REPORT ON EXAMINATION

OF

UNITED INTERNATIONAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2000

DATE OF REPORT	MARCH 7, 2002
EXAMINER	JAINARINE TILAKDHARRY

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

March 7, 2002

Honorable Gregory 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 21805, dated December 6, 2001, attached hereto, I have made an examination into the conditions and affairs of the United International 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 444 Madison Avenue, New York, New York 10022.

Wherever the designations "Company", "UIIC" or "United" appear herein without qualification, they should be understood to indicate the United International Insurance Company.

Whenever the designation "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, and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and provision for reinsurance. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extend considered appropriate, work performed by the Company's independent certified public accountants. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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 bonds, other insurance and pension plans
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force
Loss experience
Reinsurance
Accounts and records
Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations in the prior report on examination.

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 under the laws of the State of New York as a stock insurer on September 25, 1986 and became licensed to transact insurance business effective May 10, 1988.

On March 23, 1987 the Company amended its charter to decrease its authorized capital from $3,600,000, comprised of 3,600,000 shares of common stock with a par value of $1.00 per share to $1,000,000, comprised of 1,000,000 shares of common stock with a par value of $1.00 per share. This amendment was approved by the Department.

At the date of the examination, the capital of the Company was $1,000,000, consisting of 1,000,000 shares with a par value of $1.00 per share. Gross paid in and contributed surplus amounted to $2,612,467.

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 thirteen nor more than seventeen members. As of the examination date, the board was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Charles Moore Adams Wenonah, New Jersey	Vice President, Claims, Rutgers Casualty Insurance Company
Abraham Biderman Brooklyn, New York	Executive Vice President, Lipper & Co., LP
Ari Chitrik Brooklyn, New York	Vice President & Financial Manager, Citra Trading Corp.
David Allan Combs Lexington, Kentucky	Controller, Kentucky National Insurance Co.
Jacob Ernest Feldman Brooklyn, New York	President, Chai Properties
Daniel Friedman Queens, New York	Counsel, Rutgers Casualty Insurance Company
Barry Jay Goldstein Wayne, Pennsylvania	Corporate Counsel, Rutgers Casualty Insurance Company
Alexander Hasenfeld Brooklyn, New York	President, Hasenfeld Stein, Inc.
Steve Klein Queens, New York	Assistant Financial Officer, Rutgers Casualty Insurance Company
Enoch Grahams Roberts Lexington, Kentucky	Chief Operating Officer, Kentucky National Insurance Co.
David Singer Brooklyn, New York	Executive Senior Vice President, Broadway Management, Inc.
Nachum John Stein Brooklyn, New York	Chairman of the Board, American European Group

Name and Residence	Principal Business Affiliation
Hirsch Wolf Brooklyn, New York	President, Hirsch Wolf Insurance

The minutes of all meetings of the board of directors held during the examination period were reviewed. All meetings were well attended by each member except for six members: Daniel Friedman, Enoch Roberts, Barry Goldstein, Steve Klein, David Combs and Charles Adams did not attend any of the meetings for which they were eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the Company. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that appropriate decisions may be reached by the board. Individuals who fail to attend at least one-half of the board's regular meetings do not fulfill such criteria.

It is recommended that board members who are unwilling or unable to attend meetings consistently should be asked to resign or be replaced.

The board met once each calendar year during the examination period.

Article III, Section 3.07 of the Company's by-laws states in part that:

"The board of Directors shall hold, in addition to its annual meeting, at least three (3) other regular meetings at approximately three (3) month intervals after the annual meeting for the purpose of reviewing the affairs of the Corporation and acting upon such other questions and matters as may properly come before the meeting…"

During the period under examination the Company had failed to convene the requisite number of board of directors' meetings as stated in its by-laws. This situation was also the subject of a recommendation in the prior report on examination.

It is recommended that the Company comply with the provisions of Article III, Section 3.07 of its by-laws as regards the convening of regularly scheduled meetings of the board of directors.

