

REPORT ON EXAMINATION

OF THE

UNITED INTERNATIONAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2005

DATE OF REPORT

NOVEMBER 8, 2006

EXAMINER

MARIBEL C. NUÑEZ, CPCU

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

November 8, 2006

Honorable Howard Mills
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 22510, dated June 6, 2006, attached hereto, I have made an examination into the condition and affairs of United International Insurance Company as of December 31, 2005, and submit the following report thereon.

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

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's home offices located at 444 Madison Avenue, New York, NY 10022.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2000. This examination covered the five-year period from January 1, 2001 through December 31, 2005. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2005. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent 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 ("NAIC"):

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements
- Market conduct activities

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained 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 on September 25, 1986. It became licensed to transact insurance business on May 10, 1988.

The Company is wholly-owned by American European Group, Inc. (“AEG”), a New York insurance holding company. Nachum J. Stein and Hirsch Wolf own 42.60% and 14.10%, respectively, of the voting stock of American European Group, Inc., and as such, are the ultimate controlling persons of UIIC.

As a result of significant losses and with the consent of the New York Insurance Department, the Company ceased writing new and renewal business effective July 1, 1997.

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.

Capital paid in is \$1,000,000 consisting of 1,000,000 shares of common stock at \$1.00 par value per share. Gross paid in and contributed surplus is \$2,612,467 and has remained the same during the examination period.

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. The board met seven times in calendar years 2001 and 2002, five times in 2003, and four times in 2004 and 2005. At December 31, 2005, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Abraham Biderman Brooklyn, NY	Executive Vice President, Lipper & Co., LP
Ari Chitrik Brooklyn, NY	Vice President & Financial Manager, Citra Trading Corp.,

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
David Allan Combs Lexington, KY	Controller, Kentucky National Insurance Co.
Jacob Ernest Feldman Brooklyn, NY	President, Chai Properties
Daniel Friedman Queens, NY	Counsel, Rutgers Casualty Insurance Company
Barry Jay Goldstein Wayne, PA	Corporate Counsel, Rutgers Casualty Insurance Company
Alexander Hasenfeld Brooklyn, NY	President, Hasenfeld Stein, Inc.
Steve Klein Queens, NY	Assistant Financial Officer, Rutgers Casualty Insurance Company
Enoch Grahams Roberts Lexington, KY	President, Kentucky National Insurance Co.
David M. Singer Brooklyn, NY	Executive Senior Vice President, Broadway Management, Inc,
Nachum John Stein Brooklyn, NY	Chairman of the Board, American European Group
Robert V. Toppi Tampa, FL	President, Rutgers Casualty Insurance Company
Hirsch Wolf Brooklyn, NY	President, Hirsch Wolf Insurance

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance, with the exception of David A. Combs and Enoch Graham Roberts each of whom attended less than 15% 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 insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings 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. It is noted that a similar recommendation regarding board member's attendance was included in the prior report.

During the years under examination, the Company did not hold annual shareholders meetings to elect its board members as indicated in Article II, Section 2.01 of the Company's by-laws, which states in part:

“The annual meeting of shareholders for the election of directors and the transactions of such other business as may come before it, shall be held on the third Wednesday of May in each calendar year...”

It is recommended that the Company comply with Article II, Section 2.01 of its by-laws and hold annual shareholder meetings to elect its board of directors.

The examination of the Company's investment transactions included a review of the minutes of the board's meetings in order to ascertain its authorization or approval of such transactions as required by Section 1411(a) of the New York Insurance. Section 1411(a) of the New York Insurance Law reads as follows:

“No domestic insurer shall make any loan or investment, except as provided in subsection (h) hereof, unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting.”

The examiners found that, although the minutes for meetings of 2004 through 2006 referred to the topic of investments as a matter of discussion, there was no mention of the required authorizations or approvals. Therefore, the examiners could not determine the Company's compliance with Section 1411(a).

It is recommended that the Company authorize or approve its investment transactions in accordance with the provisions of Section 1411(a) of the New York Insurance.

As of December 31, 2005, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Nachum John Stein	President and Treasurer
Daniel Friedman	Secretary

B. Territory and Plan of Operation

As of December 31, 2005, the Company was licensed to write business in New York only. It ceased accepting new and renewal business in 1997, 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. The Company is currently in run-off status.

