ANNUAL REPORT OF THE NEW YORK LIQUIDATION BUREAU

December 31, 2008 and 2007

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NEW YORK LIQUIDATION BUREAU

Statements of Cash Receipts and Disbursements – Cash Basis

For the Years Ended December 31, 2008 and 2007
With Report of Independent Auditors

AMPER, POLITZINER & MATTIA, LLP

Report of Independent Auditors

Superintendent of Insurance of the State of New York as Receiver
New York Liquidation Bureau

We have audited the statements of cash receipts and disbursements – cash basis of the Central Disbursement Account of the New York Liquidation Bureau for the years ended December 31, 2008 and 2007. This statement of cash receipts and disbursements – cash basis is the responsibility of the New York Liquidation Bureau's management. Our responsibility is to express an opinion on these statements of cash receipts and disbursements – cash basis based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the statements of cash receipts and disbursements – cash basis are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the New York Liquidation Bureau's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements of cash receipts and disbursements – cash basis, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note 1, these statements of cash receipts and disbursements – cash basis were prepared on the basis of cash accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audits, the statements of cash receipts and disbursements – cash basis of the Central Disbursement Account of the New York Liquidation Bureau present fairly, in all material respects, the cash receipts and disbursements for the years ended December 31, 2008 and 2007 in conformity with the basis of accounting as described in Note 1.

This report is intended solely for the information and is restricted to the use of the Superintendent of Insurance of the State of New York as Receiver who has jurisdiction over the New York Liquidation Bureau and management thereof and is not intended to be and should not be used by other than these specified parties.

Amper, Politziner & Mattia, LLP

July 28, 2010
New York, New York

NEW YORK LIQUIDATION BUREAU
Statements of Cash Receipts and Disbursements – Cash Basis
For the Years Ended December 31, 2008 and 2007

	2008	2007
Receipts:		
Investment Income Received	$ 120,765	$ 164,363
Reimbursement of Expenses	59,457,826	53,288,344
Reimbursement from Non-New York Liquidators	67,003,040	13,088,104
Other Receipts	995,343	1,131,424
Total Receipts	127,576,974	67,672,235
Disbursements:		
Early Access Distribution	70,733,770	9,382,153
Transfer to Restricted Assets	197,893	-
Loss Adjustment Expenses	443,750	219,552
Transfer to Security Funds	884,690	-
Taxes Paid	1,049,640	-
Advance to Payroll Account	943,294	-
Salaries	24,930,650	21,999,204
Employee Relations and Welfare	8,042,069	7,255,683
Rent and Related Expenses	6,016,195	6,017,727
Professional Fees	8,672,390	14,071,676
General and Administrative Expense	1,423,840	1,174,295
Other Disbursements	2,954,715	1,843,867
Total Disbursements	126,292,896	61,964,157
Net Receipts	1,284,078	5,708,078
Cash - Beginning of Year	6,331,288	623,210
Cash - End of Year	$ 7,615,366	$ 6,331,288

See accompanying notes to the Statements of Cash Receipts and Disbursements – Cash Basis. The Statements of Cash Receipts and Disbursements – Cash Basis and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein) and is not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use of or reliance upon the Statements of Cash Receipts and Disbursements – Cash Basis and accompanying notes.

NEW YORK LIQUIDATION BUREAU
Notes to Statements of Cash Receipts and Disbursements – Cash Basis
For the Years Ended December 31, 2008 and 2007

Note 1: Nature of Operations of the New York Liquidation Bureau and Summary of Significant Accounting Policies

A. Background

Pursuant to Section 7422 of the New York Insurance Law ("Insurance Law"), the Superintendent of Insurance of the State of New York ("Superintendent") in his capacity as receiver ("Receiver") may appoint a special deputy and assistant special deputy superintendents as his agents. The agents, along with division directors and senior managers of the New York Liquidation Bureau ("NYLB"), are collectively referred to herein as "Management." Management carries out, through the NYLB, the responsibilities of the Receiver with regard to each and every estate under the statutory supervision of the Receiver where the agents have been appointed as agents of the Receiver ("Estate"). The NYLB manages the daily operations of all Estates. The NYLB also performs certain aspects of the Superintendent's claims handling and payment functions in his role as administrator of the New York Property/Casualty Insurance Security Fund ("P/C Fund") and Public Motor Vehicle Liability Security Fund ("PMV Fund"), established pursuant to Insurance Law Article 76, and the Workers' Compensation Security Fund ("WC Fund"), established pursuant to New York Workers' Compensation Law Article 6-A. The P/C Fund, PMV Fund and WC Fund are each referred to herein as a "Security Fund" and are collectively referred to herein as the "Security Funds."

B. Basis of Presentation

The Statements of Cash Receipts and Disbursements – Cash Basis of the NYLB reflect the amounts deposited in and disbursements made from the central disbursement account ("CDA") for the years ended December 31, 2008 and 2007. The Statements of Cash Receipts and Disbursements – Cash Basis were prepared on the cash basis of accounting, which is a comprehensive basis of accounting that is different from generally accepted accounting principles in the United States of America ("US GAAP"). The cash basis of presentation differs from US GAAP in that revenues are recognized when received, rather than when earned, and expenses are recognized when paid, rather than when the obligation is incurred.

The CDA, managed by the NYLB, is a pooled cash account funded solely by cash advances from the Estates and/or Security Funds. The CDA has an overnight interest-bearing sweep facility, stated at cost, whereby idle funds are invested. The NYLB uses the money in the CDA to pay, on behalf of the Estates and Security Funds, administrative expenses such as salaries, payroll taxes, rent and related expenses, office expenses and employee relations and welfare (*e.g.*, contributions to employee health insurance, pension plans and other fringe benefits) ("Employee Relations and Welfare"). Reimbursement of such expenses is generally based on the amount of time NYLB employees devote to the respective Estates and Security Funds.

Note 1: Nature of Operations of the New York Liquidation Bureau and Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The NYLB does not itself own any assets but rather it holds and manages the assets of the Estates and Security Funds as a fiduciary in trust for the benefit of the creditors of the Estates.

The Estates' and the Security Funds' ownership interests in the cash within the CDA are apportioned through intercompany transactions among the NYLB, the Estates and Security Funds.

C. Cash

Cash is comprised solely of the money deposited in the CDA, which has an overnight interest-bearing sweep facility, stated at cost. The NYLB maintains a Repurchase Agreement Account ("RAA") that is linked to the CDA. The NYLB either draws funds from the RAA to cover checks and other debits (*e.g.*, wire transfers) or adds to the RAA if there is excess cash in the CDA. The RAA account is collateralized at 102 percent of the value of the invested cash. The CDA is maintained at one financial institution that is insured by the Federal Deposit Insurance Corporation ("FDIC"). The NYLB monitors balances of cash in excess of insured limits and Management believes, based on the information currently available, that such balances do not represent a material credit risk to the NYLB. As of December 31, 2008, FDIC-insured limits were $250,000. As of December 31, 2008, there were no cash balances in excess of the FDIC limit.

D. Receipts

Investment Income Received

Investment income received consists primarily of interest income earned by and received from the CDA account for the years ended December 31, 2008 and 2007.

Reimbursement of Expenses

Reimbursement of General & Administrative Expenses

The NYLB pays general and administrative expenses, such as salaries, payroll taxes, rent and related expenses, office expenses and Employee Relations and Welfare, on behalf of the Estates and Security Funds. Reimbursement of such expenses is generally based on the amount of time NYLB employees devote to the respective Estates and Security Funds.

Reimbursement of Loss Adjustment Expenses

The NYLB pays loss adjustment expenses ("LAE") on behalf of certain Estates. LAE are the expenses associated with adjusting and litigating a claim, excluding the payment for the loss itself. Such expenses are billed dollar-for-dollar to applicable Estates based on actual disbursement amounts recorded through the CDA. Each month's LAE is then reimbursed to the NYLB as appropriate by the respective Estate in a timely manner.

Note 1: Nature of Operations of the New York Liquidation Bureau and Summary of Significant Accounting Policies (continued)

D. Receipts (continued)

Reimbursement of Expenses (continued)

Reimbursement of Loss Adjustment Expenses (continued)

LAE on Security Fund covered claims is paid directly from the Security Funds' cash account maintained by the NYLB and is not paid from the CDA.

Reimbursement from Non-New York Liquidators

In connection with each ancillary receivership commenced in New York as a result of the commencement of a foreign (*i.e.*, non-New York) liquidation, the NYLB typically completes a financial information questionnaire on behalf of the Security Funds in order to qualify for receipt of a dividend or Early Access Distribution ("EAD") from the non-New York liquidator ("Non-New York Liquidator").

Other Receipts

The NYLB receives checks and wire transfers of funds on a daily basis from various sources. Certain receipts may require additional research in order to properly allocate such funds to the appropriate Estate or Security Fund. While Management determines the appropriate Estate or Security Fund, the funds are held and credited to a cash suspense account. For 2008, the largest component of Other Receipts consisted of recoveries from the Second Injury Fund.

E. Disbursements

Early Access Distribution

EAD is a special distribution from a Non-New York liquidator to a Security Fund pursuant to an agreement in order to permit the reimbursement of LAE and indemnification payments to the Security Fund for the handling and payment of claims on behalf of the Non-New York Liquidator. When the NYLB receives EAD monies from a Non-New York Liquidator, the NYLB reimburses the respective Security Fund.

Loss Adjustment Expenses

LAE on claims not covered by a Security Fund represent disbursements processed through the CDA for the expenses associated with adjusting and litigating a claim, excluding the payment for the loss itself.

Note 1: Nature of Operations of the New York Liquidation Bureau and Summary of Significant Accounting Policies (continued)

E. Disbursements (continued)

Transfer to the Security Funds

Prior to September 2006, the Commissioner of Taxation and Finance ("Commissioner") as custodian of the money in the Security Funds, advanced money to the NYLB for anticipated administrative expenses ("Advanced Funds"). The Advanced Funds were placed in the CDA. As of September 2006, the NYLB opened three separate bank accounts, one for each Security Fund. In order to fund such accounts, the NYLB transferred out of the CDA the amount equal to the Advanced Funds for each Security Fund.

Transfer to Restricted Assets

In March 2007, while closing the Medical Malpractice Insurance Association estate ("MMIA"), the NYLB transferred funds totaling $177,097 to the CDA as an advance for future obligations attributable to MMIA, such as employee benefits and post retirement benefit accruals. Additionally, in December 2008, the NYLB collected a recovery in the amount of $20,796 on behalf of Carriers Casualty, an estate closed at the request of the NYLB by the relevant court in January 1997. These amounts were subsequently transferred out of the CDA and restricted as earmarked for future obligations.

Taxes Paid

Taxes paid represent income taxes paid from the CDA by the NYLB on behalf of Massachusetts Mutual Life Assurance.

Advance to Payroll Account

Advance to payroll account represents money advanced to the payroll account from the CDA for contingencies as part of a disaster recovery plan.

Salaries and Employee Relations and Welfare

Salary and Employee Relations and Welfare expenses are paid from the CDA and subsequently allocated among the Estates and Security Funds based on the amount of time NYLB employees devote to the respective Estates and Security Funds.

The breakdown of Employee Relations and Welfare expenses is as follows:

	2008	2007
Pension Plan	$ 1,729,926	$ 1,558,324
Health Insurance	5,667,688	4,967,930
Employee Relations	289,546	370,083
Other	354,909	359,346
Total	$ 8,042,069	$ 7,255,683

Note 1: Nature of Operations of the New York Liquidation Bureau and Summary of Significant Accounting Policies (continued)

E. Disbursements (continued)

Rent and Related Expenses

The NYLB leases office space at 123 William Street, New York, New York 10038 ("Premises") and storage space at 168 39th Street, Brooklyn, New York 11232 ("Warehouse"). Such rent expense is allocated to the Estates and Security Funds.

The NYLB has leased the Premises since 1986. The NYLB's current lease for the Premises expires on March 31, 2011.

The NYLB has leased the Warehouse since 1986. The NYLB's current lease for the Warehouse expires on August 31, 2018, subject to the NYLB's right to exercise, prior thereto, its option to renew the lease for an additional term of five years.

In 2008 and 2007, the NYLB paid approximately $6.0 million and $6.0 million, respectively, in rent and related expenses for the Premises and Warehouse.

Professional Fees

The NYLB has paid fees for the following types of professional services: reinsurance collection services, accounting and auditing services, information technology services, actuarial services and legal services not involving defense of policyholders. These expenses were allocated among the Estates and/or Security Funds. Reimbursement of such expenses is generally based on the amount of time NYLB employees devote to the respective Estates and Security Funds. However, if professional fees are incurred which relate solely to a specific estate, that Estate is charged directly for such fees.

General and Administrative Expense

The NYLB paid general and administrative expenses the majority of which were paid for the procurement of information technology equipment, printing and stationery, telecommunication services, and expenses to maintain the Premises. Reimbursement of such expenses is generally based on the amount of time NYLB employees devote to the respective Estates and Security Funds.

Other Disbursements

Other Disbursements refers to expenses paid by the NYLB, the majority of which were for investment expenses, insurance, fees and assessments, sales and use taxes, business travel and other miscellaneous expenses. These expenses were allocated among the Estates and Security Funds. Reimbursement of such expenses is generally based on the amount of time NYLB employees devote to the respective Estates and Security Funds.

Note 1: Nature of Operations of the New York Liquidation Bureau and Summary of Significant Accounting Policies (continued)

E. Disbursements (continued)

Other Disbursements (continued)

	2008	2007
Investment Expenses	$ 1,653,161	$ 1,328,027
Insurance	477,014	254,465
Travel and Travel Related Items	87,191	93,978
Real Estate Taxes	28,940	-
Books and Reference Material	33,934	-
Refund of Medical Malpractice Insurance Association Prepaid Expenses	476,052	-
Fees and Assessments	102,000	130,942
Transfer of Pre -Liquidation Recoveries	-	15,761
Other	96,423	20,694
Total	$ 2,954,715	$ 1,843,867

Note 2: Employee Retirement

New York State and Local Employees' Retirement System – Defined Benefit Plan

The New York State and Local Employees' Retirement System ("Retirement System") offers a variety of plans and benefits and provides retirement benefits based on years of service and the average of an employee's highest three years' salary. Other benefits include: vesting of retirement benefits, death and disability benefits and optional methods of benefit payments. Participation all NYLB employees is mandatory and employees are required to contribute three percent of their salary annually until the employee achieves 10 years of membership. Funding consists of contributions from active employees, as well as payment by the employer of an annual invoice which is based on the total salaries that were paid to the Retirement System members in the NYLB's employ at the close of the previous New York State fiscal year.

New York State Deferred Compensation Plan – 457b

This is a voluntary retirement savings program funded entirely by employee contributions. Employees are eligible to contribute to this program as of their first day of employment with the NYLB. Through payroll deduction, participants may contribute from one percent to 25 percent of salary up to the specified annual maximum. Contributions are pre-tax for federal, state and local income tax purposes.

Note 3: <u>Federal and State Taxes</u>

The NYLB has no corporate form and no income or losses are generated by its operations. Accordingly, the NYLB is not subject to federal, New York State and local income taxes. However, the NYLB does pay for taxes on behalf of estates as discussed in Note 1.

Note 4: <u>Commitments</u>

<u>Lease Agreements</u>

The estimated minimum future lease payments under the NYLB's current lease agreements for the Premises and Warehouse are as follows ($ in millions):

<u>Office Premises</u>

In 2008 and 2007, the NYLB paid approximately $5.3 million and $5.3 million, respectively, in rent and related expenses for the Premises. The current lease for the Premises expires March 31, 2011 and the estimated minimum future lease payments are:

Office Premises	2009	2010	Jan-Mar 2011	Total
Rent	$4.7	$4.7	$1.2	$10.6
Real Estate Tax	0.3	0.3	0.1	0.7
Operating Expenses	0.4	0.5	0.1	1.0
Total	$5.4	$5.5	$1.4	$12.3

<u>Warehouse</u>

The NYLB paid approximately $700,000 in rent and related expenses for the Warehouse in both 2008 and 2007. In 2008, Management executed a new ten-year lease for the Warehouse. The estimated future minimum payments under the lease are:

Warehouse	2009 -2018	Total
Rent and Related Expenses	$8.5	$8.5

Note 5: Subsequent Events

Early Access Distributions

The NYLB has received the following EAD monies from Non-New York Liquidators, subsequent to December 31, 2008:

Covenant Mutual Insurance Company	$ 40,000
Credit General Insurance Company	$ 1,004,158
Far West Insurance Company	$ 88,735
Home Mutual Insurance Company	$ 2,851,898
Integrity Insurance Company	$ 9,918
Legion Insurance Company	$ 25,263,887
PHICO Insurance Company	$ 5,265,605
Reliance Insurance Company	$ 71,294,593
Security Indemnity Insurance Company	$ 1,926,729
Shelby Casualty Insurance Company	$ 1,765,330
Transit Casualty Insurance Company	$ 4,996,458
Villanova Insurance Company	$ 3,908,182
	$ 118,415,493

Changes in Composition of Estates Under NYLB Supervision

Effective March 1, 2009, oversight of the United Community Insurance Company liquidation proceeding was transferred to the NYLB. Such oversight includes day-to-day operations, claims handling, accounts payable and reinsurance processing as well as financial record-keeping.

Pursuant to an order of the Supreme Court of the State of New York (the "Court") entered April 2, 2009, the Medical Malpractice Insurance liquidation proceeding was terminated and closed.

Pursuant to an order of the Court entered July 7, 2009, Colonial Indemnity Insurance Company in Rehabilitation was placed into liquidation.

Pursuant to an order of the Court entered March 10, 2010, the rehabilitation proceeding of The Insurance Corporation of New York ("Inscorp") was terminated and Inscorp was placed into liquidation and the Superintendent (and his successors in office) was appointed Liquidator.

Pursuant to an order of the Court entered April 30, 2010, Professional Liability Insurance Company of America was placed into rehabilitation and the Superintendent (and his successors in office) was appointed Rehabilitator.

Pursuant to an order of the Court entered June 16, 2010, Titledge Insurance Company was placed into liquidation and the Superintendent (and his successors in office) was appointed Liquidator.

Note 5: Subsequent Events (continued)

Lease Agreement

In April 2010, the NYLB entered into a 15-year lease agreement for office space at 110 William Street, New York, New York.

THE DOMESTIC ESTATES IN LIQUIDATION MANAGED BY THE NEW YORK LIQUIDATION BUREAU

Combined Financial Statements – Modified Cash Basis of the Domestic Estates in Liquidation

For the Years Ended December 31, 2008 and 2007 With Report of Independent Auditors

THE DOMESTIC ESTATES IN LIQUIDATION MANAGED BY THE NEW YORK LIQUIDATION BUREAU

Combined Financial Statements – Modified Cash Basis of the Domestic Estates in Liquidation

For the Years Ended December 31, 2008 and 2007 With Report of Independent Auditors

Report of Independent Auditors

Superintendent of Insurance of the State of New York as Receiver
Combined Domestic Estates in Liquidation managed by the
New York Liquidation Bureau

We have audited the combined statements of assets, liabilities, and deficit of assets over liabilities – modified cash basis of the Combined Domestic Estates in Liquidation managed by the New York Liquidation Bureau as of December 31, 2008 and 2007, and the related combined statements of cash receipts and disbursements and changes in cash and invested assets – modified cash basis for the years ended December 31, 2008 and 2007 (collectively referred to as "Combined Financial Statements"). These Combined Financial Statements are the responsibility of the New York Liquidation Bureau's management. Our responsibility is to express an opinion on these Combined Financial Statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the Combined Financial Statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Combined Financial Statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note 2, these Combined Financial Statements were prepared on the basis of modified cash, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audits, the Combined Financial Statements referred to in the first paragraph above present fairly, in all material respects, the combined financial position of the Combined Domestic Estates in Liquidation managed by the New York Liquidation Bureau as of December 31, 2008 and 2007 and the related combined statements of cash receipts and disbursements and changes in cash and invested assets – modified cash basis for the years then ended in conformity with the basis of accounting as described in Note 2.

As discussed in Note 2 to the Combined Financial Statements, these combined financial statements were prepared on the modified cash basis of accounting. Given the nature of the liquidation process, until creditor claims are allowed, they are non-allowed and as such are preliminary estimates based on management's best estimate at the time. As a result management's estimate of these liabilities may change materially during the course of the liquidation at the point at which they become allowed. The Combined Financial Statements also do not reflect any provision for incurred but not reported claim reserves.

Our audits were conducted for the purpose of forming an opinion on the basic Combined Financial Statements taken as a whole. The accompanying supplemental combining information, as detailed in Appendix A and B, is presented for purposes of additional analysis and is not a required part of the basic Combined Financial Statements. Such supplemental combining information has been subjected to the auditing procedures applied in our audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic Combined Financial Statements taken as a whole.

This report is intended solely for the information and is restricted to the use of the Superintendent of Insurance of the State of New York as Receiver who has jurisdiction over the Combined Domestic Estates in Liquidation which are managed by the New York Liquidation Bureau and management thereof and is not intended to be and should not be used by other than these specified parties.

Amper, Politziner & Mattia, LLP

July 28, 2010
New York, New York

THE DOMESTIC ESTATES IN LIQUIDATION MANAGED BY
THE NEW YORK LIQUIDATION BUREAU
Combined Statements of Assets, Liabilities, and Deficit of Assets Over Liabilities – Modified Cash Basis
As of December 31,

	2008	2007
Combined Assets		
Unrestricted Assets:		
Cash and Cash Equivalents	$ 233,030,907	$ 126,634,946
Invested Assets		
Short-term Investments, at fair market value	658,849,915	497,556,287
Bonds, at fair market value	32,410,394	310,723,266
Total Invested Assets	691,260,309	808,279,553
Total Cash, Cash Equivalents and Invested Assets (Unrestricted)	**924,291,216**	**934,914,499**
Reinsurance Recoverables on Paid Losses and LAE	364,197,742	375,018,930
Less: Allowance for Uncollectible Reinsurance Recoverables	(300,707,970)	(305,998,383)
Net Reinsurance Recoverables on Paid Losses and LAE	63,489,772	69,020,547
Reinsurance Recoverables on Unpaid Losses and LAE	1,264,847,573	1,329,608,330
Less: Allowance for Uncollectible Reinsurance Recoverables	(899,272,802)	(918,532,063)
Net Reinsurance Recoverables on Unpaid Losses and LAE	365,574,771	411,076,267
Receivables from Others	17,779,298	23,008,466
Accrued Investment Income	3,672,694	9,434,746
Other Assets	4,550,117	4,492,244
Total Unrestricted Assets	**1,379,357,868**	**1,451,946,769**
Restricted Assets:		
Statutory Deposits in New York or Other States	13,048,511	13,750,895
Other Restricted Assets	21,483,995	18,545,626
Total Restricted Assets	34,532,506	**32,296,521**
Total Combined Assets	**$ 1,413,890,374**	**$ 1,484,243,290**

See accompanying notes to the Combined Estates Financial Statements (as defined herein). The Combined Estates Financial Statements and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein) and are not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use of or reliance upon the Combined Estates Financial Statements and accompanying notes.

THE DOMESTIC ESTATES IN LIQUIDATION MANAGED BY
THE NEW YORK LIQUIDATION BUREAU
Combined Statements of Assets, Liabilities, and Deficit of Assets Over Liabilities-
Modified Cash Basis
As of December 31,

	2008	2007
Combined Liabilities		
Secured Claims	$ 17,671,874	$ 14,441,266
Unsecured Claims:		
Class One - Administrative Claims	51,547,992	80,220,987
Class Two - Claims and Related Costs		
Allowed	1,992,922,318	1,971,750,503
Non-Allowed	1,898,920,320	2,138,050,432
Total Class Two – Claims and Related Costs	3,891,842,638	4,109,800,845
Class Three - Federal Government Claims	137,686	137,686
Class Four - Employee Claims	10,164	10,164
Class Five - State and Local Government Claims	11,061,537	10,959,465
Class Six - General Creditor Claims	586,244,117	561,553,476
Class Seven - Late Filed Claims	371,799,337	372,281,437
Class Eight - Section 1307 (Shareholder) Loans	4,121,260	60,001
Class Nine - Shareholder Claims	13,580,000	-
Total Combined Liabilities	**4,948,016,605**	**5,149,465,327**
Deficit of Combined Assets over Combined Liabilities	**(3,534,126,231)**	**(3,665,222,037)**
Total Combined Liabilities and Deficit of Combined Assets over Combined Liabilities	**$ 1,413,890,374**	**$ 1,484,243,290**

See accompanying notes to the Combined Estates Financial Statements (as defined herein). The Combined Estates Financial Statements and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein) and are not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use of or reliance upon the Combined Estates Financial Statements and accompanying notes.

