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GUY CARPENTER

Date 23rd June1998

To Mr Ajit Jain

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Total number of pages, including this cover

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SUBJECT: FAI WHOLE ACCOUNT AGGREGATE

Dear Ajit,

As discussed, I would very much like you to assist in a particular project we have been given by our friends at FAI.

As an opening comment, I would note that I have been very closely associated with this account and the Adler family for the past 15 years and so am very much personally involved in this project.

The general position is as follows:

1) FAI is a listed company in Australia. Results from insurance operations have been depressed in recent years. The company has also suffered from under performing assets, most notably their coal mining interests and the St. Moritz Hotel in New York.

   Recently the St.Moritz development deal involving Bankers Trust and Donald Trump has been announced which should assist considerably.

2) Daniel Wilkie, who was formerly Deputy General Manager of the NRMA, joined FAI several years ago.

   Initially Daniel was appointed to run the General Insurance Division of the company. This area was responsible for personal lines and also the statutory classes of Workers Compensative and Motor CTP.

Daniel has successfully transformed these accounts, introducing significant and effective controls, investing in research and development teams and actuarial skills. As a result, these operations now operate very effectively and successfully.

3) Some four months or so ago, Daniel was appointed Chief Operating Officer for the entire insurance operations.

This new role embraces the General Insurances Division and the Commercial Insurances Division which was previously headed by Angus MacIver who left to join MMI General.

The Commercial Insurances Division of FAI was responsible for classes such as Marine, Professional Indemnity, Public & Product Liability, CAR/EAR and Bonding/Surety.

4) Since Daniel's appointment earlier this year, he has been conducting a thorough review of the commercial portfolio. This review has involved a number of actuaries.

Daniel is of the view that certain elements of the Commercial Division has been under-reserved and indeed have been operating unprofitably for some time.

As a result he has, with immediate effect, already withdrawn FAI from some classes such as the larger PL/Product Lines, CAR/EAR and Bonding/Surety.

5) FAI have a 1st July and 30th June financial year.

They require an effective improvement in their 1997/98 results of A$40,000,000 which is a little under US$ 25,000,000 at current rates of exchange. This is the net betterment being sought (i.e. net of the premium payable).

FAI would then like to "finance" repayment of this amount over the next 4 years or so. Longer would be better.

6) The proposal calls for the Reinsurer to write an Aggregate Excess Cover for FAI on the 1997/98 underwriting year.

The attachment point for the cover would be such that it will be quite some years before paid losses would reach the attachment figure. Indeed, FAI would be prepared to warrant by side letter that they will not make any cash recovery from that contract until an agreed final commutation date.

7) FAI would then write a parallel cover or covers for the Reinsurer on a portfolio of the Reinsurer's choice, whereby FAI would incur losses over the next 3 or 4 years. Again it is intended that FAI assume incurred losses on these "parallel" covers and these incurred losses assumed by FAI, would offset the liabilities under the other contract.

8) To ensure there is no credit risk, FAI would set up the necessary Trust Fund in the USA to secure any losses by FAI under the parallel contract (s). Has to be U.S. Local better. Obviously US$ not as good as A$. Solvency.

9) There would be a full commutation at the end of 2002 which would result in the Reinsurer being left with an appropriate margin for the use of his Balance Sheet.

As you can see, the contemplated structure is very simple. depends on term.

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FAI get a A$ 40,000,000 benefit for their 1997/98 P&L account. They pay a premium for this.

FAI then write appropriate parallel contract(s) for the Reinsurer and secure their obligations under those contracts by setting up an appropriate Trust Account in the USA.

A full and final commutation will take place at say the end of 2002.

You already have certain financial information relating to the FAI.

Attached is a Draft Slip of the contract needed by FAI to effect their required betterment by the 30th June 1998. I would note we could have an appropriate review clause thereby giving us a little more time to choose the appropriate parallel contracts that FAI would write for National Indemnity.

Additionally I have enclosed additional portfolio triangulations to demonstrate that there is no chance of claims becoming payable under this aggregate cover prior to the commutative date. As stated, in any event FAI would be happy to also encapsulate this in a side letter.

I shall call you late today to discuss.

Regards

Geoff Bromley