REPORT ON EXAMINATION

OF THE

NORTH SEA INSURANCE COMPANY

AS OF

DECEMBER 31, 2000

DATE OF REPORT	JANUARY 15, 2002
EXAMINER	ANNIE LAU, CFE

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

January 15, 2002

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

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21733, dated May 23, 2001, attached hereto, I have made an examination into the condition and affairs of the North Sea Insurance Company as of December 31, 2000 and submit the following report thereon.

The examination was conducted at the Company's home office located at 50 West Hawthorne Avenue, Valley Stream, New York 11582-1270.

Wherever the designation "Company" appears herein without qualification, it should be understood to indicate the North Sea Insurance Company.

Whenever the designation the "Department" appears herein without qualification, it should be understood to indicate the New York Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1996. This examination covers the four year period from January 1, 1997 through December 31, 2000. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of the 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:

History of Company
Management and control
Corporate records
Fidelity bond and other insurance
Employees' welfare and pension plans
Territory and plan of operation
Market conduct activities
Growth of the Company
Business in force
Loss experience
Reinsurance
Accounts and records
Financial statements

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

2. DESCRIPTION OF COMPANY

The Company was incorporated in the State of New York on October 26, 1978. It was licensed as an insurer on December 31, 1979, with an original paid in capital of $350,000 and contributed surplus of $250,000.

As of the examination date, the Company's authorized capital consisted of 500,000 shares of $3.20 par value per share common stock and $900,000 of contributed surplus. All authorized common shares are issued and outstanding.

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. The Company replaced one director in November 1999. However, the Company did not file the biographical questionnaire with the Department in regard to the appointment of Mr. Morgenbesser as its director. Upon the examiners' request, the Company eventually filed the biographical questionnaire with the Department. It is recommended that the Company submit all necessary filings to the Department in a timely manner for non-disapproval of appointment of directors.

The thirteen directors as of December 31, 2000 were as follows:

Name and Residence	Principal Occupation
Janice L. Baum New York, NY	Office Manager, I. Arthur Yanoff & Co. Jersey Ltd.
Bruce A. Blakeman Woodmere, NY	Partner, Robert M. Blakeman & Associates

Name and Residence	Principal Occupation
Gregory J. Campofranco Lloyd Neck, NY	President, Campo Franco Studio
Stephen N. Gwertzman Frankin Lakes, NJ	President, US Adjustment Corp.
Thomas M. Mannion, Jr. Valley Stream, NY	Vice President, I. Arthur Yanoff & Co. Ltd.
Patrick M. Mckenna Malverne, NY	Partner, McKenna & Schneier
Joseph Morgenbesser Stony Brook, NY	Partner, M&M Associates Insurance Brokers Ltd.
Glenn R. Yanoff Old Brookville, NY	Vice President, I. Arthur Yanoff & Co. Ltd.
Grace Yanoff Old Brookville, NY	Homemaker
Hazel Yanoff Boca Raton, FL	Secretary/Treasurer, I. Arthur Yanoff & Co. Ltd.
I. Arthur Yanoff Boca Raton, FL	President, I. Arthur Yanoff & Co. Ltd.
Ronald M. Yanoff Pound Ridge, NY	Vice President, I. Arthur Yanoff & Co. Ltd.
Stephen G. Yanoff Woodmere, NY	Vice President, I. Arthur Yanoff & Co. Ltd.

The board met an average of four times per year during the examination period. The minutes of all meetings of the board of directors and committees held during the examination period were reviewed. The review revealed that all meetings were generally well attended. However, Director Gregory J. Campofranco attended less than half of the regular meetings he was eligible to attend. It is essential that all board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate policy decisions. Board members who fail to attend at least one-half of the board's meetings, unless appropriately excused, do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

The Company's President and Chief Operating Officer ("COO") during the examination period, Mr. Richard J. D'Amato, resigned on May 2, 2001. Mr. I. Arthur Yanoff, the Company's ultimate owner, is the Acting President and Ms. Christine Farley-Buyers is the Acting COO effective on May 2, 2001. On July 2, 2001, the Company hired Mr. Robert Boyle as Senior Vice President of Underwriting. Subsequently, Mr. Robert Boyle was elected President and COO, effective January 1, 2002.

