hampshire Indemnity Company (“NHIC”), a Pennsylvania domiciled corporation. NHIC is a wholly owned subsidiary of NHIG Holding Corporation, which is a wholly-owned subsidiary of American International Group.

As of December 31, 2001, the capital structure of the Company consisted of 60,000 shares of issued and outstanding common stock at \$100 par value per share that resulted in a paid in capital of \$6,000,000.

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. As of the examination date the board of directors was comprised of thirteen members. The directors as of December 31, 2001 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Frank Heinmen Douglas, Jr. Jersey City, New Jersey	Vice-President and Casualty Actuary, American International Group, Inc.
Jacob Ernest Hansen Greenville, Delaware	President, AIG Marketing, Inc.
Stanley Herbert Lummus Cumming, Georgia	Director, New Hampshire Indemnity Insurance Company, Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Edward Easton Matthews Princeton, New Jersey	Executive Vice-President, American International Group
David Alan Mulcahy Atlanta, Georgia	Director of Accounting, New Hampshire Indemnity Insurance Company, Inc.
Win Jay Neuger New York, New York	Senior Vice-President & Chief Investment Officer, American International Group, Inc.
Ernest Theodore Patrikis New York, New York	Senior Vice-President & General Counsel, American International Group, Inc.
Anthony Prospie Pavia, Jr. Alpharetta, Georgia	President, AIG National Insurance Company, Inc.
Glenn Alan Pfeil Wilmington, Delaware	Executive Vice-President & Chief Financial Officer, AIG Marketing, Inc.
Robert Michael Sandler Bridgewater, New Jersey	Executive Vice-President & Senior Actuary, American International Group, Inc.
Howard Ian Smith Woodbury, New York	Executive Vice-President & Chief Financial Officer, American International Group, Inc.
Thomas Ralph Tizzio Middletown, New Jersey	Senior Vice-Chairman, American International Group, Inc.
Benny Shing Shun Yuen Marietta, Georgia	Director, New Hampshire Indemnity Company, Inc.

The minutes of all meetings of the board of directors thereof held during the examination period were reviewed. The board of directors has created no committees.

During the period under examination the board of directors held three meetings. In total, six directors, including the Company President, attended none of the meetings that they were eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that appropriate decisions may be reached by the board. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. A similar comment was made in the prior report on examination.

The Company's by-laws specify that four board of directors meetings should be held annually. The Company held three such meeting in 2001. It is recommended that the Company comply with its by-laws and hold at least the minimum number of board of directors meetings.

The following is a listing of the principal officers of the Company and their respective titles, as of December 31, 2001:

<u>Name</u>	<u>Title</u>
Robert Michael Sandler	Chairman
Anthony Prospie Pavia, Jr.	President
Elizabeth Margaret Tuck	Secretary
Carol Ann McFate	Treasurer
Kenneth Vincent Harkins	Vice President
Michael Vernon Tripp	Vice President

B. Territory and Plan of Operation

As of the examination date, the Company is licensed to do an insurance business in the District of Columbia and all of the states of the United States with the exception of California, Maine, Massachusetts, Michigan, Nevada, New Hampshire, North Carolina, Oklahoma, Tennessee and Vermont.

During the examination period the Company's direct written premiums totaled \$10,516,219. No premiums were written in New York State.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Kind of Insurance</u>
3	Accident and health
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

Based upon the kinds of insurance for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$2,200,000.

C. Reinsurance

As of December 31, 2001, the Company was a participant in an inter-company pooling agreement, the AIG Personal Lines Pool, in which American International Insurance Company was the lead company.

Under this agreement, each pool participant cedes 100% of its losses, loss adjustment expenses, net earned premiums and unearned premiums for which they receive a percentage of the pooled results in return. The Company received 0% of the pooled results at the examination date.

In its filed annual statements, the Company reported “Agents’ balances and uncollected premiums” on a pre-pooled basis leaving the responsibility for the collection of premiums to the Company rather than the pool. The agreement is unclear as to whether the responsibility for uncollected premiums is that of the Company or the pool. It is recommended that the Company amend the current pooling agreement to clarify each participant’s obligations relative to accounts subject to pooling.

