

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of Lexington Insurance : Companies Act, Article XIV of the
Company in Support of the Request for : Insurance Company Law of 1921, Act
Approval to Acquire Control of GE : of May 17, 1921, P. L. 682, as
Property & Casualty Insurance : amended, 40 P.S. §§991.1401,
Company, GE Casualty Insurance : 991.1402 and 991.1403; Chapter
Company, GE Auto & Home Assurance : 25 of Title 31 of the Pennsylvania
Company and GE Indemnity Insurance : Code, 31 Pa. Code §§25.1-.23.
Company :
: Order No. ID-RC-03-33

DECISION AND ORDER

AND NOW, on this 26th day of August, 2003, M. Diane Koken, Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”), hereby makes the following Decision and Order:

Pursuant to the Insurance Holding Companies Act and in consideration of the documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner hereby makes the following findings of fact:

FINDINGS OF FACT

Identity of Involved Persons

Identity of Applicant

1. American International Group, Inc. (“AIG”) is an insurance holding company organized under the laws of the state of Delaware with its principal place of business in New York, New York.
2. The stock of AIG is publicly traded on the New York, London, Paris, Swiss and Tokyo stock exchanges.
3. Lexington Insurance Company (“Lexington”) is a foreign stock casualty insurance company organized under the laws of the state of Delaware with its

principal place of business in Boston, Massachusetts. Lexington is an indirect wholly-owned subsidiary of AIG.

Identity of Sellers

4. General Electric Company is an insurance holding company organized under the laws of the state of New York with its principal place of business in Fairfield, Connecticut.
5. The stock of General Electric Company is publicly traded on the New York stock exchange.
6. GE Financial Assurance Holdings, Inc. (“GE Financial”) is an insurance holding company organized under the laws of the state of Delaware with its principal place of business in Richmond, Virginia. GE Financial is an indirect wholly-owned subsidiary of General Electric Company.

Identity of the Pennsylvania Domiciled Insurers to be Acquired

7. GE Property & Casualty Insurance Company (“GEP&C”) is a domestic stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Fort Washington, Pennsylvania. GEP&C is a wholly-owned subsidiary of GE Financial.
8. GE Auto & Home Assurance Company (“GEA&H”) is a domestic stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Fort Washington, Pennsylvania. GEA&H is a wholly-owned subsidiary of GEP&C.
9. GE Casualty Insurance Company (“GE Casualty”) is a domestic stock fire insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Fort Washington, Pennsylvania. GE Casualty is a wholly-owned subsidiary of GEP&C.
10. GE Indemnity Insurance Company (“GE Indemnity”) is a domestic stock casualty insurance company organized under the laws of the Commonwealth of Pennsylvania with its principal place of business in Fort Washington, Pennsylvania. GE Indemnity is a wholly-owned subsidiary of GE Casualty.
11. GEP&C, GEA&H, GE Casualty and GE Indemnity are referenced hereinafter as “PA Domestic Insurers.”

Acquisition Filing

12. On June 26, 2003, Lexington & GE Financial executed a stock purchase agreement (which together with all amendments received subsequently is collectively referenced as “Stock Purchase Agreement”) under which Lexington would acquire control of the PA Domestic Insurers.
13. The Insurance Holding Companies Act, Article XIV of the Insurance Company Law of 1921, Act of May 17, 1992, P.L. 682, as amended, 40 P.S. §§991.1401 et seq. (“Insurance Holding Companies Act”), provides that all changes in control of domestic insurers must be filed with the Commissioner for approval or disapproval.
14. On July 3, 2003, the Insurance Department of the Commonwealth of Pennsylvania (“Department”) received an initial application (which together with all material received subsequently is collectively referenced as “Application”) from Lexington for approval to acquire control of all of the issued and outstanding stock of the PA Domestic Insurers.
15. The Application was filed pursuant to Section 1402 of the Insurance Holding Companies Act.

Department Procedures

16. On July 19, 2003, the Department published notice in the Pennsylvania Bulletin that the Application was received and such notice invited interested persons to submit comments to the Department regarding the Application for 30 days following the date of the publication (“Comment Period”).
17. During the Comment Period, the Department received one comment from an interested person who opposed approval of the application on the basis of alleged improprieties by AIG.
18. AIG responded to the comment.
19. The Department fully considered the comment and AIG’s response.
20. Section 1402(f)(2) of the Insurance Holding Companies Act provides that the Commissioner may exercise her discretion to hold a hearing on whether an application complies with the Insurance Holding Companies Act, unless either the potential acquiring party or the insurer being acquired demands a hearing within ten (10) days following the initial filing on an application.
21. If neither the potential acquiring party nor the insurer being acquired timely demands a hearing, the holding of a hearing is solely at the discretion of the Commissioner.