The principal officers of the Company at December 31, 2000 were as follows:

Name	Title
Richard J. D'Amato	President (resigned on May 2, 2001)
Thomas M. Mannion, Jr.	Vice President, Underwriting
Christine A. Farley-Buyers	Vice President, Regulatory Compliance
Hazel Yanoff	Secretary/Treasurer
Glenn R. Yanoff	Assistant Secretary/Assistant Treasurer

B. Territory and Plan of Operation

The Company is licensed to do an insurance business in Mississippi, New Jersey, New York, North Dakota, Pennsylvania, South Carolina and Texas. For the examination period, the Company's direct premiums written in the State of New York versus Countrywide were as follows:

Calendar Year	New York Direct Written Premiums	Countrywide Direct Written Premiums	Percentage of New York Direct Written Premiums to Countrywide Direct Written Premiums
1997	2,245,972	2,248,688	99.88%
1998	2,325,722	2,356,970	98.67%
1999	2,608,585	2,785,936	93.63%
2000	3,027,585	3,188,626	94.95%
Total	10,207,864	10,580,220	96.48%

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	Line of Business
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirement 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 $1,600,000.

C. Reinsurance

The Schedule F contained in the Company's annual statements filed for the years covered by the examination was found to accurately reflect its reinsurance transactions.

The following is a summary of the ceded reinsurance agreements in force as of December 31, 2000. All reinsurance is with an authorized reinsurer.

Type of Contract	Coverage and Cession
Property	
Multi-Line Excess of Loss	$965,000 excess of $35,000 per risk subject to a maximum limit of $2,400,000 each loss occurrence. Basket Retention - $45,000
Property Catastrophe Excess of Loss	95% of $1,900,000 excess of $100,000 per occurrence.
Casualty	
Multi-Line Excess of Loss	$955,000 excess of $45,000 per occurrence.
Casualty Contingency Excess of Loss	$2,000,000 excess of $1,000,000 per occurrence subject to $2,000,000 in aggregate per policy year.
Liquor Liability	
Multi-Line Excess of Loss	$975,000 excess of $25,000 per occurrence.

The Company also has facultative reinsurance protecting the Company on those risks with limits of liabilities exceeding $1,000,000 for property lines.

All treaties supporting the above cessions were reviewed and found to contain insolvency clauses which meet the requirements contained in Section 1308 of the New York Insurance Law.

Since the previous examination, the Company's retention has increased from $25,000 to $35,000 for property risks and from $35,000 to $45,000 for casualty risks. Policy limits have increased from one million to two million. However, as of December 31, 2000, the Company has not written any policies with coverage over one million. Coverage for multi-line excess of loss treaty has split into two layers but the limits remain the same. There is a profit sharing commission provision within the first layer of the multi-layer excess of loss treaty. It specifies that the Company is allowed to participate in 50% of net profits, subject to management fees of 20%.

D. Holding Company System

The Company is a wholly-owned subsidiary of North Sea Holding, Inc., a Delaware corporation, which is in turn wholly-owned by Mr. I. Arthur Yanoff. Mr. Yanoff also owns six insurance agencies. The Company did not report these agencies in Schedule Y, Part 1 of the annual statement. It is recommended that the Company reports all members of its holding company system in accordance with the NAIC Annual Statement Instructions.

Pursuant to the requirements of Section 1503 of the New York Insurance Law, the Company registered with the Department as a controlled insurer and has filed annual reports in accordance with the requirements of Section 1504 of the New York Insurance Law and Department Regulation 52.

The Company is a party to various agreements with affiliated parties, as follows:

1. Lease agreement between the Company and its owner, I. Arthur Yanoff

The Company is a party to a lease agreement with its owner for the office space occupied by the Company. The agreement, dated on August 11, 1989, and subsequent extensions thereto were filed with the Department in accordance with Section 1505 of the New York Insurance Law. The lease was extended twice to September 30, 2004. The Company paid $100,195 in 1997; $101,701 in 1998; $100,418 in 1999 and $104,296 in 2000 for rent and related expenses. These payments were made in accordance with the lease agreement.

