

QUARTERLY REPORT

August 2003

International Commission on Holocaust Era Insurance Claims

Second ICHEIC Quarterly Report

Since we distributed the first edition of the ICHEIC Quarterly Report, we have received numerous helpful suggestions from claimants, regulators, Jewish groups and companies related to the Quarterly. We have attempted to incorporate these suggestions into the second edition and continue to welcome your thoughts and comments.

Claims Report

ICHEIC's mission is to resolve unpaid Holocaust era insurance claims by establishing a claims and valuation process with relaxed standards of proof to identify, settle, and pay individual claims at no cost to the claimants.

As of July 25th, 2003, ICHEIC has received 60,529 claims for processing. An additional 32,068 inquiries that do not relate to insurance within the ICHEIC "mission statement" have been directed to other Holocaust restitution organizations. ICHEIC member (MOU) companies have made approximately 2,619 offers with a value of \$34.362 million. MOU companies have reported 651 additional offers for \$7.51 million, at ICHEIC valuation standards, on claims made directly to them. Thus, to date, in total approximately 3,270 offers have been made, for a value of \$41.9 million.

A process for reconciling reporting statistics was implemented at the beginning of the year. ICHEIC is continuing to work cooperatively with the insurance companies to reconcile statistics related to offers, denials and claims pending by building clear reporting lines and systems for tracking statistical information. Statistics on past offers, acceptances and denials for most companies are now current. The number of claims recorded as "not yet decided", however, continues to need additional refinement across companies. A number of claims in this category, are ones for which the companies are awaiting additional information from claimants, ICHEIC or other sources.

We want to be able to report with greater specificity the status of claims in the "not yet decided" category, to provide the most accurate possible rendering of ICHEIC statistics. This will allow us to improve the effectiveness of the claims process. Our efforts to reconcile reported data will continue throughout the summer with a target of completing the reconciliation process by mid to late September.

In addition to cleaning up our figures, we are revising the format in which statistics are presented to more accurately reflect companies' progress in claims processing and company decisions. Our current format is still focused on the front-end of the process – the transition of claims through the claims process. We now need to focus on the end result. ICHEIC is aware of past problems related to the statistical portrayal of named claims awaiting decision by the companies. We are working to resolve this issue. ICHEIC intends to launch the new reporting format in September and will move from reporting statistics on a weekly basis to reporting statistical information on a bi-monthly basis with an improved and more reader-friendly format.

Staffing Changes and Responsibilities

We are pleased to announce the addition of new members to the ICHEIC team and shifts in current responsibilities among staff members to focus on moving/addressing claims processing issues. The new additions include:

- Jody Manning began work as Chief of Staff of ICHEIC's London office on 1 August 2003. She is focused on working with the claims management team and the appeals team to completing claims processing work by the end of 2004. Jody has served as Deputy to the Special Envoy for Holocaust Issues at the U.S. Department of State for both Ambassadors J.D. Bindenagel and Randy Bell.
- Three new members of the ICHEIC Claims Team, David Hughes, Natalie Golding and Stephane Burkhard-Sommer, began on 4 August. David, Natalie and Stephane will work under the direction of Claims Manager, David Butler, and with existing Claims Team members Laurie Hunte and Oksana Zhevnovodenko. The Claims Team is working to enhance ICHEIC's communication with claimants, U.S. Regulators, Jewish groups and companies, reviewing company decisions, responding in a timely fashion to company requests, and reconciling information to provide accurate statistical reports. We are providing here a brief introduction to each of our new Claims Team members.
 - David Hughes: David has a degree in Russian and is proficient in Czech, Serbian and Croat. He was most recently a research analyst with a company that provides Eastern Europe market reports to the pharmaceutical industry.
 - Natalie Golding: Natalie holds a degree in Government from the London School of Economics. She has work experience on the electoral register with a London local authority.
 - Stephane Burkhard-Sommer: Stephane is proficient in German, French as well as English and has a background in Russian, Spanish, Italian, Czech and Polish. Stephane's most recently served as a risk/fraud analyst and translator with the American Express Company. Prior to his work with American Express, Stephane worked as Personal Assistant to Lord McAlpine.
- Sandra Tyler will join ICHEIC London in mid-August as an assistant to the Claims Team. She will also support general office administration.
- Colin Smith has recently joined the ICHEIC London Appeals Office as manager, leading the expansion of the staff to oversee the German appeals panel as well as the ICHEIC appeals tribunal. He is overseeing recruitment of staff for the Appeals Office, setting up the processes and technology to handle appeals. The Appeals Office has also made the following staff hires and changes:

- Beverly Hartley has shifted positions within ICHEIC. She will now act as Senior Administrator responsible for administrative staff and processes of the Appeals Office.
- Sarah Cheong recently joined ICHEIC London as an assistant in the Appeals Office.
- Martin Gutfrucht joined the Appeals Office on 14 July assuming the position of Principal Legal Adviser. Martin previously worked as a Judge in the German civil court system.
- Katrina Oakley joined the Appeals Office as a Legal Adviser at the end of July. Katrina worked most recently at Reynolds Porter Chamberlain of London as a solicitor. Previously she worked in law firms in both the UK and Australia, and has extensive background in legal work related to the insurance industry, on both claimant and defendant matters.
- Anais Haase has recently been promoted to the position of Confidential and Executive Assistant to the Chairman.
- Karen Dietlein will continue to manage ICHEIC travel, and has taken on the duties of staff accountant and assistant to Pat Bowditch, Chief Financial Officer, in the Accounting Office, replacing Jiang Du.
- Dale Franklin is currently focusing on all matching and lists related issues, and additional special projects.
- Derek LaVallee has been hired on a temporary basis to direct a special outreach effort for the publication of policyholder lists.

Chairman Eagleburger would like to take this opportunity to thank Vice Chairman Geoffrey Fitchew, London Chief of Staff Philip Francis, London Legal Adviser Nigel Kinder and Executive Assistant Berri Sommer for their long-time dedication and commitment to ICHEIC's goals of resolving unpaid insurance claims. We wish them well in their new endeavors.

Monitoring of Company Decisions

- Following the Executive Monitoring Group (EMG) Report, ICHEIC continues to work to address issues raised in the Report. As reported in the last quarterly, ICHEIC is working with the companies to address problems related to individual claims which the EMG found during their review. The companies have completed their reviews and necessary follow-up actions related to these claims.

- As recommended by the EMG, ICHEIC reviewed all offers and a large number of well-documented denials in January 2003. The results of the review have been conveyed to and discussed with individual companies as outlined in the inaugural ICHEIC Quarterly Report.
- ICHEIC has established a process within the London office for reviewing all decisions, not just those communicated by the companies involved in the German Foundation Agreement. This will be enhanced when the new members of the Claims team are in place. Questions concerning a company's decision that arise will be conveyed to the relevant company directly.

Report on NAIC Meeting – June 23, 2003

Mara Rudman, COO, and Pat Bowditch, CFO, represented ICHEIC at the 23 June meeting of the National Association of Insurance Commissioners (NAIC) in New York, NY. Mara and Pat distributed copies of the ICHEIC Processing Guide to regulators present at the meeting in addition to making presentations and answering questions raised throughout the session. Regulators asked that statistics related to their states be improved and distributed. ICHEIC is currently working to improve the accuracy of Regulator Reports and is working with the National Association of Insurance Commissioners (NAIC) Holocaust Commission Task Force (Task Force) to post relevant information on the ICHEIC section of the NAIC website. (All information provided to the NAIC for its regulators' access is also provided on ICHEIC's website, www.icheic.org.)

Chairman Eagleburger sent a follow up memorandum to Superintendent Gregory V. Serio, Chairman of the Task Force, which we have attached for your information.

