REPORT ON EXAMINATION

OF THE

AIG NATIONAL INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2000

REPORT DATE:	MARCH 27, 2002
EXAMINER:	ALFRED W. BLOOMER, JR.

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

March 27, 2002

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 21741, dated June 28, 2001, attached hereto, I have made an examination into the condition and affairs of the AIG National Insurance Company, Inc. as of December 31, 2000 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 "the Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1994. This examination covered the six-year period through December 31, 2000. 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, 2000, 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 ("NAIC"):

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 New Hampshire Insurance Company, which is a wholly-owned subsidiary of NHIG Corporation, which is a wholly-owned subsidiary of American International Group, Inc.

As of December 31, 2000, the capital structure of the Company consisted of 60,000 shares of issued and outstanding $100 par value per share common stock, that resulted in 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 13 nor more than 21 members. As of the examination date the board of directors was comprised of 13 members. The directors as of December 31, 2000 were as follows:

Name and Residence	Principal Business Affiliation
Frank Heinmen Douglas, Jr. Jersey City, NJ	Vice-President and Casualty Actuary, American International Group, Inc.
Thomas Michael Flaherty Alpharetta, GA	President, New Hampshire Indemnity Insurance Company, Inc.
Jacob Ernest Hansen Greenville, DE	President, AIG Marketing, Inc.

Name and Residence	Principal Business Affiliation
Stanley Herbert Lummus Cumming, GA	Director, New Hampshire Indemnity Insurance Company, Inc.
Edward Easton Matthews Princeton, NJ	Executive Vice-President, American International Group
David Alan Mulcahy Atlanta, GA	Director of Accounting, New Hampshire Indemnity Insurance Company, Inc.
Win Jay Neuger New York, NY	Senior Vice-President & Chief Investment Officer, American International Group, Inc.
Ernest Theodore Patrikis New York, NY	Senior Vice-President & General Counsel, American International Group, Inc.
Glenn Alan Pfeil Wilmington, DE	Executive Vice-President & Chief Financial Officer, AIG Marketing, Inc.
Robert Michael Sandler Bridgewater, NJ	Executive Vice-President & Senior Actuary, American International Group, Inc.
Howard Ian Smith Woodbury, NY	Executive Vice-President & Chief Financial Officer, American International Group, Inc.
Thomas Ralph Tizzio Middletown, NJ	Senior Vice-Chairman, American International Group, Inc.
Benny Shing Shun Yuen Marietta, GA	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.

a. Board of Directors

During the period under examination the board of directors held fifteen meetings. Five directors, including the Company's president, attended less than 50% of these meetings that they were eligible to attend. Of these five directors, three attended no meetings.

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.

Review of the board of directors' minutes did not indicate that the board had approved the Company's by-laws.

It is recommended that the board of directors approve the Company's by-laws and all future amendments to those by-laws. Subsequent to the examination date, the board of directors approved the Company's by-laws.

A review was made of the Company's conflict of interest policy. This Department requires that all officers, directors and key personnel complete a statement that they have read and complied with the Company's conflict of interest policy and that they must report any conflicts with that policy. Conflict of interest reporting forms for 1998 and 1999 were selected for review. The Company was unable to produce completed statements for four of its directors for 1998. Subsequent to the examination date, the statements not completed for 1998 were submitted to this Department.

Department Regulation 152, Part 243.2 requires every insurer to 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.

It is recommended that the Company comply with Department Regulation 152, Part 243.2 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 following is a listing of the principal officers of the Company and their respective titles, as of December 31, 2000:

Name	Title
Robert Michael Sandler	Chairman
Thomas Michael Flaherty	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

The Company is licensed to do insurance business in the District of Columbia and all of the states with the exception of California, Maine, Massachusetts, Michigan, Nevada, New Hampshire, North Carolina, Oklahoma, Tennessee and Vermont as of December 31, 2000.