22. No hearing was demanded by GE Financial, Lexington, or the PA Domestic Insurers.
23. After consideration of all documents, presentations and reports received, as well as other inquiries and studies as permitted by law, the Commissioner exercised her discretion not to hold a hearing on the Application.

Description of the Proposed Acquisition

24. The Stock Purchase Agreement was adopted and consented to by the Board of Directors of GE Financial on June 23, 2003, and the Board of Directors of Lexington on June 24, 2003.
25. As described in the Application, Lexington will accomplish the acquisition by purchasing all of the issued and outstanding stock of GEP&C.
26. As described in the Application, Lexington will acquire all of the issued and outstanding stock of GEP&C for a consideration of cash.

Standards for Review

27. Section 1402(f)(1) of the Insurance Holding Companies Act (40 P.S. §991.1402(f)(1)) establishes the standards for approval of an application for a change in control of a domestic insurer.
28. The application for a change in control must be approved unless the Commissioner finds any one of certain enumerated conditions to be present.

Licensing Requirements

29. When analyzing an application for change in control under Section 1402 of the Insurance Holding Companies Act (40 P.S. §991.1402), the Commissioner reviews the requirements for continued licensure of the domestic insurer being acquired.
30. The lines of insurance for which an insurance company may be incorporated and become licensed to write are set out in Section 202 of the Insurance Company Law (40 P.S. §382).
31. The minimum paid up capital stock and paid in surplus required of a stock insurer for each line of insurance is set out in Section 206 of the Insurance Company Law (40 P.S. §386).
32. The PA Domestic Insurers are each currently incorporated and licensed to write the lines of insurance as defined in Section 202(b) and (c) of the Insurance

Company Law (40 P.S. §382(b) and (c)).

33. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), GE Casualty and GEP&C are independently required to maintain a minimum paid up capital stock of \$2,350,000 and a minimum paid in surplus of \$1,175,000 to write the lines of insurance for which each is presently licensed.
34. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), GE Indemnity is required to maintain a minimum paid up capital stock of \$1,700,000 and a minimum paid in surplus of \$850,000 to write the lines of insurance for which it is presently licensed.
35. In accordance with Section 206 of the Insurance Company Law (40 P.S. §386), GEA&H is required to maintain a minimum paid up capital stock of \$1,600,000 and a minimum paid in surplus of \$800,000 to write the lines of insurance for which it is presently licensed.
36. As of March 31, 2003, the PA Domestic Insurers each maintained the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which each is presently licensed.
37. Upon completion of the transaction, the PA Domestic Insurers will have the statutory minimum capitalization to satisfy the requirements to write the lines of insurance for which each is presently licensed.

Competitive Impact

38. The acquisition of control of the PA Domestic Insurers is subject to review and analysis under Section 1403 of the Insurance Holding Companies Act (40 P.S. §991.1403), to determine whether the effect of the acquisition of control would be to substantially lessen competition or tend to create a monopoly in the Commonwealth.
39. The acquisition of control of the PA Domestic Insurers will not lessen competition or tend to create a monopoly in the Commonwealth because the market share of the PA Domestic Insurers and the market share of the Pennsylvania licensed insurance subsidiaries of AIG, as stated in the Application, do not exceed the market share levels established in Section 1403 of the Insurance Holding Companies Act (40 P.S. §991.1403).

Financial Condition of Applicant

40. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act (40 P.S. §991.1402), the Department reviews the financial condition of the acquiring person(s).
41. As of December 31, 2002, AIG reported:

Assets of \$561,229 million
Liabilities of \$499,973 million
Shareholders' equity of \$59,103 million
42. As of March 31, 2003, Lexington reported:

Assets of \$5,477 million
Liabilities of \$3,661 million
Shareholders' equity of \$1,816 million
43. The financial condition of AIG and Lexington will not pose any impediments to the change in control nor jeopardize the financial condition of the PA Domestic Insurers.

Plans for the Acquired Insurer

44. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act (40 P.S. §991.1402), the Department reviews the plans or proposals which the acquiring party has for the insurer.
45. As provided in the Application, Lexington presently intends to continue to maintain the PA Domestic Insurers' home office and principal office in Ft. Washington, Pennsylvania following the acquisition.
46. As provided in the Application, Lexington presently does not intend any reduction in the number of employees at the home and principal office locations of the PA Domestic Insurers as a result of the acquisition.
47. As provided in the Application, Lexington presently intends to continue the businesses and operations of the PA Domestic Insurers in substantially the same manner as such businesses and operations are currently conducted.
48. As described in the Application, Lexington will be changing the names of the PA Domestic Insurers after closing.