2. Tax Allocation Agreement

The Company participates in a tax allocation agreement with the members of the holding company system. Under the agreement, Federal income tax is computed as if the Company were filing a separate federal income tax return, except that income tax benefits are recognized to the extent utilized in a consolidated federal income tax return. The tax allocation agreement provides for the establishment of an escrow account by the parent for the benefit of the Company in order to maintain the Company's rights to recoup federal income taxes paid to the parent in the event of future net losses. This agreement was filed pursuant to Section 1505 of the New York Insurance Law. A review of the federal income tax returns and payments indicated that the Company did not set up a federal income tax receivable that was due from its parent for estimated federal income taxes paid in 2000.

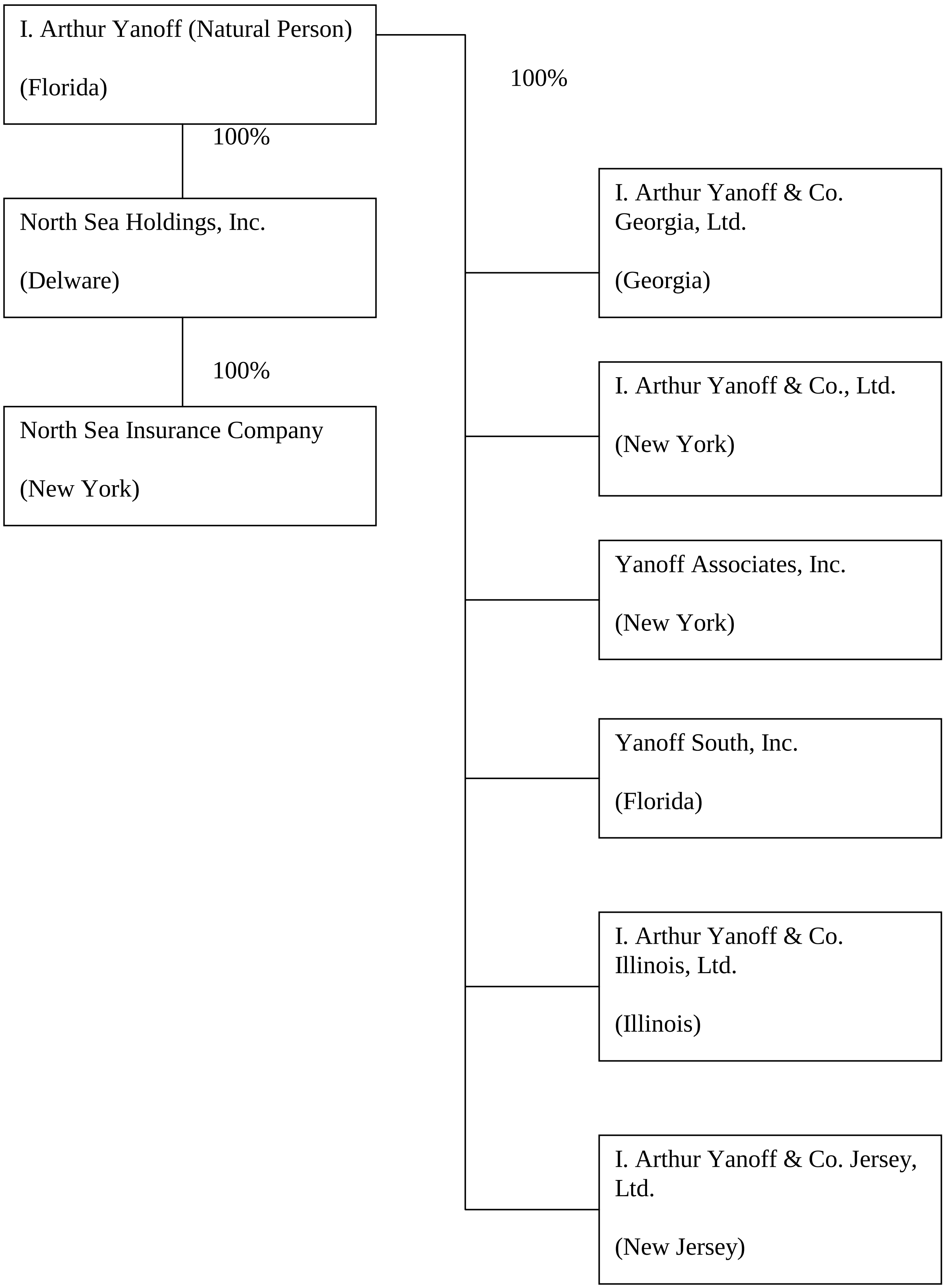
Therefore, it is recommended that the Company account for all federal income tax receivable and payable pursuant to the tax allocation agreement and report such amounts in the balance sheet and Schedule Y, Part 2 of the annual statements in a timely manner.