THE DOMESTIC ESTATES IN LIQUIDATION MANAGED BY
THE NEW YORK LIQUIDATION BUREAU
Combined Statements of Cash Receipts and Disbursements and Changes in Cash and Invested Assets (Unrestricted) – Modified Cash Basis
For the Years Ended December 31,

	2008	2007
Receipts:		
Net Investment Income Received	$ 30,842,139	$ 41,426,100
Reinsurance Recovered	35,667,225	152,056,057
Premiums Collected	46,772	1,877,320
Salvage and Subrogation	358,773	546,826
Expense Reimbursement Received from Security Funds	1,628,591	5,273,221
Reimbursement from CDA	476,052	-
Partial Repayment of Workers' Compensation Security Fund Loan	-	6,048,842
Release from Statutory Deposits	-	143,149
Litigation Awards	2,565,273	-
Miscellaneous	349,933	1,021,035
Total Receipts	**71,934,758**	**208,392,550**
Disbursements:		
Transfer to Segregated Funds	2,565,273	-
Advance to the CDA	-	73,350
Dividends	61,630,261	61,086,504
New York Miscellaneous Special Revenue Fund	2,064,560	-
Transfer to Collateral Account	255,472	-
Escrow Account for Abandoned Property	-	102,315
Refund to New York Security Fund	-	21,216
Reimbursement of Allocated Expenses	27,763,653	23,645,923
Miscellaneous	27,265	-
Total Disbursements	**94,306,484**	**84,929,308**
Net (Decrease) Increase of Receipts Over Disbursements	**(22,371,726)**	**123,463,242**
Cash and Invested Assets (Unrestricted), Beginning of Year	**934,914,499**	**804,466, l13**
Opening Cash Balances New Estates	**9,573,542**	**-**
Unrealized Gain on Investments	2,174,901	6,985,144
Cash and Invested Assets (Unrestricted) End of Year	**$ 924,291,216**	**$ 934,914,499**

See accompanying notes to the Combined Estates Financial Statements (as defined herein). The Combined Estates Financial Statements and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein) and are not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use of or reliance upon the Combined Estates Financial Statements and accompanying notes.

Note 1: **Nature of Operations of the Combined Domestic Estates in Liquidation**

Background

Pursuant to Section 7422 of the New York Insurance Law ("Insurance Law"), the Superintendent of Insurance of the State of New York ("Superintendent") in his capacity as receiver ("Receiver") may appoint a special deputy and assistant special deputy superintendents as his agents. The agents, along with division directors and senior managers of the New York Liquidation Bureau ("NYLB"), are collectively referred to herein as "Management." Management carries out, through the NYLB, the responsibilities of the Receiver with regard to each and every estate under the statutory supervision of the Receiver where the agents have been appointed as agent of the Receiver ("Estate"). The NYLB manages the daily operations of all Estates.

The Combined Estates Financial Statements (as defined in Note 2) pertain to the financial statements for each domestic Estate in liquidation set forth below:

American Agents Insurance Company, American Consumer Insurance Company, American Fidelity Fire Insurance Company, Capital Mutual Insurance Company, Community Health Plan, Consolidated Mutual Insurance Company, Contractors Casualty and Surety Company, Cosmopolitan Mutual Insurance Company, First Central Insurance Company, Galaxy Insurance Company, Group Council Mutual Insurance Company, Health Partners of New York, LLC, Home Mutual Insurance Company of Binghamton, New York, Horizon Insurance Company, Horizon Healthcare of New York, Ideal Mutual Insurance Company, MDNY Healthcare, Inc, MML Assurance, Inc., MagnaHealth of New York, Inc., Medical Malpractice Insurance Association, Midland Insurance Company, Midland Property and Casualty Insurance Company, Nassau Insurance Company, New York Merchant Bakers Insurance Company, New York Surety Company, Realm National Insurance Company, Transtate Insurance Company, Union Indemnity Insurance Company of New York, U.S. Capital Insurance Company, and Whiting National Insurance Company.

The NYLB hereinafter refers to each of the foregoing domestic Estates in liquidation as a "Domestic Estate in Liquidation" and all of the Domestic Estates in Liquidation collectively, as the "Combined Domestic Estates in Liquidation."

The financial statements for the following estates are not included in the Combined Estates Financial Statements for the years ended December 31, 2008 and 2007: (i) Colonial Cooperative Insurance Company in Rehabilitation, Colonial Indemnity Insurance Company in Rehabilitation, Lion Insurance Company in Rehabilitation, Executive Life Insurance of New York in Rehabilitation Insurance, Frontier Insurance Company in Rehabilitation; and Professional Liability Insurance Company of America in Rehabilitation (collectively, "Domestic Estates in Rehabilitation"); (ii) Titledge Insurance Company in Liquidation and The Insurance Corporation of New York in Liquidation; (iii) fraternal associations; (iv) ancillary estates; (v) conservations; and (vi) eight shell companies placed into liquidation in 2010.

Note 1: <u>Nature of Operations of the Combined Domestic Estates in Liquidation (continued)</u>

<u>NYLB's Role with Respect to the Security Funds</u>

The NYLB performs certain aspects of the Superintendent's claims handling and payment functions in his role as administrator of the New York Property/Casualty Insurance Security Fund ("P/C Fund") and Public Motor Vehicle Liability Security Fund ("PMV Fund"), established pursuant to Insurance Law Article 76, and the Workers' Compensation Security Fund ("WC Fund"), established pursuant to New York Workers' Compensation Law ("Workers' Compensation Law") Article 6-A. The P/C Fund, PMV Fund and WC Fund are each referred to herein as a "Security Fund" and are collectively referred to herein as the "Security Funds."

Pursuant to statute, the Security Funds pay eligible claims remaining unpaid, in whole or in part, by reason of an authorized insurer's inability due to insolvency to meet its insurance obligations under certain insurance policies.

The P/C Fund, pursuant to Insurance Law Section 7602(a)(1)(B), is obligated to pay only certain specified insurance claims with respect to coverage of property or risks located or resident in New York. Pursuant to Insurance Law Section 7603(a)(2), claims that have been allowed by an appropriate receivership court are paid up to the policy limit but in no event greater than the statutory cap.

The PMV Fund, pursuant to Insurance Law Section 7604, is obligated "to pay allowed claims of injured parties and policyholders under insurance policies or surety bonds" that fall within the coverage contemplated by Vehicle and Traffic Law Section 370. The PMV Fund generally covers vehicles which travel over state roads and are for hire or are used to transport the sick or injured. Claims that have been allowed by the appropriate receivership court are paid up to the policy limit but in no event greater than the statutory cap.

Workers' Compensation Law Article 6-A provides that the purpose of the WC Fund is to assure that injured workers, whose employers are insured by insolvent carriers and who are entitled to compensation and benefits, receive such compensation and benefits.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation (continued)

NYLB's Role as with Respect to the Security Funds (continued)

Once a PMV Fund or P/C Fund eligible claim has been tried or settled, the NYLB is charged with: (i) preliminarily approving the payment amount; (ii) presenting the proposed payment to the appropriate receivership court; (iii) securing an order directing the payment; (iv) forwarding the order, with the directive to disburse funds, to the Commissioner of Taxation and Finance ("Commissioner"); and (v) upon receiving wire payment from the Commissioner, processing the funds, issuing a check from the Security Fund account, and forwarding same.

Unlike PMV Fund and P/C Fund eligible claims, workers' compensation claims are adjudicated by the Workers' Compensation Board, and the NYLB is bound by the decisions of this Board. Individual workers' compensation claims need not be allowed by the receivership court. Instead, the amounts paid on individual workers' compensation claims are allowed when the WC Fund's aggregate claim is allowed in the Receivership proceeding of a Domestic Estate in Liquidation.

Guaranty Funds

The guaranty funds of foreign states (*i.e.*, states other than New York) ("Guaranty Funds") pay the claims of insolvent insurance companies pursuant to their respective state laws.

PROFILES OF COMBINED DOMESTIC ESTATES IN LIQUIDATION

(1) American Agents Insurance Company

On July 11, 1996, American Agents Insurance Company ("American Agents") was incorporated under the laws of the State of New York and, as of August 3, 1997, was licensed to transact business as a property and casualty insurer. American Agents was owned by a sole shareholder, U.S. Agents Holding Corporation ("U.S. Agents"). American Agents was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 13 (Personal Injury Liability), 14 (Property Damage Liability) and 19 (Motor Vehicle and Aircraft Physical Damage). On December 4, 2000, U.S. Agents' board of directors adopted a resolution consenting to the commencement of a liquidation proceeding and to the entry of an order of liquidation against American Agents. A court order, entered on February 5, 2001, placed American Agents into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of American Agents.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(2) American Consumer Insurance Company

On October 2, 1946, the Eastern Casualty and Surety Company was incorporated under the laws of the State of New York and, on September 26, 1949, it adopted the name Eastern Casualty Company ("Eastern Casualty"). On March 15, 1950, Eastern Casualty was licensed to transact business in New York as an insurer. In 1956, Eastern Casualty was acquired by the American Casualty Company of Reading Pennsylvania. On December 16, 1959, ownership of Eastern Casualty was passed to the American Plan Corporation. In May 1960, Eastern Casualty's present name, American Consumer Insurance Company ("American Consumer"), was adopted. In 1963, American Fidelity Fire Insurance Company acquired American Consumer as a subsidiary. A court order, entered on March 26, 1986, placed American Consumer into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of American Consumer.

(3) American Fidelity Fire Insurance Company

On December 14, 1923, Lincoln Fire Insurance Company of New York ("Lincoln") was incorporated under the laws of the State of New York and, as of the same day, was licensed in New York as a stock casualty insurer. In 1943, Lincoln adopted the name American Fidelity Fire Insurance Company ("American Fidelity").

American Fidelity was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 16 (Fidelity and Surety), 19 (Motor Vehicle and Aircraft Physical Damage) and 20 (Marine and Inland Marine).

On November 1, 1963, American Plan Corporation of Woodbury, New York acquired approximately 90 percent of American Fidelity. A court order, entered on September 6, 1985 and amended on September 20, 1985, placed American Fidelity into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of American Fidelity.

Efforts to rehabilitate American Fidelity proved futile. A court order, entered on March 26, 1986, placed American Fidelity into liquidation and appointed the then -Superintendent (and his successors in office) liquidator of American Fidelity.

**Note 1: <u>Nature of Operations of the Combined Domestic Estates in Liquidation</u>
<u>Profiles of Combined Domestic Estates in Liquidation</u> (continued)**

(4) <u>Capital Mutual Insurance Company</u>

As of April 5, 1933, the Capital District Grange Cooperative Fire Insurance Company ("Capital Grange") was licensed to transact business in New York State. On January 1, 1982, Capital Grange was reorganized and incorporated under its present name, Capital Mutual Insurance Company ("Capital Mutual"). Capital Mutual became the successor to the Capital District Cooperative Insurance Company, a non-assessable cooperative insurance company, which had previously acquired, by merger, Clinton Cooperative Insurance Company of Wadhams, Argyle Cooperative Insurance Company, Schaghticoke Mutual Fire Insurance Company, Rennselaer County Mutual and Farmers Mutual Fire Insurance Association of the Town of Catskill.

Effective June 26, 1996, Capital Mutual converted from an advance premium cooperative insurer to a mutual insurer. At that time, Capital Mutual became affiliated with Niagara Atlantic Holdings Corporation, a New York subsidiary of National Atlantic Holdings Corporation of Freehold, New Jersey.

Capital Mutual was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine), 27 (Prize Indemnification), 28 (Service Contract Reimbursement) and 29 (Legal Services).

On April 17, 2000, Capital Mutual's board of directors adopted a resolution consenting to the commencement of a rehabilitation proceeding and to the entry of an order of rehabilitation against Capital Mutual. A court order, entered on June 7, 2000, placed Capital Mutual into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Capital Mutual.

The rehabilitation of Capital Mutual required a willing investor to invest sufficient capital in Capital Mutual to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in Capital Mutual. Accordingly, further efforts to rehabilitate Capital Mutual were futile. A court order, entered on October 5, 2000, placed Capital Mutual into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Capital Mutual.

Note 1: **Nature of Operations of the Combined Domestic Estates in Liquidation**
Profiles of Combined Domestic Estates in Liquidation (continued)

(5) Community Health Plan

Pursuant to Section 402 of the New York Not-for-Profit Corporation Law, Community Health Plan ("CHP") was incorporated under the laws of the State of New York on November 6, 1974 as Capital Area Community Health Plan, Inc. As of June 28, 1976, the New York State Insurance Department (the "Insurance Department") authorized CHP to solicit and enter into contracts with subscribers. On January 1, 1977, CHP became licensed by the Insurance Department to transact business as of December 9, 1976. On January 1, 1977, CHP received an operating certificate under Article 28 of the New York Public Health Law and commenced operations.

CHP was licensed and operated principally as a health maintenance organization ("HMO") in New York, Vermont and Massachusetts. Its insureds consisted of groups and individuals, including Medicare, Medicaid, and Child Health Plus memberships.

On January 11, 1995, a Certificate of Amendment was filed with the Secretary of State's office changing the company's name from Capital Area Community Health Plan, Inc. to Community Health Plan. On June 18, 1997, Kaiser Foundation Health Plan of New York, an HMO, was merged into CHP.

On July 26, 2005, CHP's board of directors unanimously consented to the entry of an order of liquidation pursuant to Insurance Law Article 74. A court order entered August 30, 2007, placed CHP into liquidation and appointed the then Superintendent of Insurance of the State of New York (and his successors in office) liquidator of CHP.

(6) Consolidated Mutual Insurance Company

On October 24, 1927, Consolidated Taxpayers Mutual Insurance Company ("Consolidated Taxpayers") was incorporated under the laws of the State of New York and, as of September 1, 1928, was licensed to transact business in New York as a mutual casualty insurer. On May 1, 1933, Consolidated Taxpayers merged with Williamsburg Taxpayers Mutual Insurance and Brooklyn Taxpayers Mutual. On May 9, 1952, Consolidated Taxpayers adopted the name Consolidated Mutual Insurance Company ("Consolidated Mutual"). A court order, entered May 31, 1979, placed Consolidated Mutual into liquidation and appointed the then Superintendent (and his successors in office) liquidator of Consolidated Mutual.

Note 1: **Nature of Operations of the Combined Domestic Estates in Liquidation**
Profiles of Combined Domestic Estates in Liquidation (continued)

(7) Contractors Casualty and Surety Company

On February 28, 1991, Contractors Casualty and Surety Company ("Contractors Casualty") was incorporated under the laws of the State of New York and, as of March 19, 1992, was licensed to transact business in New York as a stock casualty insurer. Contractors Casualty wrote performance and payment bonds for small and medium size contractors and ceased underwriting in early 1999. Contractors Casualty was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraph 16 (Fidelity and Surety).

On June 11, 1999, Contractors Casualty board of directors unanimously consented in writing to the commencement of a rehabilitation proceeding and to the entry of an order of rehabilitation against Contractors Casualty. A court order, entered on July 1, 1999, placed Contractors Casualty into rehabilitation and appointed the then -Superintendent (and his successors in office) rehabilitator of Contractors Casualty.

The rehabilitation of Contractors Casualty required a willing investor to invest sufficient capital in Contractors Casualty to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in Contractors Casualty. Further efforts to rehabilitate Contractors Casualty were futile. A court order, entered on October 4, 1999, placed Contractors Casualty into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Contractors Casualty.

(8) Cosmopolitan Mutual Insurance Company

On December 11, 1923, Butchers' Mutual Casualty Company of New York ("Butchers' Mutual") was incorporated under the laws of the State of New York and, as of April 19, 1924, was licensed to transact business in New York as a mutual casualty insurer. On January 21, 1947, Butchers' Mutual adopted the name Cosmopolitan Mutual Casualty Insurance Company ("CMCIC"). On January 1, 1956, Cosmopolitan Mutual Fire Insurance Company merged into CMCIC and CMCIC adopted its current name, Cosmopolitan Mutual Insurance Company ("Cosmopolitan").

Cosmopolitan was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine) and 21 (Marine Protection and Indemnity).

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(8) Cosmopolitan Mutual Insurance Company (continued)

On February 15, 1980, Cosmopolitan's board of directors adopted a resolution consenting to the commencement of a rehabilitation proceeding and to the entry of an order of rehabilitation against Cosmopolitan. A court order, entered on August 5, 1980, placed Cosmopolitan into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Cosmopolitan.

Efforts to rehabilitate Cosmopolitan proved futile. A court order, entered on October 24, 1980, placed Cosmopolitan into liquidation and appointed the then -Superintendent (and his successors in office) liquidator of Cosmopolitan.

(9) First Central Insurance Company

On November 30, 1978, Central State Insurance Company was incorporated under the laws of the State of New York and, as of May 22, 1979, was licensed to transact business in New York. Central State Insurance Company's certificate of incorporation was amended to reflect the change in its name to First Central Insurance Company ("First Central") on March 26, 1984.

All outstanding stock of First Central was owned by the First Central Financial Corporation ("FCFC"). FCFC was a publicly traded holding company that was engaged primarily in property and casualty insurance through its subsidiary, First Central.

First Central was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 19 (Motor Vehicle and Aircraft Physical Damage) and 20 (Marine and Inland Marine). First Central also offered specialty programs, including directors and officer's liability insurance for cooperatives and condominiums and alternative business owners policies. First Central ceased writing new business as of March 10, 1997.

On January 23, 1998, First Central's board of directors adopted a resolution consenting to the commencement of a rehabilitation proceeding against First Central. A court order, entered on January 28, 1998, placed First Central into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of First Central.

**Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)**

(9) First Central Insurance Company (continued)

The rehabilitation of First Central required a willing investor to invest sufficient capital in First Central to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in First Central. Further efforts to rehabilitate First Central were futile. A court order, entered on April 27, 1998, placed First Central into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of First Central.

(10) Galaxy Insurance Company

On September 3, 1980, Galaxy Reinsurance Company ("Galaxy Reinsurance") was incorporated under the laws of New York State and, as of November 28, 1980, was licensed to transact business in New York as a stock property/casualty insurer. Galaxy Reinsurance adopted the name Galaxy Insurance Company ("Galaxy") on February 17, 1987.

Galaxy was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine) and 21 (Marine Protection and Indemnity). Galaxy was authorized to write reinsurance in Maryland, Pennsylvania, West Virginia and Wyoming, but at the time of liquidation, 100 percent of premium was written in the State of New York.

As of December 16, 1986, all outstanding shares of Galaxy were held by Acceleration Life Insurance Company and Randjill Group Ltd. ("Randjill"), a New York based holding company that was formed as an investment vehicle for the purchase of Galaxy by a group of individual investors. Since July 30, 1991, 100 percent of Randjill's common stock was owned by ACCEL International Corporation, the owner of Acceleration Life Insurance Company.

Pursuant to Insurance Law Section 1310, the then-Superintendent found that Galaxy's required minimum surplus was impaired, and directed Galaxy to eliminate such impairment. Galaxy failed to comply with the then-Superintendent's directive and on September 30, 1994, Galaxy's board of directors adopted a resolution consenting to the commencement of a liquidation proceeding against Galaxy. A court order, entered on October 7, 1994, placed Galaxy into liquidation and appointed the then -Superintendent (and his successors in office) liquidator of Galaxy.

Note 1: **<u>Nature of Operations of the Combined Domestic Estates in Liquidation</u>**
<u>Profiles of Combined Domestic Estates in Liquidation</u> (continued)

(11) **<u>Group Council Mutual Insurance Company</u>**

On November 23, 1976, Group Council Mutual Insurance Company ("Group Council") was incorporated under the laws of the State of New York and, as of April 1, 1977, was licensed to transact business in New York. Group Council was a mutual property and casualty insurer that specialized in writing medical malpractice insurance. Underwriting practices were confined to medical professional liability for physicians and surgeons affiliated with the Health Insurance Plan of Greater New York. A limited number of general liability policies and surety bonds were also written. Medical malpractice policies were written at manual rates for policies up to $1 million per policy and $3 million in the aggregate.

Group Council was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 13 (Personal Injury Liability), 14 (Property Damage Liability) and 16 (Fidelity and Surety).

On January 18, 2002, Group Council's board of directors adopted a resolution consenting to the commencement of a liquidation proceeding and to the entry of a liquidation order against Group Council. A court order, entered on March 19, 2002, placed Group Council into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Group Council.

(12) **<u>Health Partners of New York, LLC</u>**

WSNCHS East Inc. d/b/a Broadlawn Health Partners d/b/a The Long Island Home ("The Home"), is a not-for-profit, tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. In September 2001, The Home entered into a contract with the New York State Department of Health (the "Health Department") to operate a managed long-term care plan ("Managed Care Plan") under Section 44403(f) of the New York Public Health Law ("Public Health Law").

In 2006, the Health Department directed The Home to create a new and separate entity to operate the Managed Care Plan. Accordingly, on October 26, 2006, Health Partners of New York, LLC ("HPNY") was formed as a single member limited liability company whose sole member was The Home. As of January 1, 2007, HPNY assumed the operations of the Managed Care Plan.

In August 2007, HPNY notified the Health Department that it was withdrawing from the Managed Care Program and, as of October 31, 2007, HPNY ceased operations of the Managed Care Plan. On June 19, 2008, the board of directors of The Home unanimously passed a resolution consenting to the entry of an order of liquidation pursuant to Article 74 of the New York Insurance Law. HPNY was placed into liquidation by order entered December 22, 2008, and the Superintendent (and his successors in office) was appointed liquidator of HPNY.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(13) Home Mutual Insurance Company of Binghamton, New York

On February 1, 1901, Home Mutual Insurance Company of Binghamton, New York ("Home Mutual") was incorporated under the laws of the State of New York as an advance premium cooperative fire insurance corporation and, as of April 1, 1994, was converted to a mutual property and casualty company. Home Mutual and New York Merchant Bakers Insurance Company ("Merchant Bakers") were subsidiary companies of Home State Holdings Inc., a Delaware corporation.

In January 1996, the Home State New York Pool ("Pool") was formed, which included Merchant Bakers and Home Mutual. The Pool called for all business to be pooled and combined losses and expenses to be pro-rated as follows: Merchant Bakers (85 percent) and Home Mutual (15 percent).

Home Mutual was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 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) and 20 (Marine and Inland Marine). Home Mutual bought reinsurance protection in the form of quota share and excess of loss treaties.

. On July 15, 1997, Home Mutual's board of directors adopted a resolution consenting to the commencement of a rehabilitation proceeding and to the entry of an order of rehabilitation against Home Mutual. A court order, entered on August 5, 1997, placed Home Mutual into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Home Mutual.

On September 4, 1997, the Superintendent as rehabilitator entered into a policy acquisition agreement with Eagle Insurance Company ("Eagle") whereby: (i) Eagle assumed all liabilities and expenses incurred after October 1, 1997 relating to all in-force Home Mutual policies; and (ii) Home Mutual remained liable for all of its obligations incurred prior to October 1, 1997.

The rehabilitation of Home Mutual required a willing investor to invest sufficient capital in Home Mutual to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in Home Mutual. Further efforts to rehabilitate Home Mutual were futile. A court order, entered on January 14, 1998, placed Home Mutual into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Home Mutual.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(14) Horizon Insurance Company

On June 28, 1971, Horizon Insurance Company ("Horizon") was incorporated under the laws of the State of New York and, as of the same day, was licensed to transact business in New York as a stock casualty insurer. On January 10, 1980, all of Horizon's outstanding capital stock was purchased by Ambassador Insurance Company, Inc., a Vermont-based casualty insurer ("Ambassador Insurance"), which was, in turn, owned by Ambassador Group, Inc., ("Ambassador Group"), a Delaware holding company based in North Bergen, New Jersey.

Horizon was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 19 (Motor Vehicle and Aircraft Physical Damage) and 20 (Marine and Inland Marine).

Horizon was established to provide an underwriting market for Ambassador Group because Ambassador Insurance was not licensed in New York. On December 29, 1980, Horizon entered into a full service agreement ("Service Agreement") with Ambassador Insurance whereby Ambassador Insurance was to furnish all administrative services and functions necessary to operate Horizon.

On November 10, 1983, Ambassador Insurance was placed into rehabilitation by a court of competent jurisdiction in the State of Vermont. As a result, Ambassador Insurance was unable to fulfill its obligations to Horizon pursuant to the Service Agreement. By October 1983, Horizon was insolvent in an amount in excess of $2,000,000. A court order, entered on December 7, 1983, placed Horizon into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Horizon.

A viable plan to repair Horizon's insolvency could not be presented to the court, and pursuant to an order entered November 29, 1984, Horizon was placed into liquidation and then-Superintendent (and his successors in office) was appointed liquidator of Horizon.

**Note 1: <u>Nature of Operations of the Combined Domestic Estates in Liquidation</u>
<u>Profiles of Combined Domestic Estates in Liquidation</u> (continued)**

(15) <u>Horizon Healthcare of New York, Inc.</u>

On February 4, 1998, Horizon Healthcare of New York, Inc. ("HHNY") was incorporated under the laws of the State of New York under the name Medigroup of New York, Inc. On June 20, 1998, a certificate of amendment to the company's articles of incorporation was filed changing the company's name to its present name. HHNY was a wholly owned subsidiary of Horizon Healthcare Plan Holding Company, Inc. ("Horizon Healthcare Plan"), which in turn was a wholly owned subsidiary of Horizon Healthcare Services, Inc. d/b/a Horizon Blue Cross Blue Shield of New Jersey ("HHS").