Status of Top-Up Payments

Since the ICHEIC claims review in January and signature of the ICHEIC/German Foundation/GDV Agreement, companies have worked diligently to review claims in light of the final version of the ICHEIC Valuation Guidelines and, for German claims, those Valuation Guidelines agreed to under the Agreement. To date, all companies with the exception of the Generali Trust Fund and Generali have issued top-up payments. The GTF and Generali are set to send out "top-up" payments by mid-August.

Claims Processing Manual

ICHEIC has developed and published a Claims Processing Guide intended to provide a concise explanation of the claims process for regulators, their staff, claimants, those helping claimants, the German insurers association (GDV) and the Generali Trust Fund (GTF) who are actively

learning how to read/apply ICHEIC rules and guidelines. The Processing Guide is available for download on the ICHEIC website (www.icheic.org).

Call Center Move

In an effort to improve ICHEIC's communication with claimants, the Chairman has decided to shift Call Center responsibilities from D.F. King to the Conference on Jewish Material Claims Against Germany (Claims Conference). Given the Claims Conference's prior experience and expertise in communicating with survivors and dealing with Holocaust Era claims, ICHEIC believes this change will significantly enhance the quality of service provided. We hope to complete the transition by late September.

Lists

As part of an ongoing international outreach effort, ICHEIC Chairman Lawrence S. Eagleburger has called upon media outlets and relevant organizations throughout the world to publicize the historic Holocaust survivor insurance claims process, to inform potential beneficiaries about the existence and availability of recently-expanded policyholder lists.

ICHEIC is reaching out to media outlets in countries where there are most likely to be policyholders and/or their heirs. These countries include: Austria, Belgium, Bulgaria, Canada, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, Iraq, Israel, Italy, Latvia, Libya, Lithuania, Mexico, The Netherlands, Norway, Peru, Poland, Romania, Slovakia, Spain, Switzerland, Syria, Ukraine, and the United States.

In April 2000, ICHEIC first published names of policyholders and has continued to update it. In total, nearly 450,000 names have now been published representing more than 500,000 insurance policies. ICHEIC member companies will contribute over 12,000 new names of policyholders over the next one to two months. The majority of these names will be provided from portfolios covering Eastern Europe, Italy and Switzerland.

The German Federal Archives, along with numerous individuals, played a key role in bringing this project to fruition. Once completed, the list of Jewish residents of Germany will be available to organizations in the United States, Germany and Israel and will stand as a lasting memorial to the victims of the Nazi oppression.

As part of outreach efforts and an ongoing commitment by ICHEIC to effectively communicate to claimants, U.S. Regulators, Jewish Groups and companies, we are currently revamping the ICHEIC website to make it more user-friendly. ICHEIC hopes to launch the new site in early September.

Audits

The ICHEIC audit process is carried out in two stages by internationally recognized accounting firms. Stage 1 of the audits examines the companies' systems and procedures that are set up to comply with ICHEIC Audit Standards. Stage 2 examines each company's handling of claims. (See the ICHEIC May 2003 Quarterly Report for further details.)

The ICHEIC companies that have been declared audit compliant at Stage 1 are: Allianz-RAS, AGF Belgium (owned by AGF, Allianz's French subsidiary), AXA, Generali for east European branches, and Zurich.

Stage 1 compliance has not yet been declared in respect of: Allianz Leben, Vereinte¹, AGF (Allianz's French subsidiary), all of Generali's west European operations and its east European subsidiaries, and Winterthur.

In this quarter, audit focus has been on the Allianz and Generali groups. A detailed status report on these two groups follows, as does current audit information on the other three ICHEIC MoU groups. Our best estimate of likely timing is set out in the table at the end of this section.

Allianz Group

Debrief meetings following the Stage 1 audits were held early in 2002 for Allianz Leben and Vereinte after which further work (including additional databasing and testing) was carried out by the companies and the audit firms. During May 2003, revised Management, Compliance and draft Peer Review reports were provided. These reports were discussed in a conference call on June 17th.