It is again recommended that the Company report all inter-company transactions in its future filed statements.

3. Administrative Service Agreement between the Company and I. Arthur Yanoff & Co. Ltd

The Company entered into an administrative service agreement with an affiliate, I Arthur Yanoff & Company Limited. The agreement, dated January 1, 1997, provides that the affiliate will perform certain computer functions for the Company and allows the Company to use its computer network. The Company agreed to pay the affiliate a monthly fee of $166.67. The agreement was filed with the Department in accordance with Section 1505 of the New York Insurance Law.

The following is an organizational chart as of the examination date that reflects the holding company system:



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	.50 to 1
Liabilities to liquid assets (cash and invested assets less investment in affiliates)	52.80%
Premiums in course of collection to surplus as regards policyholders	12.28%
Two year overall operating ratio	110%*

* The Company scored 10% above the benchmark ranges set forth in the Insurance Regulatory Information System (IRIS) of the National Association of Insurance Commissioners (NAIC) for the two year overall operating ratio due to high loss and expense ratios. It was noted that the Company does not have a formal budget. Operations and cash flow are managed on a continuous basis. It is recommended that the Company establish cost control measures and find ways to improve its loss and expense ratios. In order to monitor and control its expenses, it is recommended that the Company prepare a business plan that includes a budget, compare it with the actual results, and modify it on a regular basis.

The other ratios fall within the benchmark ranges established by the Regulatory Information System of the National Association of Insurance Commissioners.

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

	Amounts	Ratios
Losses incurred	$1,280,132	26.30%
Loss adjustment expenses incurred	1,764,367	36.25
Other underwriting expenses incurred	3,572,403	73.40
Aggregate write-ins for underwriting expenses	207,325	4.26
Net underwriting loss	(1,956,967)	(40.21)
Premiums earned	$4,867,260	100.00%

F. Internal Controls

During the last examination, a review of the Company's internal controls revealed that the Company required only one signature on all checks paid regardless of the amount. To strengthen control of cash disbursements, it was recommended that the Company establish a procedure whereby all checks above a certain amount must be signed by at least two officers. In order to comply with the recommendation, the Company established a policy that all checks over $25,000 require two signatures. However, a review of a sample of the reinsurance payments made above the $25,000 threshold indicated the Company had only one signature on some checks. It is recommended that the Company comply with its internal control procedures of check issuance at all times by requiring two signatures on all checks over $25,000. It is recommended that the Company amend the corporate resolution between the Company and the bank to require two signatures on all checks over $25,000.

The accounting firm that performed the annual audits and rendered the opinions of the Company's financial statements that were filed with the Department pursuant to the requirements of Section 307(b) of the New York Insurance Law, was the same firm that prepared the quarterly and annual statements for the Company on a consultant basis. It appears that the Company violated Section 307(b)(1) of the New York Insurance Law, which requires every licensed insurer to file an annual financial statement together with an opinion of an "independent" certified public accountant on the financial statement of such insurer and any such subsidiary. The fact that the accounting firm performed audits of the financial statements that they prepared appears to have undermined the independent aspect of the audits. It is recommended that the Company engage a qualified independent certified public accounting firm, other than the one preparing the quarterly and the annual statements, to conduct the audit of the Company's financial statements. Subsequent to the examination date, the Company has hired a different accounting firm to conduct the annual audit for the year 2001.