Pursuant to Article 44 of the New York State Public Health Law, the New York State Department of Health (the "Health Department") issued a certificate of authority to HHNY, with an effective date of December 31, 1999, authorizing it to operate as a health maintenance organization ("HMO") in Bronx, Kings, Nassau, New York, Orange, Queens, Richmond, Rockland, Suffolk and Westchester counties.

Despite an infusion of $10.6 million by HHS into HHNY from January 1, 1999 through March 31, 2005, HHNY never became profitable. Pursuant to a revised certificate of authority issued by the Health Department, HHNY was precluded from marketing to or enrolling new members, and its authority was limited to conducting close-out activities and payment of outstanding claims.

On April 13, 2005, HHNY's board of directors unanimously passed a resolution consenting to the entry of an order of liquidation pursuant to Article 74 of the New York Insurance Law.

On April 17, 2008, pursuant to a court order, HHNY was placed into liquidation and the Superintendent of Insurance of the State of New York (and his successors in office) was appointed liquidator of HHNY.

(16) <u>Ideal Mutual Insurance Company</u>

On November 17, 1944, Ideal Mutual Insurance Company ("Ideal") was incorporated under the laws of the State of New York and, as of December 28, 1944, was licensed to transact business in New York as a mutual casualty insurer.

Ideal was licensed to transact the kinds of business specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine) and 21 (Marine Protection and Indemnity).

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(16) Ideal Mutual Insurance Company (continued)

On December 21, 1984, Ideal's board of directors consented to an order of rehabilitation against Ideal. A court order, entered on December 26, 1984, placed Ideal into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Ideal.

Ideal's rehabilitation required an infusion of capital into Ideal to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in Ideal. Further efforts to rehabilitate Ideal were futile. A court order, entered on February 7, 1985, placed Ideal into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Ideal.

(17) MagnaHealth of New York, Inc.

On May 15, 1995, MagnaHealth of New York, Inc. ("MagnaHealth") was incorporated under the laws of the State of New York and, as of April 4, 1996, the New York State Department of Health ("Department of Health") authorized MagnaHealth to operate as a health maintenance organization ("HMO") pursuant to Article 44 of the New York Public Health Law. MagnaHealth was at the time a for-profit corporation owned by five individual shareholders.

On February 21, 2002, MagnaHealth's board of directors adopted a resolution consenting to the commencement of a liquidation proceeding and to the entry of an order of liquidation against MagnaHealth. Effective May 1, 2004, the Department of Health revised MagnaHealth's certificate of authority, limiting MagnaHealth's operations to those activities necessary to honor remaining liabilities and to close out activities. Notices were sent to subscribers terminating both coverage and participating provider agreements as of May 1, 2004.

The New York State Department of Insurance ("Insurance Department") determined that the HMO should be placed into liquidation in order to resolve any outstanding issues. A court order, entered on August 24, 2005, placed MagnaHealth into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of MagnaHealth.

(18) MDNY Healthcare, Inc.

MDNY Healthcare, Inc. ("MDNY") was originally incorporated under the laws of the State of New York on June 21, 1995, under the name MDLI Healthcare, Inc. ("MDLI"). On October 12, 1995, a certificate of amendment to its articles of incorporation was filed, changing MDLI's name to MDNY Healthcare, Inc. MDNY was licensed to operate as a health maintenance organization ("HMO") in Nassau and Suffolk counties pursuant to the provisions of Article 44 of the New York Public Health Law. On November 1, 1995, the New York State Insurance Department (the

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(18) MDNY Healthcare, Inc. (continued)

"Insurance Department") granted a conditional certificate of authority to MDNY, which commenced operations as an HMO on January 1, 1996. In November 1996, MDNY received approval from the United States Department of Health and Human Services' Health Care Finance Administration ("HCFA"), effective as of February 1, 1997, to enroll Medicare-eligible members.

On September 14, 1998, MDNY received approval from the New York State Department of Health (the "Health Department"), effective as of January 1, 1999, to expand its service areas to include Erie and Niagara counties. MDNY subsequently requested and received approval from the Health Department to withdraw its marketing and enrollment services from Erie and Niagara counties as of April 1, 2000. In October 2000, MDNY was also granted approval from HCFA to terminate its enrollment of Medicare-eligible members.

On June 27, 2008, MDNY's board of directors unanimously passed a resolution consenting to the entry of an order of liquidation pursuant to Article 74 of the New York Insurance Law.

A court order entered July 31, 2008, placed MDNY into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of MDNY.

(19) Medical Malpractice Insurance Association

Medical Malpractice Insurance Association ("MMIA") was a non-profit unincorporated association of insurers engaged in writing personal injury liability insurance in New York. MMIA was created in 1975 by legislative act to provide a market for medical malpractice insurance at a time when the availability of such coverage was severely limited. The enactment authorized MMIA for six years. The New York State Legislature subsequently extended this authority on a periodic basis. In 1999, the Legislature enacted a statute (L. 1999, Ch. 407, Part JJ, hereinafter, "MMIA Dissolution Statute") providing for the dissolution of MMIA by August 31, 2000. MMIA was replaced by the New York Medical Malpractice Insurance Plan ("MMI Plan"), an assigned risk plan, that was intended to begin writing policies on July 1, 2000.

Members of the MMI Plan, as an alternative to receiving direct assignments of medical malpractice policies under the MMI Plan, established the Medical Malpractice Insurance Pool ("MMI Pool"), which held each participating insurer liable for each MMI Pool risk in an amount proportional to the premiums that the participating insurer writes in the medical malpractice insurance market.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(19) Medical Malpractice Insurance Association, Inc. (continued)

By legislative act effective July 11, 2000, the MMIA Dissolution Statute was amended to provide for MMIA's dissolution when the then-Superintendent deemed it proper, instead of August 31, 2000. On July 14, 2000, MMIA and Medical Liability Malpractice Insurance Company ("MLMIC"), entered into an agreement, whereby MLMIC assumed all of MMIA's liabilities, with no cap, for a sum certain. Effective June 30, 2000, MMIA ceased writing policies. A court order, entered on May 14, 2001, placed MMIA into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of MMIA.

Pursuant to a court order issued in 2006, the Liquidator was authorized: (i) to the extent assets are available, pay all MMIA's administrative costs and expenses, (ii) to the extent assets are available, make a distribution, consistent with Insurance Law Article 74, to MMIA's creditors with allowed claims, including interest and (iii) after the payment of all administrative expenses and allowed claims, to transfer all of MMIA's remaining assets to the Miscellaneous Special Revenue Fund, the New York State fund authorized pursuant to New York State Finance Law Section 71, to receive the proceeds of special sources that are specifically restricted by law from being deposited in the general funds of the State.

Pursuant to an order of the Court entered April 12, 2009, the MMIA liquidation proceeding was terminated.

(20) Midland Insurance Company

On October 29, 1959, Midland Insurance Company ("Midland") was incorporated under the laws of the State of New York and, as of December 31, 1959, Midland was licensed to transact business in New York as a stock casualty insurer.

Midland was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 11 (Animal), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 17 (Credit), 18 (Title), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine) and 21 (Marine Protection and Indemnity). Midland wrote a substantial amount of excess coverage for major Fortune 500 companies. Midland was also a reinsurer.

On March 31, 1986, Midland's board of directors adopted a resolution consenting to the commencement of a liquidation proceeding and to the entry of an order of liquidation against Midland. A court order, entered on April 3, 1986, placed Midland

**Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)**

(20) Midland Insurance Company (continued)

into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Midland.

It is the current intention of Management to submit in 2009 to the court supervising the Midland liquidation proceeding (the "Midland Supervising Court") a proposed transaction for Midland, as discussed in further detail in Note 12 herein.

(21) Midland Property and Casualty Insurance Company

Reserve Insurance Company of New York ("Reserve") was incorporated on December 19, 1973 under the laws of the State of New York and was licensed to transact business in New York as a stock casualty insurer as of April 1, 1974. On January 29, 1981, Midland purchased all the outstanding capital stock of Reserve from the Market Insurance Company and changed Reserve's name to Midland Property and Casualty Insurance Company ("MIDPAC").

MIDPAC was authorized to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 11 (Animal), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 17 (Credit), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine) and 21 (Marine Protection and Indemnity).

Because MIDPAC's parent company, Midland, was placed into liquidation on April 3, 1986, the NYLB took control of the daily operations of its wholly-owned subsidiary, MIDPAC. As of that date MIDPAC ceased writing new business and restricted its underwriting acceptances almost exclusively to the handling of excess and surplus lines of business.

Despite being solvent, on March 2, 1990, MIDPAC's board of directors consented to the entry of an order of liquidation. On June 1, 1990, MIDPAC was placed into liquidation by court order, which appointed the then-Superintendent (and his successors in office) liquidator of MIDPAC. Due to MIDPAC's solvency, none of the New York security funds or guaranty funds were triggered. Accordingly, all claims and expenses within MIDPAC's liquidation proceeding must be paid from MIDPAC's assets.

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(22) MML Assurance, Inc.

On November 29, 2004, MML Assurance, Inc. ("MMLA") was incorporated under the laws of the State of New York and, as of August 4, 2005, was licensed to transact business in New York. MMLA was a wholly-owned subsidiary of MMLA Financial LLC, a Delaware company wholly-owned by Mass Mutual Holding LLC ("MMH"). Massachusetts Mutual Life Insurance Company is the parent company of MMH.

MMLA was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 16 (Fidelity and Surety), 17 (Credit) and 25 (Financial Guaranty).

On May 24, 2006, MMLA's board of directors unanimously consented in writing to a stock redemption plan ("Plan") for the purchase and cancellation of certain common shares of MMLA's capital stock. Pursuant to the board's action, on August 10, 2006, MLA's board of directors formally notified the Superintendent that MMLA no longer intended to pursue the financial guaranty business and consented to the commencement of a liquidation proceeding and to the entry of an order of liquidation against MMLA. A court order, entered on December 22, 2006, placed MMLA into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of MMLA.

(23) Nassau Insurance Company

On December 2, 1964, Nassau Insurance Company ("Nassau") was incorporated under the laws of the State of New York and, as of May 5, 1965, was authorized to transact business in New York as a stock casualty insurer.

Nassau was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability) and 20 (Marine but not Inland Marine).

On March 5, 1984, Nassau was placed into rehabilitation and the then-Superintendent (and his successors in office) was appointed rehabilitator of Nassau. Efforts to rehabilitate Nassau proved futile. A court order, enterd on June 22, 1984, placed Nassau into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Nassau.

(24) New York Merchant Bakers Insurance Company

On June 6, 1932, New York Merchant Bakers Insurance Company ("Merchant Bakers") was incorporated under the laws of the State of New York and, as of May 4, 1933, was licensed to transact business in New York as a mutual property/casualty insurer. It was authorized to convert to a stock property/casualty insurer on January

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
Profiles of Combined Domestic Estates in Liquidation (continued)

(24) New York Merchant Bakers Insurance Company (continued)

31, 1995. Merchant Bakers and Home Mutual were subsidiary companies of Home State Holding Inc., a Delaware corporation.

Merchant Bakers was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 10 (Elevator), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 19 (Motor Vehicle and Aircraft Physical Damage) and 20 (Marine and Inland Marine).

On July 14, 1997, Merchant Bakers' board of directors adopted a resolution consenting to the commencement of a rehabilitation proceeding and to the entry of an order of rehabilitation against Merchant Bakers. A court order, entered on August 5, 1997, placed Merchant Bakers into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Merchant Bakers.

In October 1997, the Superintendent as rehabilitator entered into a policy acquisition agreement ("Policy Acquisition Agreement") with Eagle, whereby Eagle assumed all liability for claims and expenses relating to all in-force Merchant Bakers private passenger business incurred after October 1, 1997. The Policy Acquisition Agreement did not include the commercial automobile policies, which were canceled as of October 1997 and for which Merchant Bakers remained liable.

The rehabilitation of Merchant Bakers required a willing investor to invest sufficient capital in Merchant Bakers to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in Merchant Bakers with respect to the commercial automobile policies. Further efforts to rehabilitate Merchant Bakers were futile. A court order, entered on January 26, 1998, placed Merchant Bakers into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Merchant Bakers.

(25) New York Surety Company

On June 9, 1983, New York Surety Company ("NY Surety") was incorporated under the laws of the State of New York and, as of March 6 1984, was licensed to transact business in New York. On March 20, 1998, NY Surety voluntarily ceased writing new business. A court order, entered on June 24, 1998, placed NY Surety into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of NY Surety.

The rehabilitation of NY Surety required a willing investor to invest sufficient capital into NY Surety to eliminate its insolvency and meet minimum surplus requirements.

Profiles of Combined Domestic Estates in Liquidation (continued)

(25) New York Surety Company (continued)

No person or entity was willing to make the required investment in NY Surety. Accordingly, further efforts to rehabilitate NY Surety were futile. A court order,entered on September 21, 1998, placed NY Surety into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of NY Surety.

(26) Realm National Insurance Company

On March 12, 1892, Realm National Insurance Company ("Realm") was incorporated under the laws of the State of New York under the name Lloyd's, New York and, as of the same day, was licensed to transact business as an insurer. On July 1, 1992, Realm was converted to a stock company and changed its name to Lloyd's New York Insurance Company. On September 5, 1996, Stirling Cooke North American Holdings, Ltd. ("Stirling Cooke"), a Delaware corporation, purchased 100 percent of Realm's capital stock and, on September 26, 1996, the name Realm National Insurance Company was adopted. Stirling Cooke, is wholly-owned by AlphaStar Insurance Group Ltd. (Bermuda), which filed for bankruptcy protection under Chapter 11, Title 11 of the United States Code on December 15, 2003.

Realm was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 11 (Animal), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 17 (Credit), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine), 21 (Marine Protection and Indemnity) and 24 (Credit Unemployment).

On June 8, 2005, Realm's board of directors adopted a resolution consenting to the commencement of a liquidation proceeding and to the entry of an order of liquidation against Realm. A court order, entered June 15, 2005, placed Realm into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Realm.

(27) Transtate Insurance Company

On March 15, 1989, Transtate Insurance Company ("Transtate") was incorporated under the laws of the State of New York and, as of March 2, 1990, was licensed to commence business in New York as an insurer.

Transtate was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers'

Profiles of Combined Domestic Estates in Liquidation (continued)

(27) Transtate Insurance Company (continued)

Liability), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine) and 21 (Marine Protection and Indemnity). Transtate did not maintain minimum capital or surplus and failed to comply with the then-Superintendent's directive to eliminate its capital impairment and insolvency.

Transtate entered into a stipulation wherein Transtate consented to the commencement of a rehabilitation proceeding and to the entry of an order of rehabilitation against Transtate. A court order, entered on December 17, 1997, placed Transtate into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Transtate.

The rehabilitation of Transtate required a willing investor to invest sufficient capital in Transtate to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in Transtate. Further efforts to rehabilitate Transtate were futile. A court order, entered on July 9, 1998, placed Transtate into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Transtate.

(28) Union Indemnity Insurance Company of New York

On October 20, 1975, Union Indemnity Insurance Company ("Union") was incorporated under the laws of the State of New York and, as of the same day, was licensed to transact business as a stock casualty insurer. Union was a wholly-owned subsidiary of Frank B. Hall & Co., Inc. ("F.B. Hall").

Union was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 11 (Animal), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 17 (Credit), 19 (Motor Vehicle and Aircraft Physical Damage) and 20 (Marine and Inland Marine).

Union did not maintain minimum capital or surplus and failed to comply with the Superintendent's directive to eliminate its capital impairment and insolvency. A court order, entered on July 16, 1985, placed Union into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Union.

(29) U.S. Capital Insurance Company

On January 11, 1985, the Multiplus Insurance Company ("Multiplus") was incorporated under the laws of the State of New York and, as of March 1, 1987, was licensed to commence business in New York as a stock casualty insurer. Effective

Profiles of Combined Domestic Estates in Liquidation (continued)

(29) U.S. Capital Insurance Company May 25, 1989, Multiplus changed its name to United Capital Insurance Company and, on June 14, 1989, the current name, U.S. Capital Insurance Company ("U.S. Capital"), was adopted. U.S. Capital was licensed to transact the kinds of insurancespecified in Insurance Law Section 1113(a) paragraphs 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 12 (Collision), 13 (Personal Injury l Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 19 (Motor Vehicle and Aircraft Physical Damage)and 20 (Marine and Inland Marine).

U.S. Capital ceased underwriting in April 1996. On July 22, 1997, the executive committee of U.S. Capital's board of directors adopted a resolution consenting to the commencement of a rehabilitation proceeding and to the entry of an order of rehabilitation against U.S. Capital. A court order, entered on August 22, 1997, placed U.S. Capital into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of U.S. Capital.

The rehabilitation of U.S. Capital required a willing investor to invest sufficient capital in U.S. Capital to eliminate its insolvency and meet minimum surplus requirements. No person or entity was willing to make the required investment in U.S. Capital. Further efforts to rehabilitate U.S. Capital were futile. A court order, entered on November 20, 1997, placed U.S. Capital into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of U.S. Capital.

(30) Whiting National Insurance Company

On September 4, 1969, Whiting National Insurance Company ("Whiting") was incorporated under the laws of the State of New York to serve as the corporate vehicle in the domestication of the U.S. Branch of the Maritime Insurance Company, Limited and, as of October 1, 1969, Whiting was licensed to transact business in New York as a stock casualty insurer. Whiting was a wholly-owned subsidiary of Poe & Associates, Inc.

Whiting was licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraphs 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 11 (Animal), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 16 (Fidelity and Surety), 18 (Title), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine), 21 (Marine Protection and Indemnity), 22 (Residual Value), 23 (Mortgage Guaranty) and 24 (Credit Unemployment).

On October 28, 1988, Whiting's board of directors adopted a resolution consenting to the commencement of a liquidation proceeding and to the entry of an order of

Profiles of Combined Domestic Estates in Liquidation (continued)

(30) Whiting National Insurance Company (continued)

liquidation against Whiting. A court order, entered on November 21, 1988, placed Whiting into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Whiting.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

The Combined Statements of Assets, Liabilities, and Deficit of Assets Over Liabilities – Modified Cash Basis and Combined Statements of Cash Receipts and Disbursements and Changes in Cash and Invested Assets – Modified Cash Basis (collectively, "Combined Estates Financial Statements") reflect the financial position and cash receipts and disbursements of the Combined Domestic Estates in Liquidation. The Combined Estates Financial Statements have been prepared on the modified cash basis, which is a comprehensive basis of accounting different from generally accepted accounting principles in the United States of America ("US GAAP"). This modified cash basis of presentation differs from US GAAP in that revenues are recognized when received, rather than when earned, and certain expenses are recognized when paid, rather than when the obligation is incurred. This modified cash basis presentation is cash basis accounting that incorporates the following accruals: (i) investment income earned but not yet received; (ii) earned unused vacation benefits; (iii) post-retirement medical benefits; (iv) unpaid claims and related expenses; (v) reinsurance; and (vi) unrealized gains and losses on investments.

The Combined Estates Financial Statements do not include incurred but not reported ("IBNR") reserves.

The following supplemental schedules are attached hereto as:

- Appendix A: December 31, 2008: The Domestic Estates in Liquidation Managed by the New York Liquidation Bureau Schedule of Combined Estates Assets, Liabilities and Accumulated Surplus (Deficit) of Assets Over Liabilities, and Cash Receipts and Disbursements and Changes in Cash and Invested Assets – Modified Cash Basis ("2008 Supplemental Combining Schedules"); and

- Appendix B: December 31, 2007: The Domestic Estates in Liquidation Managed by the New York Liquidation Bureau Schedule of Combined Estates Assets, Liabilities and Accumulated Surplus (Deficit) of Assets Over Liabilities, and Cash Receipts and Disbursements and Changes in Cash and Invested Assets – Modififed Cash Basis ("2007 Supplemental Combining Schedules").

Note 2: Summary of Significant Accounting Policies

Basis of Presentation (continued)
The 2008 and 2007 Supplemental Combining Schedules both include cash transactions, the accruals noted above, case reserves and paid liabilities.

In the beginning of a liquidation proceeding, the liabilities are typically preliminary estimates that may change materially during the course of the liquidation, depending on the types of business that were written by the insurance company and the complexity of the insurance company's activities and organization.

Use of Estimates
Preparation of the Combined Estates Financial Statements requires Management to make estimates and assumptions that may affect the amounts reported herein and related accompanying notes. When these amounts are ultimately determined (*i.e.*, no longer require the use of estimates and assumptions to be calculated), the determined amounts may differ significantly from the amounts reported herein.

Cash and Cash Equivalents
Cash and cash equivalents are presented at cost, which approximates fair market value, and include cash and investments held at several financial institutions.

The NYLB maintains the cash balances of the Combined Domestic Estates in Liquidation at several financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC"). Management monitors balances of cash in excess of insured limits and believes, based on the information currently available to it, that such balances do not represent a material credit risk to the Combined Domestic Estates in Liquidation. As of December 31, 2008, when FDIC-insured limits were $250,000, balances in excess of the FDIC-insured limits were approximately $374,380.

Invested Assets
Short-term investments are stated at fair market value and include securities that mature within one year from the date of acquisition or may be subject to demand features. These investments include money market funds and other highly liquid investments with remaining maturities of one year or less.

Bonds include long-term U.S. treasury and agency securities that are generally held until maturity. These investments are recorded at estimated fair market value based on quoted market prices. The unrealized gains or losses on these securities are recorded in the Combined Estates Financial Statements.

Accrued investment income includes revenue from the investment portfolio that is earned but not yet received and is reported as Accrued Investment Income in the Combined Statement of Assets, Liabilities and Deficit of Assets Over Liabilities-Modified Cash Basis. The change in accrued investment income is recorded in the Deficit of Combined Assets over Combined Liabilities.

Basis of Presentation (continued)
Invested Assets (continued)
Investment income received includes interest income received from cash deposits, interest on bonds and short-term investments, dividends, realized gains/losses on sale of investments and the amortization of bond premium and discount.

Realized gains and losses on investments sold are computed using the specific identification method, wherein gains and losses are recognized as of the trade date and included in proceeds from investments.

For each reporting period (annual and interim periods), Management reviews investments with unrealized losses on a security-by-security basis and assesses whether such declines are other-than-temporary. In assessing whether a decline is other-than-temporary, Management considers various factors including, but not limited to: (i) the rating of the security available from external sources; (ii) the issuer's record of default, if any, on scheduled interest and/or principle payments; (iii) an analysis of the security's market value (*e.g.*, amount, duration and significance of the decline); (iv) Management's intent and ability to hold the investment until recovery; (v) the market conditions during which the decline has occurred; (vi) an economic analysis of the issuer's industry; and (vii) the financial strength and liquidity of the issuer. Once a determination has been made that a specific other-than-temporary impairment exists, a decrease in surplus is incurred and an allowance is recorded in a valuation account against the cost basis of the impaired asset and adjusted to its fair market value. The cost basis is not adjusted directly but rather through this valuation account.

Reinsurance
Reinsurance recoverables on paid or allowed losses and loss adjustment expenses ("LAE") are reported as an asset when billed to reinsurers.

Reinsurance recoverables on unpaid and non-allowed losses and LAE case reserves are reported as an asset when the reserve is set. These unpaid losses and LAE case reserves reflect Management's best estimate, and as such, the related reinsurance recoverables on these unpaid loss and LAE reserves are subject to adjustment.

Retroactive reinsurance agreements and loss portfolio transactions (if any), including subsequent development, are accounted for and recorded as prospective reinsurance.

Commutations are recorded upon transaction settlement, which discharges present and future obligations between the parties arising out of the reinsurance agreement.

Reinsurance is ceded to permit the recovery of a portion of the direct incurred losses and LAE from the reinsurer. However, such a transfer does not relieve the individual estate of its obligation should the reinsurer not honor its commitments.

Note 2: **Summary of Significant Accounting Policies (continued)**
Basis of Presentation (continued)
Receivables from Others

Receivables from Others include: (i) net balances receivable from affiliates of Merchant Bakers and Cosmopolitan; (ii) cash deposited with the central disbursement account ("CDA") for administrative expenses; and (iii) expense reimbursements receivable from the Security Funds. As of December 31, 2008 and 2007, the receivables from others are as follows:

	2008	2007
Receivable From Affiliates of Merchant Bakers/Cosmopolitan	$ 690,120	$ 690,120
Cash on Deposit with CDA	15,941,000	15,941,000
Security Fund Expense Reimbursements Receivables	1,148,178	6,377,346
Total	$ 17,779,298	$ 23,008,466

The CDA is discussed in further detail in Note 6 below.

Other Assets

As of December 31, 2008 and 2007, the components of other assets held by certain Domestic Estates in Liquidation are as follows:

	2008	2007
Real Estate	$ 2,485,000	$ 2,890,000
Other Assets	2,065,117	1,602,244
Total	$ 4,550,1174,550,117	$ 4,492,244

Restricted Assets

Statutory Deposits in New York or Other States: Statutory deposits in New York or other states are held by various state regulatory authorities in compliance with the insurance laws of the respective states. In 2008 and 2007, such deposits were recorded at fair market value and amortized cost, respectively.