Prior to its name change, the Company entered into facultative reinsurance agreement with National Union Fire Insurance Company of Pittsburgh, PA, Inc. (“NU”) in which the Company ceded to NU all binders, policies and other contracts of reinsurance, all extensions, renewals or modifications thereof and all endorsements or riders thereto undertaken prior to the effective date by, on behalf of or for the account of Abeille General Insurance Company, Inc., including those in force on the effective date and those that were cancelled or that expired prior to the effective date. The effective date of this cession is July 1, 1996.

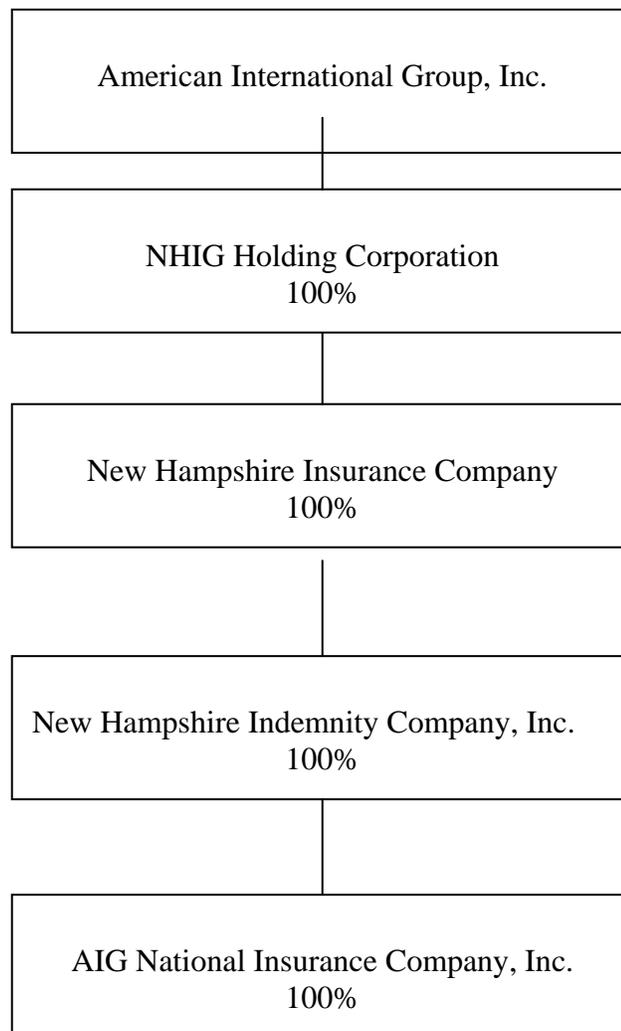
The Company is party to no other reinsurance agreements.

D. Holding Company System

The Company is a wholly owned subsidiary of New Hampshire Indemnity Company, Inc. New Hampshire Indemnity Company, Inc. is wholly owned by New Hampshire Insurance Company, which is

wholly owned by NHIG Holding Company Corp., which is wholly-owned by American International Group, Inc.

The following partial organizational chart depicts the direct chain of ownership in the Holding Company System at December 31, 2001:



Inter-company agreements

The Company maintains two inter-company agreements: an investment advisory agreement and a tax allocation agreement. Both agreements were non-disapproved by this Department.

The Company entered into a third agreement; a supplies and expense sharing agreement with other affiliated companies on February 9, 2001, via Addendum #25 to the existing expense sharing agreement dated February 1, 1974. This agreement was non-disapproved by this Department on February 23, 2001. Implementation of this agreement is contingent upon the approval of all regulatory bodies in which the parties to this agreement are domiciled. To date, the New Jersey Department of Banking and Insurance has not approved this Addendum.