G. Abandoned Property Law

Section 1316 of the Abandoned Property Law requires the Company to file a report with the Office of the State Comptroller for any amount payable to the residents of New York State that are unclaimed for over three years. The Company recognized a liability for abandoned property and made the required filings with the Office of the State Comptroller.

H. Accounts and Records

i. Filed Financial Statements

During the examination, numerous errors were found in the Company's annual statements. While the errors were deemed immaterial to the Company's financial condition, it is imperative that all schedules and exhibits in the Company's annual statements contain accurate financial data and be reconciled accordingly. The Company filed revised pages of Schedule P with the Department. Therefore, it is again recommended that the Company comply with the annual statement instructions in preparing its annual statements and exercise greater care in preparing Schedule P and other exhibits and schedules in its future quarterly and annual statements.

ii. Agents' Balances

(a) During the review of the Company's agents' balances, it was noted that the Company billed its policyholders estimated premiums that were often double or triple the original premiums. It was the Company's practice to bill the policyholders that refused to cooperate with the audits. The estimated premiums were rarely collected and they were reversed in first quarter 2001 due to cancellation or non-renewal of policies or receipt of audit information. This practice violated statutory accounting principals and underwriting standards. It is recommended that the Company should not report as admitted assets any transactions that have no basis and no probability of collection.

(b) A review of the collections of the agents' balances for the year 2001 indicated the Company could only collect about 63% of the balances as of December 31, 2000. The uncollected amounts were deemed immaterial. Therefore, no examination change was made.

Section 1302(b) of the New York Insurance Law requires

> "that all non-admitted assets and all other assets of doubtful value or character included as ledger or non-ledger assets in any statement by an insurer be reported, to the extent of the value disallowed, as deductions from the gross assets."

Therefore, it is recommended that the Company monitor the collectibility of its agents' balances and report any non-admitted assets for amounts of doubtful value in accordance with Section 1302(b) of the New York Insurance Law.

(c) The Company used the billing date to age agents' balances instead of using the policy effective date. This resulted in a more favorable aging of its receivables. It is recommended that the

Company use the effective date of the policy to age its agents' balances and to calculate aged receivables in accordance with SSAP # 6 of the NAIC Accounting Practices and Procedures Manual.

iii. Investment

The Company violated Section 1409(a) of the New York Insurance Law by investing more than 10% of its admitted assets in the obligations of one institution. It was noted that this violation was due to the fact that two entities merged and the investments in the two entities must be combined for reporting purposes.

It is recommended that the Company comply with Section 1409(a) of the New York Insurance Law and restrict its investments in any one institution to no more than 10% of its admitted assets. Subsequent to the examination date, the Company has sold the excess investments and complied with Section 1409(a). The Company also indicated that it would monitor its investment portfolio more closely in the future to remain in compliance with Article 14.

I. Custodial Agreement

It was noted that the custodian agreement with HSBC is missing four out of nine necessary provisions that the Department requires for the protection of the Company and safeguarding its assets. The following required clauses were missing from the custodian agreement:

a. 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. It should give the Company 60 days written notice of any material change in the form or amount of such insurance or termination of this coverage.

b. The bank should maintain records sufficient to verify information the insurer is required to report in Schedule D of the Annual Statement blank of the Insurance Department of the State of New York.

c. The bank would give the insurer the opportunity to secure the most recent report on the review of the custodian's system of internal controls, pertaining to custodian record keeping, issued by internal or independent auditors.

d. The agreement should specify which officers from the insurer have access to the bank during regular banking hours to examine the Company's securities held by the bank and its records regarding securities held.

It is recommended that the Company include the necessary provisions in its custodial agreement with its custodian for the protection of the Company's assets. The Company has sent a letter to HSBC on August 20, 2001, requesting the custodial agreement be amended to include the aforementioned provisions.