The sale of securities may be restricted pursuant to insolvency deposit requirements in states where one or more of the Combined Domestic Estates in Liquidation previously conducted business. Due to their restrictive nature, these investments are classified as restricted assets and recorded at fair market value without regard to contractual maturity.

Other Restricted Assets

Security Fund Cash:

Security Fund Cash consists of dedicated monies received from the Security Funds solely to pay specific policy-related claims and expenses.

Note 2: Summary of Significant Accounting Policies (continued)
Basis of Presentation (continued)
Restricted Assets (continued)
Other Restricted Assets (continued)

Funds Held for Secured Claims

These funds are held for claims secured by letter of credit ("LOC") or other collateral securities, but do not include special deposit claims or claims against general assets.

Other Assets:

Restricted assets are held by the Combined Domestic Estates in Liquidation to meet other obligations, such as dividends, second injury claim payments and escheated funds.

Note 2: **Summary of Significant Accounting Policies (continued)**
Restricted Assets (continued)

As of December 31, 2008, the details of the Restricted Assets per Domestic Estate in Liquidation are set forth in the table below:

	Domestic Estate in Liquidation	Statutory Deposits	Security Fund Cash	Funds Held for Secured Claims	Other	Total
(1)	American Agents	$ -	$ 19,159	$ -	$ -	$ 19,159
(2)	American Consumer	-	-	-	40,746	40,746
(3)	American Fidelity Fire	188,352	28,289	64,595	112,886	394,122
(4)	Capital Mutual	-	247,460	56,361	-	303,821
(5)	CHP	` -	-	-	-	-
(6)	Consolidated Mutual	-	-	10,936	387,849	398,785
(7)	Contractors Casualty	-	-	158,068	-	158,068
(8)	Cosmopolitan	-	4,663	664,969	238,873	908,505
(9)	First Central	-	66,151	53,378	386,806	506,335
(10)	Galaxy	-	-	161,036	-	161,036
(11)	Group Council	-	201,250	-	-	201,250
(12)	HPNY	-	-	-	-	-
(13)	Home Mutual	-	-	-	-	-
(14)	HHNY	-	-	-	-	-
(15)	Horizon	-	-	-	335,792	335,792
(16)	Ideal Mutual	3,143,979	-	2,833,455	337,863	6,315,297
(17)	MagnaHealth	-	-	-	-	-
(18)	MDNY	-	-	-	-	-
(19)	Midland	7,651,237	250	1,094,411	80,226	8,826,124
(20)	MIDPAC	-	-	-	-	-
(21)	MMIA	-	-	-	-	-
(22)	MMLA	-	-	-	-	-
(23)	Nassau	-	10,790	2,565,617	-	2,576,407
(24)	Merchant Bakers	-	2,931,693	165,981	-	3,097,674
(25)	NY Surety	-	-	1,237,624	-	1,237,624
(26)	Realm	1,698,393	14,713	164,916	25,933	1,903,955
(27)	Transtate	-	-	-	-	-
(28)	Union	366,550	-	6,556,817	28,866	6,952,233
(29)	U.S. Capital	-	1, 500	82,691	-	84,191
(30)	Whiting	-	-	-	111,382	111,382
	Total:	$ 13,048,511	$ 3,525,918	$ 15,870,855	$ 2,087,222	$ 34,532,506

Note 2: Summary of Significant Accounting Policies (continued)

Restricted Assets (continued)

As of December 31, 2007, the details of the Restricted Assets per Domestic Estate in Liquidation are set forth in the table below:

	Domestic Estate in Liquidation	Statutory Deposits	Security Fund Cash	Funds Held for Secured Claims	Other	Total
(1)	American Agents	$ -	$ 18,704	$ -	$ -	$ 18,704
(2)	American Consumer	-	-	-	40,260	40,260
(3)	American Fidelity Fire	185,250	28,289	64,417	111,556	389,512
(4)	Capital Mutual	-	247,460	56,206	-	303,666
(5)	CHP	-	-	-	-	-
(6)	Consolidated Mutual	-	-	10,906	383,215	394,121
(7)	Contractors Casualty	-	-	156,523	-	156,523
(8)	Cosmopolitan	-	4,676	663,138	234,685	902,499
(9)	First Central	-	66,151	53,231	384,269	503,651
(10)	Galaxy	-	-	130,567	-	130,567
(11)	Group Council	-	498,750	-	-	498,750
(12)	HPNY	-	-	-	-	-
(13)	Home Mutual	-	-	-	-	-
(14)	HHNY	-	-	-	-	-
(15)	Horizon	-	-	-	329,775	329,775
(16)	Ideal Mutual	3,359,691	142	2,912,223	335,404	6,607,460
(17)	MagnaHealth	-	-	-	-	-
(18)	MDNY	-	-	-	-	-
(19)	Midland	8,165,255	256	1,341,139	81,443	9,588,093
(20)	MIDPAC	-	-	-	-	-
(21)	MMIA	-	-	-	5,819	5,819
(22)	MMLA		-	-	-	-
(23)	Nassau	-	10,790	-	-	10,790
(24)	Merchant Bakers	-	2,931,693	165,524	-	3,097,217
(25)	NY Surety	-	-	1,234,215	-	1,234,215
(26)	Realm	1,688,995	14,747	-	25,749	1,729,491
(27)	Transtate	-	-	-	-	-
(28)	Union	351,704	1,675	5,748,039	28,577	6,129,995
(29)	U.S. Capital	-	1,500	112,559	-	114,059
(30)	Whiting	-	-	-	111,354	111,354
	Total:	$ 13,750,895	$ 3,824,833	$ 12,648,687	$ 2,072,106	$ 32,296,521

Note 2: Summary of Significant Accounting Policies (continued)

Secured Claims

Secured claims, if present, relate to any claim secured by LOCs or other collateral securities, but does not include special deposit claims or claims against general assets. Secured claims also include claims which have become liens upon specific assets by reason of judicial process more than four months prior to the commencement of delinquency proceedings.

Unsecured Claims

The unsecured claims are comprised of one or more of the following:

(i) Allowed Claims

Allowed claims are the amounts that have been approved by the Supreme Court of the State of New York ("Receivership Court") for incurred covered losses and/or LAE amounts that have received court approval. The liability carried is net of distributions, if any, that may have been paid as early access or dividends. The dividend distributions for the Combined Domestic Estates in Liquidation are set forth and discussed in detail in Distribution of Assets, below.

(ii) Non-Allowed Claims

Non-allowed claim liabilities consist of one or both of the following:

1. Established Reserves

Established reserves are amounts that have been determined by the NYLB to be reasonable estimates of claims for incurred covered losses and associated LAE not yet approved by the appropriate Receivership Court.

Established reserves are estimated using individual case basis valuations and statistical analyses and are subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, Management believes that the established reserves for claims for incurred covered losses and the associated LAE are reasonable. The established reserves are continually reviewed and adjusted as necessary, as experience develops or new information becomes known.

Note 2: Summary of Significant Accounting Policies (continued)
Unsecured Claims (continued)
Established Reserves (continued)

Established reserves are calculated on an undiscounted basis and stated gross of reinsurance recoverables, with the exception of workers' compensation reserves, which are discounted and adjusted annually to reflect life expectancy and present value of the reserve. Because the Estates are in liquidation no provision is made for IBNR loss reserves, including expected future development on claims already reported.

Security Fund LAE reserves are calculated as a percentage of loss reserves, which reflect the historical percentage of LAE expenses paid as a percentage of losses paid. Guaranty Fund LAE reserves are stated as reported from the respective Guaranty Funds. In addition, the NYLB is taking steps to refine its reserving practices to capture the most accurate reserve possible for both potential indemnity and expense exposure going forward.

2. Reserves for Amounts Claimed

The liabilities for creditor claims which have neither been established by the NYLB, nor received approval from the appropriate Receivership Court are carried as claimed amounts. Therefore, claimed amount reserves may be overstated.

LAE is allocated to a Domestic Estate in Liquidation as either direct or indirect LAE. Direct LAE is charged to specific claims for Domestic Estates in Liquidation. Indirect LAE is allocated among the Estates.

Note 2: Summary of Significant Accounting Policies (continued)

Distribution of Assets

The Receiver recommends and seeks court approval regarding distributions from any Domestic Estate in Liquidation. Distributions are made in a manner that assures the proper recognition of priorities and a reasonable balance between the expeditious completion of the liquidation and the protection of non-adjudicated claims. The priority of distribution of assets is in accordance with Insurance Law Section 7434 as set forth below. Every claim in each class is paid in full or adequate funds are retained for such payment before the members of the next class receive any payment. No sub-classes are established within any class. No equitable remedy may be used to avoid the order of the classification of claims as set forth in Insurance Law Section 7434.

The 1999 amendments to Insurance Law Section 7434 set forth a comprehensive list of nine classes of creditor claims in specific order of priority of distribution. The statute provides that no distribution can be made to a class of creditors until each claim in the preceding class had been paid in full. This amendment applied to any proceeding under Insurance Law Article 74 as to which an order of liquidation had been entered on or after June 29, 1999. However, in May 2005, Article 74 was again amended, pursuant to New York Law Chapter 33 of the Laws of 2005 ("Chapter 33"), which permitted the WC Fund, upon certification of the Superintendent, to take loans against the assets of certain Domestic Estates in Liquidation. In addition, Chapter 33 has made the scheme of distribution of assets provided in Insurance Law Section 7434 retroactive, so that it applies to liquidation proceedings commenced prior to June 29, 1999.

The list of creditor classes in order of priority as set forth by Insurance Law Section 7434 is as follows:

(i) Class One – Administrative Claims
Claims with respect to the actual and necessary costs and expenses of administration incurred by the liquidator or rehabilitator.

(ii) Class Two – Claim and Related Costs
All claims under policies including claims of federal, state or local government for losses incurred, third party claims, claims for unearned premiums, and all claims of security funds or guaranty associations, but excluding claims under reinsurance contracts.

(iii) Class Three – Federal Government Claims
Claims of the federal government, except those under Class two.

Note 2: Summary of Significant Accounting Policies (continued)
Distribution of Assets (continued)

(iv) Class Four – Employee Claims
Claims for wages owing to employees of an insurer against whom an Article 74 proceeding is commenced and claims for unemployment insurance contributions required by Article 18 of the New York Labor Law.

(v) Class Five – State and Local Government Claims
Claims of state and local governments, except those under Class two.

(vi) Class Six – General Creditor Claims
Claims of general creditors, including but not limited to claims arising under reinsurance contracts.

(vii) Class Seven – Late Filed Claims
Claims filed late or any other claims other than claims stated in Class eight or Class nine below.

(viii) Class Eight – Section 1307 Loans
Claims for advanced or borrowed funds made pursuant to Insurance Law Section 1307.

(ix) Class Nine – Shareholder Claims
Claims of shareholders or other owners in their capacity as shareholders.

Provided below is a detailed description of the creditor classes.

Class One – Administrative Claims
Claims with respect to the actual and necessary costs and expenses of administration incurred by the liquidator or rehabilitator. Included in administrative claims are accruals for vacation benefits and post-retirement medical benefits that have been allocated among the Combined Domestic Estates in Liquidation and Security Funds.

Class Two – Claims and Related Costs
All claims under policies including such claims of federal, state or local government for losses incurred, third party claims, claims for unearned premiums, and all claims of Security Funds or Guaranty Funds, but excluding claims under reinsurance contracts.

Note 2: Summary of Significant Accounting Policies (continued)

Distribution of Assets (continued)

Class Three through Class Nine – Subordinate Class of Creditor Claims

Should there be sufficient assets after paying Class two claims, these subordinate classes of creditor claims will be thoroughly investigated and recommended for allowance prior to further dividend distribution. The NYLB's policy is not to incur additional costs on claims not expected to be paid. Therefore, these subordinate creditors' claims will not be handled until such time as assets are available to pay such claims. Prior to the 2005 amendment to Insurance Law Section 7434, certain Domestic Estates in Liquidation made distributions to creditors that are currently classified as Class three through Class six. These claims received court approval for each distribution.

The details for dividends distributed from the Domestic Estates in Liquidation listed below for the years ended December 31, 2008 and 2007, are as follows and reported as an offset to liabilities on the balance sheet:

	2008	2007
American Agents	$ -	$ 4,747,488
American Consumer	-	33,516
American Fidelity	-	6,420
Cosmopolitan	-	653,177
First Central	-	792,666
Horizon	-	39,639
Ideal	7,041	471,199
MagnaHealth	1,623,220	212,610
Merchant Bakers	-	18,836,493
Midland	-	35,276,952
MMLA	60,000,000	-
Whiting	-	16,344
Total	$ 61,630,261	$ 61,086,504

Allocation of Expenses

The NYLB allocates general and administrative expenses, such as salaries, payroll taxes, rent and related expenses, office expenses and employee relations and welfare (*e.g.*, contributions to employee health insurance, pension plans and other fringe benefits) ("Employee Relations and Welfare"), among the Estates and Security Funds. Reimbursement of such expenses is generally based on the amount of time NYLB employees devote to the respective Estates and Security Funds.

Taxes

When net income is generated for a specific Domestic Estate in Liquidation, such income is subject to federal, New York State and local income taxes. The net income is offset against any net operating loss ("NOL") carry forwards. Net losses are added to the NOL carry forwards.

Note 3: **Investments**

The components of net investment income received for the years ended December 31, 2008 and 2007, are as follows:

		2008		2007
Interest on Bonds	$	8,122,246	$	18,510,788
Interest on Short-Term Investments and Cash Equivalents		22,337,847		23,578,801
Realized Gain on Sale of Investments		343,905		(11,046)
Dividends		2,780		-
Total Gross Investment Income		30,806,778		42,078,543
Net Amortization of Bond Premium and Discount		35,361		(652,443)
Net Investment Income Received	$	30,842,139	$	41,426,100

Note 3: Investments (continued)

As of December 31, 2008, the amortized cost and fair market value of the short-term investments and bonds for each Domestic Estate in Liquidation is as follows:

Domestic Estates in Liquidation	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
	December 31, 2008			
(1) American Agents	$ 9,889,719	$ 11,593	$ -	$ 9,901,312
(2) American Consumer	1,875,894	5,784	-	1,881,678
(3) American Fidelity	15,852,568	72,871	-	15,925,439
(4) Capital Mutual	7,965,241	1,033	-	7,966,274
(5) CHP	-	-	-	-
(6) Consolidated Mutual	6,922,645	70,942	(112)	6,993,475
(7) Contractors Casualty	499,447	144	-	499,591
(8) Cosmopolitan	42,556,758	480,958	-	43,037,716
(9) First Central	53,400,295	261,349	-	53,661,644
(10) Galaxy	9,972,037	31,410	(1,660)	10,001,787
(11) Group Council	-	-	-	-
(12) HPNY	1,348,013	73,049	-	1,421,062
(13) Home Mutual	3,904,064	5,343	-	3,909,407
(14) HHNY	4,003,577	1,155	-	4,004,732
(15) Horizon	3,211,302	5,958	-	3,217,260
(16) Ideal	63,048,624	293,323	-	63,341,947
(17) MagnaHealth	-	-	-	-
(18) MDNY	5,252,454	55,612	-	5,308,066
(19) Midland	304,218,486	1,084,676	-	305,303,162
(20) MIDPAC	7,487,052	7,038	-	7,494,090
(21) MMIA	-	-	-	-
(22) MMLA	-	-	-	-
(23) Nassau	-	-	-	-
(24) Merchant Bakers	14,963,334	48,332	-	15,011,666
(25) NY Surety	-	-	-	-
(26) Realm	912,965	24,960	-	937,925
(27) Transtate	36,882,655	1,743,895	-	38,626,550
(28) Union	82,029,411	182,242	(167)	82,211,486
(29) U.S. Capital	8,098,627	16,771	-	8,115,398
(30) Whiting	2,483,373	5,269	-	2,488,642
Total	$ 686,778,541	$ 4,483,707	$ (1,939)	$ 691,260,309

Note 3: Investments (continued)

As of December 31, 2007, the amortized cost and fair market value of the short-term investments and bonds for each Domestic Estate in Liquidation is as follows:

	Domestic Estates in Liquidation	December 31, 2007 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
(1)	American Agents	$ 11,507,558	$ 53,725	$ -	$ 11,561,283
(2)	American Consumer	3,553,090	3,176	(93)	3,536,173
(3)	American Fidelity	15,482,291	19,154	(93)	15,501,352
(4)	Capital Mutual	7,952,150	4,733	-	7,956,883
(5)	CHP	-	-	-	-
(6)	Consolidated Mutual	5,294,481	1,229	-	5,295,710
(7)	Contractors Casualty	496,325	192	-	496,517
(8)	Cosmopolitan	36,936,040	151,884	-	37,087,924
(9)	First Central	58,662,151	76,536	-	58,738,687
(10)	Galaxy	18,257,656	15,554	(11,060)	18,262,150
(11)	Group Council	-	-	-	-
(12)	HPNY	-	-	-	-
(13)	Home Mutual	8,871,915	3,702	-	8,875,617
(14)	HHNY	-	-	-	-
(15)	Horizon	3,700,000	3,330	-	3,703,330
(16)	Ideal	79,066,946	108,190	(61,929)	79,113,207
(17)	MagnaHealth	-	-	-	-
(18)	MDNY				
(19)	Midland	337,855,401	636,126	-	338,491,527
(20)	MIDPAC	7,463,544	24,160	(93)	7,487,611
(21)	MMIA	-	-	-	-
(22)	MMLA	64,250,315	225,176	(102,151)	64,373,340
(23)	Nassau	-	-	-	-
(24)	Merchant Bakers	8,600,000	16,800	-	8,616,800
(25)	NY Surety	-	-	-	-
(26)	Realm	1,316,889	5,756	(1,392)	1,321,253
(27)	Transtate	41,569,305	947,080	-	42,516,385
(28)	Union	77,775,639	87,740	(14,140)	77,849,239
(29)	U.S. Capital	10,316,938	33,224	-	10,350,162
(30)	Whiting	7,137,102	7,301	-	7,144,403
	Total	$ 806,045,736	$ 2,424,768	$ (190,951)	$ 808,279,553

Note 3: Investments (continued)

The NYLB's short-term investments and bonds in a continuous unrealized loss position are as follows:

December 31, 2008

	Less than 12 Months				Greater than 12 Months				Total			
		Fair Market Value		Unrealized Losses		Fair Market Value		Unrealized Losses		Fair Market Value		Unrealized Losses
U.S. Treasury and Agency Securities held to Maturity	$	42,537,445	$	(278)	$	853	$	(1,660)	$	42,538,299	$	(1,938)
Total Fixed Income		42,537,445		(278)		853		(1,660)		42,538,299		(1,938)
Total	$	42,537,445	$	(278)	$	853	$	(1,660)	$	42,538,299	$	(1,938)

December 31, 2007

	Less than 12 Months				Greater than 12 Months				Total			
		Fair Market Value		Unrealized Losses		Fair Market Value		Unrealized Losses		Fair Market Value		Unrealized Losses
U.S. Treasury and Agency Securities held to Maturity	$	4,499,077	$	(278)	$	56,527,907	$	(190,673)	$	61,026,984	$	(190,951)
Total Fixed Income		4,499,077		(278)		56,527,907		(190,673)		61,026,984		(190,951)
Total	$	4,499,077	$	(278)	$	56,527,907	$	(190,673)	$	61,026,984	$	(190,951)

The NYLB's portfolio of short-term investments and bonds is sensitive to interest rate fluctuations which affect the fair market value of individual securities. Management has the intent and ability to hold the securities until recovery and/or maturity. Management does not consider the unrealized losses on its portfolio of short-term investments and bonds as other-than-temporary impairments as of December 31, 2008 and 2007.

Note 3: **Investments (continued)**

The amortized cost and fair market value of bonds held to maturity at December 31, 2008 are shown below by the date of contractual maturity,. Actual maturity dates may differ from contractual maturity dates because borrowers may have the right to call or prepay obligations.

	2008	
	Fair Market Value	**Amortized Cost**
Combined Estates		
Due within one year	$ 1,966,660	$ 1,927,922
Due after one year and before five years	23,121,249	22,623,740
Due after five years and before ten years	1,111,971	921,898
Due after ten years and before fifteen years	6,146,091	4,660,089
Due after fifteen years	64,421	61,630
Total Combined Estates	$ 32,410,392	$ 30,195,279

Cosmopolitan received proceeds from the sale of bonds in 2008 and 2007 in the amounts of $16,339,618 and $0, respectively, excluding maturities and repayments. In 2008 and 2007, gross gains of $18,855 and $0 were realized on those sales.

Ideal received proceeds from the sale of bonds in 2008 and 2007 in the amounts of $37,571,472 and $0, respectively, excluding maturities and repayments. In 2008 and 2007, gross gains of $13,655 and $0 were realized on those sales.

American Fidelity received proceeds from the sale of bonds in 2008 and 2007 in the amounts of $1,431,750 and $1,537,500, respectively, excluding maturities and repayments. In 2008 and 2007, gross gains of $10,102 and $0 were realized on those sales.

Note 3: Investments (continued)

Midland received proceeds from the sale of bonds in 2008 and 2007 in the amounts of $68,712,382 and $0, respectively, excluding maturities and repayments. In 2008 and 2007, gross gains of $147,762 and $0 were realized on those sales.

Whiting received proceeds from the sale of bonds in 2008 and 2007 in the amounts of $1,535,625 and $0, respectively, excluding maturities and repayments. In 2008 and 2007, gross gains of $68 and $0 were realized on those sales.

MIDPAC received proceeds from the sale of bonds in 2008 and 2007 in the amounts of $29,252,000 and $1,537,500 respectively, excluding maturities and repayments. In 2008 and 2007, gross gains of $20,113 and $0 were realized on those sales.

Galaxy received proceeds from the sale of bonds in 2008 and 2007 in the amounts of $3,025,500 and $5,112,500, respectively, excluding maturities and repayments. In 2008, gross gains of $677 were realized, while in 2007, gross losses of $ 0 were realized on the corresponding sales.

U.S. Capital received proceeds from the sale of bonds in 2008 and 2007 in the amounts of $17,425,000 and $255,626, respectively, excluding maturities and repayments. In 2008 and 2007, gross losses of $168 and $ 0 were realized on those sales.

First Central received proceeds from the sale of bonds in 2008 and 2007 in the amounts of $17,801,508 and $15,492,300, respectively, excluding maturities and repayments. In 2008 and 2007, gross gains of $295 and $0 were realized on those sales.

American Agents received proceeds from the sale of bonds in 2008 and 2007 in the amounts of $4,709,250 and $2,045,000, respectively, excluding maturities and repayments. In 2008 and 2007, gross gains of $40,226 and $0 were realized on those sales.

MML Assurance, Inc. received proceeds from the sale of bonds in 2008 and 2007 in the amounts of $39,982,593 and $0, respectively, excluding maturities and repayments. In 2008 and 2007, gross gains of $102,319 and $0 were realized on those sales.

Note 3: Investments (continued)

Mortgage-Backed Securities

In 2008 and 2007, Management identified seven mortgage-backed securities with amortized costs of approximately $75,288 and $32,120, respectively. After reviewing these seven securities, Management has determined, based on the information currently available to it, that there is no material direct subprime exposure through these investments.

Note 4: Reinsurance

Prior to their liquidations, most Domestic Estates in Liquidation wrote insurance coverage on a direct basis (and assumed reinsurance, if applicable). Many of these policies and assumed reinsurance contracts were reinsured with other insurance or reinsurance companies in the ordinary course of business. Reinsurance arrangements include a wide variety of treaty and facultative contracts providing pro-rata, excess of loss and catastrophe coverage. Reinsurance recoverables, if any, for a particular Domestic Estate in Liquidation pertain to loss events occurring prior to the cut-off date approved by the appropriate Receivership Court. The net reinsurance recoverables represent amounts due from reinsurers who are solvent or impaired (but not in receivership) for paid or allowed paid loss claims and allocated loss adjustment expense (“ALAE”). Reinsurance recoverables are also calculated on outstanding case reserves (unpaid losses and unpaid ALAE).

Because the Domestic Estates in Liquidation are not relieved of their primary obligation to their policyholders, allowance accounts for reinsurance recoverables have been established for each Domestic Estate in Liquidation. Valuation allowances are maintained and determined based on several factors, such as a reinsurer’s current payment history, aging and solvency. A percentage (less than 100 percent) is applied to reinsurance recoverable balances of reinsurers who are solvent or impaired (but not in receivership). A 100 percent allowance is applied to all reinsurance recoverables due from reinsurers that have been ordered into receivership. In addition, some balances may be in dispute or litigation.

Reinsurance recoverables are reviewed and updated periodically based on the collection history of the accounts and other material factors. The failure or inability to collect reinsurance recoverables owed to a specific Domestic Estate in Liquidation may have a material effect on such estate.

Note 4: Reinsurance (continued)

Letters of Credit

The NYLB may elect to draw down on an LOC: (i) to collect unpaid recoverable balances due from a reinsurer; (ii) to collect reinsurance recoverables due to a Domestic Estate in Liquidation upon receipt of notification from the applicant or bank that the LOC will not be renewed or is to be canceled; or (iii) to fund the settlement of a commutation agreement.