As of December 31, 2000, the principal officers of the Company were:

Name	Title
Nachum John Stein	President and Treasurer
Daniel Friedman	Secretary

Conflict of Interest

The Company has a conflict of interest policy in place for its officers and directors. This policy does not require the directors and officers of the company to sign a conflict of interest statement annually, but to sign one immediately upon assuming such position and promptly report to the Company with respect to any corporation or unincorporated enterprise in which he, or any member of his family, has a material or substantial interest and which to his knowledge has in the past engaged, or may in the future engage in transactions with the Company.

A number of the new directors and officers did not sign any conflict of interest statements during the period of the examination.

It is recommended that the Company amended its conflict of interest policy so that each director, officer, or management employee sign a conflict of interest statement annually and disclose any conflict.

B. Territory and Plan of Operation

As of December 31, 2000, the Company was licensed to do business only in the State of New York.

The following schedule shows the Company's direct premiums written in New York State during the period of the examination:

Calendar Year	Direct Premiums Written
1997	$(391,368)
1998	$(19,208)
1999	-0-
2000	-0-

Effective July 1, 1997, the Company ceased writing new and renewal business and subject to the provisions of Section 1203 of the New York Insurance Law must obtain prior approval of the superintendent before it can resume any insurance business.

As of December 31, 2000, 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 State Insurance Law:

Paragraph	Kind of Insurance
4	Fire
5	Miscellaneous property damage
6	Water damage
12	Collision
13	Personal injury
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

Based on the lines of business for which the Company is licensed, and the Company's current structure, and pursuant to the requirements of Articles 14 and 41 of the New York Insurance Law, United International Insurance Company is required to maintain a minimum surplus to policyholders in the amount of $1,200,000.

C. Reinsurance

The Company did not assume any reinsurance during the four-year period of the examination.

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

The examiners reviewed all ceded reinsurance contracts effected during the examination period. These contracts all contained the required standard clauses including insolvency clauses of Section 1308 of the New York Insurance Law.

The Company had in effect the following reinsurance ceded contracts at December 31, 2000:

Type of Contract	Cession
Property Quota Share Treaty (100% authorized)	70% of $1,000,000, per risk.
First Casualty Excess of Loss Treaty (100% authorized)	$425,000 excess of $75,000, each occurrence.
Second Casualty Excess of Loss (100% authorized)	$500,000 excess of $500,000 each occurrence.

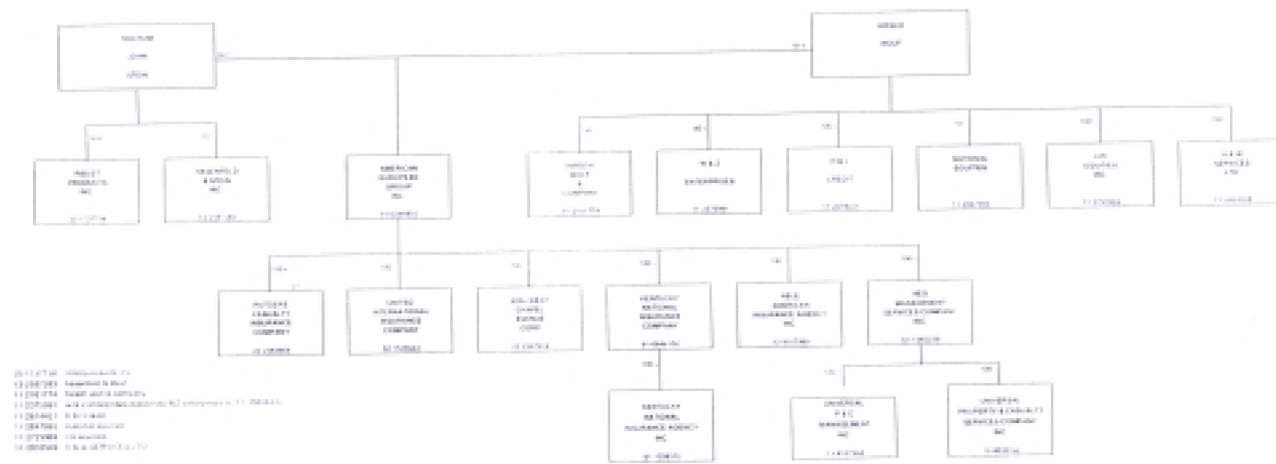
Pursuant to two loss portfolio transfer agreements, the Company, ceded 100% of its losses and loss adjustment expenses for policies issued by the Company prior to August 23, 1998. These transactions were properly approved by the New York Insurance Department.