The call identified two outstanding issues:

- (i) Allianz's databasing of 150,000 Kleinleben records did not include maiden names which were available in some cases; and
- (ii) Vereinte had not databased 40,000 records of its subsidiary ISAR on the grounds that the records have been analysed for likely Holocaust victims in response to the BAV's² request in January 1999. That analysis resulted in 4,827 policy details being databased.

At the Chairman's request, PwC, the peer review auditor, has taken statistically valid samples of underlying records for comparison with the claims databases. The purpose is to evaluate the benefits of additional databasing in terms of likely additional matches being found so that ICHEIC can decide whether further databasing is needed. We expect the results by mid August.

On a related issue, ICHEIC wrote to Allianz formally requesting an explanation for the denial of claims where there is a match on its central register (ZRG) of insurance applications, but where there is no other supporting evidence.

¹ acquired by Allianz in 1998

² BAV was the German state insurance regulator, now known as BAFin (or Bundesanstalt für Finanzdienstleistungsaufsicht)

On 2-3 July debrief meetings were held in Paris for AGF, Allianz's French subsidiary, and for AGF Belgium which is owned by AGF. AGF Belgium was declared compliant in respect of all ICHEIC standards subject only to the provisions of final reports signed by the company and both audit firms.

In Belgium, Standard 5 work is now handled by a government commission³ ("the Buysse Commission") which handles all Belgian Holocaust victim claims including those related to insurance. The ICHEIC has a formal agreement with the Buysse Commission for the handling of claims and access to blocked accounts. The Commission has since published names of policyholders or insured persons on unclaimed policies on its website and provided the ICHEIC with the necessary links so that the list can be accessed directly via the ICHEIC's website.

Discussions are continuing with AGF in France on some 1.4 million records in policy register books which are not readily searchable and which have not been databased because of the time and cost of databasing compared with the low number of claims received⁴. We expect further reports shortly from the two auditors and AGF and expect to have an additional meeting in August to resolve this issue.

RAS, Allianz's Italian subsidiary, is already compliant with ICHEIC standards.

AXA

The recent agreement between the ICHEIC and the Buysse Commission in Belgium enabled ICHEIC to declare AXA Belgium compliant with ICHEIC standards. The whole of AXA is now compliant.

Generali

Generali was declared compliant in June for its east European branches. Peer review audits are progressing on its east European subsidiaries and its Italian business. A compliance report on Generali's German subsidiaries is ready and the peer review audit will take place shortly. ICHEIC is awaiting an update on its Austrian business, on which the compliance auditor PwC is still working, and its French business where we are told databasing will continue until October.

Winterthur

Following a Winterthur debrief meeting in November 2001, the company agreed to do further work to ensure its database is as comprehensive as possible. Discussions are in progress to resolve the extent of databasing needed at Winterthur's German subsidiary DBV, which targeted civil servants and the armed forces. ICHEIC expects all Winterthur audit issues to be resolved shortly.

³ Commission pour le Dédommagement des membres de la Communauté Juive de Belgique, chaired by Lucien Buysse

⁴ As at 27 June, the ICHEIC had received 21 named claims on AGF and 471 unnamed French claims.

Stage 2 audits

Stage 2 audits will be carried out only by the peer review audit firms which will review the companies’ handling of claims in accordance with Standard 5. We expect to engage firms on Stage 2 shortly.

Timetable for availability of Peer Review reports

Company	Peer Review Reports		Comment
	Feasible*	More Likely*	
Allianz / Vereinte	Received	Received	Compliance conceivable in August. End Sept. more likely if databasing to be done.
AGF France	Received	Received	Compliance depends on outcome of research and decision whether to database more records so could be August or some time in the autumn.
Generali Germany	Mid Sept.	mid October	Peer Review auditor PKF’s peer review budget received. Work may start in August.
Generali Austria	late September	late October	Former RAS Vienna records still being databased.
Generali Italy, east European subs.	mid August	late August	PKF has not been able to progress as quickly as we would have liked.
Generali France	end September	end October	No clear timetable yet.
Winterthur	August	August	Negotiations in progress.