If an LOC is drawn down, the monies collected are credited to the appropriate Domestic Estate in Liquidation.

Note 5: Related-Party Transactions

For the years ended December 31, 2008 and 2007, NYLB personnel performed certain administrative and investment functions, such as accounting, data processing, human resources and treasury management, for the Combined Domestic Estates in Liquidation. The Combined Domestic Estates in Liquidation paid or accrued expenses for such functions pursuant to the NYLB's longstanding policy of charging the intercompany accounts of each respective Domestic Estate in Liquidation for expenses paid by the NYLB on behalf of such estate.

Note 6: Expense Reimbursement

The NYLB manages the CDA which is a pooled cash account funded solely by cash advances from the Estates and/or Security Funds. Any excess funds in the CDA may be invested in overnight investment options including RepoNet, a repurchase agreement facility, and Liquidity Direct, a facility that allows for the purchase of various U.S. Government related money market funds. The NYLB uses the money in the CDA to pay on behalf of the Estates and Security Fund administrative expenses such as employee relations and welfare, payroll, rent and related expenses, and office expenses. Such administrative expenses are allocated on a monthly basis among the Estates and Security Funds.

Note 7: Asbestos and Environmental Reserves

Major policyholders ("MPHs") – *i.e.*, the insureds who have substantial exposure to long-tail industry-wide tort claims and who are generally recognized within the insurance industry as being major policyholders – have assorted asbestos, environmental and product claims against three of the Domestic Estates in Liquidation: Midland, Ideal and Union. In establishing the liability for unpaid claims and claim adjustment expenses related to asbestos, environmental and product claims on these estates, Management considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy and the NYLB can reasonably estimate the estate's liability. Estimates of liabilities are reviewed and

Note 7: Asbestos and Environmental Reserves (continued)

updated continually and as needed based on developed case law, claim history and experience.

The Combined Domestic Estates in liquidation do not include IBNR reserves, including expected future development on claims already reported.

The NYLB anticipates that, as more detailed information and documentation is received and reviewed regarding the claims of individual MPHs ("MPH Claims") in the Ideal, Union and Midland estates, these reserves will be maintained as currently set, raised, lowered or eliminated as warranted on each policyholder claim.

As of December 31, 2008 and 2007, the reserves for Union, Ideal and Midland and the corresponding reinsurance, if any, are as follows and reported as a Class II – Non-Allowed Liability:

	2008	2007
Union		
Gross Reserves		
Asbestos	$ 14,825,504	$ 14,825,477
Environmental	1,575,612	1,575,612
Products	4,131,018	4,460,531
Total Gross Reserves	20,532,134	20,861,620
Less Ceded Reserves	-	-
Net Reserves	$ 20,532,134	$ 20,861,620

	2008	2007
Ideal		
Gross Reserves		
Asbestos	$ 79,749,946	$ 144,124,829
Environmental	55,662,027	118,411,937
Products	27,200,027	35,825,234
Total Gross Reserves	162,612,000	298,362,000
Less Ceded Reserves	(13,854,375)	-
Net Reserves	$ 148,757,625	$ 298,362,000

	2008	2007
Midland		
Gross Reserves		
Asbestos	$ 827,152,556	$ 934,493,178
Environmental	43,420,344	45,868,722
Products	306,156,930	315,690,957
Total Gross Reserves	1,176,729,830	1,296,052,857
Less Ceded Reserves	(611,346,431)	(675,203,697)
Net Reserves	$ 565,383,399	$ 620,849,160

Note 7: Asbestos and Environmental Reserves (continued)

The decrease in reserves in 2008 is due to ongoing efforts to administer outstanding claims, update reserve estimates and process court approved disallowances.

Note 8: Taxes

The Combined Domestic Estates in Liquidation are subject to federal and New York State income tax, but generally these estates do not generate taxable income or tax liability due to offsets available from NOL carry forwards. However, during the 2007 tax year MMLA generated taxable income of $3,056,054 which triggered a federal tax liability of $1,039,058 which was paid in 2008. The Combined Domestic Estates in Liquidation are also subject to New York State franchise tax. Each Domestic Estate in Liquidation's franchise tax is generally calculated at the minimum because the estates are in liquidation and do not write premiums. The New York State franchise tax expense for the Combined Domestic Estates in Liquidation was $6,750 in 2008 and $3,999 in 2007.

Note 8: Income Taxes (continued)

At December 31, 2007, certain Domestic Estates in Liquidation have unused operating loss carry-forwards available to offset against future taxable income as follows:

Estate	Net Operating Loss Carry-Forward at 12/31/07	Corrections for 2006	Corrections for 2007	Adjusted Net Operating Loss Carry forward at 12/31/2007
American Agents	(64,742,201)			(64,742,201)
American Consumer	(15,702,941)			(15,702,941)
American Fidelity	(37,479,056)			(37,479,056)
Capital Mutual	(30,680,203)			(30,680,203)
CHP	-			-
Consolidated Mutual	(11,399,297)			(11,399,297)
Contractors Casualty	(7,634,429)			(7,634,429)
Cosmopolitan Mutual	(49,822,800)			(49,822,800)
First Central	(148,592,998)			(148,592,998)
Galaxy	(44,757,736)	(783,331)		(45,541,067)
Group Council	(434,886,334)			(434,886,334)
HPNY	-			-
Home Mutual	(38,257,272)			(38,257,272)
HHNY	-			-
Horizon	(46,310,512)			(46,310,512)
Ideal Mutual	(688,626,058)			(688,626,058)
MagnaHealth	-			-
MDNY	-			-
Midland	(1,733,601,763)			(1,733,601,763)
MIDPAC	(12,486,724)			(12,486,724)
MMIA	(908,197,261)			(908,197,261)
MMLA	-			-
Nassau	(30,230,544)			(30,230,544)
Merchant Bakers	(128,147,695)		4,401,367	(123,746,328)
NY Surety	(17,179,732)			(17,179,732)
Realm	-			-
Transtate	(41,227,509)			(41,227,509)
Union	(565,615,140)			(565,615,140)
U.S. Capital	(46,849,223)			(46,849,223)
Whiting	(19,431,624)			(19,431,624)
Totals	$ (5,121,859,052)	$ (783,331)	$ (4,401,367)	$ (5,118,241,016)
Valuation Allowance	$ 5,121,859,052			(5,118,241,016)
Operating Loss Carry Forward, Net of Valuation Allowance	-			- $

Note 8: Income Taxes (continued)

The estates have accumulated net operating losses of $5,118,241,016. Because the estates are in liquidation, Management believes, based on the information currently available to it, that uncertainty exists as to whether these NOLs will be realized and whether the carry-forwards will expire unused.

Note 9: Employers Accounting for Defined Benefit Pension and Other Post-Retirement Plans

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post-Retirement Plans,* an amendment of FASB Statements Nos. 87, 88, 106 and 132(R) ("SFAS No. 158").

SFAS No. 158 requires an employer who sponsors a defined benefit plan to recognize the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur. Accordingly, defined benefit plans that are overfunded are shown as assets and defined benefit plans that are underfunded are shown as liabilities.

Since December 31, 2006, the NYLB has recorded the post-retirement benefit liability for each Combined Domestic Estate in Liquidation as a Class one claim.

The NYLB has funded and non-funded contributory and non-contributory defined benefit pension and welfare plans, which cover the majority of its employees. The NYLB sponsors a post-retirement medical benefit plan for its employees. Health insurance benefits are administered through the New York State Health Insurance Program ("NYSHIP"). Active employees and retirees and their dependents who enroll are covered by NYSHIP, which provides hospital, medical, prescription drug and other health benefits through either the Empire Plan or a participating HMO, as selected by the enrollee. NYSHIP is funded by both employer and employee/retiree contributions. Active employees are eligible for continued health insurance coverage subject to years of service requirements with one or more public employers (including at least one year with the NYLB). Terminated vested employees who pay the full premium until they reach retirement age are also eligible for retirement benefits.

Note 9: Employers Accounting for Defined Benefit Pension and Other Post-Retirement Plans (continued)

An independent actuarial firm conducted a valuation of the post-retirement plan for the years ended December 31, 2008 and 2007, using SFAS 158 and reported its conclusions in reports dated June 2009 and September 29, 2008, respectively (collectively, "Actuarial Reports"). Pursuant to the Actuarial Reports, discount rates of 6.50 and 5.91 percent were selected by Management and used to determine the initial accumulated post-retirement benefit obligation ("APBO") and discount rates of 6.00 and 6.50 percent were applied to determine the APBO as of December 31, 2008 and 2007, respectively. The post-retirement benefit liability is as follows:

		2008			2007
APBO (Initial Accrual) as of January 1, 2008:	$	70,842,109	APBO (Initial Accrual) as of January 1, 2007:	$	64,007,084
APBO as of December 31, 2008:		76,585,684	APBO as of December 31, 2007:		70,842,109
Net Periodic Benefit Cost for the fiscal year 2008:	$	5,790,918	Net Periodic Benefit Cost for the fiscal year 2007:	$	6,416,103

Note 9: Employers Accounting for Defined Benefit Pension and Other Post-Retirement Plans (continued)

The following presentation was extracted from the Actuarial Reports for the years ended December 31, 2008 and 2007:

	Post-Retirement Benefits			
Reconciliation of benefit obligation		2008		2007
Obligation at beginning of year	$	70,842,109	$	64,007,084
Service cost including expenses		1,454,081		2,137,079
Interest cost		4,336,837		4,279,024
Plan amendments		-		-
Actuarial (gain) / loss		2,122,229		2,549,273
Acquisitions / (divestitures)		-		-
Benefit payments and expected expenses		(2,316,857)		(2,252,017)
Medicare Part D reimbursements		147,285		121,666
Curtailments		-		-
Special termination benefits		-		-
Settlements		-		-
Obligation at end of year	$	76,585,684	$	70,842,109
Reconciliation of fair market value of plan assets				
Fair market value of plan assets at beginning of year	$	-	$	-
Actual return on plan assets		-		-
Acquisitions / (divestitures)		-		-
Employer contributions		2,169,572		2,130,351
Benefit payments and expected expenses		(2,316,857)		(2,252,017)
Medicare Part D reimbursements		147,285		121,666
Settlements		-		-
Fair market value of plan assets at end of year		-		-
Funded / (unfunded) status at end of year	$	(76,585,684)	$	(70,842,109)

Note 9: Employers Accounting for Defined Benefit Pension and Other Post-Retirement Plans (continued)

As of December 31, 2008 and 2007, the Combined Domestic Estates in Liquidation have accrued as liabilities approximately $77 million and $71 million, respectively, relating to its post-retirement medical benefit plan expenses. This liability is allocated among the Estates and the Security Funds based on allocated salary expense. As of December 31, 2008 and 2007, the Combined Domestic Estates in Liquidation share of the estimated liability was $33.6 million and $54.4 million, respectively.

Cash Flows

Expected Future Benefit Payments

The following benefit payments, which reflect expected future service, are expected to be paid:

Fiscal Year Beginning:

2009	$	2,599,000
2010		2,870,000
2011		3,163,000
2012		3,449,000
2013		3,718,000
Years 2014-2018		22,850,000

Employee Retirement Plans

New York State and Local Employees' Retirement System – Defined Benefit Plan

The New York State and Local Employees' Retirement System ("Retirement System") offers a variety of plans and benefits and provides retirement benefits based on years of service and the average of an employee's highest three years' salary. Other benefits include: vesting of retirement benefits, death and disability benefits, and optional methods of benefit payments. Participation of all NYLB employees is mandatory and employees are required to contribute three percent of their salary annually until the employee achieves 10 years of membership. Funding consists of contributions from active employees, as well as payment by the employer of an annual invoice which is based on the total salaries that were paid to the Retirement System members in the NYLB's employ at the close of the previous New York State fiscal year.

Note 9: Employers Accounting for Defined Benefit Pension and Other Post-Retirement Plans (continued)

Employee Retirement Plans (continued)

New York State Deferred Compensation Plan – 457b

This is a voluntary retirement savings program funded entirely by employee contributions. Employees are eligible to contribute to this program as of their first day of employment with the NYLB. Through payroll deduction, participants may contribute from 1 percent to 25 percent of salary up to the specified annual maximum. Contributions are pre-tax for federal, state and local income tax purposes.

Note 10: Repurchase Agreements

The NYLB invests in overnight tri-party repurchase agreements (“Repurchase Agreements”). Repurchase Agreements consist of one-day maturity transactions among three parties: the NYLB as the investor, the counterparty (*e.g.*, broker or dealer), and the custodian bank that acts as an intermediary between the two.

Each Repurchase Agreement Account (“RAA”) is linked to an NYLB demand deposit account (“DDA”). The NYLB either draws funds from the RAA to cover checks and other debits (*e.g.*, wire transfers) or adds to the RAA if there is excess cash in the DDA. If there is no activity in the DDA, the corresponding RAA rolls over automatically with the interest rate established by the broker/dealer for that day. The repurchase agreements subsequently settle at full value.

Pursuant to the Repurchase Agreements, the broker/dealer pledges collateral in the form of U.S. Treasury securities (“Collateral”), which must be no less than 102 percent of the value of the cash invested.

Management and the custodian bank verify and monitor the collateral pledged by the broker/dealer. The pledged collateral is maintained in a custody account controlled by the NYLB.

If there is a default by the broker/dealer, then the NYLB can request the custodian bank to sell the Collateral or the NYLB can take possession of such Collateral and have it transferred to a designated custody account. Interest is credited to the RAA daily and the pledging of Collateral cycle begins again for the new day’s investment.

The balances of the RAA as of December 31, 2008 and 2007, were $232,390,555 and $125,967,133, respectively. The collateral balances as of December 31, 2008 and 2007, were $237,038,366 and $128,486,475, respectively, and were recorded in the Combined Statements of Assets, Liabilities, and Deficit of Assets Over Liabilities - Modified Cash Basis as cash and cash equivalents.

Note 11: Legal Matters, Commitments and Contingencies

After inquiry and review of the records of each Domestic Estate in Liquidation, the NYLB, based on the information currently available to it, is unaware of any pending or threatened litigation or unasserted claim that the NYLB reasonably believes will have a material adverse effect on the financial condition or the results of operations of the Combined Domestic Estates in Liquidation.

The NYLB, in furtherance of the Receiver's statutory obligations, continuously endeavors to: (i) recover the assets of Domestic Estates in Liquidation; and (ii) wind up the business affairs of Domestic Estates in Liquidation including, without limitation, the litigation of policyholder and reinsurance claims.

Note 12: Subsequent Events

A. Reinsurance Collected

The amount of reinsurance collected for each Domestic Estate in Liquidation subsequent to December 31, 2008, is listed in the table below. This table represents all cash collected relating to reinsurance recoverable balances open at December 31, 2008.

	Domestic Estate in Liquidation	Collections of Reinsurance Recoverable on Paid Losses and LAE
(1)	American Agents	$ 33,753
(2)	American Consumer	-
(3)	American Fidelity	-
(4)	Capital Mutual	1,840,161
(5)	CHP	-
(6)	Consolidated Mutual	-
(7)	Contractors Casualty	4,720
(8)	Cosmopolitan	119,947
(9)	First Central	1,187,888
(10)	Galaxy	42,230
(11)	Group Council	1,850
(12)	HPNY	-
(13)	Home Mutual	2,354
(14)	HHNY	-
(15)	Horizon	-
(16)	Ideal Mutual	478,974
(17)	MagnaHealth	-
(18)	MDNY Healthcare	-
(19)	MMIA	-
(20)	MMLA	-
(21)	Midland	13,384,488
(22)	MIDPAC	43,627
(23)	Nassau	-
(24)	Merchant Bakers	236,951
(25)	NY Surety	-
(26)	Realm	26,461
(27)	Transtate	506,613
(28)	Union	-
(29)	U.S. Capital	20,710
(30)	Whiting	76,967
	Total	**$ 18,007,694**

B. Market Volatility

The financial markets' volatility in 2009 may materially impact the valuation of the Combined Domestic Estates in Liquidation's investments subsequent to December 31, 2008. Accordingly, the valuation of investments at December 31, 2008 and 2007, may not necessarily be indicative of amounts that could be realized in a current market exchange.

Note 12: Subsequent Events (continued)

C. Changes in Composition of Estates Under NYLB Supervision

Effective March 1, 2009, oversight of the United Community Insurance Company liquidation proceeding was transferred to the NYLB. Such oversight includes day-to-day operations, claims handling, accounts payable and reinsurance processing as well as financial record-keeping.

Pursuant to an order of the Receivership Court entered April 2, 2009, the Medical Malpractice Insurance Association liquidation proceeding was terminated and closed.

Pursuant to an order of the Receivership Court entered July 7, 2009, Colonial Indemnity Insurance Company in Rehabilitation was placed into liquidation.

Pursuant to an order of the Receivership Court entered March 10, 2010, the rehabilitation proceeding of The Insurance Corporation of New York ("Inscorp") was terminated and Inscorp was placed into liquidation and the Superintendent (and his successors in office) was appointed Liquidator.

Pursuant to an order of the Receivership Court entered April 30, 2010 Professional Liability Insurance Company of America was placed into rehabilitation and the Superintendent (and his successors in office) was appointed Rehabilitator.

Pursuant to an order of the Receivership Court entered June 16, 2010, Titledge Insurance company was placed into liquidation and the Superintendent (and his successors in office) was appointed Liquidator.

D. Dividends Distributed

The following estates made dividend distributions subsequent to December 31, 2008:

American Agents	$ 792,358
American Consumer	3,455
American Fidelity	128,310
CHP	53,612
Cosmopolitan	62,972
First Central	3,020,068
Horizon	33,717
Ideal	753,422
Magna	295,795
Midland	129,213
MML	5,770,425
Union	33,769,203
Whiting	51,073
	$ 44,863,623

Note 12: Subsequent Events (continued)

E. Lease Agreement

In April 2010, the NYLB entered into a 15-year lease agreement for office space at 110 William Street, New York, New York.

F. Reclassification of Creditor Claims

Allstate Insurance Company ("Allstate") objected to the reclassification of its claim in the Ideal Liquidation proceeding. On August 17, 2009, the court-appointed referee ruled in Ideal's favor. Pursuant to an order entered June 2, 2010, the Receivership Court denied Allstate's motion for an order rejecting the referee's decision and granted Ideal's cross-motion to affirm the decision.

Appendix A
December 31, 2008
The Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets, Liabilities and Accumulated Surplus (Deficit)
of Assets Over Liabilities, and Cash Receipts and Disbursements and Changes
in Cash and Invested Assets – Modified Cash Basis

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2008

	HPNY	MDNY	HHNY	CHP	MMLA
Assets					
Unrestricted Assets:					
Cash	$ 58,828	$ 329,633	$ 520,634	$ 152,221	$ 8,001,896
Invested Assets:					
Short-term Investments, at fair value	332,469	3,499,972	2,999,976	-	-
Bonds, at fair value	1,421,062	1,808,094	217,284	-	-
Total Invested Assets	1,753,531	5,308,066	3,217,260	-	-
Total Cash and Invested Assets	1,812,359	5,637,699	3,737,894	152,221	8,001,896
Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	-
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	-
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	-
Reinsurance Recoverables on UnPaid Losses and LAE	-	-	-	-	-
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	-
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	-
Receivable from Affiliates	-	-	-	-	-
Accrued Investment Income	10,219	19,473	4,806	-	-
Other Assets	396,799	66,075	-	-	-
Total Unrestricted Assets	2,219,377	5,723,247	3,742,700	152,221	8,001,896
Restricted Assets:					
Statutory Deposits in This or Other States	-	-	-	-	-
Other Restricted Assets	-	-	-	-	-
Total Restricted Assets	-	-	-	-	-
Total Assets	$ 2,219,377	$ 5,723,247	$ 3,742,700	$ 152,221	$ 8,001,896

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2008

	MAGNAHEALTH	MMIA	GROUP COUNCIL	AAIC	CMIC
Assets					
Unrestricted Assets:					
Cash	$ 421,354	$ -	$ 2,402,673	$ 4,096,669	$ 5,335,012
Invested Assets:					
Short-term Investments, at fair value	-	-	-	9,901,312	7,966,274
Bonds, at fair value	-	-	-	-	-
Total Invested Assets	-	-	-	9,901,312	7,966,274
Total Cash and Invested Assets	421,354	-	2,402,673	13,997,981	13,301,286
Reinsurance Recoverables on Paid Losses and LAE	-	-	23,063,485	19,149	9,599,667
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	-	-	(23,063,485)	-	(9,599,667)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	19,149	-
Reinsurance Recoverables on UnPaid Losses and LAE	-	-	-	346,940	1,714,627
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	(1,714,627)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	346,940	-
Receivable from Affiliates	-	-	2,216,366	1,913,273	108,497
Accrued Investment Income	-	-	-	18,151	12,374
Other Assets	-	-	-	-	38,948
Total Unrestricted Assets	421,354	-	4,619,039	16,295,494	13,461,105
Restricted Assets:					
Statutory Deposits in This or Other States	-	-	-	-	-
Other Restricted Assets	-		201,250	19,159	303,821
Total Restricted Assets	-	-	201,250	19,159	303,821
Total Assets	$ 421,354	$ -	$ 4,820,289	$ 16,314,653	$ 13,764,926

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2008

	CCSC	FCIC	GALAXY	HMIC	NYMB
Assets					
Unrestricted Assets:					
Cash	$ 604,859	$ 14,403,496	$ 11,846,122	$ 5,717,612	$ 227,996
Invested Assets:					
Short-term Investments, at fair value	499,591	49,044,238	6,994,370	3,909,407	15,011,665
Bonds, at fair value	-	4,617,407	3,007,416	-	-
Total Invested Assets	499,591	53,661,645	10,001,786	3,909,407	15,011,665
Total Cash and Invested Assets	1,104,450	68,065,141	21,847,908	9,627,019	15,239,661
Reinsurance Recoverables on Paid Losses and LAE	638,162	352,859	478,058	1,945,687	22,246,923
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(638,162)	-	(478,058)	(1,945,687)	(22,246,923)
Net Reinsurance Recoverables on Paid Losses and LAE	-	352,859	-	-	-
Reinsurance Recoverables on UnPaid Losses and LAE	763,204	7,841,992	2,179,424	265,612	5,654,356
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(763,204)	-	(2,179,424)	(265,612)	(5,654,356)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	7,841,992	-	-	-
Receivable from Affiliates	11,031	2,448,762	1,193,037	242,870	2,669,573
Accrued Investment Income	65	391,252	99,003	4,856	42,643
Other Assets	-	34,330	-	288,460	104,034
Total Unrestricted Assets	1,115,546	79,134,336	23,139,948	10,163,205	18,055,911
Restricted Assets:					
Statutory Deposits in This or Other States	-	-	-	-	-
Other Restricted Assets	158,068	506,335	161,036	-	3,097,674
Total Restricted Assets	158,068	506,335	161,036	-	3,097,674
Total Assets	$ 1,273,614	$ 79,640,671	$ 23,300,984	$ 10,163,205	$ 21,153,585

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2008

	NYSCO	REALM	TRANSTATE	U.S. CAPITAL	CONSOLIDATED
Assets					
Unrestricted Assets:					
Cash	$ 1,448,820	$ 397,172	$ 17,365,257	$ 3,385,813	$ 112,354
Invested Assets:					
Short-term Investments, at fair value	-	599,510	25,731,183	8,048,997	6,992,179
Bonds, at fair value	-	338,416	12,895,367	66,401	1,297
Total Invested Assets	-	937,926	38,626,550	8,115,398	6,993,476
Total Cash and Invested Assets	1,448,820	1,335,098	55,991,807	11,501,211	7,105,830
Reinsurance Recoverables on Paid Losses and LAE	2,137,268	3,451,619	9,437	465,147	1,411,497
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(2,137,268)	(3,451,619)	(159)	(465,147)	(1,411,497)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	9,278	-	-
Reinsurance Recoverables on UnPaid Losses and LAE	906,418	22,202,216	12,984,301	181,651	749,062
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(906,418)	(22,202,216)	(11,000,000)	(181,651)	(749,062)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	1,984,301	-	-
Receivable from Affiliates	61,380	824,454	289,921	259,740	214,000
Accrued Investment Income	-	5,534	320,151	11,157	44,523
Other Assets	-	2,656,730	-	-	-
Total Unrestricted Assets	1,510,200	4,821,816	58,595,458	11,772,108	7,364,353
Restricted Assets:					
Statutory Deposits in This or Other States	-	1,698,393	-	-	-
Other Restricted Assets	1,237,624	205,562	-	84,191	398,785
Total Restricted Assets	1,237,624	1,903,955	-	84,191	398,785
Total Assets	$ 2,747,824	$ 6,725,771	$ 58,595,458	$ 11,856,299	$ 7,763,138