The Company received services of claims adjusting and settlement, and policy issuance and premium collection from its immediate parent, New Hampshire Indemnity Company, Inc. New Hampshire Indemnity Company, Inc. acts as an agent for the Company but does not charge the Company for services rendered. The Company does not have a written agreement with New Hampshire Indemnity Insurance Company, nor did the Company notify the Superintendent of Insurance of the New York Insurance Department of its intention to enter into this arrangement. This arrangement does not comply with the provisions of Section 1505(d) of the NYIL, 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.”

The Company’s position is that such services are provided pursuant to the service agreement between American International Group and certain subsidiaries, and that New Hampshire Indemnity Company is authorized to perform such services pursuant to Addendum #25 of the service agreement, which states “AIG shall furnish or cause one or more of its subsidiaries, including one or more of the Companies, to furnish such equipment, office space, services and personnel to the Companies and certain of AIG’s other subsidiaries and affiliates...” While the aforementioned addendum allows AIG, Inc. to assign certain services included in the agreement to any of its named subsidiaries, any such assignments

must be submitted as a separate addendum to the contract for our prior non-disapproval pursuant to Section 1505 of the New York Insurance Law, as such assignments represent a change in the terms of the agreement as approved. Additionally, such addendum assigning any of the services to a subsidiary must include a provision for reimbursement of such services at cost. It is recommended that the Company either draft a separate agreement between itself and New Hampshire Indemnity Company or submit an addendum to the service agreement with AIG specifying the services to be performed by New Hampshire Indemnity Company, Inc. pursuant to the provisions of Section 1505 of the New York Insurance Law. The Company has indicated that it is going to draft an entirely separate agreement that will be between the Company and New Hampshire Indemnity Company, Inc. that will address the specific services provided thereto.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001, based upon the results of this examination:

Net premiums written in 2001 to Surplus as regards policyholders	0.0
Liabilities to liquid assets (cash and invested assets)	60.25%
Premiums in course of collection to surplus as regards policyholders	63.38%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

F. Abandoned Property Law

Section 1316 of the New York State Abandoned Property Law requires that certain unclaimed insurance proceeds be reported to the State of New York by April 1 of each year. The Company is in compliance with this law.

G. Accounts and Records

i. Custody of Assets

The Company had entered into a custodial agreement with Mellon Trust of New York, effective April 20, 1998. A review of this agreement revealed that the agreement lacked nine of the eleven safeguards and controls required by this Department and the NAIC's Financial Condition Examiners Handbook.

It is recommended that the Company amend its current custodial agreements to include the necessary safeguards and controls in accordance with the NAIC Financial Condition Examiners Handbook. On December 24, 2002, the Company amended its agreement with Mellon Trust of New York to include these safeguards and controls.

ii. Cash and Short-term Assets

AIG National reported its investment in AIG Domestic Fund, an internal investment fund, as Cash in its 2001 filed annual statement. The 2001 National Association of Insurance Commissioners' ("NAIC's") Annual Statement Instruction for Property and Casualty Companies states that the proper classification for this asset is "Other invested assets" and should have been reported by the Company on Schedule BA as "Aggregated write-in for other than invested assets".

It is recommended that the Company comply with the NAIC's annual statement instructions and report this investment in the Schedule BA of its future filed annual statements.

The Company reported \$4,360,348 in the AIG Money Market Fund as a short-term investment on its asset page of its balance sheet in its filed annual statement. However, per Schedule DA, Part 1

and examination review of this item, the actual balance was \$4,356,988. Thus, the Company overstated this asset by \$3,360.

It is recommended that the Company exercise due care in the preparation of its future filed annual statements. Subsequent to the examination date, the Company established procedures to monitor its investments for reporting purposes.

Section 1409(a) of the New York State Insurance Law restricts the investments in any investment to no more than 10 percent of admitted assets of last filed statement. \$2,615,858 of the \$4,360,348 invested in the AIG Domestic Fund exceeded the 10 percent limitation. Subsequent to the examination date, the Company transferred assets from this mutual fund and, therefore, no financial change will be made.