The following schedule shows direct premiums written in New York State and countrywide during the period under examination:

DIRECT PREMIUMS WRITTEN

Calendar Year	New York State	Total United States	Premiums Written in New York State as a Percentage of United States Premium
1995	$921,110	$4,837,808	19.04%
1996	$260,279	$2,266,178	11.49%
1997	-	-	0.00%
1998	-	-	0.00%
1999	-	$3,034	0.00%
2000	-	$2,626,821	0.00%

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:

Paragraph	Kind of Insurance
3	Accident and health
4	Fire
5	Miscellaneous property
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, 2000, the Company was a participant in an inter-company pooling agreement, the AIG Personal Lines Pool, in which American International Insurance Company is the lead company.

Under this agreement, the Company cedes 100% of its losses, loss adjustment expenses, net earned premiums and unearned premiums for which it receives a percentage of the pooled results in return. No distribution of the pool's operations was made to the Company at the examination date. As of January 1, 2001, the Company's percentage of participation in this pool was increased to 2%. This Department approved the Company's membership in and participation in the aforementioned pooling agreement.

Upon examination, it was noted that certain accounts such as Agents' Balances or Uncollected Premiums were not pooled. Article IV, Paragraph 2 of the inter-company pooling agreement states the following: "It is agreed that the interest of each Pool Member and AIIC in its agents' balances, uncollected premiums, including past due balances, premium notes receivable, reinsurance recoverables, and all other accounts relating to underwriting operations including underwriting pools and associations, are to be considered at book value as evidenced by the Pool Member's or AIIC's books and records at the date of accounts". The language in the current inter-company pooling agreement is not clear whether agents' balances or uncollected premiums should be pooled or not pooled. It is recommended that the Company amend the current inter-company pooling agreement to clarify each participant's obligations relative to the accounts subject to pooling.

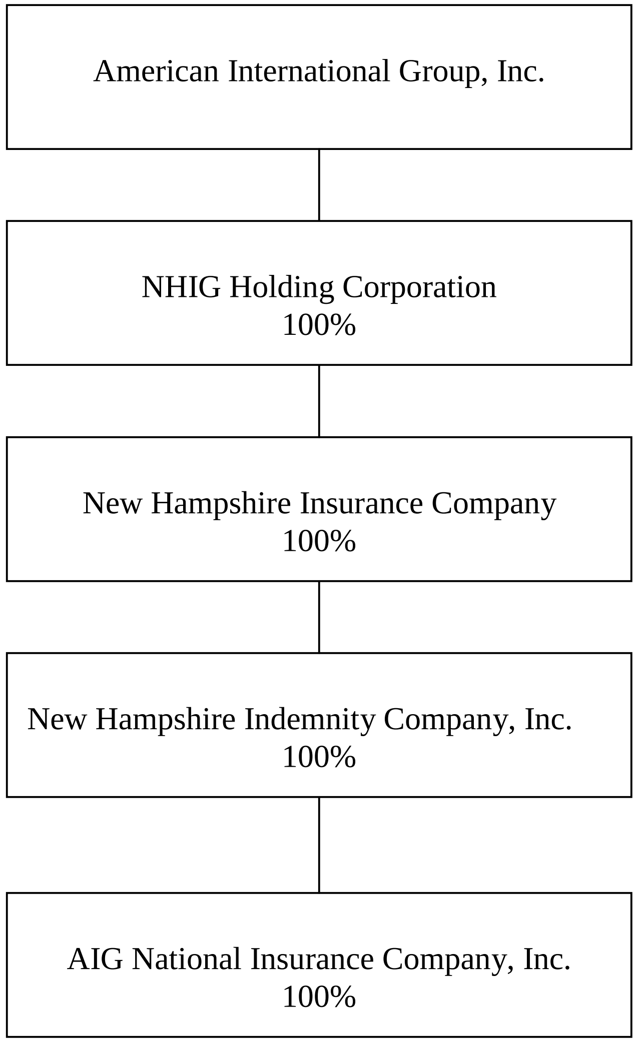
Prior to its name change, the Company entered into facultative reinsurance agreement with National Union Fire Insurance Company of Pittsburgh, PA, Inc. ("NU") in which the Company ceded to NU all binders, policies and other contracts of reinsurance, all extensions, renewals or modifications thereof and 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 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, 2000:


American International Group, Inc.
NHIG Holding Corporation
100%
New Hampshire Insurance Company
100%
New Hampshire Indemnity Company, Inc.
100%
AIG National Insurance Company, Inc.
100%

The Company maintains two inter-company agreements with its ultimate parent, American International Group, Inc: an investment advisory agreement and a tax allocation agreement. Both agreements were non-disapproved by this Department.