* Dates for peer review reports are the dates when ICHEIC might receive the reports. The debrief meeting then has to be arranged at a date suitable to the AMSG members, and reports made available at least three weeks before the meeting. Achievement of compliance therefore takes at the very least another 2 months. As can be seen from the review above, several months can pass before companies are deemed compliant.

Implementation of ICHEIC’s Agreement with the German Foundation/GDV

Accomplishments -- ICHEIC, the Foundation “Remembrance, Responsibility and Future”, and the German Insurance Association (GDV) have been working cooperatively throughout the spring to launch a claims processing and reporting process. To this end, Chairman Eagleburger has met both Ambassador Johannes Bauch, Director the German Foundation and Jörg Freiherr Von Fuerstenwerth, Director General of the GDV.

Offers and \$ Amount paid on claims: Since the pre-funding agreement with the German Foundation and GDV was settled, there have been three months of payments:

April 3rd – 17 payments to 13 claimants, covering 21 claim numbers: Total \$119,167;
 May 3rd – 34 payments to 32 claimants covering 46 claim numbers: Total \$207,489;
 June 3rd – 42 payments to 40 claimants, covering 63 claim numbers (plus one direct claim): Total \$420,545.

In total, in the last 3 months under the German Foundation, 130 claims have been settled for 100 claimants for approximately \$747,000.00.

Facts and Files has completed the work of compiling a list of the pre-war Jewish residents in Italy. This list will be matched with the RAS list of policies issued in Italy and the results will be published on the ICHEIC web site the beginning of August.

An advisory group for matching has been appointed to negotiate the details of matching the ICHEIC claims database with the list of 8 million policies issued in Germany.

German Foundation/GDV: Following is a summary of reimbursement for claims paid prior to the signing of the German Foundation Agreement on October 16th, 2002 and top-ups reimbursed since that time.

	<u>Claims Reimbursed</u> (in 000's)	<u>Top-ups Reimbursed</u> (in 000's)
AXA	\$ 88	\$ 127
Allianz	315	-
Generali	9	22
RAS	3,924	267
Zurich	<u>42</u>	<u>-</u>
Total	<u>\$4,378</u>	<u>\$ 416</u>

Note: The total amount of payments made to claimants is larger than this chart reflects. Certain German companies have made additional offers that have not yet been reimbursed by ICHEIC. Those payments are not reflected in the above figures.

Update on Agreements

Austrian Settlement

ICHEIC's negotiations with the Austrian General Settlement Fund (GSF) are nearing completion. The pending cooperative agreement between ICHEIC and the GSF would allow certain claims to be examined by the GSF and, if valid, paid by the GSF using ICHEIC Guidelines. The agreement would cover ICHEIC claims that name an Austrian company – except for those that already are covered by the MOU or ICHEIC's agreement with the German Foundation – as well as any unnamed claims stating Austria as the country of issue. In addition, those claims received by the GSF that are covered by the MOU or the agreement with the German Foundation would be transferred to ICHEIC for appropriate handling.

The GSF's filing deadline was May 28th, 2003, but the latest version of the draft agreement provides for a transfer of ICHEIC claims up to six months after this date, namely November 28th, 2003. Efforts are underway to schedule the final discussions and finalize the agreement by late

summer. There are currently 1,828 ICHEIC named claims on non-MOU Austrian companies and 2,435 unnamed claims listing Austria as the country of issue.

AXA, Winterthur, Zurich (AWZ) Agreement

Under the AWZ Agreement, additional names of policyholders will be published from Winterthur and Zurich in August. Both companies will provide names of cross-border policies where the policy was issued in Switzerland but the policyholder lived outside of Switzerland. Additionally, they will each provide names of policyholders where no closing notation exists on the status of the policy.

Zurich will provide a list of policies issued by Merkur in the Czech provinces of Bohemia and Moravia.

