STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

FIRST RELIANCE STANDARD LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2000

DATE OF REPORT: NOVEMBER 19, 2001

EXAMINER: DARLENE SINGLEMANN

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

November 19, 2001

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

Sir:

In accordance with instructions contained in Appointment No. 21738, dated June 12, 2001 and annexed hereto, an examination has been made into the condition and affairs of First Reliance Standard Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 153 East 53rd Street, New York, New York.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2000 filed annual statement. (See item 5 of this report)

The Company violated Section 2122 of the New York Insurance Law and Department Regulations No. 34 and No. 34-A by using inappropriate advertisements and by not maintaining a complete advertising file. The violation involving Section 2122 of the New York Insurance Law appeared in the prior report on examination. (See item 6A of this report)

The Company violated Section 3201(b)(1) of the New York Insurance Law by using policy forms not filed with and approved by the Superintendent. A similar violation appeared in the prior report on examination. (See item 6B of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1997. This examination covers the period from January 1, 1998 through December 31, 2000. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2000 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2000 to determine whether the Company's 2000 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Company history
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to violations contained in the prior report on examination. The results of the examiner's review are contained in item 7 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock accident and health insurance company, Dresser Insurance Company, under the laws of New York on June 16, 1983, was licensed on September 24, 1984 and commenced business on October 1, 1984. Initial resources of $3,000,000, consisting of common capital stock of $300,000 and paid-in and contributed surplus of $2,700,000, were provided through the sale of 3,000 shares of common stock (with a par value of $100 each) for $1,000 per share.

In 1987 the Company changed its name to Reliance Standard Insurance Company. On September 26, 1989 the Company became licensed to write life insurance in New York and changed its name to its present name, First Reliance Standard Life Insurance Company. In connection with the license to sell life insurance, the Company's common capital stock was increased to $2,000,000 and paid-in and contributed surplus was increased to $4,000,000.

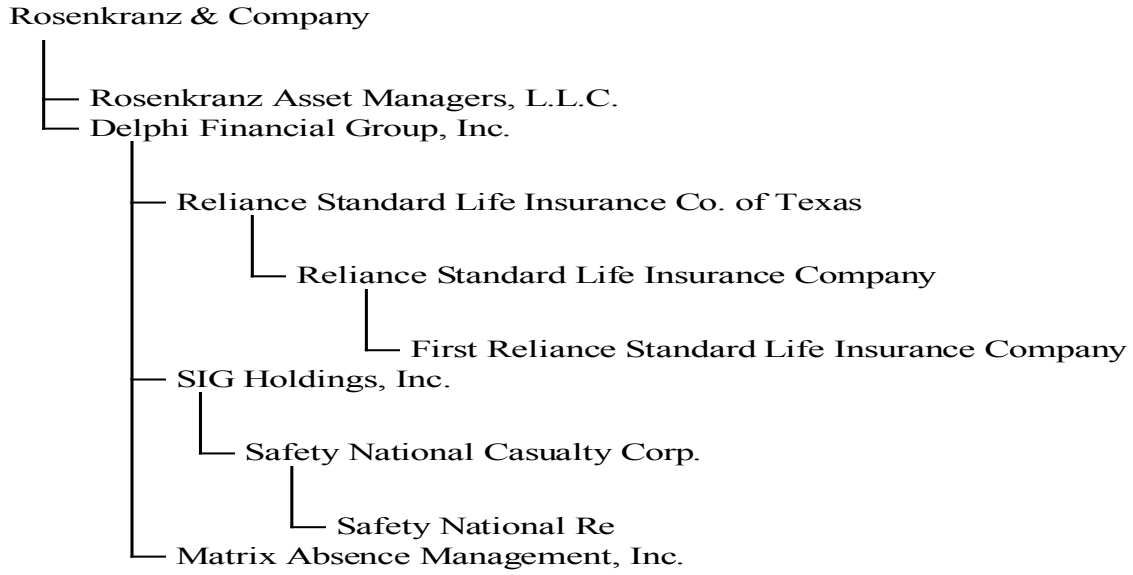
An additional contribution of $1,749,758 to gross paid-in and contributed surplus was made by the parent in 1997.

As of December 31, 2000, the Company had gross paid-in and contributed surplus of $5,749,758.