On December 31, 1996, the Department approved the removal from the Company's license, the power to write the kinds of insurance listed in the following paragraphs of Section 1113(a) of the New York Insurance Law: 3, Accident and health; 7, Burglary and theft; 8, Glass; 9, Boiler and machinery; 10, Elevator; 11, Animal; 15, Workers' compensation and employers' liability; 16, Fidelity and surety; 17, Credit; 20, Marine (only); and 21, Marine protection and indemnity. On January 29, 1997, the Company amended Section 3 of its charter to remove the authority to write such lines of business.

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:

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property damage
6	Water damage
12	Collision
13	Personal injury liability
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 capital structure, and pursuant to the requirements 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 \$1,200,000.

UIIC is a property and casualty company that focused on apartment buildings, office buildings, taverns, restaurants, hotels, motels and store risks in the five borough of New York City. All of the Company's business was written through independent agencies. However, the Company ceased writing new and renewal business on July 1, 1997, and is now in run-off status.

C. Reinsurance

The Company is in run-off since 1997 and did not assume any reinsurance during the five year period of the examination.

The company has structured its ceded reinsurance program to limit its maximum exposure to any one risk as follows:

Property Quota Share Treaty	70% of \$1,000,000 per risk.
First Casualty Excess of Loss Treaty	\$425,000 excess of \$75,000 each occurrence.
Second Casualty Excess of Loss	\$500,000 excess of \$500,000 each occurrence.

A reinsurance agreement with its affiliate was reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that the affiliated reinsurance agreement was filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

The company has transferred 100% of its liability for losses and loss adjustment expenses already incurred pursuant to the terms of two retrospective reinsurance agreements. The agreements provide coverage for policies issued by the Company prior to August 23, 1998. The agreements were accounted for pursuant to the requirements of Department Regulation 108 for loss portfolio transfers (“LPT”) and were approved by the Department.

On June 30, 2004, the Company commuted its LPT agreement for its share of the value of the profit sharing account in the amount of \$3,062,068 as full and final settlement of any and all amounts due to the Company by the reinsurer under the LPT agreement. The commutation resulted in a gain of \$900,542 to the Company’s surplus position.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

A review of the Schedule F data reported by the Company in its filed annual statement found that it accurately reflects its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting

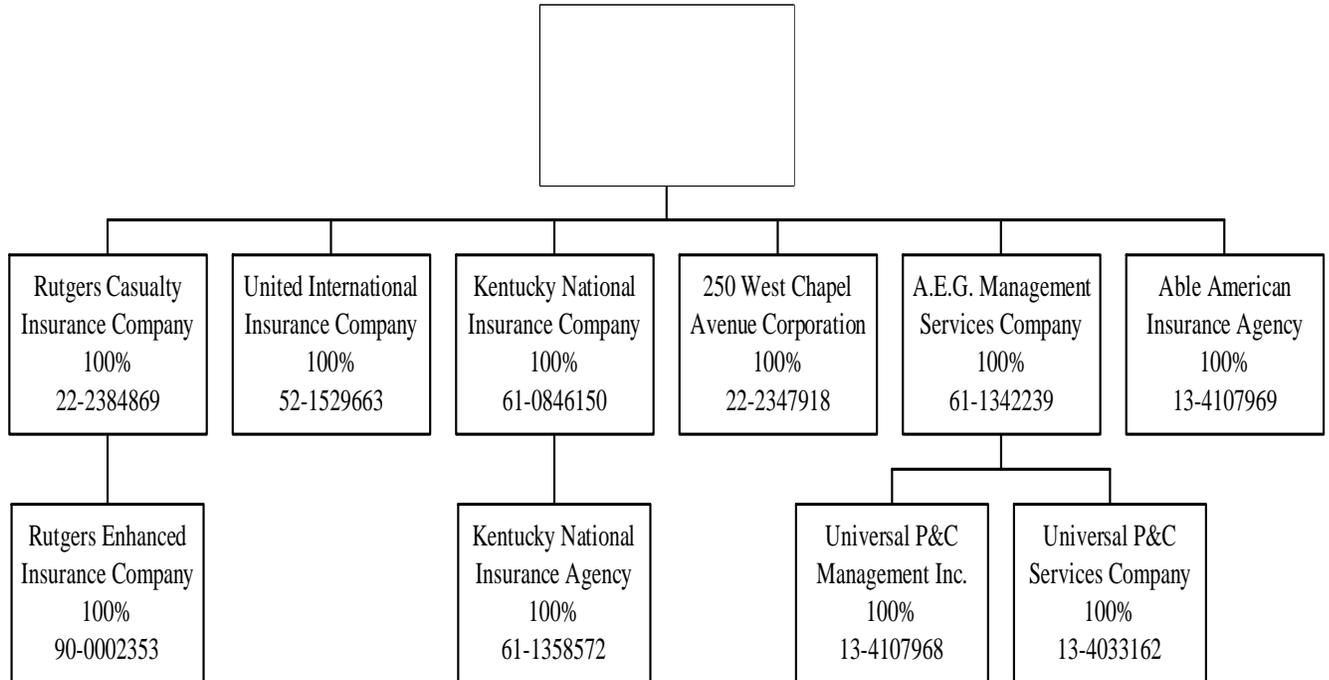
Principles (“SSAP”) No. 62. These representations were also attested to by the Company's chief executive officer pursuant to Department Circular Letter No. 8 (2005). Additionally, the examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 25, 26 and 27 of SSAP No. 62.