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2008

	Unadjusted Midland	AJE	MIDLAND	ELIMINATION OF IBNR	MIDLAND (ADJUSTED)	MIDPAC	ELIMINATION OF IBNR	MIDPAC (ADJUSTED)
Assets								
Unrestricted Assets:								
Cash	$ 94,806,337		$ 94,806,337		$ 94,806,337	$ 1,296,352		$ 1,296,352
Invested Assets:								
Short-term Investments, at fair value	303,222,972	-	303,222,972		303,222,972	7,494,090		7,494,090
Bonds, at fair value	2,080,190	-	2,080,190		2,080,190	-		-
Total Invested Assets	305,303,162	-	305,303,162	-	305,303,162	7,494,090	-	7,494,090
Total Cash and Invested Assets	400,109,499	-	400,109,499	-	400,109,499	8,790,442	-	8,790,442
Reinsurance Recoverables on Paid Losses and LAE	136,668,218		136,668,218		136,668,218	140,440		140,440
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(73,668,213)		(73,668,213)		(73,668,213)	(70,101)		(70,101)
Net Reinsurance Recoverables on Paid Losses and LAE	63,000,005	-	63,000,005	-	63,000,005	70,339	-	70,339
Reinsurance Recoverables on UnPaid Losses and LAE	1,728,036,977		1,728,036,977	(558,717,500)	1,169,319,477	6,429,827	(2,199,600)	4,230,227
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(1,312,393,771)		(1,312,393,771)	495,861,781	(816,531,990)	(3,585,564)	1,969,388	(1,616,176)
Net Reinsurance Recoverables on Unpaid Losses and LAE	415,643,206	-	415,643,206	(62,855,719)	352,787,487	2,844,263	(230,212)	2,614,051
Receivable from Affiliates	1,749,215		1,749,215		1,749,215	40,000		40,000
Accrued Investment Income	1,798,161	-	1,798,161	-	1,798,161	32,317		32,317
Other Assets	-		-		-	-		-
Total Unrestricted Assets	882,300,086	-	882,300,086	(62,855,719)	819,444,367	11,777,361	(230,212)	11,547,149
Restricted Assets:								
Statutory Deposits in This or Other States	7,651,237		7,651,237		7,651,237	-		-
Other Restricted Assets	1,174,887	-	1,174,887	-	1,174,887	-		-
Total Restricted Assets	8,826,124	-	8,826,124	-	8,826,124	-	-	-
Total Assets	$ 891,126,210	$ -	$ 891,126,210	$ (62,855,719)	$ 828,270,491	$ 11,777,361	$ (230,212)	$ 11,547,149

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2008

	WHITING	ACIC	AMERICAN FIDELITY	UNION	IDEAL
Assets					
Unrestricted Assets:					
Cash	$ 5,896,341	$ 1,695,344	$ 1,772,202	$ 21,161,345	$ 26,554,125
Invested Assets:					
Short-term Investments, at fair value	2,488,642	1,881,678	15,925,439	82,211,486	63,341,947
Bonds, at fair value	-	-	-	-	-
Total Invested Assets	2,488,642	1,881,678	15,925,439	82,211,486	63,341,947
Total Cash and Invested Assets	8,384,983	3,577,022	17,697,641	103,372,831	89,896,072
Reinsurance Recoverables on Paid Losses and LAE	1,213,140	5,722,067	1,553,142	48,546,425	53,943,671
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(1,213,140)	(5,722,067)	(1,553,142)	(48,508,247)	(53,943,707)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	38,178	(36)
Reinsurance Recoverables on UnPaid Losses and LAE	10,833	589,066	464,708	1,117,885	23,662,245
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(10,833)	(589,066)	(464,708)	(1,117,885)	(23,662,245)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	-
Receivable from Affiliates	134,656	176,393	256,699	1,268,581	978,567
Accrued Investment Income	10,672	3,644	110,211	214,817	347,638
Other Assets	-	-	-	-	-
Total Unrestricted Assets	8,530,311	3,757,059	18,064,551	104,894,407	91,222,241
Restricted Assets:					
Statutory Deposits in This or Other States	-	-	188,352	366,550	3,143,979
Other Restricted Assets	111,382	40,746	205,770	6,585,683	3,171,318
Total Restricted Assets	111,382	40,746	394,122	6,952,233	6,315,297
Total Assets	$ 8,641,693	$ 3,797,805	$ 18,458,673	$ 111,846,640	$ 97,537,538

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2008

	HORIZON	NASSAU	COSMOPOLITAN	ESTATE TOTALS
Assets				
Unrestricted Assets:				
Cash	$ 245,380	$ 691,718	$ 1,750,873	$ 232,698,438
Invested Assets:				
Short-term Investments, at fair value	4,004,731	-	37,080,256	659,182,384
Bonds, at fair value	-	-	5,957,460	32,410,394
Total Invested Assets	4,004,731	-	43,037,716	691,592,778
Total Cash and Invested Assets	4,250,111	691,718	44,788,589	924,291,216
Reinsurance Recoverables on Paid Losses and LAE	33,095,011	12,972,326	4,524,344	364,197,742
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(33,095,011)	(12,972,326)	(4,524,344)	(300,707,970)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	63,489,772
Reinsurance Recoverables on UnPaid Losses and LAE	445,582	-	9,217,747	1,264,847,573
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(445,582)	-	(9,217,747)	(899,272,802)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	365,574,771
Receivable from Affiliates	516,926	-	205,357	17,779,298
Accrued Investment Income	523	-	170,504	3,672,694
Other Assets	-	-	964,741	4,550,117
Total Unrestricted Assets	4,767,560	691,718	46,129,191	1,379,357,868
Restricted Assets:				
Statutory Deposits in This or Other States	-	-	-	13,048,511
Other Restricted Assets	335,792	2,576,407	908,505	21,483,995
Total Restricted Assets	335,792	2,576,407	908,505	34,532,506
Total Assets	$ 5,103,352	$ 3,268,125	$ 47,037,696	$ 1,413,890,374

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	HPNY	MDNY	HHNY	CHP	MMLA
Liabilities					
Secured Claims	$ -	$ -	$ -	$ -	$ -
Class One - Administrative Claims	7,324	361,398	10,872	7,874	41,462
Class Two - Claims and Related Costs					
Allowed	-	-	-	-	-
Non Allowed	2,774,925	12,891,102	-	-	-
IBNR	-	-	-	-	-
Total - Class Two	2,774,925	12,891,102	-	-	-
Class Three - Federal Government Claims:	-	-	-	-	-
Class Four - Employee Claims:	-	-	-	-	-
Class Five - State and Local Government Claims:	-	102,072	-	-	-
Class Six - General Creditors Claims:	-	29,113,758	61,750	-	-
Class Seven - Late Filed Claims:	-	-	-	-	-
Class Eight - Section 1307 (Shareholder) Loans:	-	4,061,259	-	-	-
Class Nine - Shareholder Claims:	-	13,580,000	-	-	-
Total Liabilities	2,782,249	60,109,589	72,622	7,874	41,462
Liquidator's Surplus (Deficit)	(562,872)	(54,386,342)	3,670,078	144,347	7,960,434
Total Liabilities and Liquidator's Surplus (Deficit)	$ 2,219,377	$ 5,723,247	$ 3,742,700	$ 152,221	$ 8,001,896

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	MAGNAHEALTH	MMIA	GROUP COUNCIL	AAIC	CMIC
Liabilities					
Secured Claims	$ -	$ -	$ -	$ -	$ 77,070
Class One - Administrative Claims	65,085	-	1,788,356	4,031,951	1,401,906
Class Two - Claims and Related Costs					
Allowed	-	-	178,982,442	43,348,598	38,166,292
Non Allowed	-	-	115,672,471	8,452,654	5,112,148
IBNR	-	-	-	-	-
Total - Class Two	-	-	294,654,913	51,801,252	43,278,440
Class Three - Federal Government Claims:	-	-	-	-	441
Class Four - Employee Claims:	-	-	4,425	-	3,123
Class Five - State and Local Government Claims:	-	-	22,828	306,878	52,295
Class Six - General Creditors Claims:	-	-	56,799,957	682,397	3,922,064
Class Seven - Late Filed Claims:	-	-	-	335	-
Class Eight - Section 1307 (Shareholder) Loans:	-	-	-	-	-
Class Nine - Shareholder Claims:	-	-	-	-	-
Total Liabilities	65,085	-	353,270,479	56,822,813	48,735,339
Liquidator's Surplus (Deficit)	356,269	-	(348,450,190)	(40,508,160)	(34,970,413)
Total Liabilities and Liquidator's Surplus (Deficit)	$ 421,354	$ -	$ 4,820,289	$ 16,314,653	$ 13,764,926

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	CCSC	FCIC	GALAXY	HMIC	NYMB
Liabilities					
Secured Claims	$ 158,068	$ 86,009	$ 161,036	$ -	$ 166,388
Class One - Administrative Claims	386,230	3,912,676	1,544,210	2,818,884	1,754,939
Class Two - Claims and Related Costs					
Allowed	5,234,987	121,326,746	50,042,989	30,314,702	114,594,815
Non Allowed	1,511,417	31,155,278	5,342,596	1,117,453	10,868,685
IBNR	-	-	-	-	-
Total - Class Two	6,746,404	152,482,024	55,385,585	31,432,155	125,463,500
Class Three - Federal Government Claims:	-	-	-	-	-
Class Four - Employee Claims:	-	-	-	-	-
Class Five - State and Local Government Claims:	7,941	874,434	2,720	126,590	482,493
Class Six - General Creditors Claims:	939,562	1,763,388	506,542	1,903,566	2,861,281
Class Seven - Late Filed Claims:	-	-	-	-	-
Class Eight - Section 1307 (Shareholder) Loans:	60,000	1	-	-	-
Class Nine - Shareholder Claims:	-	-	-	-	-
Total Liabilities	8,298,205	159,118,532	57,600,093	36,281,195	130,728,601
Liquidator's Surplus (Deficit)	(7,024,591)	(79,477,861)	(34,299,109)	(26,117,990)	(109,575,016)
Total Liabilities and Liquidator's Surplus (Deficit)	$ 1,273,614	$ 79,640,671	$ 23,300,984	$ 10,163,205	$ 21,153,585

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	NYSCO	REALM	TRANSTATE	U.S. CAPITAL	CONSOLIDATED
Liabilities					
Secured Claims	$ 1,237,624	$ 326,781	$ -	$ 112,894	$ 338,487
Class One - Administrative Claims	384,621	2,802,377	1,291,214	944,685	430,766
Class Two - Claims and Related Costs					
Allowed	7,982,829	3,663,376	75,270,815	30,370,305	13,459,517
Non Allowed	2,573,772	75,446,384	7,883,409	1,677,400	-
IBNR	-	-	-	-	-
Total - Class Two	10,556,601	79,109,760	83,154,224	32,047,705	13,459,517
Class Three - Federal Government Claims:	-	-	-	-	-
Class Four - Employee Claims:	-	2,616	-	-	-
Class Five - State and Local Government Claims:	17,725	61,013	-	109,175	3,053
Class Six - General Creditors Claims:	707,017	17,175,503	931,512	3,799,909	3,317,898
Class Seven - Late Filed Claims:	-	401	-	-	15,120,795
Class Eight - Section 1307 (Shareholder) Loans:	-	-	-	-	-
Class Nine - Shareholder Claims:	-	-	-	-	-
Total Liabilities	12,903,588	99,478,451	85,376,950	37,014,368	32,670,516
Liquidator's Surplus (Deficit)	(10,155,764)	(92,752,680)	(26,781,492)	(25,158,069)	(24,907,378)
Total Liabilities and Liquidator's Surplus (Deficit)	$ 2,747,824	$ 6,725,771	$ 58,595,458	$ 11,856,299	$ 7,763,138

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	MIDLAND	ELIMINATION OF IBNR	MIDLAND (ADJUSTED)	MIDPAC	ELIMINATION OF IBNR	MIDPAC (ADJUSTED)
Liabilities						
Secured Claims	$ 1,133,912	$ -	$ 1,133,912	$ -	$ -	$ -
Class One - Administrative Claims	14,303,281	-	14,303,281	435,011	-	435,011
Class Two - Claims and Related Costs						
Allowed	541,048,245		541,048,245	-		-
Non Allowed	1,341,356,065		1,341,356,065	7,500,036		7,500,036
IBNR	605,000,000	(605,000,000)	-	3,900,000	(3,900,000)	-
Total - Class Two	2,487,404,310	(605,000,000)	1,882,404,310	11,400,036	(3,900,000)	7,500,036
Class Three - Federal Government Claims:	-		-	-		-
Class Four - Employee Claims:	-		-	-		-
Class Five - State and Local Government Claims:	8,317,575		8,317,575	-		-
Class Six - General Creditors Claims:	156,441,004		156,441,004	1,218		1,218
Class Seven - Late Filed Claims:	169,550,637		169,550,637	-		-
Class Eight - Section 1307 (Shareholder) Loans:	-		-	-		-
Class Nine - Shareholder Claims:	-		-	-		-
Total Liabilities	2,837,150,719	(605,000,000)	2,232,150,719	11,836,265	(3,900,000)	7,936,265
Liquidator's Surplus (Deficit)	(1,946,024,509)	542,144,281	(1,403,880,228)	(58,904)	3,669,788	3,610,884
Total Liabilities and Liquidator's Surplus (Deficit)	$ 891,126,210	$ (62,855,719)	$ 828,270,491	$ 11,777,361	$ (230,212)	$ 11,547,149

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	WHITING	ACIC	AMERICAN FIDELITY	UNION	IDEAL
Liabilities					
Secured Claims	$ 1,042	$ 34,217	$ 163,126	$ 6,810,603	$ 3,063,515
Class One - Administrative Claims	370,124	435,866	590,269	3,270,474	6,568,534
Class Two - Claims and Related Costs					
Allowed	26,063,658	17,572,188	47,846,347	238,791,507	250,142,091
Non Allowed	121,201	26,094	2,929,696	35,286,261	211,377,558
IBNR	-	-	-	-	-
Total - Class Two	26,184,859	17,598,282	50,776,043	274,077,768	461,519,649
Class Three - Federal Government Claims:	-	-	-	137,245	-
Class Four - Employee Claims:	-	-	-	-	-
Class Five - State and Local Government Claims:	-	44,842	92,237	71,337	280,887
Class Six - General Creditors Claims:	8,372,395	5,353,253	9,459,371	161,053,252	101,301,557
Class Seven - Late Filed Claims:	51,242	67,852	6,324,613	72,046,219	70,961,525
Class Eight - Section 1307 (Shareholder) Loans:	-	-	-	-	-
Class Nine - Shareholder Claims:	-	-	-	-	-
Total Liabilities	34,979,662	23,534,312	67,405,659	517,466,898	643,695,667
Liquidator's Surplus (Deficit)	(26,337,969)	(19,736,507)	(48,946,986)	(405,620,258)	(546,158,129)
Total Liabilities and Liquidator's Surplus (Deficit)	$ 8,641,693	$ 3,797,805	$ 18,458,673	$ 111,846,640	$ 97,537,538

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	HORIZON	NASSAU	COSMOPOLITAN	ESTATE TOTALS
Liabilities				
Secured Claims	$ 301,064	$ 2,565,617	$ 934,421	$ 17,671,874
Class One - Administrative Claims	618,806	31,583	937,214	51,547,992
Class Two - Claims and Related Costs				
Allowed	68,315,026	38,512,801	51,872,042	1,992,922,318
Non Allowed	108,459	78,082	17,657,174	1,898,920,320
IBNR	-	-	-	-
Total - Class Two	68,423,485	38,590,883	69,529,216	3,891,842,638
Class Three - Federal Government Claims:	-	-	-	137,686
Class Four - Employee Claims:	-	-	-	10,164
Class Five - State and Local Government Claims:	-	77,966	7,476	11,061,537
Class Six - General Creditors Claims:	628,562	587,206	18,560,195	586,244,117
Class Seven - Late Filed Claims:	23,758,815	3,943,046	9,973,857	371,799,337
Class Eight - Section 1307 (Shareholder) Loans:	-	-	-	4,121,260
Class Nine - Shareholder Claims:	-	-	-	13,580,000
Total Liabilities	93,730,732	45,796,301	99,942,379	4,948,016,605
Liquidator's Surplus (Deficit)	(88,627,380)	(42,528,176)	(52,904,683)	(3,534,126,231)
Total Liabilities and Liquidator's Surplus (Deficit)	$ 5,103,352	$ 3,268,125	$ 47,037,696	$ 1,413,890,374

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	HPNY	MDNY	HHNY	CHP	MMLA
Receipts					
Investment Income Received	$ -	$ 76,421	$ 20,994	$ 2,027	$ 1,879,057
Reinsurance Recovered	-	2,511,828	-	-	-
Premiums Collected	-	4,692	-	-	-
Salvage and Subrogation	-	-	-	-	-
Expense Reimbursement Received from NYSF	-	-	-	-	-
Return of Advanced Deposit from CDA	-	-	-	-	-
Release of Collateral	-	-	-	-	-
Litigation Awards	-	-	-	-	-
Miscellaneous Receipts	-	217,582	-	-	-
Total Receipts	-	2,810,523	20,994	2,027	1,879,057
Disbursements					
Dividend	-	-	-	-	60,000,000
Transfer to Segregated funds	-	-	-	-	-
Salvage and Subrogation Fees	-	-	-	-	-
Loss Adjustment Expense	-	-	-	-	-
NY Misc Special Revenue Fund	-	-	-	-	-
Collateral	-	-	-	-	-
Salaries	-	450,038	15,411	14,082	9,872
Employee Relations and Welfare	-	131,425	7,067	5,651	19,042
Rent and Related Expenses	-	88,875	4,401	3,429	14,242
Professional Fees	-	6,800	134	111	233,974
General and Administrative Expenses	-	85,128	3,327	706	15,549
Other Expenses	-	310,593	479	827	1,072,766
Closing cost					
Total Disbursements	-	1,072,859	30,819	24,806	61,365,445
Net Increase of Receipts over Disbursements	-	1,737,664	(9,825)	(22,779)	(59,486,388)
Cash (Unrestricted), Beginning of Year	1,812,359	3,844,423	3,741,761	175,000	67,611,309
Unrealized Gain / (Loss)	-	55,612	5,958	-	(123,025)
Cash (Unrestricted), End of Year	$ 1,812,359	$ 5,637,699	$ 3,737,894	$ 152,221	$ 8,001,896

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	MAGNAHEALTH	MMIA	GROUP COUNCIL	AAIC	CMIC
Receipts					
Investment Income Received	$ 12,024	$ 7,760	$ 31,522	$ 487,155	$ 290,238
Reinsurance Recovered	-	-	5,371	89,718	3,104,046
Premiums Collected	-		4,000	-	-
Salvage and Subrogation	-	-	-	8,158	-
Expense Reimbursement Received from NYSF	-	-	442,158	237,969	42,451
Return of Advanced Deposit from CDA	-	476,052	-	-	-
Release of Collateral	-	-	-	-	-
Litigation Awards	-	-	-	-	-
Miscellaneous Receipts	2,719	-	15		2,679
Total Receipts	14,743	483,812	483,066	823,000	3,439,414
Disbursements					
Dividend	1,623,220	-	-		-
Transfer to Segregated funds	-		-	-	-
Salvage and Subrogation Fees	-		-	-	-
Loss Adjustment Expense	-		-	-	-
NY Misc Special Revenue Fund	-	2,064,560	-	-	-
Collateral	-	-	-	-	-
Salaries	41,556	20,600	128,050	320,307	285,391
Employee Relations and Welfare	15,790	60,532	54,721	133,789	116,108
Rent and Related Expenses	10,765	6,438	33,894	87,107	76,107
Professional Fees	89,484	104,414	87,376	130,065	118,855
General and Administrative Expenses	2,029	1,396	13,938	18,134	15,780
Other Expenses	2,796	1,233	6,280	10,822	9,437
Closing cost		23,245			
Total Disbursements	1,785,640	2,282,418	324,259	700,224	621,678
Net Increase of Receipts over Disbursements	(1,770,897)	(1,798,606)	158,807	122,776	2,817,736
Cash (Unrestricted), Beginning of Year	2,192,251	1,798,606	2,243,866	13,917,337	10,487,250
Unrealized Gain / (Loss)	-	-	-	(42,132)	(3,700)
Cash (Unrestricted), End of Year	$ 421,354	$ -	$ 2,402,673	$ 13,997,981	$ 13,301,286

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	CCSC	FCIC	GALAXY	HMIC	NYMB
Receipts					
Investment Income Received	$ 24,844	$ 2,113,423	$ 685,619	$ 320,224	$ 358,931
Reinsurance Recovered	1,885	1,772,900	1,545,105	223,229	465,259
Premiums Collected	-	-	-	-	-
Salvage and Subrogation		-		-	
Expense Reimbursement Received from NYSF	-	315,436	73,412	19,148	61,155
Return of Advanced Deposit from CDA	-		-	-	-
Release of Collateral	-	-	-	-	-
Litigation Awards	-	-	-	-	-
Miscellaneous Receipts	6,214	40		15	
Total Receipts	32,943	4,201,799	2,304,136	562,616	885,345
Disbursements					
Dividend	-		-	-	
Transfer to Segregated funds	-	-	-	-	-
Salvage and Subrogation Fees	-	-	-	-	-
Loss Adjustment Expense	-		-	-	-
NY Misc Special Revenue Fund	-	-	-	-	-
Collateral	-	-	-	-	-
Salaries	103,892	401,754	83,643	259,018	299,562
Employee Relations and Welfare	43,298	167,770	35,509	114,345	127,278
Rent and Related Expenses	28,376	109,724	22,235	70,578	81,596
Professional Fees	111,589	136,772	86,741	224,182	461,177
General and Administrative Expenses	5,797	22,378	4,810	15,877	17,204
Other Expenses	3,559	13,856	3,292	8,861	10,285
Closing cost					
Total Disbursements	296,511	852,254	236,230	692,861	997,102
Net Increase of Receipts over Disbursements	(263,568)	3,349,545	2,067,906	(130,245)	(111,757)
Cash (Unrestricted), Beginning of Year	1,368,066	64,530,783	19,754,747	9,755,622	15,319,886
Unrealized Gain / (Loss)	(48)	184,813	25,255	1,642	31,532
Cash (Unrestricted), End of Year	$ 1,104,450	$ 68,065,141	$ 21,847,908	$ 9,627,019	$ 15,239,661

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	NYSCO	REALM	TRANSTATE	U.S. CAPITAL	CONSOLIDATED
Receipts					
Investment Income Received	$ 32,193	$ 104,200	$ 1,889,937	$ 400,653	$ 182,662
Reinsurance Recovered	525,112	164,916	1,446,012	58,988	-
Premiums Collected	-	38,080	-	-	-
Salvage and Subrogation	1,111	348,713	-	-	-
Expense Reimbursement Received from NYSF	16,596	126,954	70,705	27,788	-
Return of Advanced Deposit from CDA	-	-		-	-
Release of Collateral	-	-	-	30,203	-
Litigation Awards	-	-	-	-	-
Miscellaneous Receipts	-	4,091	-		736
Total Receipts	575,012	786,954	3,406,654	517,632	183,398
Disbursements					
Dividend	-	-	-	-	-
Transfer to Segregated funds	-	-	-	-	-
Salvage and Subrogation Fees	-	4,000	-	-	-
Loss Adjustment Expense	-	-	-	-	-
NY Misc Special Revenue Fund	-	-	-	-	-
Collateral	-	164,916	-	-	-
Salaries	82,651	803,589	153,653	91,462	68,124
Employee Relations and Welfare	33,060	345,905	63,519	37,483	28,626
Rent and Related Expenses	23,102	217,411	41,537	24,811	18,727
Professional Fees	110,575	82,103	112,371	113,310	112,022
General and Administrative Expenses	4,610	46,120	8,064	5,147	2,311
Other Expenses	3,360	81,127	6,048	2,948	3,695
Closing cost					
Total Disbursements	257,358	1,745,171	385,192	275,161	233,505
Net Increase of Receipts over Disbursements	317,654	(958,217)	3,021,462	242,471	(50,107)
Cash (Unrestricted), Beginning of Year	1,131,166	2,272,718	52,173,530	11,275,193	7,086,336
Unrealized Gain / (Loss)	-	20,597	796,815	(16,453)	69,601
Cash (Unrestricted), End of Year	$ 1,448,820	$ 1,335,098	$ 55,991,807	$ 11,501,211	$ 7,105,830