B. Holding Company

The Company is a wholly owned subsidiary of Reliance Standard Life Insurance Company ("RSL"), an Illinois life insurance company. RSL is in turn a wholly owned subsidiary of Reliance Standard Life Insurance Company of Texas ("RSLT"), a Texas life insurer. RSLT is in turn a wholly owned subsidiary of Delphi Financial Group, Inc. ("Delphi"), a holding company. The ultimate parent of the Company is Rosenkranz & Company, a New York financial services corporation.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2000 follows:



The Company had seven service agreements, with its parent and affiliates, in effect as of December 31, 2000. Pursuant to the agreements, the parent and affiliates provide the Company with office space, the use of office equipment and the following services: clerical, accounting, management, investment, law, financial, actuarial science, taxation, claims assistance, data processing and policy administration. Pursuant to the agreements, the Company also provides to its parent and affiliates office space, the use of office equipment, underwriting, sales, and marketing services.

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 21 directors. Directors are elected annually at the annual meeting of the stockholders held in March of each year. As of December 31, 2000, the board of directors consisted of 13 members. Meetings of the board are held quarterly.

The 13 board members and their principal business affiliation, as of December 31, 2000, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Thomas William Burghart Media, PA	Vice President and Treasurer First Reliance Standard Life Insurance Company and Reliance Standard Life Insurance Company	2000
Chad William Coulter Plainfield, NJ	Vice President and General Counsel First Reliance Standard Life Insurance Company and Delphi Capital Management, Inc.	1994
Lawrence Edmund Daurelle Lafayette Hill, PA	President and Chief Executive Officer First Reliance Standard Life Insurance Company and Reliance Standard Life Insurance Company	1998
Steven Andrew Hirsch* Highland Park, IL	Associate William Harris & Company	1988
James Michael Litvach* Princeton, NJ	Lecturer Princeton University	1990
Louis Charles Lucido Huntington Bay, NY	Vice President Investments Delphi Financial Group, Inc.	1997
James Norbert Meehan* Arlington Heights, IL	Senior Managing Director Bank of America National Trust and Savings Association	1993
Patricia Ann Mortz New York, NY	Director of Finance Rosenkranz & Company	1988
Charles Patrick O'Brien* Haverford, PA	Retired	1983
Thomas Llewellyn Rhodes* New York, NY	President National Review, Inc.	1995
Robert Rosenkranz New York, NY	Chairman of the Board, President, and Chief Executive Officer Delphi Financial Group, Inc.	1987

Name and Residence	Principal Business Affiliation	Year First Elected
Robert Michael Smith, Jr. Warren, NJ	Vice President Delphi Capital Management, Inc.	1994
Robert Floyd Wright* Jersey City, NJ	President Robert F. Wright Asso., Inc.	1989

* Not affiliated with the Company or any other company in the holding company system

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2000.

Name	Title
Lawrence Edmund Daurelle	President and Chief Executive Officer
Thomas William Burghart	Vice President and Treasurer
Charles Thomas Denaro*	Secretary

* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in New York and the District of Columbia. In 2000, all life and accident and health premiums were received from New York. Policies are written on a non-participating basis.

The Company markets the following group products directed at the employee benefits market: long term disability; accidental death and dismemberment; dental; and life insurance. The Company's premiums as a percentage by lines of business are as follows: life insurance

(48%) and accident and health insurance (52%). The Company did not sell any individual insurance during the examination period except as a result of group conversions.

The Company's agency operations are conducted on a brokerage and general agency basis.

E. Reinsurance

As of December 31, 2000, the Company had reinsurance treaties in effect with 11 companies, of which ten were authorized or accredited. The Company's group life and accident and health insurance is reinsured on a coinsurance basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for group life and group accidental death and dismemberment policies is $150,000 per person. The maximum retention limit on group long-term disability is $2,500 of monthly gross benefits. The total face amount of life insurance ceded, as of December 31, 2000, was $212,594,877, which represents 47.3% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to an unauthorized company and reinsurance recoverables from that unauthorized company, totaling $341,291, was supported by a letter of credit.

The Company assumed accident and health insurance premiums totaling $252,098 as of December 31, 2000.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth during the period under review:

	December 31, 1997	December 31, 2000	Increase (Decrease)
Admitted assets	$60,763,756	$78,006,921	$17,243,165
Liabilities	$47,979,331	$53,109,474	$ 5,130,143
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Preferred capital stock	0	0	0
Gross paid in and contributed surplus	5,749,758	5,749,758	0
Group contingency life reserve	972,149	1,742,325	770,176
Unassigned funds (surplus)	4,062,518	15,405,364	11,342,846
Total capital and surplus	$12,784,425	$24,897,447	$12,113,022
Total liabilities, capital and surplus	$60,763,756	$78,006,921	$17,243,165

The Company's invested assets, as of December 31, 2000, were mainly comprised of bonds (94.5%) and cash and short-term investments (5.5%).