Management

49. When analyzing an application for an acquisition of control under Section 1402 of the Insurance Holding Companies Act (40 P.S. §991.1402), the Department reviews the competence, experience and integrity of the persons who will control the operations of the acquired insurers.
50. Biographical affidavits for all directors and executive officers of the AIG and Lexington were reviewed by the Department.
51. The Department is satisfied that the persons who would control the operations of the PA Domestic Insurers have such competence, experience and integrity that the interests of policyholders and the public would not be jeopardized.
52. If any of the above Findings of Fact are determined to be Conclusions of Law, they shall be incorporated in the Conclusions of Law as if fully set forth therein.

CONCLUSIONS OF LAW

1. Under Section 1402 of the Insurance Holding Companies Act (40 P.S. §991.1402), the Department has jurisdiction to review and approve the change in control of the PA Domestic Insurers.
2. Under Section 1402 of the Insurance Holding Companies Act (40 P.S. §991.1402), the Department must approve an application for a change in control unless the Department has found that:
 - a) The insurer will not be able to satisfy the requirements for the issuance of a license to operate the line or lines of business for which they are presently licensed;
 - b) The change in control will substantially lessen competition in insurance in this Commonwealth or tend to create a monopoly therein;
 - c) The financial condition of the acquiring company is such as might jeopardize the financial stability of the insurer or prejudice the interests of its policyholders;
 - d) Any plans to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make material changes in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurers and not in the public interest;
 - e) The competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders and the general public to permit the acquisition of control; or,
 - f) The acquisition is likely to be hazardous or prejudicial to the insurance buying public.
 - g) The acquisition of control is not in compliance with the laws of this Commonwealth, including Article VIII-A, Insurance Company Mutual-to-Stock Conversion Act.
3. Under Section 1402 of the Insurance Holding Companies Act (40 P.S. §991.1402), the Commissioner has not found that any of the above conditions are present with respect to the change in control of the PA Domestic Insurers.
4. If any of the above Conclusions of Law are determined to be Findings of Fact, they shall be incorporated in the Findings of Fact as if fully set forth therein.

BEFORE THE INSURANCE COMMISSIONER
OF THE
COMMONWEALTH OF PENNSYLVANIA

In Re: : Pursuant to Sections 1401, 1402
: and 1403 of the Insurance Holding
Application of Lexington Insurance : Companies Act, Article XIV of the
Company in Support of the Request for : Insurance Company Law of 1921, Act
Approval to Acquire Control of GE : of May 17, 1921, P. L. 682, as
Property & Casualty Insurance : amended, 40 P.S. §§991.1401,
Company, GE Casualty Insurance : 991.1402 and 991.1403; Chapter
Company, GE Auto & Home Assurance : 25 of Title 31 of the Pennsylvania
Company and GE Indemnity Insurance : Code, 31 Pa. Code §§25.1-.23.
Company :
: Order No. ID-RC-03-33

ORDER

Upon consideration of the foregoing, the Insurance Commissioner of the Commonwealth of Pennsylvania (“Commissioner”) hereby makes the following Order:

The application of Lexington Insurance Company (“Lexington”) in support of the request for approval to acquire control of GE Property & Casualty Insurance Company, GE Casualty Insurance Company, GE Auto & Home Assurance Company and GE Indemnity Insurance Company (hereinafter collectively referenced as “PA Domestic Insurers”) as set forth in the Application, is hereby approved, subject to this Order and the following conditions:

1. All necessary regulatory filings and approvals are obtained prior to consummation of the Stock Purchase Agreement.
2. Applicants shall provide a list of closing documents within five (5) days after consummation of the subject transaction and shall maintain the listed documents and make them available to the Department for a period of not less than five (5) years from the date of consummation.
3. AIG shall provide notice to the Department of any reductions in the number of staff who were employees of the PA Domestic Insurers located in Pennsylvania on the closing date occurring within a rolling twelve month period and affecting more than twenty percent (20%) of such staff; such notice shall be provided sixty (60) days prior to any such reduction. This condition shall expire on January 1, 2008. Any such notice provided

to the Department shall be maintained on a confidential basis by the Department.

This Order is effective immediately and valid for one (1) year, provided no material changes are made to the transaction prior to consummation.

M. DIANE KOKEN
Insurance Commissioner