The AWZ Agreement also provides for the matching of ICHEIC claims with lists of French and Belgian policies and blocked accounts (see Draï Commission and Buysse Commission below).

Buysse Commission (Belgium)

In July 2003, ICHEIC reached agreement with the Commission established by the Government of Belgium for handling Holocaust restitution issues (the Buysse Commission). ICHEIC's agreement with the Buysse Commission will enable all ICHEIC claims that name a Belgian company, including MOU companies, (83) and any unnamed claims stating Belgium as the country of issue (231) to be examined by the Buysse Commission and, if valid, paid by the Buysse Commission. The Belgian Insurance Association, as part of an agreement negotiated with the Government and the Belgian Jewish Community, contributed 10 million Euros to the Buysse Commission, of which slightly over 50% was contributed by the Belgian subsidiaries of the five MOU companies. The Buysse Commission has agreed to publish its lists of blocked accounts and unpaid policies on the Internet and has provided ICHEIC a copy of this list to publish on our web site. The agreement is very close in both substance and wording to ICHEIC's agreement with the Sjoa Foundation.

Draï Commission (France)

ICHEIC has been in discussions with the Commission for the Compensation of Victims of Spoilation (the Draï Commission) in France, which was established by the French Government. ICHEIC will appoint an organization to conduct a matching exercise between all French claims listed in the ICHEIC claims database with lists of unpaid policies and blocked accounts held by the Draï Commission.

The Draï Commission has also agreed to grant access to its lists of unpaid policies and blocked accounts so that ICHEIC claimants may submit requests to determine if they have a relative on one of the lists. ICHEIC will post a submission form on the ICHEIC web site where claimants may type in the names and other information about a person they believe may have had a policy in France prior to the war. This information will be forwarded to an organization appointed by

ICHEIC who will check the list of unpaid policies and blocked accounts and inform the claimant of any matches.

Appeals

All claimants who name a member company, or whose claims have been “matched” by a member company, are entitled to an appeal. All claimants that have named a German company, whether a member company or otherwise, are entitled to appeal.

Appeals are independently and impartially determined by either the ICHEIC Appeals Tribunal or the Appeals Panel established under ICHEIC’s October 16th, 2002 Agreement with the German Foundation/GDV.

As of June 30th, 2003, the Appeals Office has received a total of 105 Appeals. The status of the 105 Appeals is as follows:

Appeals Tribunal

71 appeals have been received of which 56 are closed, 9 are open and 6 are invalid; The breakdown of the 65 valid appeals by company are as follows:

Allianz	1
Zurich	29
AXA	33
RAS	2

Of the 56 closed appeals, 18 found in favor of the claimant, 31 in favor of the company and in 7 cases, the claim was settled before the Arbitrator made his decision;

\$197,703.00 in awards have been made to claimants.

Appeals Panel

34 appeals have been received, all of which are currently open; The breakdown of the 34 appeals, by company, are as follows:

Allianz	15
RAS	18
GDV	1

Several issues have delayed submission of appeals to the Appeal Panel. These issues include amendment of the appeal form, receipt of incorrect forms, receipt of appeal forms from non-audit compliant companies and the need to resolve processing issues with the Panel.

Humanitarian Assistance

In January 2003, ICHEIC began to distribute \$132 million in humanitarian funds it received from the German Foundation for the benefit of needy Jewish victims of Nazi persecution.

The money will be distributed over 10 years to social service agencies throughout the world; \$15 million has been allocated for 2003 disbursement. Recipient agencies have been notified of the sums allocated for their programs this year.

This commitment was made only after ICHEIC consulted extensively with representatives of Jewish groups and US insurance regulators to seek their input on the most effective ways to achieve the Commission's goals.

ICHEIC has entered into an initial one-year contract with the Claims Conference for the distribution of the funds. The contract will be reviewed on a periodic basis and, subject to satisfactory performance, the Claims Conference will be asked to distribute funds in future periods.