The Company's entire bond portfolio, as of December 31, 2000, consisted of investment grade obligations.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	1998	1999	2000
Ordinary:			
Life insurance	$ (201,319)	$ (136,639)	$ (70,676)
Supplementary contracts	162	733	0
Total ordinary	$ (201,157)	$ (135,906)	$ (70,676)
Group:			
Life	$2,538,952	$1,712,933	$1,274,810
Annuities	32,281	77,344	93,776
Total group	$2,571,233	$1,790,277	$1,368,586
Accident and health:			
Group	$ 597,871	$1,693,308	$4,283,312
Other	727	1,618	3,152
Total accident and health	$ 598,598	$1,694,926	$4,286,464
Total	$2,968,674	$3,349,297	$5,584,374

The net loss attributable to ordinary life decreased from 1999 to 2000 due to an increase in premium of $46,925 and a decrease in benefits of $25,019.

The net gains attributable to group life decreased due to the termination of certain large policies resulting in a $1.2 million reduction in premium.

The net gain attributable to group accident and health increased from 1999 to 2000 primarily due to a $4.6 million decrease in benefits and reserves, partially offset by a reduction in premium of $800,000 and an increase in federal income tax expenses of $1.0 million.

The following ratios, applicable to the accident and health business of the Company, have been extracted from Schedule H for each of the indicated years:

	1998	1999	2000
Premiums earned	100.0%	100.0%	100.0%
Incurred losses	88.3%	75.3%	41.5%
Commissions	10.0	10.4	12.3
Expenses	19.2	22.5	24.1
	117.5%	108.2%	77.9%
Underwriting results	(17.5)%	(8.2)%	22.1%

The Company indicated that the low loss ratio for calendar year 2000 is a result of reserve fluctuations, primarily attributable to irregular experience on the Company's group long-term disability business.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital, surplus and other funds as of December 31, 2000, as contained in the Company's 2000 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2000 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL, SURPLUS AND OTHER FUNDS AS OF DECEMBER 31, 2000

Admitted Assets

Bonds	$70,333,685
Policy loans	6,227
Cash and short term investments	4,114,613
Reinsurance ceded	
Amounts recoverable from reinsurers	876,165
Federal income tax recoverable	275,827
Life insurance premiums and annuity considerations deferred and uncollected on in force business	668,507
Accident and health premiums due and unpaid	731,010
Investment income due and accrued	487,299
Receivable from parent, subsidiaries and affiliates	513,588
Total admitted assets	$78,006,921

Liabilities, Capital, Surplus and Other Funds

Aggregate reserve for life policies and contracts	$ 4,630,706
Aggregate reserve for accident and health policies	27,978,100
Policy and contract claims:	
Life	3,066,656
Accident and health	10,392,084
Premiums and annuity considerations received in advance	10,257
Policy and contract liabilities not included elsewhere:	
Other amounts payable on reinsurance assumed	32,208
Interest maintenance reserve	1,201,079
General expenses due or accrued	162,924
Taxes, licenses and fees due or accrued	(7,474)
Cost of collection on premiums and annuity considerations deferred and uncollected in excess of total loading thereon	819
Amounts withheld or retained by company as agent or trustee	54,499
Amounts held for agents' account	46,681
Remittances and items not allocated	823,511
Asset valuation reserve	120,538
Aggregate write-ins for liabilities:	
Retained asset program liability to claimants	3,882,407
Payable for outstanding checks	714,439
Miscellaneous accounts payable	40
Total liabilities	$53,109,474
Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	5,749,758
Group contingency life reserves	1,742,325
Unassigned funds (surplus)	15,405,364
Total capital, surplus and other funds	$24,897,447
Total liabilities, capital, surplus and other funds	$78,006,921

B. CONDENSED SUMMARY OF OPERATIONS

	1998	1999	2000
Premiums and considerations	$26,034,041	$26,561,042	$24,548,830
Investment income	3,854,008	3,870,012	3,979,219
Commissions and reserve adjustments on reinsurance ceded	28,907	38,899	41,542
Total income	$29,916,956	$30,469,953	$28,569,591
Benefit payments	$15,164,187	$18,700,481	$15,573,169
Increase in reserves	2,749,924	(22,306)	(2,211,170)
Commissions	2,280,266	2,258,256	2,436,878
General expenses and taxes	5,039,181	5,380,396	5,403,454
Increase in loading and cost of collection	148,503	3,188	(109,084)
Total deductions	$25,382,061	$26,320,015	$21,093,247
Net gain	$ 4,534,895	$ 4,149,938	$ 7,476,344
Federal income taxes	1,566,221	800,641	1,891,970
Net gain from operations before net realized capital gains	$ 2,968674	$ 3,349,297	$ 5,584,374
Net realized capital gains	63,010	0	0
Net income	$ 3,031,684	$ 3,349,297	$ 5,584,374