D. Holding Company System

The Company is a member of a holding company system as defined by Section 1501(a)(6) of the New York Insurance Law. The Company is a 100% owned by American European Group, Inc., a New York State domiciled corporation, which is ultimately controlled by Nachum John Stein and Hirsch Wolf, who own 42.60% and 14.10%, respectively, of the voting stock of American European Group, Inc.

A review of the holding company registration statement filed with this Department indicated that such filing was complete and was filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the holding company system at December 31, 2005:



NOTE: Mr. Nachum John Stein owns 42.60% of American European Group, Inc. and Mr. Hirsch Wolf owns 14.10% of American European Group, Inc.

At December 31, 2005, the Company was party to the following agreements with other members of its holding company system:

Tax Allocation, Management

The Company participates in a tax allocation agreement with American European Group, Inc. and its subsidiaries, effective May 29, 1987. Under the terms of the agreement, the federal income tax liability will not be greater than the amount the Company would have paid if it had filed a separate federal income tax return. As required by Section 1505 of the New York Insurance Law and Department Circular Letter No. 33, the Company submitted, and the Department approved the tax allocation agreement.

Service Agreement

Effective January 1, 1990, the Company entered into a service agreement with its affiliate Rutgers Casualty Insurance Company ("RCIC"). Pursuant to the terms of the agreement, the Company and RCIC would render services to each other and may utilize the services of each other's employees. The agreement was filed and approved by the Department as required by Section 1505(d)(3) of the New York Insurance Law.

Reinsurance Agreement

Effective January 1, 1997, the Company entered into a loss portfolio reinsurance agreement with RCIC, whereby, the Company ceded loss and loss adjustment expenses (both allocated and unallocated loss adjustment expenses) relating to 1996 and prior accident years in the amount of \$1,198,925 for a consideration of \$333,333. The agreement was approved by the Department as required by Section 1505(d)(2) of the New York Insurance Law.

E. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company's abandoned property reports for the period of this examination were not filed on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law, except the report for the year ended 2002, which was filed on time.

It is recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

F. Significant Operating Ratios

The Company has been in run-off since 1997 and the ratios have no significance.

G. Accounts and Records

i. Internal Control and Asset Protection

A review of the Company's internal controls reveals that two individuals are authorized signatories on the Company's investments and cash accounts. These individuals have unlimited signing authority and only one signature is required to endorse any draft. The unlimited authority for a single signatory to execute any cash or investment transaction represents a weakness in the Company's internal control procedures and does not provide adequate protection of the Company's assets. It is recommended that the Company establish a reasonable dollar threshold, above which a second signature would be required for any cash or investment transaction.

ii. Certified Public Accountant ("CPA") Contract

A review of the CPA contracts for the years under examination revealed that the 2001, 2004 and 2005 contracts were not in compliance with Section 307(b)(1) and Part 89.2 of Department Regulation 118. It is recommended that the Company amend its contract with its CPA to comply

with the provisions of Section 307(b)(1) of the New York Insurance Law and Part 89.2 of Department Regulation 118.