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	MIDLAND	MIDPAC	WHITING	ACIC	AMERICAN FIDELITY
Receipts					
Investment Income Received	$ 13,460,117	$ 263,916	$ 288,477	$ 119,385	$ 496,555
Reinsurance Recovered	21,821,720	289,213		2,880	25,190
Premiums Collected	-	-	-	-	-
Salvage and Subrogation		-	-	-	-
Expense Reimbursement Received from NYSF	55,016		10,779	1,199	1,023
Return of Advanced Deposit from CDA		-	-	-	-
Release of Collateral		-	-	-	-
Litigation Awards		-	-	-	-
Miscellaneous Receipts	74,707	-		-	-
Total Receipts	35,411,560	553,129	299,256	123,464	522,768
Disbursements					
Dividend		-			
Transfer to Segregated funds	-	-	-	-	-
Salvage and Subrogation Fees	-	-	-	-	-
Loss Adjustment Expense	-	-	-	-	-
NY Misc Special Revenue Fund	-	-	-	-	-
Collateral	-	-	-	-	-
Salaries	4,660,601	76,349	85,352	95,786	66,790
Employee Relations and Welfare	1,904,866	31,093	36,516	41,820	27,430
Rent and Related Expenses	1,266,815	20,541	23,441	26,215	18,391
Professional Fees	3,518,098	121,629	111,180	112,514	111,149
General and Administrative Expenses	263,316	4,230	4,843	5,696	4,094
Other Expenses	131,647	2,522	3,595	3,503	2,263
Closing cost					
Total Disbursements	11,745,343	256,364	264,927	285,534	230,117
Net Increase of Receipts over Disbursements	23,666,217	296,765	34,329	(162,070)	292,651
Cash (Unrestricted), Beginning of Year	375,994,733	8,510,706	8,352,685	3,736,391	17,351,181
Unrealized Gain / (Loss)	448,549	(17,029)	(2,031)	2,701	53,809
Cash (Unrestricted), End of Year	$ 400,109,499	$ 8,790,442	$ 8,384,983	$ 3,577,022	$ 17,697,641

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2008

	UNION	IDEAL	HORIZON	NASSAU	COSMOPOLITAN	ESTATE TOTALS
Receipts						
Investment Income Received	$ 3,103,725	$ 2,673,805	$ 165,606	$ 19,552	$ 1,331,117	$ 30,842,139
Reinsurance Recovered	87,798	899,533	-	4,088	622,434	35,667,225
Premiums Collected	-	-	-	-	-	46,772
Salvage and Subrogation		-	791	-	-	358,773
Expense Reimbursement Received from NYSF	26,579	55,688	-	-	44,535	1,628,591
Return of Advanced Deposit from CDA			-	-		476,052
Release of Collateral	-	-	-	-	-	30,203
Litigation Awards	-	-	-	2,565,273	-	2,565,273
Miscellaneous Receipts	-	9,772	-	46	1,114	319,730
Total Receipts	3,218,102	3,638,798	166,397	2,588,959	1,999,200	71,934,758
Disbursements						
Dividend	-	7,041		-		61,630,261
Transfer to Segregated funds	-	-	-	2,565,273	-	2,565,273
Salvage and Subrogation Fees	-	-	-	-	-	4,000
Loss Adjustment Expense	20	-	-	-	-	20
NY Misc Special Revenue Fund	-	-	-	-	-	2,064,560
Collateral	90,556	-	-	-	-	255,472
Salaries	894,552	977,645	51,124	7,791	244,588	10,793,233
Employee Relations and Welfare	359,656	404,124	21,770	3,623	100,426	4,472,242
Rent and Related Expenses	246,144	267,365	14,128	2,229	66,056	2,914,680
Professional Fees	160,598	199,472	108,611	158,392	118,736	7,042,434
General and Administrative Expenses	68,371	119,471	2,964	497	13,672	775,459
Other Expenses	26,878	30,811	2,371	1,236	8,515	1,765,605
Closing cost						23,245
Total Disbursements	1,846,775	2,005,929	200,968	2,739,041	551,993	94,306,484
Net Increase of Receipts over Disbursements	1,371,327	1,632,869	(34,571)	(150,082)	1,447,207	(22,371,726)
Cash (Unrestricted), Beginning of Year	101,893,029	88,016,141	4,286,857	841,800	43,012,309	944,488,041
Unrealized Gain / (Loss)	108,475	247,062	(2,175)	-	329,073	2,174,901
Cash (Unrestricted), End of Year	$ 103,372,831	$ 89,896,072	$ 4,250,111	$ 691,718	$ 44,788,589	$ 924,291,216

Appendix B

December 31, 2007

The Domestic Estates in Liquidation Managed by the New York Liquidation Bureau

Schedule of Combined Estates Assets, Liabilities and Accumulated Surplus (Deficit) of Assets Over Liabilities, and Cash Receipts and Disbursements and Changes in Cash and Invested Assets – Modified Cash Basis

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2007

	MMLA	MAGNAHEALTH	MMIA	GROUP COUNCIL	AAIC	CMIC
Assets						
Unrestricted Assets:						
Cash	$ 3,237,969	$ 2,192,251	$ 1,798,606	$ 2,243,866	$ 2,356,054	$ 2,530,367
Invested Assets:						
Short-term Investments, at fair value	1,048,905	-	-	-	6,962,863	7,956,883
Bonds, at fair value	63,324,435	-	-	-	4,598,420	-
Total Invested Assets	64,373,340	-	-	-	11,561,283	7,956,883
Total Cash and Invested Assets	67,611,309	2,192,251	1,798,606	2,243,866	13,917,337	10,487,250
Reinsurance Recoverables on Paid Losses and LAE	-	-	-	23,068,855	10,951	12,347,348
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	-	-	-	(23,068,855)	-	(12,347,348)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	10,951	-
Reinsurance Recoverables on UnPaid Losses and LAE	-	-	-	-	519,654	2,564,097
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	-	(2,564,097)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	519,654	-
Receivable from Affiliates	-	-	-	2,658,524	2,151,242	1,443,473
Accrued Investment Income	691,662	-	-	-	91,197	50,372
Other Assets	-	-	-	-	-	38,948
Total Unrestricted Assets	68,302,971	2,192,251	1,798,606	4,902,390	16,690,381	12,020,043
Restricted Assets:						
Statutory Deposits in This or Other States	-	-	-	-	-	-
Other Restricted Assets	-	-	5,819	498,750	18,704	303,666
Total Restricted Assets	-	-	5,819	498,750	18,704	303,666
Total Assets	$ 68,302,971	$ 2,192,251	$ 1,804,425	$ 5,401,140	$ 16,709,085	$ 12,323,709

See accompanying report of indipendent auditors

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2007

	CCSC	FCIC	GALAXY	HMIC	NYMB	NYSCO
Assets						
Unrestricted Assets:						
Cash	$ 871,549	$ 5,792,096	$ 1,492,597	$ 880,005	$ 6,703,086	$ 1,131,166
Invested Assets:						
Short-term Investments, at fair value	496,517	24,001,986	9,269,838	6,125,617	-	-
Bonds, at fair value	-	34,736,701	8,992,312	2,750,000	8,616,800	-
Total Invested Assets	496,517	58,738,687	18,262,150	8,875,617	8,616,800	-
Total Cash and Invested Assets	1,368,066	64,530,783	19,754,747	9,755,622	15,319,886	1,131,166
Reinsurance Recoverables on Paid Losses and LAE	602,446	275,502	432,724	1,987,843	21,077,983	3,285,526
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(602,446)	-	(432,724)	(1,987,843)	(21,077,983)	(3,285,526)
Net Reinsurance Recoverables on Paid Losses and LAE	-	275,502	-	-	-	-
Reinsurance Recoverables on UnPaid Losses and LAE	763,204	8,709,310	1,884,342	464,706	7,378,764	906,418
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(763,204)	-	(1,884,342)	(464,706)	(7,378,764)	(906,418)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	8,709,310	-	-	-	-
Receivable from Affiliates	17,244	2,764,199	1,266,449	262,018	5,031,776	77,975
Accrued Investment Income	1,983	720,815	216,728	79,269	64,092	-
Other Assets	-	34,330	-	288,460	104,034	-
Total Unrestricted Assets	1,387,293	77,034,939	21,237,924	10,385,369	20,519,788	1,209,141
Restricted Assets:						
Statutory Deposits in This or Other States	-	-	-	-	-	-
Other Restricted Assets	156,523	503,651	130,567	-	3,097,217	1,234,215
Total Restricted Assets	156,523	503,651	130,567	-	3,097,217	1,234,215
Total Assets	$ 1,543,816	$ 77,538,590	$ 21,368,491	$ 10,385,369	$ 23,617,005	$ 2,443,356

See accompanying report of indipendent auditors

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2007

	REALM	TRANSTATE	U.S. CAPITAL	CONSOLIDATED	MIDLAND	ELIMINATION OF IBNR	MIDLAND (ADJUSTED)
Assets							
Unrestricted Assets:							
Cash	$ 951,465	$ 9,657,146	$ 925,032	$ 1,790,626	$ 37,503,206		$ 37,503,206
Invested Assets:							
Short-term Investments, at fair value	-	11,608,827	248,258	5,292,972	275,276,212		275,276,212
Bonds, at fair value	1,321,253	30,907,558	10,101,904	2,738	63,215,315		63,215,315
Total Invested Assets	1,321,253	42,516,385	10,350,162	5,295,710	338,491,527	-	338,491,527
Total Cash and Invested Assets	2,272,718	52,173,531	11,275,194	7,086,336	375,994,733	-	375,994,733
Reinsurance Recoverables on Paid Losses and LAE	3,451,619	74,629	523,586	1,411,497	144,852,332		144,852,332
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(3,451,619)	(159)	(523,586)	(1,411,497)	(76,457,102)		(76,457,102)
Net Reinsurance Recoverables on Paid Losses and LAE	-	74,470	-	-	68,395,230	-	68,395,230
Reinsurance Recoverables on UnPaid Losses and LAE	22,403,748	15,385,818	181,651	749,062	1,802,128,833	(558,717,500)	1,243,411,333
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(22,403,748)	(11,000,000)	(181,651)	(749,062)	(1,344,407,019)	495,861,781	(848,545,238)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	4,385,818	-	-	457,721,814	(62,855,719)	394,866,095
Receivable from Affiliates	951,408	360,626	287,527	214,000	1,804,231		1,804,231
Accrued Investment Income	18,194	650,643	91,374	42,251	4,380,444	-	4,380,444
Other Assets	3,061,730	-	-	-	-		-
Total Unrestricted Assets	6,304,050	57,645,088	11,654,095	7,342,587	908,296,452	(62,855,719)	845,440,733
Restricted Assets:							
Statutory Deposits in This or Other States	1,688,995	-	-	-	8,165,255		8,165,255
Other Restricted Assets	40,496	-	114,059	394,121	1,422,838	-	1,422,838
Total Restricted Assets	1,729,491	-	114,059	394,121	9,588,093	-	9,588,093
Total Assets	$ 8,033,541	$ 57,645,088	$ 11,768,154	$ 7,736,708	$ 917,884,545	$ (62,855,719)	$ 855,028,826

See accompanying report of indipendent auditors

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2007

	MIDPAC	ELIMINATION OF IBNR	MIDPAC (ADJUSTED)	WHITING	ACIC	AMERICAN FIDELITY
Assets						
Unrestricted Assets:						
Cash	$ 1,023,095		$ 1,023,095	$ 1,208,282	$ 200,217	$ 1,849,828
Invested Assets:						
Short-term Investments, at fair value	4,689,451		4,689,451	5,642,603	3,536,173	14,101,672
Bonds, at fair value	2,798,160		2,798,160	1,501,800	-	1,399,680
Total Invested Assets	7,487,611	-	7,487,611	7,144,403	3,536,173	15,501,352
Total Cash and Invested Assets	8,510,706	-	8,510,706	8,352,685	3,736,390	17,351,180
Reinsurance Recoverables on Paid Losses and LAE	417,661		417,661	-	5,724,946	1,578,347
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(153,267)		(153,267)	-	(5,724,946)	(1,578,347)
Net Reinsurance Recoverables on Paid Losses and LAE	264,394	-	264,394	-	-	-
Reinsurance Recoverables on UnPaid Losses and LAE	6,446,949	(2,491,710)	3,955,239	10,833	589,066	464,708
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(3,584,273)	2,224,424	(1,359,849)	(10,833)	(589,066)	(464,708)
Net Reinsurance Recoverables on Unpaid Losses and LAE	2,862,676	(267,286)	2,595,390	-	-	-
Receivable from Affiliates	40,000		40,000	145,435	177,592	257,722
Accrued Investment Income	44,295		44,295	80,737	29,562	113,385
Other Assets	-		-	-	-	-
Total Unrestricted Assets	11,722,071	(267,286)	11,454,785	8,578,857	3,943,544	17,722,287
Restricted Assets:						
Statutory Deposits in This or Other States	-		-	-	-	185,250
Other Restricted Assets	-		-	111,354	40,260	204,262
Total Restricted Assets	-	-	-	111,354	40,260	389,512
Total Assets	$ 11,722,071	$ (267,286)	$ 11,454,785	$ 8,690,211	$ 3,983,804	$ 18,111,799

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Assets - Modified Cash Basis
As of December 31, 2007

	UNION	IDEAL	HORIZON	NASSAU	COSMOPOLITAN	ESTATE TOTALS
Assets						
Unrestricted Assets:						
Cash	$ 24,043,790	$ 8,902,935	$ 583,527	$ 841,800	$ 5,924,385	$ 126,634,946
Invested Assets:						
Short-term Investments, at fair value	47,619,379	42,122,207	-	-	31,555,924	497,556,287
Bonds, at fair value	30,229,860	36,991,000	3,703,330	-	5,532,000	310,723,266
Total Invested Assets	77,849,239	79,113,207	3,703,330	-	37,087,924	808,279,553
Total Cash and Invested Assets	101,893,029	88,016,142	4,286,857	841,800	43,012,309	934,914,499
Reinsurance Recoverables on Paid Losses and LAE	48,575,195	54,396,863	33,095,011	12,976,222	4,851,844	375,018,930
Less: Allowance for Uncollectible Reinsurance Recoverables on Paid Losses and LAE	(48,575,195)	(54,396,863)	(33,095,011)	(12,976,222)	(4,851,844)	(305,998,383)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	-	69,020,547
Reinsurance Recoverables on UnPaid Losses and LAE	1,117,885	8,368,573	445,582	-	9,334,337	1,329,608,330
Less: Allowance for Uncollectible Reinsurance Recoverables on Unpaid Losses and LAE	(1,117,885)	(8,368,573)	(445,582)	-	(9,334,337)	(918,532,063)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	-	411,076,267
Receivable from Affiliates	1,295,161	1,034,255	517,717	-	249,892	23,008,466
Accrued Investment Income	1,160,515	670,799	70,917	-	165,512	9,434,746
Other Assets	1	-	-	-	964,741	4,492,244
Total Unrestricted Assets	104,348,706	89,721,196	4,875,491	841,800	44,392,454	1,451,946,769
Restricted Assets:						
Statutory Deposits in This or Other States	351,704	3,359,691	-	-	-	13,750,895
Other Restricted Assets	5,778,291	3,247,769	329,775	10,790	902,499	18,545,626
Total Restricted Assets	6,129,995	6,607,460	329,775	10,790	902,499	32,296,521
Total Assets	$ 110,478,701	$ 96,328,656	$ 5,205,266	$ 852,590	$ 45,294,953	$ 1,484,243,290

See accompanying report of indipendent auditors

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2007

	MMLA	MAGNAHEALTH	MMIA	GROUP COUNCIL	AAIC	CMIC
Liabilities						
Secured Claims	$ -	$ -	$ 5,677	$ -	$ -	$ 56,206
Class One - Administrative Claims	89,012	128,595	93,166	2,376,864	6,739,439	3,724,804
Class Two - Claims and Related Costs						
Allowed	-	-	-	165,691,942	43,210,211	37,475,484
Non Allowed	-	-	-	141,555,902	8,336,815	5,586,461
IBNR	-	-	-	-	-	-
Total - Class Two	-	-	-	307,247,844	51,547,026	43,061,945
Class Three - Federal Government Claims:	-	-	-	-	-	441
Class Four - Employee Claims:	-	-	-	4,425	-	3,123
Class Five - State and Local Government Claims:	-	-	-	22,828	306,878	52,295
Class Six - General Creditors Claims:	-	-	-	56,799,957	682,397	3,906,866
Class Seven - Late Filed Claims:	-	-	-	-	335	-
Class Eight - Section 1307 (Shareholder) Loans:	-	-	-	-	-	-
Class Nine - Shareholder Claims:	-	-	-	-	-	-
Total Liabilities	89,012	128,595	98,843	366,451,918	59,276,075	50,805,680
Liquidator's Surplus (Deficit)	68,213,959	2,063,656	1,705,582	(361,050,778)	(42,566,990)	(38,481,971)
Total Liabilities and Liquidator's Surplus (Deficit)	$ 68,302,971	$ 2,192,251	$ 1,804,425	$ 5,401,140	$ 16,709,085	$ 12,323,709

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2007

	CCSC	FCIC	GALAXY	HMIC	NYMB	NYSCO
Liabilities						
Secured Claims	$ 156,523	$ 85,862	$ 130,567	$ -	$ 165,524	$ 1,234,215
Class One - Administrative Claims	559,108	7,598,467	3,534,544	3,769,178	8,083,721	618,909
Class Two - Claims and Related Costs						
Allowed	5,234,987	118,088,820	49,887,989	30,314,702	113,388,199	7,982,829
Non Allowed	1,506,738	30,772,199	5,144,910	1,114,799	11,748,652	2,571,323
IBNR	-	-	-	-	-	-
Total - Class Two	6,741,725	148,861,019	55,032,899	31,429,501	125,136,851	10,554,152
Class Three - Federal Government Claims:	-	-	-	-	-	-
Class Four - Employee Claims:	-	-	-	-	-	-
Class Five - State and Local Government Claims:	7,941	874,434	2,720	126,590	482,493	17,725
Class Six - General Creditors Claims:	943,505	1,763,388	479,061	1,903,755	2,849,060	707,016
Class Seven - Late Filed Claims:	-	-	-	-	-	-
Class Eight - Section 1307 (Shareholder) Loans:	60,000	1	-	-	-	-
Class Nine - Shareholder Claims:	-	-	-	-	-	-
Total Liabilities	8,468,802	159,183,171	59,179,791	37,229,024	136,717,649	13,132,017
Liquidator's Surplus (Deficit)	(6,924,986)	(81,644,581)	(37,811,300)	(26,843,655)	(113,100,644)	(10,688,661)
Total Liabilities and Liquidator's Surplus (Deficit)	$ 1,543,816	$ 77,538,590	$ 21,368,491	$ 10,385,369	$ 23,617,005	$ 2,443,356

See accompanying report of independent auditors

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2007

	REALM	TRANSTATE	U.S. CAPITAL	CONSOLIDATED	MIDLAND	ELIMINATION OF IBNR	MIDLAND (ADJUSTED)
Liabilities							
Secured Claims	$ 161,865	$ -	$ 112,559	$ 338,456	$ 1,383,528	$ -	$ 1,383,528
Class One - Administrative Claims	2,995,515	2,445,590	1,962,289	1,051,246	16,936,594	-	16,936,594
Class Two - Claims and Related Costs							
Allowed	3,338,876	73,466,582	30,363,744	13,459,517	541,092,065		541,092,065
Non Allowed	63,703,297	10,641,542	1,789,468	-	1,447,248,795		1,447,248,795
IBNR	-	-	-	-	605,000,000	(605,000,000)	-
Total - Class Two	67,042,173	84,108,124	32,153,212	13,459,517	2,593,340,860	(605,000,000)	1,988,340,860
Class Three - Federal Government Claims:	-	-	-	-	-		-
Class Four - Employee Claims:	2,616	-	-	-	-		-
Class Five - State and Local Government Claims:	61,013	-	109,175	3,053	8,317,575		8,317,575
Class Six - General Creditors Claims:	24,981,769	931,512	3,782,937	3,314,198	153,243,839		153,243,839
Class Seven - Late Filed Claims:	401	-	-	15,120,795	170,033,011		170,033,011
Class Eight - Section 1307 (Shareholder) Loans:	-	-	-	-	-		-
Class Nine - Shareholder Claims:	-	-	-	-	-		-
Total Liabilities	95,245,352	87,485,226	38,120,172	33,287,265	2,943,255,407	(605,000,000)	2,338,255,407
Liquidator's Surplus (Deficit)	(87,211,811)	(29,840,138)	(26,352,018)	(25,550,557)	(2,025,370,862)	605,000,000	(1,483,226,581)
Total Liabilities and Liquidator's Surplus (Deficit)	$ 8,033,541	$ 57,645,088	$ 11,768,154	$ 7,736,708	$ 917,884,545	$ (62,855,719)	$ 855,028,826

See accompanying report of independent auditors

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2007

	MIDPAC	ELIMINATION OF IBNR	MIDPAC (ADJUSTED)	WHITING	ACIC	AMERICAN FIDELITY
Liabilities						
Secured Claims	$ -	$ -	$ -	$ 1,042	$ 34,217	$ 162,948
Class One - Administrative Claims	446,899	-	446,899	625,754	590,970	943,911
Class Two - Claims and Related Costs						
Allowed	-		-	26,063,658	17,572,188	47,846,347
Non Allowed	7,500,036		7,500,036	121,201	26,094	1,917,254
IBNR	3,900,000	(3,900,000)	-	-	-	-
Total - Class Two	11,400,036	(3,900,000)	7,500,036	26,184,859	17,598,282	49,763,601
Class Three - Federal Government Claims:	-		-	-	-	-
Class Four - Employee Claims:	-		-	-	-	-
Class Five - State and Local Government Claims:	-		-	-	44,842	92,237
Class Six - General Creditors Claims:	1,218		1,218	8,370,504	5,353,253	9,459,371
Class Seven - Late Filed Claims:	-		-	51,242	67,852	6,324,613
Class Eight - Section 1307 (Shareholder) Loans:	-		-	-	-	-
Class Nine - Shareholder Claims:	-		-	-	-	-
Total Liabilities	11,848,153	(3,900,000)	7,948,153	35,233,401	23,689,416	66,746,681
Liquidator's Surplus (Deficit)	(126,082)	3,900,000	3,506,632	(26,543,190)	(19,705,612)	(48,634,882)
Total Liabilities and Liquidator's Surplus (Deficit)	$ 11,722,071	$ (267,286)	$ 11,454,785	$ 8,690,211	$ 3,983,804	$ 18,111,799

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estates Liabilities and Accumulated Surplus (Deficit) of Assets over Liabilities - Modified Cash Basis
As of December 31, 2007

	UNION	IDEAL	HORIZON	NASSAU	COSMOPOLITAN	ESTATE TOTALS
Liabilities						
Secured Claims	$ 6,036,927	$ 3,143,588	$ 298,972	$ -	$ 932,590	$ 14,441,266
Class One - Administrative Claims	4,619,901	7,754,445	976,640	33,040	1,522,386	80,220,987
Class Two - Claims and Related Costs						
Allowed	238,310,606	250,250,909	68,315,026	38,512,801	51,883,021	1,971,750,503
Non Allowed	35,533,458	343,752,823	89,329	78,082	17,311,164	2,138,050,342
IBNR	-	-	-	-	-	-
Total - Class Two	273,844,064	594,003,732	68,404,355	38,590,883	69,194,185	4,109,800,845
Class Three - Federal Government Claims:	137,245	-	-	-	-	137,686
Class Four - Employee Claims:	-	-	-	-	-	10,164
Class Five - State and Local Government Claims:	71,337	280,887	-	77,966	7,476	10,959,465
Class Six - General Creditors Claims:	161,039,018	101,265,872	628,562	587,206	18,559,212	561,553,476
Class Seven - Late Filed Claims:	72,046,219	70,961,251	23,758,815	3,943,046	9,973,857	372,281,437
Class Eight - Section 1307 (Shareholder) Loans:	-	-	-	-	-	60,001
Class Nine - Shareholder Claims:	-	-	-	-	-	-
Total Liabilities	517,794,711	777,409,775	94,067,344	43,232,141	100,189,706	5,149,465,327
Liquidator's Surplus (Deficit)	(407,316,010)	(681,081,119)	(88,862,078)	(42,379,551)	(54,894,753)	(3,665,222,037)
Total Liabilities and Liquidator's Surplus (Deficit)	$ 110,478,701	$ 96,328,656	$ 5,205,266	$ 852,590	$ 45,294,953	$ 1,484,243,290

See accompanying report of independent auditors

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estate Cash Receipts and Disbursements and Changes in Cash and Invested Assets - Modifed Cash Basis
December 31, 2007

	MMLA	MAGNAHEALTH	MMIA	GROUP COUNCIL	AAIC	CMIC	CCSC	FCIC
Receipts								
Investment Income Received	$ 2,541,059	$ 103,940	$ 29,696	$ 92,141	$ 866,201	$ 449,945	$ 59,662	$ 2,770,033
Reinsurance Recovered	-	-	-	50,404	494,352	785,374	7,664	90,152
Premiums Collected	-	-	1,768,910	88,073	-	-	-	-
Salvage and Subrogation	-	-	-	-	2,308	-	1,547	-
Expense Reimbursement Received from NYSF	-	-	-	-	-	1,757,945	-	-
Partial payment of WCP loan	-	-	-	-	-	-	-	977,313
Release of Special Deposit	-	-	-	-	-	-	-	-
Miscellaneous Receipts	-	785	-	68,326	1,255	75,460	-	312,879
Total Receipts	2,541,059	104,725	1,798,606	298,944	1,364,116	3,068,724	68,873	4,150,377
Disbursements								
Advanced to Affiliate	-	-	-	-	-	73,350	-	-
Dividend	-	212,610	-	-	4,747,488	-	-	792,666
Escrow Account for Abandoned Property	-	-	102,315	-	-	-	-	-
Loss Adjustment Expense	-	-	3,878	-	-	-	-	316
Refund to New York Security Fund	-	-	-	-	-	-	-	-
Salaries	21,237	7,661	228,067	18,657	209,618	79,987	36,446	118,415
Employee Relations and Welfare	9,411	1,145	153,065	7,396	96,597	33,058	10,967	47,461
Rent and Related Expenses	6,394	2,699	61,332	5,191	57,101	22,916	9,044	27,464
Professional Fees	1,415	14,101	98,464	3,133	8,481	16,244	718	874
General and Administrative Expenses	24,154	368	9,762	2,191	28,676	4,028	1,755	4,417
Other Expenses	384	2,460	8,458	750	1,834	1,775	1,035	2,865
Total Disbursements	62,995	241,044	665,341	37,318	5,149,795	231,358	59,965	994,478
Net Increase of Receipts over Disbursements	2,478,064	(136,319)	1,133,265	261,626	(3,785,679)	2,837,366	8,908	3,155,899
Cash (Unrestricted), Beginning of Year	63,642,480	2,328,570	665,341	1,982,240	17,568,549	7,611,836	1,353,516	60,670,830
Unrealized Gain / (Loss)	1,490,765	-	-	-	134,467	38,048	5,642	704,054
Cash (Unrestricted), End of Year	$ 67,611,309	$ 2,192,251	$ 1,798,606	$ 2,243,866	$ 13,917,337	$ 10,487,250	$ 1,368,066	$ 64,530,783