J. Corporate Emergency Measures

A recommendation was made in the prior report on examination that the Company should establish a formal disaster recovery plan. As of December 31, 2000, it was noted that the Company has started researching a disaster recovery plan, but no formal plan has yet been developed. Therefore, it is again recommended that the Company adopt a formal disaster recovery plan and make systematic preparation for the conduct of business and for the continuity of management in case of a catastrophic fire or other disaster. The Company should also develop a monitoring system to periodically evaluate the effectiveness of the plan.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination. It is the same as the balance sheet filed by the Company:

	Ledger Assets	Non-Ledger Assets	Not-Admitted Assets	Net Admitted Assets
Bonds	$5,308,360	$	$	$5,308,360
Short-term investments	381,442			381,442
Cash on hand and on deposit	155,345			$155,345
Premiums and agents' balances in course of collection	431,229		24,770	$406,459
Reinsurance recoverable on loss payments	25,182			25,182
Interest and dividends due and Accrued	101,493			101,493
Equities and deposits in pools and associations	16,481			16,481
Total assets	$6,419,532	$0	$24,770	$6,394,762

Liabilities

Losses		$1,772,088
Loss adjustment expenses		409,388
Other expenses		16,891
Unearned Premiums		885,128
Amounts withheld or retained by company for account of others		2,560
Total liabilities		$3,086,055

Surplus and Other Funds

Common capital stock	$1,600,000	
Gross paid in and contributed surplus	900,000	
Unassigned funds (surplus)	808,707	
Surplus as regards policyholders		3,308,707
Total liabilities and surplus		$6,394,762

Note: The Internal Revenue Service has never audited the consolidated income tax returns filed on behalf of the Company through the examination date. Any potential exposure of the Company to any income tax assessment that may arise as a result of an audit has not been established herein.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased $324,842 during the four year examination period, January 1, 1997 through December 31, 2000 detailed as follows:

Statement of Income

Underwriting Income		
Premium earned		$4,867,260
Deductions:		
Losses incurred	$1,280,132	
Loss adjustment expenses incurred	1,764,367	
Other underwriting expenses incurred	3,572,403	
Aggregate write-ins for underwriting deductions	207,325	
Total underwriting deductions		6,824,227
Net underwriting loss		$(1,956,967)
Investment Income		
Net investment income earned	$1,434,181	
Net realized capital losses	(13,827)	
Net investment gain		1,420,354
Other Income		
Agents' balances charged off	$(105,275)	
Miscellaneous income	352,131	
Total other income		246,856
Net income before federal income taxes		$(289,757)
Federal income taxes incurred		
Net income		$(289,757)

Capital and Surplus Accounts

Surplus as regards policyholders, December 31, 1996, per report on examination			$3,633,549
	Gains in Surplus	Losses in Surplus	
Net income		$289,757	
Net unrealized capital gains	$12,838		
Change in non-admitted assets		24,748	
Dividends to stockholders (cash)		25,000	
Fair Plan	1,825		
Total gains and losses	$14,663	$339,505	
Net decrease to surplus as regards policyholders			$(324,842)
Surplus as regards policyholders, December 31, 2000, per report on examination			$3,308,707

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for losses of $1,772,088 and loss adjustment expenses of $409,388 are the same as the amounts reported by the Company as of the examination date. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements. Actuarial reports issued by the Company's independent actuary were reviewed. These reviews concluded that there were deficiencies in the Company's carried reserves that were deemed immaterial. Therefore, no changes in the loss and loss adjustment expense reserves were warranted.

5. 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 its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the generally more precise scope of a market conduct investigation.

The general review was directed at practices of the Company in the following major areas:

A) Sales and advertising
B) Underwriting
C) Rating
D) Claims

No violations were noted.

It was noted that the Company does not have written procedures in handling complaints. It is recommended that the Company establish written procedures and guidelines in complaints handling and convey the information to its brokers and claim officers.

The Company's claim officer resigned in June 2001. He continued to work for the Company as a consultant in the interim. On August 1, 2001, the Company transferred its claims function to a non-affiliated company. The Company retains sole authority to settle claims, issue payments and decline coverage.