D. Holding Company System

The Company is part of a holding company system as defined by Section 1501 (a)(6) of the New York Insurance Law. American European Group, Inc. ("AEG") owns 100% of the outstanding shares of United International Insurance Company. Nachum Stein and Hirsch Wolf owned 29.1% and 19.4%, respectively, of the voting stock of American European Group, Inc and as such, it appears that Nachum Stein and Hirsch Wolf are the ultimate controlling persons of United.

As a member of a holding company system, the Company files registration statements pursuant to Article 15 of the New York Insurance Law and Department Regulation 52. All pertinent files were reviewed and no problem areas were encountered.

The following chart depicts the Company's position within the holding company system:



Pursuant to an agreement, effective May 29, 1987, the Company files a consolidated income tax return with its parent company, American European Group, Inc. and its subsidiaries. This agreement was filed and approved by the Insurance Department.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2000, based upon results of this examination:

Net premiums written in 2000 to surplus as regards policyholders	Not Applicable
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	4.00%
Premiums in course of collection to surplus as regards policyholders	Not Applicable

The first and third ratios are not applicable, as the Company has reinsured all its operations via loss portfolio transfer agreement and an assumption agreement. The second ratio falls within the benchmark ranges set forth in the Insurance 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	$ 977,452	63.17%
Loss adjustment expenses incurred	632,924	40.90
Other underwriting expenses incurred	840,691	54.33
Net underwriting loss	(903,588)	(58.40)
Premiums earned	$1,547,479	100.00%

F. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law requires certain unclaimed insurance proceeds to be reported (on the "Verification and Checklist for Unclaimed Property" form VCUP), to the State of New York by April 1, of each year. The law also requires that if a Company does not have any unclaimed insurance proceeds at year-end, the form must still be filed with the state of New York by April 1.

United International Insurance Company did not file any abandoned property filings during the period of the examination.

It is recommended that the Company comply with Section 1316 of the New York Abandoned Property Law and file the required abandoned property reports and remit unclaimed funds to the State of New York.

G. Section 1307 Loan

In 1997, the Company issued a surplus note to its parent, American European Group, in the amount of $1,700,000. In 1999, the Company issued another surplus note to its parent in the amount of $350,000. Both of these transactions were properly approved by the New York Insurance Department. As of the date of the examination, no payment was made on either the principal or the interest on this loan.

H. Custodial Agreement

At December 31, 2000, the company maintained a custodian agreement for the safekeeping of the Company's securities. A review of the company's custodial agreement revealed that it lacked the following safeguards, controls and protective covenants deemed to be indicative of a sound internal control environment:

a. The bank will at all times give the securities held the same care that the bank would give its own property of a similar nature.

b. The bank shall furnish the insurer (at least quarterly) with a list of such securities showing a complete description of each issue.

c. The bank shall maintain records sufficient to verify information required on Schedule D of the Company's annual statement blank.

d. The bank shall furnish the appropriate affidavits to the insurer and the New York State Insurance Department so that the securities referred to in such affidavits can be recognized as admitted assets of the Company.

e. Written instructions hereunder shall be signed (jointly) by any two authorized officers of the insurer.

f. The bank shall have in force bankers blanket bond Insurance of the broadest form available for commercial banks and will continue to maintain such insurance.

g. In connection with any situation involving registration of securities in the name of a nominee of the bank custodian, the agreement shall empower the bank to take such action.

h. There should be provision in the agreement that would give the Company the opportunity to secure the most recent report on the review of the banks' system of internal controls record keeping, issued by internal or independent auditors.