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. Subsequent to the date of this report, the New Jersey Department of Banking and Insurance has approved this addendum.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2000, based upon the results of this examination:

Net premiums written in 2000 to Surplus as regards policyholders	Note (1)
Liabilities to liquid assets (cash and invested assets)	8.28%
Premiums in course of collection to Surplus as regards policyholders	Note (2)

Notes:

(1) The Company cedes its entire net premiums written to the pool and receives 0% back.
(2) The Company reports a negative amount for premiums in the course of collection.

The Company’s ratio for Liabilities to liquid assets falls within the benchmark range set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$25,677,744	84.40%
Other underwriting expenses incurred	5,726,056	18.82
Net underwriting loss	(980,572)	(3.22)
Premiums earned	$30,423,228	100.00%

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. Custodial Agreement

The Company entered into a custodial agreement with Mellon Bank effective April 20, 1998, which lacked six of the nine safeguards and controls recommended by this Department.

The following are the six protective covenants and provisions to be included in the custodial agreement:

1. The bank shall have in force, for its own protection, Bankers Blanket Bond Insurance of the broadest form available for commercial banks and will continue to maintain such insurance. You will give us 60 days written notice of any material change in the form or amount of such insurance or termination of this coverage.

2. Furnish the insurer (at least quarterly) with a list of such securities showing a complete description of each issue, which shall include the number of shares or par value of bonds so held at the end of such quarter.

3. Maintain records sufficient to verify information we are required to report in Schedule D of the Annual Statement blank of the Insurance Department of the State of New York.

4. Furnish us with the appropriate affidavits in the form as may be acceptable to you and to the New York Insurance Department in order for the securities referred to in such affidavits to be recognized as admitted assets of the company.

5. Access shall be during your regular banking hours and specifying those persons who shall be entitled to examine on your premises securities held by you on your premises and your records regarding securities held, but only upon furnishing you with written instructions to that effect from any specified authorized officer.

6. There should be a provision in the agreement that would give the insurer the opportunity to secure the most recent report on the review of the custodian's system of internal controls, issued by internal or independent auditors.

It is recommended that the Company amend its custodial agreement with Mellon Bank to include the necessary safeguards and controls.

The affidavit submitted by the Company's custodian for use when the custodian bank maintains securities on deposit with The Depository Trust Company ("DTC") was modified by the custodian bank to delete the words "whether in the possession of the bank or deposited with DTC" from the statement regarding the custodian's responsibility for the safekeeping of such securities that the bank has caused to be deposited with the DTC. Department Circular Letter 1977-2 sets forth the revised custodian affidavits, which the Department requires to be executed on its examinations of insurance companies in order for the assets to qualify as admitted assets. This affidavit failed to meet the requirements of the aforementioned Circular Letter.

It is recommended that the Company amend its current custodial agreement with Mellon Bank so that its custodian can complete the affidavits as required by Circular Letter 1977-2.

ii. Cash and Short-term Investments

AIG National reported its investment in the AIG Money Market Fund under the caption "Cash" in its 2000 filed annual statement. In accordance with Chapter 5 of the NAIC's Accounting Practices and Procedures Manual for Property and Casualty Companies the proper classification for this should had been short-term investments.

The Company's investment in the AIG Money Market Fund was confirmed by DST Systems, Inc., the Money Market Fund's transfer agent. Circular Letter 1977-2 requires an authorized custodian to be either a bank or trust company. As such, DST Systems, Inc. does not qualify as an authorized custodian.

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.

iii. 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.

iv. Interest Due and Accrued

The Company reported interest receivable as a write-in on line 21 of the Assets page of the balance sheet. This should have been reported as a non-ledger asset on line 16, Interest, Dividends and Real Estate Income Due and Accrued.

v. Other Expenses

The Company misclassified “Taxes, licenses and fees” as “Other expenses.”