iii. Custodial Agreement Provisions

A review of the custodial agreement between the Company and its custodial bank indicated that the agreement did not contain the required controls and safeguard provisions set forth in Part 1, Section IV(J) of the NAIC Financial Condition Examiner's Handbook. However, during the examination, the Company was able to amend the custodian agreement with the bank to comply with the NAIC Financial Condition Examiner's Handbook. Therefore, no recommendation will be made.

iv. Deferred Tax Assets – Compliance with SSAP No. 10

In its filed 2005 annual statement, the Company reported its Net deferred tax asset net of the not admitted portion of the asset on line 16.2 of the asset page and in note 9A of the Notes to Financial Statements. This reporting method is contrary to Paragraph 18 of SSAP No. 10, which states:

“The components of the net DTA or DTL recognized in a reporting entity's balance sheet shall be disclosed as follows:

- a) The total of all DTA (admitted and non-admitted);
- b) The total of all DTLs;
- c) The total DTAs nonadmitted as the result of the application of paragraph 10; and
- d) The net change during the year in the total DTAs nonadmitted.”

It is recommended that the Company comply with the disclosure requirements of paragraph 18 of SSAP No. 10 when preparing its annual statement.

v. Other Assets

On June 6, 2004, the Company acquired two investments, Northern Funding for \$275,000 and Northern Leasing for \$174,018, from its parent company, AEG. In 2004 and 2005, Northern Funding represented more than 5% of the Company's admitted assets. This transaction was not submitted to the Department for approval according to Section 1505(c) of the Insurance Law, which states in part:

“The superintendent's prior approval shall be required for the following transactions between a domestic controlled insurer and any person in its holding company system: sales, purchases, exchanges, loans or extensions of credit, or investments, involving five percent or more of the insurer's admitted assets at last year-end.”

It is recommended that the Company comply with Section 1505(c) of the New York Insurance Law and request the Superintendents' prior approval for transactions within the holding company system involving five percent or more of its admitted assets.

vi. Inter-company Transactions

The Company reported a liability under the caption “payable to parent, subsidiaries and affiliates” in its 2005 annual statement, consisting of printing and professional services paid on behalf of the Company by Rutgers Casualty Insurance Company in 2003 and 2004 in accordance with its filed service agreement. Section 3 of the service agreement states in part:

“Within 10 days after the end of the first quarter in which services are rendered, either party will present the other with itemized accounting showing the charges incurred by each for the services performed. Settlement between the parties shall be made within ten days after the delivery of such accounting...”

It is noted that the Company settled its inter-company balance in January 2006. Nevertheless, it is recommended that the Company comply with its filed service agreement and settle inter-company balances according to its terms.

H. Section 1307 Loan

In 1997, the Company issued a surplus note to its parent, AEG, 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 approved by the Department.

On December 28, 2004, the Department approved the repayment of the principal for the second surplus note in the amount of \$350,000 plus \$131,687.50 of interest.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2005 as determined by this examination and as reported by the Company:

Assets	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$1,203,845	\$0	\$1,203,845
Cash, cash equivalents and short-term investments	3,475,165	0	3,475,165
Other invested assets	329,017	0	329,017
Investment income due and accrued	9,491	0	9,491
Amounts recoverable from reinsurers	1,520	0	1,520
Net deferred tax asset	13,430	0	13,430
Receivables from parent, subsidiaries and affiliates	258,332	258,332	0
Health care and other amounts receivable	<u>79,201</u>	<u>79,201</u>	<u>0</u>
Total assets	<u>\$5,370,002</u>	<u>\$337,533</u>	<u>\$5,032,469</u>

Liabilities

Losses		\$ 995,704
Loss adjustment expenses		321,000
Other expenses (excluding taxes, licenses and fees)		4,750
Current federal and foreign income taxes		178,435
Payable to parent, subsidiaries and affiliates		7,569
Retroactive reinsurance ceded		<u>(37,959)</u>
Total liabilities		\$1,469,499

Surplus and Other Funds

Special surplus from retroactive reinsurance	\$ 37,959	
Common capital stock	1,000,000	
Surplus notes	1,700,000	
Gross paid in and contributed surplus	2,612,467	
Unassigned funds (surplus)	<u>(1,787,456)</u>	
Surplus as regards policyholders		<u>3,562,970</u>
Total liabilities, surplus and other funds		<u>\$5,032,469</u>

NOTE: The Internal Revenue Service has not audited the consolidated income tax returns filed on behalf of the Company through the examination date. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$871,283 during the five-year examination period January 1, 2001 through December 31, 2005, detailed as follows:

Statement of IncomeUnderwriting Income

Premiums earned		\$0
Deductions:		
Losses incurred	\$(5,797,358)	
Loss adjustment expenses incurred	1,039,540	
Other underwriting expenses incurred	<u>9,863</u>	
Total underwriting deductions		<u>(4,747,955)</u>
Net underwriting gain or (loss)		\$4,747,955

Investment Income

Net investment income earned	\$ 487,855	
Net investment gain or (loss)		487,855

Other Income

Retroactive reinsurance	\$(4,431,153)	
Gain on commutation of retro agreement	<u>900,542</u>	
Total other income		<u>(3,530,611)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$1,705,199
Federal and foreign income taxes incurred		<u>107,326</u>
Net Income		<u>\$1,597,873</u>

Capital and Surplus Accounts

Surplus as regards policyholders per report on examination as of December 31, 2000			\$2,691,686
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,597,873		
Change in net deferred income tax	13,430		
Change in nonadmitted assets		\$258,332	
Change in surplus notes		350,000	
Surplus note interest	<u> </u>	<u>131,688</u>	
Total gains and losses	<u>\$1,611,303</u>	<u>\$740,020</u>	
Net increase (decrease) in surplus			<u>871,283</u>
Surplus as regards policyholders per report on examination as of December 31, 2005			<u>\$3,562,969</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities of \$995,704 and \$321,000 for losses and loss adjustment expense reserves, respectively, are the same as reported by the Company as of December 31, 2005. 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.

5. MARKET CONDUCT ACTIVITIES

The Company has been in run-off since 1997 therefore, no market conduct review was performed during the examination.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained five recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u>	
i.	It is recommended that board members who are unwilling or unable to attend meetings consistently should be asked to resign or be replaced. The Company did not comply with this recommendation. A similar recommendation is made in this report for the third time.	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. The Company has complied with this recommendation.	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. The Company has complied with this recommendation.	6

<u>ITEM</u>	<u>PAGE NO.</u>
B. <u>Abandoned Property Law</u>	
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
The Company complied with this recommendation, however, it filed the abandoned property reports late and a recommendation to that respect is made in this report.	
C. <u>Custodial Agreement</u>	
It is recommended that the Company amend its custodian agreement to include the necessary safeguards and controls.	13
The Company has complied with this recommendation.	

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
ii. It is recommended that the Company comply with Article II, Section 2.01 of its by-laws and hold annual shareholder meetings to elect its board of directors.	5
iii. It is recommended that the Company authorize or approve its investment transactions in accordance with the provisions of Section 1411(a) of the New York Insurance.	5
B <u>Abandoned Property</u>	
It is recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.	11
C <u>Accounts and Records</u>	
i. It is recommended that the Company establish a reasonable dollar threshold, above which a second signature would be required for any cash or investment transaction.	11

<u>ITEM</u>		<u>PAGE NO.</u>
ii.	It is recommended that the Company amend its contract with its CPA to comply with the provisions of Section 307(b)(1) of the New York Insurance Law and Part 89.2 of Department Regulation 118.	11
iii.	It is recommended that the Company comply with the disclosure requirements of paragraph 18 of SSAP No. 10 when preparing its annual statement.	12
iv.	It is recommended that the Company comply with Section 1505(c) of the New York Insurance Law and request the Superintendent's prior approval for transactions within the holding company system involving five percent or more of its admitted assets.	13
v.	It is recommended that the Company comply with its filed service agreement and settle inter-company balances according to its terms.	13

Appointment No 22510



STATE OF NEW YORK
INSURANCE DEPARTMENT

I, HOWARD MILLS, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Maribel Nunez

as proper person to examine into the affairs of the

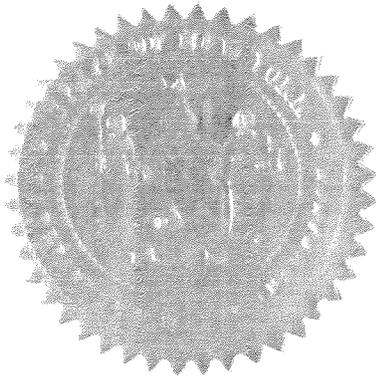
UNITED INTERNATIONAL INSURANCE COMPANY

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 June, 2006

HOWARD MILLS
Superintendent of Insurance