It is recommended that the company amend its custodian agreement to include the necessary safeguards and controls described above.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities, and surplus as regards policyholders as determined by this examination as of December 31, 2000. This statement is the same as the balance sheet filed by the Company.

Assets	Ledger Assets	Non-Ledger Assets	Not-admitted Assets	Admitted Assets
Bonds	$1,210,822	$	$	$1,210,822
Cash and short-term investments	650,070			650,070
Reinsurance recoverable on loss and loss adjustment expense payments	88,792			88,792
Federal income tax recoverable	187,223			187,223
Interest, dividends due and accrued	31,932			31,932
Furniture, equipment and supplies		79,201	79,201	
Aggregate writ-ins for other than invested assets	593,363			593,363
Total assets	$2,762,202	$79,201	$79,201	$2,762,202

Liabilities

Losses		$10,316,655
Loss adjustment expenses		645,000
Other expenses		4,750
Amounts withheld or retained by company for account of others		133,410
Payable to parent, subsidiaries and affiliates		11,227
Aggregate write-ins for liabilities		(11,040,526)
Total liabilities		$ 70,516

Surplus and Other Funds

Aggregate write-ins for special surplus funds	$6,368,925	
Common capital stock	1,000,000	
Surplus notes	2,050,000	
Gross paid in and contributed surplus	2,612,467	
Unassigned funds	(9,339,706)	
Surplus as regards policyholders		$2,691,686
Total liabilities, surplus and other funds		$2,762,202

Note: The Company has never been audited by the Internal Revenue Service ("IRS"). Any potential exposure of the Company to any income tax assessment that may arise as a result of an IRS audit has not been established herein.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $4,019,843 during the four-year examination period, January 1, 1997 through December 31, 2000, and is detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$1,547,479
Deductions:		
Losses incurred	$977,452	
Loss adjustment expenses incurred	632,924	
Other underwriting expenses incurred	840,691	
Total underwriting deductions		2,451,067
Net underwriting loss		$(903,588)
Investment Income		
Net investment income earned	$616,896	
Net realized capital gains	181,222	
Net investment gain		798,118
Other Income		
Agents balance charged off	$(175,254)	
Retroactive reinsurance gain	2,868,925	
Total other income		2,693,671
Net income before federal income taxes		$2,588,201
Federal income taxes incurred		(560,874)
Net income		$3,149,075

Capital and Surplus Accounts

	Gain in Surplus	Losses in Surplus	
Surplus as regards policyholders December 31, 1996, per report on examination			$(1,328,157)
Net income	$3,149,075	$	
Net unrealized capital losses	176,952		
Change in non admitted assets	343,816		
Change in section 1307 loan	350,000		
Total gain and losses	$4,019,843	$ 0	
Net increase in surplus as regards policyholders			4,019,843
Surplus as regards policyholders December 31, 2000, per report on examination			$2,691,686

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities of $10,316,655 and $645,000 for losses and loss adjustment expense reserves are the same as the amounts reported by the Company as of December 31, 2000. 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 its filed annual statements and verified by the examiner. As noted in Section C of this report, the Company transferred 100% of its losses pursuant to two loss portfolio transfers which are properly accounted for pursuant to Department Regulation 108.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

ITEM			PAGE NO.
A.		Financial Condition	
		This examination has determined that the Company is insolvent in the amount of $1,328,157 and that its required to be maintained surplus of $1,200,000 is impaired in the amount of $2,528,157.	1,18
		Subsequent to the date of the examination, the Company entered into two loss portfolio transfers that resulted in eliminating the insolvency and the surplus impairment.	
B.		Management	
	i.	Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that the board members attend meetings consistently and set forth their views on relevant matters so that appropriate policy decisions may reached by the board. Individuals who fail to attend at least one-half of the board's regular meetings, unless appropriately excused, do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	