It is recommended that the Company comply with Section 1409 of the New York State Insurance Law and report investments in excess of those limitations as non-admitted in its future filed annual statements.

iii. Bonds

Review of the Company's investments reported in its filed annual statement revealed that the Company did not submit some of its bond investments to the National Association of Insurance Commissioners' Securities Valuation Office ("SVO") for valuation. The Company arbitrarily reported the highest quality of bond designation (designation 1) or did not provide a designation in its filed annual statement. It is recommended that the Company comply with the NAIC's requirements to submit its investments to the SVO for valuation and report its bond investments according to the quality designations as determined by the Security Valuation Office.

iv. Drafts Outstanding

The Company misclassified checks outstanding as drafts outstanding in its filed annual statements. This led to an overstatement of cash on the assets page of the annual statement with an offsetting overstatement of drafts outstanding on the liabilities page of the annual statement.

It is recommended that the Company exercise more care in the preparation of its future filed annual statements.

v. Other Underwriting Expenses

The Company reported an “aggregate write-ins for miscellaneous income” as “expenses associated with finance and service charges” in its Underwriting and Investment Exhibit. These finance and service charges and the offsetting expenses should have been ceded to the parent and reported net of reinsurance.

It is recommended that the Company discontinue the practice of offsetting its income from “finance and service charges not included in premiums” by its expenses associated with finance and service charges.

During 1996, the Company relocated from New York to Atlanta, Georgia. The Company is not able to provide document of approval from this Department of its relocation. Section 325 (b) of the New York State Insurance Law provides the following:

“A domestic insurer and a licensed United States branch of an alien insurer entered through this state may keep and maintain its books of account without this state if, in accordance with a plan adopted by its board of directors and approved by the superintendent, it maintains in this state suitable records in lieu thereof...”

It is recommended that the board of directors adopt a plan to relocate its books and records to Atlanta, Georgia and submit the plan to this Department for approval.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination and that reported by the Company in its December 31, 2001, filed annual statement:

Assets	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$6,724,347	\$ 0	\$6,724,347
Cash and short-term investments	4,491,345	0	4,491,345
Agent's balances or uncollected premiums	6,822,593	20,414	6,802,179
Reinsurance recoverables on loss and loss adjustment expense payments	1,638,360		1,638,360
Interest, dividends and real estate income due and accrued	101,286		101,286
Receivable from parent, subsidiaries and affiliates	<u>273,657</u>	<u> </u>	<u>273,657</u>
Total assets	<u>\$20,051,588</u>	<u>\$20,414</u>	<u>\$20,031,174</u>

Liabilities, Surplus and Other Funds

Commissions payable, contingent commissions and other similar charges	\$ 764,008
Taxes, licenses and fees (excluding federal and foreign income taxes)	142,455
Ceded reinsurance premiums payable (net of ceding commissions)	2,462,238
Drafts outstanding	3,366,371
Payable to parent, subsidiaries and affiliates	<u>22,796</u>
 Total liabilities	 \$ 6,757,868

Surplus and Other Funds

Common capital stock	\$ 6,000,000
Gross paid in and contributed surplus	4,791,928
Unassigned funds	<u>2,481,378</u>
 Surplus as regards policyholders	 <u>13,273,306</u>
 Total liabilities, surplus and other funds	 <u>\$20,031,174</u>

NOTE:

The Internal Revenue Service has completed its audits of the Company's Federal income tax returns through tax year 1989. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 1990 through 1996 are currently in progress, while those covering tax years 1997, 1998, 1999, 2000 and 2001 have yet to commence. Except for any impact that might result from the examination changes contained in this report, the examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$644,247 during the twelve-month examination period, (January 1, 2001 through December 31, 2001) detailed as follows:

Statement of Income

Other underwriting expenses incurred	0	
Aggregate write-ins for underwriting deductions	<u>0</u>	
Net underwriting gain or (loss)		<u>\$0</u>
 <u>Investment Income</u>		
Net investment income earned	\$618,839	
Net realized capital gain	<u>146,966</u>	
Net investment gain or (loss)		765,805
 <u>Other Income</u>		
Net gain or (loss) from agents' or premium balances charged off	\$0	
Finance and service charges not included in premiums	115,988	
Aggregate write-ins for miscellaneous income	<u>(115,988)</u>	
Total other income		<u>0</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$765,805
Federal and foreign income taxes incurred		<u>180,866</u>
Net Income		<u>\$584,939</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2000			\$12,629,059
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$584,939		
Net unrealized capital gains or (losses)	71,833		
Change in non-admitted assets	<u> </u>	<u>\$12,525</u>	
Total gains and losses	<u>\$656,772</u>	<u>\$12,525</u>	
Net increase (decrease) in surplus			<u>644,247</u>
Surplus as regards policyholders per report on examination as of December 31, 2001			<u>\$13,273,306</u>

4. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation.

The general review was directed at practices of the Company in the following major areas:

- A. Sales and advertising materials
- B. Underwriting
- C. Rating
- D. Claims and complaints handling

No problem areas were encountered.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. Members of the Board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that appropriate decisions may be reached by the board. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
The 2000 examination of AIG National Insurance Company was concluded subsequent to the filing this annual statement. Therefore, the Company has not had the opportunity to comply with this recommendation.	
ii. It is recommended that the board of directors approve the Company's by-laws and all future amendments to those by-laws.	5
Subsequent to the examination date, the board of directors approved the Company's by-laws.	

<u>ITEM</u>	<u>PAGE NO.</u>
iii. It is recommended that the Company comply with Regulation 152 and maintain all records for a period of six calendar years from its creation or until after the filing of a report on examination or the conclusion of an investigation in which the record was subject to review. The 2000 examination of AIG National Insurance Company was concluded subsequent to the filing this annual statement. Therefore, the Company has not had the opportunity to comply with this recommendation.	5
B. <u>Reinsurance</u>	
It is recommended that the Company amend the current pooling agreement to clarify each participant's obligations relative to accounts subject to pooling. The 2000 examination of AIG National Insurance Company was concluded subsequent to the filing this annual statement. Therefore, the Company has not had the opportunity to comply with this recommendation.	8
C. <u>Holding Company</u>	
Subsequent to the examination, the Company entered into a third agreement; a supplies and expense sharing agreement with other affiliated companies on February 9, 2001, via Addendum #25 to the existing expense sharing agreement dated February 1, 1974. This agreement was non-disapproved by this Department on February 23, 2001. Implementation of this agreement is contingent upon the approval of all regulatory bodies in which the parties to this agreement are domiciled. To date, the New Jersey Department of Banking and Insurance has not approved this Addendum.	11
D. <u>Accounts and Records</u>	
i. It is recommended that the Company amend its custodial agreement with Mellon Bank to include the necessary safeguards and controls. The 2000 examination of AIG National Insurance Company was concluded subsequent to the filing this annual statement. Therefore, the Company has not had the opportunity to comply with this recommendation.	12
ii. It is recommended that the Company amend its current custodial agreement with Mellon Bank requiring the bank to complete the affidavits as required by Circular Letter 1975-1. The Company has complied with this recommendation.	13