C. CAPITAL AND SURPLUS ACCOUNT

	1998	1999	2000
Capital and surplus, December 31, prior year	$12,784,425	$15,949,034	$19,311,960
Net income	$ 3,031,684	$ 3,349,297	$ 5,584,374
Change in nonadmitted assets and related items	145,825	33,556	39,817
Change in asset valuation reserve	(12,900)	(19,927)	(38,704)
Net change in capital and surplus	$ 3,164,609	$ 3,362,926	$ 5,585,487
Capital and surplus, December 31, current year	$15,949,034	$19,311,960	$24,897,447

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

1. Section 219.5(a) of Department Regulation No. 34-A states, in part:

> "Each insurer shall maintain at its home office a complete file containing a specimen copy of every printed, published or prepared advertisement disseminated in this State . . . In order to be complete, the file must contain all advertisements whether used by the company, its agents or solicitors or other persons. . . . "

Section 215.17(a) of Department Regulation No. 34 states, in part:

> "Advertising file. Each insurer shall maintain at its home or principal office a complete file containing every printed, published or prepared advertisement of its individual policies and typical printed, published or prepared advertisements of its blanket, franchise and group policies hereafter disseminated in this or any other State . . ."

The Company did not maintain several group life and group accident and health advertisements in its advertising file (internet advertising, sales brochures and agent material).

The Company violated Section 219.5(a) of Department Regulation No. 34-A and Section 215.17(a) of Department Regulation No. 34 by not maintaining a complete advertising file.

2. Section 2122(a)(2) of the New York Insurance Law states:

> "No insurance agent, insurance broker or other person, shall, by any advertisement or public announcement in this state, call attention to any unauthorized insurer or insurers."

Section 1313(f) of the New York Insurance Law states:

> "Advertisements and other public announcements directed primarily at calling the attention of policyholders or prospective policyholders to an insurer and containing a statement of the separate financial condition of the holding company system shall also contain a statement of the separate financial condition of the insurer which shall comply with this section."

Section 215.16 of Department Regulation No. 34 states, in part:

> "An advertisement shall not contain statements which are untrue in fact, or by implication misleading, with respect to the assets, corporate structure, financial standing, age or relative position of the insurer in the insurance business. . . . "

Section 219.4(p) of Department Regulation No. 34-A states, in part:

> "In all advertisements made by an insurer, or on its behalf, the name of the insurer shall be clearly identified, together with the name of the city, town or village in which it has its home office in the United States . . . "

A number of sales proposals used during the examination period call attention to the Company's parent, RSL, an unauthorized insurer.

The group life and long-term disability long form sales proposals used during the examination period also contained a statement of the financial condition of the Company's parent, RSL, but failed to contain a statement of the separate financial condition of the Company.

In addition, the current long-term disability long form sales proposal also states that the Company was in business for a much longer period than it has been.

Finally, none of the sales proposals used during the examination period contain the name of the city in which the Company has its home office in the United States.

The Company violated Section 2122(a)(2) of the New York Insurance Law by calling attention to its parent, an unauthorized insurer, in its advertisements. This is a repeat violation from the prior report on examination.

The Company violated Section 1313(f) of the New York Insurance Law when its advertisements contained a statement of the financial condition of the Company's parent without a statement of the separate financial condition of the insurer.

The Company violated Section 215.16 of Department Regulation No. 34 and Section 219.4(p) of Department Regulation No. 34-A by exaggerating the age of the insurer and not including the city of the home office in its advertisements.

B. Underwriting and Policy Forms

Section 3201(b)(1) of the New York Insurance Law states, in part:

> "No policy form shall be delivered or issued for delivery in this state unless it has been filed with and approved by the superintendent as conforming to the requirements of this chapter and not inconsistent with law. . . . "

A review of new underwriting files, both issued and declined, and the applicable policy forms indicated that in a number of instances the Company used unapproved policy forms in issuing its individual life (group conversions) and group accident and health policies. The form numbers are; RSL-8157-001-0990, RSL-8157-003-0990, RSL-8157-03A-0990, RSL-8157-004-0990, RSL-8157-005-0990, RSL-8157-006-0990, RSL-8157-007-0990, RSL-8157-008-0990, RSL-8157-009-0990, FR-8594-0598, and FRS 7 Rev 8/99.