ITEM			PAGE NO.
		The Company did not comply with this recommendation and this is reiterated herein.	
	ii.	It is recommended that the Company comply with the provisions of Article III, Sections 3.07 and 3.09 of its by-laws as regards the convening of regularly scheduled meetings of the board of directors.	6
		The Company did not comply with this recommendation and this is reiterated herein.	
	iii.	It is recommended that the board of directors authorize and approve the Company's investment transactions in accordance with the provisions of Section 1411(a) of the New York Insurance Law.	6
		The Company has complied with this recommendation.	
	iv.	It is recommended that the Company obtain fidelity insurance coverage for its officers and employees which meets the minimum requirements for such coverage as suggested by the National Association of Insurance Commissioners.	7
		The Company has complied with this recommendation.	
C.		<u>Reinsurance</u>	10
		It is recommended that the Company obtain the required regulatory approval if it intends to cede an amount of reinsurance premiums in excess of the statutory limitations set forth in Sections 1308(e)(1) of the New York Insurance Law.	
		The Company no longer writes any new or renewal business.	
D.		<u>Holding Company System</u>	
	i.	It is recommended that the Company accurately prepare its Schedule Y, Part 2 in accordance with the instructions of the National Association of Insurance Commissioners.	12
		The Company has complied with this recommendation.	

ITEM			PAGE NO.
	ii.	It is recommended that the Company enter into a formal written agreement with Rutgers Casualty Insurance Company for accounting, data processing, and managerial and financial functions, which Rutgers performs on behalf of the Company. The Company has been in run off and no longer writes any business.	12
	iii.	It is recommended that the Company notify the superintendent in writing of its intention to enter into any transactions at least thirty days prior thereto, or such shorter period as he permit, with any person in its holding company system pursuant to the provisions of Section 1505(d)(3) of the New York Insurance Law. The Company has complied with this recommendation.	12
	iv.	It is recommended that the Company obtain the superintendent's prior approval for transactions involving any person in its holding company system, pursuant to the provisions of Section 1505 (c) of the New York Insurance Law. The Company has complied with this recommendation.	13
	v.	It is recommended that the Company enter formal written agreements for transactions involving any person in its holding company system. The Company has complied with this recommendation.	13
E.		Premiums & Agents' Balances in Course of Collection It is recommended that the Company establish an aging system for premiums or agents' balances in course of collections in accordance with the provisions of Section 1301(a)(11) of the New York Insurance Law. The Company has been in run off and no longer writes any business.	17

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A.		Management	
	i.	It is recommended that board members who are unwilling or unable to attend meetings consistently should be asked to resign or be replaced.	5
	ii.	It is recommended that the Company comply with the provisions of Article III, Section 3.07 of its by-laws as regard the convening of regularly scheduled meetings of the board of directors.	6
	iii.	It is recommended that the Company amended its conflict of interest policy so that each director, officer, or management employee sign a conflict of interest statement annually and disclose any conflict.	6
B.		Abandoned Property Law	
		It is recommended that the Company comply with Section 1316 of the New York Abandoned Property Law and file the required abandoned property reports and remit unclaimed funds to the State of New York.	12
C.		Custodial Agreement	
		It is recommended that the Company amend its custodian agreement to include the necessary safeguards and controls.	13

Respectfully submitted,

/S/
Jainarine Tilakdharry
Senior Insurance Examiner

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

JAINARINE TILAKDHARRY, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

/S/
Jainarine Tilakdharry

Subscribed and sworn to before me

this _____ day of _________ 2001.

Appointment No. 21805

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:*

Jainarine Tilakdharry

as proper person to examine into the affairs of the

UNITED INTERNATIONAL 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 6th *day of* December, 2001

GREGORY V. SERIO
Superintendent of Insurance