<u>ITEM</u>		<u>PAGE NO.</u>
iii	It is recommended that the Company keep its assets on hand or place them with an authorized custodian as required by Circular Letter 1977-2.	14
	The 2000 examination of AIG National Insurance Company was concluded subsequent to the filing this annual statement. Therefore, the Company has not had the opportunity to comply with this recommendation.	
iv.	It is recommended that the Company prepare its annual statements in accordance with the NAIC's annual statement instructions for property and casualty companies.	15
	The 2000 examination of AIG National Insurance Company was concluded subsequent to the filing this annual statement. Therefore, the Company has not had the opportunity to comply with this recommendation.	
v.	It is recommended that the Company discontinue the practice of offsetting its income from "finance and service charges not included in premiums" by its expenses associated with finance and service charges.	15
	The Company has complied with this recommendation.	
vi.	It is recommended that the Company report its expenses net of the pooling effect in its future filed annual statements.	15
	The Company complied with this recommendation.	
vii.	It is recommended that the Company establish a record retention policy that meets the minimum standards set forth in Regulation 152.	16
	The 2000 examination of AIG National Insurance Company was concluded subsequent to the filing this annual statement. Therefore, the Company has not had the opportunity to comply with this recommendation.	
E.	<u>Cash and Short-term Assets</u>	
	It is recommended that the Company comply with New York Insurance Law Section 1409(a) and divest itself of all investments in any one institution in excess of ten percent of its admitted assets.	14
	The 2000 examination of AIG National Insurance Company was concluded subsequent to the filing this annual statement. Therefore, the Company has not had the opportunity to comply with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. During the examination period, six board members had never attended any meeting of board of directors. Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that appropriate decisions may be reached by the board. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
ii. During the examination period of 2001, the Company held three board of directors meetings. The Company's by-laws specify four such meetings are to be held annually. It is recommended that the Company comply with its by-laws and hold at least the minimum number of board of directors meetings.	5
B. <u>Reinsurance</u>	
It is recommended that the Company amend the current pooling agreement to clarify each participant's obligations relative to accounts subject to pooling.	7
C. <u>Holding Company</u>	
i. It is recommended that the Company either draft a separate agreement between itself and New Hampshire Indemnity Company or submit an addendum to the service agreement with AIG specifying the services to be performed by New Hampshire Indemnity Company, Inc., pursuant to the provisions of Section 1505 of the New York Insurance Law. The Company has indicated that it is going to draft an entirely separate agreement that will be between the Company and New Hampshire Indemnity, Inc. that will address the specific services provided thereto.	9
D. <u>Accounts and Records</u>	
i. It is recommended that the Company amend its custodial agreement with Mellon Bank to include the necessary safeguards and controls in accordance with the NAIC Financial Condition Examiners Handbook.	11

<u>ITEM</u>	<u>PAGE NO.</u>
ii. It is recommended that the Company comply with the NAIC's annual statement instruction and report this investment in the Schedule BA of its future filed annual statements.	11
iii. It recommended that the Company exercise due care in preparing its future filed annual statements.	11, 13
iv. It is recommended that the Company comply with Section 1409 of the New York State Insurance Law and report investments in excess of those limitations as non-admitted in its future filed annual statements.	12
v. It is recommended that the Company comply with the NAIC's requirements to submit its investments to the SVO for valuation and report its bond investments according to the quality designations as determined by the Security Valuation Office.	12
vi. It is recommended that the Company discontinue the practice of offsetting its income from "finance and service charges not included in premiums" by its expenses associated with finance and service charges.	13
vii. It is recommended that the board of directors retroactively adopt a plan to relocate its books and records to Atlanta, Georgia and submit the plan to this Department for approval.	14

Respectfully submitted,

_____/S/_____
Alfred W. Bloomer, Jr.
Senior Insurance Examiner

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

ALFRED W. BLOOMER, JR., being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____/S/_____
Alfred W. Bloomer, Jr.

Subscribed and sworn to before me

This _____ day of _____ 2004.

Appointment No. 21858

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Alfred Bloomer

as proper person to examine into the affairs of the

AIG NATIONAL INSURANCE COMPANY INC.

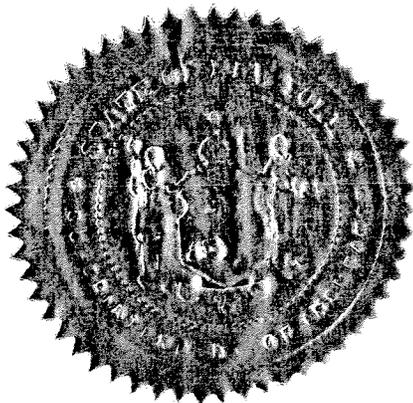
and to make a report to me in writing of the condition of the said

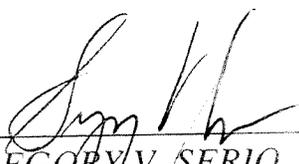
Company

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 22nd day of March, 2002





GREGORY V. SERIO
Superintendent of Insurance