ICHEIC will address the merits of each humanitarian program as presented, instead of a "social welfare" v. "education" formulaic approach.

It should be noted that most of the funds available for humanitarian purposes will be reserved for the benefit of needy Nazi victims worldwide. There is, however, merit to allocating a modest amount of the funds available to support the strengthening of Jewish culture and heritage in recognition that the Nazi's tried to eradicate Jewish culture as well as the Jewish people and in order to repair some of the damage done by the Nazis.

ICHEIC Service Corps

As requested, ICHEIC has continued to explore the concept of a volunteer service corps – the ICHEIC Service Corps. The concept has been refined to focus on college age students, especially those who might serve as friendly visitors to their local Nazi victim population. We are seeking further input as to how this program might best be implemented. In addition, we are investigating a small number of other worthy projects that have been presented to us. It is our hope to be in a position to present the first of these to ICHEIC's Board before the end of the summer.

Financial Report

The ICHEIC Financial/Administrative Advisory Committee (FAAC) met in May to review a variety of issues, including a review of the 2002 budget versus actual report, which is summarized below.

The FAAC also reviewed and approved an amendment to the Appeals Division Lifetime Budget. The amended budget reflects the decision to take the Appeals process in house, instead of

outsourcing the entire function, resulting in estimated cost savings of just over \$3 million, or 47% of the original budget. The original lifetime budget totaled \$6.1 million for 2003-2004; the amended budget totals \$3.1 million for the same period.

2002 Budget versus Actual Results (in 000's)

		<u>Budget</u>	<u>Actual</u>	Actual over (under) <u>Budget</u>	<u>Percent</u>
Outreach		\$ -	\$ -	\$ -	- %
Claims	(a)	4,051	3,555	(497)	(12%)
Appeals	(b)	124	147	22	18%
Research	(c)	550	641	91	17%
Audit		171	159	(12)	(7%)
Commission		1,890	1,749	(141)	(7%)
General & Administrative	(d)	<u>1,856</u>	<u>1,486</u>	<u>(370)</u>	<u>(19%)</u>
Total		<u>\$ 8,644</u>	<u>\$ 7,737</u>	<u>\$ (907)</u>	<u>(10%)</u>

Notes:

- (a) The difference between the Claims budget and actual 2002 expenditures was primarily due to the number of claims processed during 2002. For the last half of 2002, the budget assumed double the actual number of new claims filed and about 20 times the actual number of claims “closed” (provisional declines or offers).
- (b) The actual 2002 results of the Appeals division includes approximately \$38,000 in professional fees representing billings of arbiters. No arbiter expense was budgeted in 2002; all arbiter expenses were included in the 2003/2004 budget. Therefore, the difference is merely one of timing of budgeted expenditures.
- (c) The primary difference between the budget for Research and the actual results was due to the fact that the budget reflected in US dollars, obligations that were payable in Euro. The Euro strengthened against the dollar between the time the budget was prepared and the time the obligations were paid. The total Research budget commitment made in association with the German Foundation Agreement was \$1.5 million, and this amount will not be exceeded in total, regardless of the implications of currency fluctuations. Therefore, this difference is merely one of timing of recording the expense.
- (d) In 2002, ICHEIC received a \$200,000 refund of London office property tax expense relating to prior periods. The refund had not been budgeted. Also, actual accounting and business management expenses were approximately \$113,000 below budget.

Note that the above analysis does not include certain items that are included in the audited financial statements, namely foreign currency exchange gains and losses, and depreciation. Depreciation is a nominal expense. With regards to foreign exchange, there was a substantial realized and unrealized foreign exchange gain during 2002 related to the portfolio of Euro that was received in October in conjunction with the German Foundation settlement.

Also, please find attached a memorandum dated June 17, 2003 sent by Chairman Eagleburger to the U.S. Regulators which provides details of the remaining Lifetime Budget (2003 and beyond), including changes that have been approved by the FAAC since the October 2002 ICHEIC meeting.