6. PRIOR COMMENTS AND RECOMMENDATIONS

The following are comments and recommendations contained in the prior reports (page numbers refer to the prior reports).

ITEM		PAGE NO
A.	Inter-Company Agreements	
	It is recommended that the Company report all inter-company transactions in its future filed annual statements.	7
	The Company did not comply with this recommendation. A similar recommendation is contained in this report.	
B.	Internal Control	
	It is recommended that the Company establish a procedure whereby all checks above a certain amount must be endorsed by at least two officers.	9
	The Company has set up a procedure that all checks above $25,000 require two signatures. However, the procedure was not followed at all times.	

ITEM		PAGE NO.
C.	Accounts and Records	
	i. It is recommended that the Company exercise greater care in preparing Schedule P in its future filed annual statements.	9-10
	The Company did not comply with this recommendation. A similar recommendation is contained in this report.	
	ii. It is recommended that all bonds be held by a bank or trust company under the terms of a custodial agreement.	10
	The Company has complied with this recommendation.	
	iii. It is recommended that the Company properly report its agents' balances in its future filed annual statements.	10
	The Company did not comply with this recommendation. A similar recommendation is contained in this report.	
D.	Accounts and Records	
	It is recommended that the Company undertake a study to determine the proper amounts to allocate between expense classifications pursuant to Department Regulation 30.	10-11
	The Company has complied with this recommendation.	
E.	Corporate Emergency Measures	
	It is recommended that the Company adopt a formal corporate emergency plan for the conduct of business, protection of records and continuity of management in case of a catastrophic event.	11
	The Company did not comply with this recommendation. A similar recommendation is contained in this report.	
F.	Market Conduct Activities	
	It is recommended that the Company comply with Department Regulation 64 by maintaining a central complaint log.	16
	The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO
A.	Management	
	It is recommended that the Company submit all necessary filings to the Department in a timely manner for non-disapproval of appointment of directors.	3
	It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
B.	Holding Company System	
	It is recommended that the Company reports all members of its holding company system in accordance with NAIC Annual Statement Instructions.	8
C.	Inter-Company Agreements	
	i. It is recommended that the Company account for all federal income tax receivable and payable pursuant to the tax allocation agreement and report such amounts in the balance sheet and Schedule Y, Part 2 of the annual statements in a timely manner.	9
	ii. It is again recommended that the Company should report all inter-company transactions in its future filed statements.	9
D.	Significant Operating Ratios	
	i. It is recommended that the Company establish cost control measures and finds ways to improve its loss and expense ratios.	11
	ii. In order to monitor and control its expenses, it is recommeded that the Company prepare a business plan that includes a budget, compare it with the actual results and modify it on a regular basis.	11

ITEM		PAGE NO.
	iii. Investements	
	It is recommended that the Company comply with Section 1409(a) of the New York Insurance Law and restrict its investments in any one institution to no more than 10% of its admitted assets.	15
G.	Custodial Agreement	
	It is recommended that the Company include all necessary provisions in the custodial agreement with its custodian for the protection of the Company's assets.	16
H.	Corporate Emergency Measures	
	It is again recommended that the Company adopt a formal disaster recovery plan and make systematic preparation for the conduct of business and for the continuity of management in case of a catastrophic fire or other disaster. The Company should also develop a monitoring system to periodically evaluate the effectiveness of the plan.	16
I.	Market Conduct Activities	
	It is recommended that the Company establish written procedures and guidelines in complaints handling and convey the information to its brokers and claim officers.	22

Respectfully submitted,

__________/S/____________
Annie Lau, CFE
Senior Insurance Examiner

STATE OF NEW YORK)
)SS.
)
COUNTY OF NEW YORK)

ANNIE LAU, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

__________/S/_____________
Annie Lau

Subscribed and sworn to before me

this ______day of ____________________2001.

Appointment No 21733

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:*

Annie Lau

as proper person to examine into the affairs of the

North Sea Insurance Company

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 23rd day of May, 2001

GREGORY V. SERIO
Superintendent of Insurance