The Company violated Section 3201(b)(1) of the New York Insurance Law by using policy forms not filed with and approved by the Superintendent. A similar violation appeared in the prior report on examination.

The examiner also recommends that the Company file the aforementioned forms with the Superintendent and discontinue the use of such forms until they have been filed with and approved by the Superintendent.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

D. Response to Supplement No. 1 to Department Circular Letter No. 19 (2000)

Supplement No. 1 to Circular Letter No. 19 (2000) (the "Supplement"), issued by the Department on June 22, 2000, notified all licensed life insurers that the Department was investigating allegations of race-based underwriting of life insurance by its licensees. The Supplement directed, pursuant to Section 308 of the New York Insurance Law, each domestic and foreign life insurer to review its past and present underwriting practices regarding race-based underwriting and to report its findings to the Department, no later than August 15, 2000.

Pursuant to Section 308 of the New York Insurance Law, the Company submitted in a timely manner a report of the findings of its review of past and present underwriting practices regarding race-based underwriting made in accordance with the requirements of the Supplement.

The Company reported that it performed a number of tests to determine whether or not it has or ever had any business on the books for which race was used as a basis for premium and underwriting ratings. In summary, the Company's findings were that there were no results from any of the testing that would indicate any degree of race-based rating.

An analysis of the Company's response to the Supplement and other factors indicated that the Company's review of its past and present underwriting practices complied with the requirements of the Supplement.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The Company violated Section 1505(d)(3) of the New York Insurance Law by not notifying the Superintendent of claim and underwriting services rendered for the Company by its parent and by providing direct customer services to the parent's policyholders without prior notification to the Superintendent. A review indicated that the Company filed with the Department new and amended cost sharing agreements with its parent to include these services.
B	The Company violated Section 2122(a)(2) of the New York Insurance Law and Section 219.4(p) of Department Regulation No. 34-A by calling attention to its parent, an unauthorized insurer in New York, and creating the impression that the parent company was the insurer. In response to the prior report on examination, the Company had indicated it would add the following disclaimer to all of its national advertisements mentioning the Company and its parent: "In New York, coverage is underwritten by First Reliance Standard Life Insurance Company." The Company did add the disclaimer to some advertisements. The Company has agreed to add an additional disclaimer to its national advertisements to clarify that the parent (an unauthorized insurer) does not write in New York. However, a number of advertisements that contain the disclaimer quoted above are not national advertisements (long form sales proposals, Matrix brochures etc.); the advertisements in question contain references to the parent and they should not have called attention to any unauthorized insurer. As a result, the Company again violated Section 2122(a)(2) of the New York Insurance Law by calling attention to its parent, an unauthorized insurer.
C	The Company violated Section 3201(b)(1) of the New York Insurance Law by using policy forms which were not filed with or approved by the Superintendent. The Company, through the use of different unapproved policy forms, again violated Section 3201(b)(1) of the New York Insurance Law during the current examination period.

8. SUMMARY AND CONCLUSIONS

Following are the violations and the recommendation contained in this report:

Item	Description	Page No(s).
A	The Company violated Section 219.5(a) of Department Regulation No. 34-A and Section 215.17(a) of Department Regulation No. 34 by not maintaining a complete advertising file.	16
B	The Company violated Section 2122 of the New York Insurance Law by calling attention to its parent, an unauthorized insurer, in its advertisements.	17
C	The Company violated Section 1313(f) of the New York Insurance Law when its advertisements contained a statement of the financial condition of the Company's parent without a statement of the separate financial condition of the insurer.	17 – 18
D	The Company violated Section 215.16 of Department Regulation No. 34 and Section 219.4(p) of Department Regulation No. 34-A by exaggerating the age of the insurer and not including the city of the home office in its advertisements.	17 – 18
E	The Company violated Section 3201(b)(1) of the New York Insurance Law by using policy forms not filed with and approved by the Superintendent.	18
F	The examiner recommends that the Company file the policy forms in question with the Superintendent and discontinue the use of such forms until they have been filed with and approved by the Superintendent.	18

Respectfully submitted,

/s/
Darlene Singlemann
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Darlene Singlemann, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

/s/
Darlene Singlemann

Subscribed and sworn to before me

this_____ day of _____2001.

APPOINTMENT NO. 21738

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:

DARLENE SINGLEMANN

as a proper person to examine into the affairs of the

FIRST RELIANCE STANDARD LIFE INSURANCE COMPANY

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

COMPANY

with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name and affixed the official Seal of the Department at the City of New York

this 12th day of June, 2001

GREGORY V. SERIO
Superintendent of Insurance

Superintendent