It is recommended that the Company prepare its annual statements in accordance with the NAIC’s Annual Statement Instructions for Property and Casualty Companies and the NAIC’s Accounting Practices and Procedures Manual for Property and Casualty Companies.

vi. Other Underwriting Expenses

The Company reported its “Other Underwriting Expenses” in the Underwriting and Expense Exhibit – Part 4 – Expenses on a pre-pooled basis. Further, the actual pre-pooled expenses were offset by policy fees. In order to reflect the pooling, the Company then cedes all of its other expenses on line 2c “Commission and brokerage reinsurance excluding contingent” rather than reporting the entire exhibit post pooling. Such presentation distorts the actual expenses incurred by the Company.

It is recommended that the Company discontinue the practice of offsetting its other underwriting expenses with policy fees. It is further recommended that the Company report its expenses net of the pooling effect in its future filed annual statements.

vii. Record Retention

Upon examination, it was determined that the Company’s record retention policy does not meet the minimum standards set forth in Department Regulation 152, Part 243. When this matter was brought to the Company’s attention, the Company stated that “no records have been authorized for destruction and as such we believe the company meets the intention of the applicable New York regulations.” While the Company was able to produce most of the records requested on examination, the length of time established by the Company for the maintenance of these records does not comply with Regulation 152.

It is recommended that the Company establish a record retention policy that meets the minimum standards set forth in Department Regulation 152.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination and as reported by the Company in its December 31, 2000, filed annual statement:

	Per Examination				Per Company	
Assets	Ledger Assets	Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets	Net Admitted Assets	Surplus Increase (Decrease)
Bonds	$ 10,759,539	$	$	$ 10,759,539	$ 10,759,539	$
Cash and short-term investments	2,150,670		953,000	1,197,670	2,150,670	(953,000)
Agent's balances or uncollected premiums	(245,489)		7,889	(253,378)	(253,378)	
Interest, dividends and real estate income due and accrued		113,092		113,092	113,092	
Receivable from parent, subsidiaries and affiliates	156,420			156,420	156,420	
Aggregate write-ins for other than invested assets	3,359			3,359	3,359	
Total Assets	$ 12,824,499	$ 113,092	$960,889	$ 11,976,702	$ 12,929,702	($953,000)

Liabilities, Surplus and Other Funds	Per Examination	Per Company	Surplus Increase (Decrease)
Other expenses	$ 169,069	$ 169,069	
Drafts outstanding	131,577	131,577	
Total liabilities	$ 300,646	$ 300,646	
Common capital stock	$ 6,000,000	$ 6,000,000	
Gross paid in and contributed surplus	4,791,928	4,791,928	
Unassigned funds	884,128	1,837,128	$ (953,000)
Surplus as regards policyholders	$ 11,676,056	$ 12,629,056	$ (953,000)
Total liabilities, surplus and other funds	$ 11,976,702	$ 12,929,702	

Note: The Internal Revenue Service has completed its audits of the Company's Federal income tax returns through tax year 1986. Any material adjustments, 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 1996, 1997 and 1998 are currently in progress, while those covering tax year 1999 have yet to commence. Except for any impact which 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 decreased $2,735,609 during the six year examination period, January 1, 1995 through December 31, 2000, detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$30,423,228
Deductions:		
Losses and Loss adjustment expenses incurred	$25,677,744	
Other underwriting expenses incurred	5,726,056	
Total underwriting deductions		31,403,800
Net underwriting gain or (loss)		$(980,572)
Investment Income		
Net investment income earned	$4,889,002	
Net realized capital gains	309,067	
Net investment gain or (loss)		5,198,069
Other Income		
Finance and service charges not included in premiums	$24,314	
Aggregate write-ins for miscellaneous income	(19,430)	
Total other income		4,884
Net income after dividends to policyholders but before federal and foreign income taxes		$4,222,381
Federal and foreign income taxes incurred		867,553
Net Income		$3,354,828

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 1994			$14,411,666
Net income	$3,354,828	$	
Net unrealized capital gains or (losses)	9,468		
Change in provision for reinsurance	280,000		
Change in non-admitted assets		953,000	
Dividends to stockholders		5,500,000	
Extraordinary amounts of taxes for prior years	44,693		
Aggregate write-ins for gains and losses in surplus	28,402		
Total gains and losses	$3,717,391	$6,453,000	
Net increase (decrease) in surplus			(2,735,609)
Surplus as regards policyholders per report on examination as of December 31, 2000			$11,676,057

4. CASH AND SHORT-TERM INVESTMENTS

The examination admitted asset of $1,197,670 is $953,000 less than the $2,150,670 reported by the Company in its December 31, 2000 filed annual statement. The examination change is the result of the non-admittance of the Company's excess investment in the AIG Money Market Fund. In accordance with Section 1409(a) of the New York Insurance Law:

> "…no insurer shall have more than 10% of its admitted assets as shown by its last statement on file with the superintendent invested in, or loaned upon, the securities of any one institution."

Accordingly, this examination has limited the Company's investment in the AIG Money Market Fund to 10% of the Company's net admitted assets. It is recommended that the Company comply with Section 1409(a) of the New York Insurance Law.

5. LOSSES AND LOSS ADJUSTMENT EXPENSES

As set forth in Section 2C of this report, AIG National participates in a pooling agreement in which all underwriting liabilities are ceded to American International Insurance Company. There is no retrocession of any of the pool's liabilities to the Company. Thus, the Company reports no liability for either losses or loss adjustment expenses.

6. 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 it 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, which is performed by the Market Conduct Unit of the Property Bureau of this Department.

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.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Holding Company System	
	It is recommended that the Company complete Schedule Y of the Annual Statement, "information concerning activities of insurer members of a holding company group, part 1, organizational chart," with the correct companies that comprise the holding company system and with the correct percentages of ownership.	8
	As of July 16, 1996, the Company was purchased by New Hampshire Indemnity Company, Inc., a member of the American International Group. The organizational chart for American International Group is properly prepared with the correct percentages of ownership.	
B.	Accounts and Records	
	It is recommended that the Company comply with the instructions to the annual statement which provide for the segregation of premiums and assumed paid losses into the uncollected premium and assumed loss payable accounts.	10

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On July 16, 1996, the Company was purchased by New Hampshire Indemnity Company, Inc., a member of the American International Group. As such, the accounting system used by the Company is different and the recommendation is no longer applicable.

C. Lack of Cooperation

It is recommended that the board of directors adopt a resolution requiring compliance with Section 310(a)(3) of the New York Insurance Law which requires the Company to facilitate and aid the examiners in the conduct of the examination. 11

The Company has complied with this recommendation.

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM | PAGE NO.

A. Management

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

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.

iii. It is recommended that the Company comply with Regulation 152, Part 243.2 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. 6

B. Reinsurance

It is recommended that the Company amend the current inter-company pooling agreement to clarify each participant's obligations relative to the accounts subject to pooling. 8

ITEM		PAGE NO.
C.	Holding Company	
	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. Subsequent to the date of this report, the New Jersey Department of Banking and Insurance has approved this addendum.	11
D.	Accounts and Records	
i.	It is recommended that the Company amend its custodial agreement with Mellon Bank to include the necessary safeguards and controls.	13
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 1977-2.	13
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
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
v.	It is recommended that the Company discontinue the practice of offsetting its other underwriting expenses with policy fees.	15
vi.	It is recommended that the Company report its expenses net of the pooling effect in its future filed annual statements.	15
vii.	It is recommended that the Company establish a record retention policy that meets the minimum standards set forth in Department Regulation 152.	16
E.	Cash and Short-term Investments	
	It is recommended that the Company comply with Section 1409(a) of the New York Insurance Law.	21

Respectfully submitted,

____________/S/___________

Alfred W. Bloomer, Jr., CFE

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 ______________________2002.

Appointment No. 21741

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 28th *day of* June, 2001

GREGORY V. SERIO
Superintendent of Insurance