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estate Cash Receipts and Disbursements and Changes in Cash and Invested Assets - Modifed Cash Basis
December 31, 2007

	GALAXY	HMIC	NYMB	NYSCO	REALM	TRANSTATE	U.S. CAPITAL	CONSOLIDATED
Receipts								
Investment Income Received	$ 790,527	$ 521,590	$ 1,390,708	$ 48,012	$ 82,193	$ 2,436,662	$ 488,901	$ 393,218
Reinsurance Recovered	144,645	-	489,675	-	51,231	441,443	67,020	-
Premiums Collected	-	-	-	-	20,337	-	-	-
Salvage and Subrogation	800	-	486	-	312,517	-	-	-
Expense Reimbursement Received from NYSF	-	-	3,388,724	126,552	-	-	-	-
Partial payment of WCP loan	-	-	-	-	-	64,154	-	-
Release of Special Deposit	-	-	-	-	-	-	-	-
Miscellaneous Receipts	29,457	41,868	14,972	-	322,904	-	2,781	736
Total Receipts	965,429	563,458	5,284,565	174,564	789,182	2,942,259	558,702	393,954
Disbursements								
Advanced to Affiliate	-	-	-	-	-	-	-	-
Dividend	-	-	18,836,493	-	-	-	-	-
Escrow Account for Abandoned Property	-	-	-	-	-	-	-	-
Loss Adjustment Expense	-	-	-	-	-	-	-	-
Refund to New York Security Fund	-	-	-	-	-	-	-	21,216
Salaries	626	32,898	118,278	28,197	-	59,611	32,971	22,401
Employee Relations and Welfare	3	11,293	45,168	12,263	-	25,708	17,507	10,069
Rent and Related Expenses	-	10,649	30,975	8,106	-	22,767	13,923	7,431
Professional Fees	20,770	204,192	484,261	1,104	-	3,495	832	1,248
General and Administrative Expenses	-	2,324	4,993	1,775	-	5,069	876	2,349
Other Expenses	-	185	3,304	591	-	444	730	220
Total Disbursements	21,399	261,541	19,523,472	52,036	-	117,094	66,839	64,934
Net Increase of Receipts over Disbursements	944,030	301,917	(14,238,907)	122,528	789,182	2,825,165	491,863	329,020
Cash (Unrestricted), Beginning of Year	18,493,955	9,390,196	29,270,971	1,008,638	1,438,487	48,753,442	10,598,307	6,757,649
Unrealized Gain / (Loss)	316,762	63,509	287,822	-	45,049	594,924	185,024	(333)
Cash (Unrestricted), End of Year	$ 19,754,747	$ 9,755,622	$ 15,319,886	$ 1,131,166	$ 2,272,718	$ 52,173,531	$ 11,275,194	$ 7,086,336

See accompanying report of independent auditors

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estate Cash Receipts and Disbursements and Changes in Cash and Invested Assets - Modifed Cash Basis
December 31, 2007

	MIDLAND	MIDPAC	WHITING	ACIC	AMERICAN FIDELITY	UNION	IDEAL	HORIZON
Receipts								
Investment Income Received	$ 15,769,512	$ 397,648	$ 479,934	$ 199,490	$ 798,581	$ 4,505,498	$ 3,995,152	$ 208,134
Reinsurance Recovered	146,161,838	766,794	22,474	126	4,088	24,918	2,314,192	-
Premiums Collected	-	-	-	-	-	-	-	-
Salvage and Subrogation	12,321	-	-	-	-	216,000	333	514
Expense Reimbursement Received from NYSF	-		-	-	-	-	-	-
Partial payment of WCP loan	1,068,481	-	-	-	-	145,980	1,654,593	-
Release of Special Deposit	52,593	-	-	-	-	90,556	-	-
Miscellaneous Receipts	149,472	-	40	-	-	-	-	-
Total Receipts	163,214,217	1,164,442	502,448	199,616	802,669	4,982,952	7,964,270	208,648
Disbursements								
Advanced to Affiliate	-	-	-	-	-	-	-	-
Dividend	35,276,952	-	16,344	33,516	6,420	-	471,199	39,639
Escrow Account for Abandoned Property	-	-	-	-	-	-	-	-
Loss Adjustment Expense	-	-	-	-	-	-	-	-
Refund to New York Security Fund	-	-	-	-	-	-	-	-
Salaries	1,740,426	34,541	35,612	49,714	44,370	198,511	468,035	23,319
Employee Relations and Welfare	652,023	13,024	12,257	20,999	20,375	72,815	171,740	9,905
Rent and Related Expenses	470,712	8,941	8,829	13,910	12,685	51,851	123,052	6,888
Professional Fees	16,067,611	55,905	1,662	1,470	1,557	25,231	22,445	1,353
General and Administrative Expenses	126,737	2,423	2,637	3,549	5,820	12,142	30,682	2,360
Other Expenses	39,378	498	238	808	397	3,012	11,142	1,116
Total Disbursements	54,373,839	115,332	77,579	123,966	91,624	363,562	1,298,295	84,580
Net Increase of Receipts over Disbursements	108,840,378	1,049,110	424,869	75,650	711,045	4,619,390	6,665,975	124,068
Cash (Unrestricted), Beginning of Year	266,115,334	7,415,688	7,909,927	3,642,713	16,527,284	96,627,635	80,267,360	4,114,319
Unrealized Gain / (Loss)	1,039,021	45,908	17,889	18,027	112,851	646,004	1,082,807	48,470
Cash (Unrestricted), End of Year	$ 375,994,733	$ 8,510,706	$ 8,352,685	$ 3,736,390	$ 17,351,180	$ 101,893,029	$ 88,016,142	$ 4,286,857

Domestic Estates in Liquidation Managed by the New York Liquidation Bureau
Schedule of Combined Estate Cash Receipts and Disbursements and Changes in Cash and Invested Assets - Modifed Cash Basis
December 31, 2007

	NASSAU	COSMOPOLITAN	ESTATE TOTALS
Receipts			
Investment Income Received	$ 32,955	$ 1,974,708	$ 41,426,100
Reinsurance Recovered	33,672	105,995	152,056,057
Premiums Collected	-	-	1,877,320
Salvage and Subrogation	-	-	546,826
Expense Reimbursement Received from NYSF	-	-	5,273,221
Partial payment of WCP loan	-	2,138,321	6,048,842
Release of Special Deposit	-	-	143,149
Miscellaneous Receipts	-	100	1,021,035
Total Receipts	66,627	4,219,124	208,392,550
Disbursements			
Advanced to Affiliate	-	-	73,350
Dividend	-	653,177	61,086,504
Escrow Account for Abandoned Property	-	-	102,315
Loss Adjustment Expense	-	-	4,194
Refund to New York Security Fund	-	-	21,216
Salaries	-	109,327	3,718,925
Employee Relations and Welfare	-	47,225	1,501,474
Rent and Related Expenses	-	30,288	1,013,148
Professional Fees	-	3,018	17,039,584
General and Administrative Expenses	-	5,131	284,218
Other Expenses	-	2,756	84,380
Total Disbursements	-	850,922	84,929,308
Net Increase of Receipts over Disbursements	66,627	3,368,202	123,463,242
Cash (Unrestricted), Beginning of Year	775,173	39,535,673	804,466,113
Unrealized Gain / (Loss)	-	108,434	6,985,144
Cash (Unrestricted), End of Year	$ 841,800	$ 43,012,309	$ 934,914,499

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK
IN REHABILITATION

Statutory Basis Balance Sheets

As of December 31, 2008 and 2007
With Report of Independent Auditors

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK
IN REHABILITATION

Statutory Basis Balance Sheets

As of December 31, 2008 and 2007
With Report of Independent Auditors

Report of Independent Auditors

To the Superintendent of Insurance of the State of New York as Rehabilitator and the Management of Executive Life Insurance Company of New York in Rehabilitation

We have audited the accompanying statutory basis balance sheets of Executive Life Insurance Company of New York in Rehabilitation (the "Company") as of December 31, 2008 and 2007. These statutory basis balance sheets are the responsibility of the Company's management. Our responsibility is to express an opinion on these statutory basis balance sheets based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the statutory basis balance sheets are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory basis balance sheets, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statutory basis balance sheets presentation. We believe that our audits of the statutory basis balance sheets provide a reasonable basis for our opinion.

As described in Note 2, the accompanying statutory basis balance sheets have been prepared in conformity with accounting practices prescribed or permitted by the New York State Insurance Department ("Insurance Department"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As more fully described in Note 6 to the statutory basis balance sheets, the Company did not calculate or disclose the components of deferred taxes in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 10, *Income Taxes*, which is not in conformity with the accounting practices prescribed or permitted by the Insurance Department as described in Note 2.

In our opinion, except for not calculating and disclosing the components of deferred taxes in accordance with SSAP No. 10, as discussed in the preceding paragraph, the statutory basis balance sheets referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, in conformity with accounting practices prescribed or permitted by the Insurance Department, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America as described in Note 2.

The accompanying statutory basis balance sheets have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the statutory basis balance sheets, the Company has been in rehabilitation since 1991 and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 1. The statutory basis balance sheets do not include any adjustments that might result from the outcome of this uncertainty.

As more fully described in Note 1 to the statutory basis balance sheets, the Company changed the valuation basis of its life insurance and annuity reserves resulting in a significant decrease to life insurance and annuity reserves of $76,788,748 as of December 31, 2007 which is recorded through unassigned deficit on the statutory basis balance sheets. As of December 31, 2008, there was no change in the valuation basis.

This report is intended solely for the information of and restricted to the use of the Superintendent of Insurance of the State of New York as Rehabilitator and management of the Company and is not intended to be and should not be used by other than the above specified parties.

Amper, Politziner & Mattia, LLP

July 28, 2010
New York, New York

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK IN REHABILITATION
Statutory Basis Balance Sheets
As of December 31,

	2008	2007
Admitted assets		
Cash and invested assets:		
Bonds	$744,975,995	$858,335,662
Preferred and Common stocks	282,009,954	461,523,820
Cash, cash equivalents and short-term investments	942,016	10,862,506
Receivables for securities	1,391,313	-
Total cash and invested assets	1,029,319,278	1,330,721,988
Accrued investment income	12,444,561	13,357,916
Revolving fund	650,000	650,000
Total admitted assets	$1,042,413,839	$1,344,729,904
Liabilities and capital and deficit		
Liabilities:		
Life insurance and annuity reserves	$2,293,209,794	$2,301,907,670
Claims in course of settlement and unreported claims	7,026,210	7,396,441
Interest maintenance reserve	93,247,417	94,977,870
Asset valuation reserve	-	92,372,596
Amounts withheld or retained by company as agent (claim-overs)	36,504,030	35,096,259
Amounts held for agents' account	3,825,418	3,825,418
General expenses due and accrued	3,767,861	2,852,768
Drafts outstanding	119,103	119,103
Total liabilities	2,437,699,833	2,538,548,125
Capital and deficit:		
Common stock	14,392,214	14,392,214
Gross paid-in and contributed surplus	336,493,729	336,493,729
Unassigned deficit	(1,746,171,937)	(1,544,704,164)
Total capital and deficit	(1,395,285,994)	(1,193,818,221)
Total liabilities and capital and deficit	$1,042,413,839	$1,344,729,904

See accompanying notes to the Statutory Basis Balance Sheets. The Statutory Basis Balance Sheets and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein) and are not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based upon such person's or entity's use of or reliance upon the Statutory Basis Balance Sheets and accompanying notes.

Note 1: Business Plan and Management Directives

Introduction

Executive Life Insurance Company of New York ("ELNY") is a subsidiary of Executive Life Insurance Company ("ELIC"), a California company. ELNY was licensed to write various lines of life insurance and annuities, including traditional life policies, single premium deferred annuities ("SPDAs"), single premium immediate annuities ("SPIAs") and closeout qualified retirement accounts ("CQRAs").

Causes of Rehabilitation

In early 1991, ELNY received considerable adverse publicity relating primarily to the distressed asset portfolio of its parent company, ELIC. This adverse publicity increased with the commencement of conservation proceedings against ELIC on April 11, 1991. An April 12, 1991 report ("Report") of the Assistant Deputy Superintendent and Chief Examiner of the Life Insurance Companies Bureau of the New York State Insurance Department ("Insurance Department") stated that the adverse publicity concerning ELNY had caused policyholders, creditors and the public to lose confidence in ELNY, as indicated by an acceleration of cash surrenders by policyholders. The Report further stated that the increase in surrenders had caused a material erosion of ELNY's assets to the detriment of policyholders with nonsurrenderable policies, primarily structured settlement annuities. On the basis of the Report and other information, the Superintendent of Insurance of the State of New York ("Superintendent") concluded that further transaction of business by ELNY would be hazardous to its policyholders and creditors and the public.

History

Pursuant to an order ("Rehabilitation Order") of the Supreme Court of the State of New York, County of Nassau ("Receivership Court"), ELNY was placed into rehabilitation on April 23, 1991, and the then-Superintendent (and his successors in office) was appointed Rehabilitator of ELNY ("Rehabilitator"). The Rehabilitation Order directed the Rehabilitator to, among other things, take possession of the property of ELNY, conduct the business of ELNY, and take steps toward the removal of the causes and conditions which made the rehabilitation proceeding necessary.

Separate from his capacity as regulator, the Superintendent acts in his capacity as receiver ("Receiver") when he is appointed as rehabilitator, liquidator, conservator or ancillary receiver of an impaired insurance company pursuant to Insurance Law Article 74. Pursuant to Insurance Law Section 7422, the Receiver may appoint special deputy and assistant special deputy superintendents as his agents. The agents carry out, through the New York Liquidation Bureau ("NYLB"), the responsibilities of each and every estate under the statutory supervision of the Receiver where the agents have been appointed as agents of the Receiver

Note 1: Business Plan and Management Directives (continued)

History (continued)

("Estate"), including ELNY. The NYLB manages the daily operations of all Estates.

On July 24, 1991, the Receivership Court entered an order approving and confirming the Rehabilitator's engagement of Credit Suisse Asset Management ("CSAM"), formerly First Boston Asset Management Corporation, as investment advisor. The Rehabilitation Order further provided the Rehabilitator with relief from Insurance Law Section 7424, thereby permitting the Rehabilitator to invest funds in vehicles other than state or national banks, savings banks or trust companies.

Thereafter, the Rehabilitator, with his advisors, began a thorough analysis of ELNY's assets and liabilities and consulted with members of the Life Insurance Company Guaranty Corporation of New York and potentially interested life insurers concerning possible dispositions of ELNY's assets. During that process, those life insurers having the financial wherewithal to run ELNY's business made it clear they would not accept ELNY's high-yield bonds in connection with an acquisition of any part of ELNY's business. However, the Rehabilitator, in consultation with his advisors, recognized that a liquidation of ELNY's bond portfolio would crystallize the losses contained therein, thereby eliminating the possibility of recovery.

After extensive review, the Rehabilitator concluded that the best alternative for maximizing policyholder benefits would be: (1) the sale of ELNY's SPDAs and life insurance policies, as described in Note 7, and the transfer by ELNY of assets, other than high-yield bonds, to support such transfer net of a ceding commission; and (2) the retention by ELNY of its SPIAs and CQRAs (typically issued in connection with structured settlements and pension close-outs, respectively) together with its other assets, including its then-substantial holdings of high-yield bonds. This transaction structure was supported by stochastic simulation modeling performed by the Rehabilitator's outside actuarial advisor. The modeling indicated that ELNY would be able to meet 100 percent of its remaining SPIA obligations in more than 90 percent of 500 randomly generated scenarios using base case assumptions concerning default and recovery rates on ELNY's bond portfolio and certain assumptions concerning equity returns and interest rates on reinvested assets. These investment assumptions were made in consultation with CSAM. As set forth below under the heading "Change in Reserve Valuation Basis," the assumptions ultimately proved to be overly optimistic and have been adjusted to bring the reserves to a more realistic level.

In his subsequent solicitation of ELNY transaction proposals, the Rehabilitator indicated he was particularly interested in potential purchasers of the SPDAs and

Note 1: Business Plan and Management Directives (continued)

History (continued)

life insurance policies who could also administer the payout of the SPIAs and CQRAs. After solicitation of proposals, the Rehabilitator negotiated such a transaction with Metropolitan Life Insurance Company ("MetLife"). The plan of rehabilitation ("Rehabilitation Plan"), including the transaction with MetLife, was approved by the Receivership Court on December 16, 1992.

The Rehabilitation Plan

The Rehabilitation Plan provides, among other things, that:

- Liability under the SPIAs and CQRAs remains with ELNY, under the supervision of the Rehabilitator.
- MetLife administers the payout of the SPIA and CQRA liabilities, subject to the Rehabilitator's discretion.
- An investment strategy concerning the reinvestment of ELNY's assets and consistent with the extremely long-term nature of the SPIA liabilities must be established and maintained.

Change in Reserve Valuation Basis for Life Insurance and Annuity Reserves

ELNY's management prior to April 2007 ("Prior Management") reported ELNY's reserve requirements on a basis of historic reserve standards solely for the purpose of comparison to prior periods. The use of historic reserve standards, primarily due to the decline in interest rates, substantially understates reserves when compared to reserves that would be required to satisfy regulatory requirements for a going concern insurance carrier (albeit, without factoring in cash flow testing requirements). The historic reserve standards used by Prior Management assumed valuation rates of between 10 percent and 11 percent.

In April 2007, the Receiver appointed a Special Deputy Superintendent, First Assistant Special Deputy Superintendent and Assistant Special Deputy Superintendents as agents of the Superintendent for the Estates and thereafter appointed a new Special Deputy Superintendent, First Assistant Special Deputy Superintendent and Assistant Special Deputy Superintendents (collectively, "Agents"). The Agents, the directors of the NYLB's divisions and other senior managers of the NYLB, are referred to herein as "Management."

In order to provide a more accurate picture of ELNY's finances as of December 31, 2006, Management calculated ELNY's reserve requirements on the then-current issue year statutory basis of 5.25 percent. For example, as of December 31, 2006, ELNY's reported reserves, using historic reserve standards, were $1,386,636,935, whereas the reserves for the same period, using the then-current year issue statutory basis, were $2,407,595,507. As of December 31, 2008, ELNY's reported reserves, using the then-current issue year statutory basis of 5.50 percent, were $2,293,209,794. The same reserves for 2007 were $2,301,907,670. As a result of this change in valuation basis, and in accordance with Statement of Statutory

Note 1: Business Plan and Management Directives (continued)

Change in Reserve Valuation Basis for Life Insurance and Annuity Reserves (continued)

Accounting Principles ("SSAP") No. 51, *Life Contracts and Corrections of Errors*, Management has recorded the following adjustments on the Statutory Basis Balance Sheets as unassigned deficit: (i) a decrease of $0 and $76,788,748 as of December 31, 2008 and 2007 respectively; and (ii) an increase of $1,020,958,572 as of December 31, 2006.

ELNY is in rehabilitation and, as shown in the Statutory Basis Balance Sheets, has a net capital deficiency. These factors raise substantial doubt about ELNY's ability to continue as a going concern. The Statutory Basis Balance Sheets do not include any adjustments that may be necessary if ELNY is unable to continue as a going concern.

Due to the increase in reserves as of December 31, 2006, Management has been working diligently with representatives of the life insurance industry and life guaranty funds, along with the owners of ELNY annuities (primarily property and casualty insurance companies), to develop a plan to raise sufficient funds to permit ELNY to meet all of its future obligations, although no guaranties can be made that such a plan will be finalized, approved and ultimately successful. The Change in Reserve Valuation Basis is discussed in further detail in Note 5 below.

Securities and Other Asset Management

As of December 31, 2008 and 2007, investments of assets were managed by CSAM in accordance with the investment guidelines established under the Rehabilitation Plan and may be modified in consultation with, and with the approval of, the Rehabilitator.

Note 2: Summary of Significant Accounting Policies

A. Accounting Practices

The *Accounting Practices and Procedures Manual* ("APP Manual") of the National Association of Insurance Commissioners ("NAIC") summarizes statutory accounting practices and provides guidance to regulatory agencies in formulating prescribed or permitted practices. The Insurance Department has adopted portions of the APP Manual, subject to exceptions, conflicts and additions set forth in Section 83.4 of 11 N.Y.C.R.R. 83 (Regulation 172) ("Prescribed Practices"). The Prescribed Practices used to prepare the Statutory Basis Balance Sheets are a comprehensive basis of accounting different from generally accepted accounting principles in the United States of America ("US GAAP").

Management elected to prepare ELNY's balance sheets as of December 31, 2008 and 2007 ("Statutory Basis Balance Sheets"), in accordance with Prescribed Practices.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Permitted statutory accounting practices include practices that differ from Prescribed Practices but that are allowed by the Insurance Department. Management did not seek permission from the Insurance Department to deviate from the Prescribed Practices. As a result, there are no permitted practices applicable to ELNY. The outcome of applying the Prescribed Practices to ELNY would not be significantly different from the outcome of applying the APP Manual to ELNY.

Below are the significant differences between the Prescribed Practices and US GAAP:

Invested Assets

Pursuant to the Prescribed Practices, investments in bonds are reported at amortized cost or fair market value based on their NAIC rating. Pursuant to US GAAP, such fixed-maturity investments would be designated at purchase as held-to-maturity, trading or available-for-sale. Held-to-maturity investments under US GAAP would be reported at amortized cost. Trading investments under US GAAP would be reported at fair market value, with unrealized gains and losses reported in the statement of operations. Available-for-sale investments under US GAAP would be reported at fair market value, with unrealized gains and losses reported as a separate component of shareholders' equity in the category of other comprehensive income. If it is determined that a decline in fair market value is other than temporary, then the cost basis of the security is written down to the fair market value.

Pursuant to the Prescribed Practices, cumulative and current year changes in unrealized gains and losses are included in unassigned surplus, net of deferred taxes. For US GAAP purposes, unrealized gains or losses are recognized in surplus or income, depending on whether management plans to hold or actively trade the related securities.

Pursuant to the Prescribed Practices, asset-backed securities (*e.g.*, mortgage-backed securities) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using either the retrospective or prospective methods. If it is determined that a decline in fair market value is other-than-temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows. Under US GAAP, all asset-backed securities, other than high credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If high credit quality securities are adjusted, the retrospective method is used. If it is determined that a decline in fair market value is other-than-temporary, the cost basis of the security is written down to the discounted fair market value.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Special Statutory Reserves

Under the Prescribed Practices, realized capital gains and losses are reported in income net of transfers to the interest maintenance reserve ("IMR"). Under US GAAP, realized capital gains and losses would be reported in the income statement on a pretax basis in the period that the assets giving rise to the gains or losses are sold.

The asset valuation reserve ("AVR") acts to mitigate the effects on unassigned surplus of fluctuations in the gains and losses on invested assets. The AVR is determined by the NAIC Securities Valuation Office ("SVO"), with changes reflected directly in unassigned surplus.

Benefit Reserves

Certain policy reserves stated in the Statutory Basis Balance Sheets are calculated based on statutorily required interest and mortality assumptions, rather than on estimated expected experience or actual account balances, as would be required under US GAAP.

Non-Admitted Assets

Under the Prescribed Practices, certain assets designated as "non-admitted," such as investments in excess of statutory limitations and those not in compliance with statutory requirements (*i.e.*, deferred federal income tax assets, overdue agents' balances in the course of collection, non-operating system software, furniture and equipment, prepaid expenses and other assets not specifically identified as an admitted asset), are excluded from the Statutory Basis Balance Sheets and are charged directly to unassigned surplus. These assets would be recognized under US GAAP.

Federal Income Taxes

Pursuant to the Prescribed Practices, deferred federal income taxes are recognized subject to statutory requirements and limitations set forth in the Internal Revenue Code, with such changes in deferred taxes recorded in surplus. For US GAAP purposes, such changes in deferred taxes are recorded in income tax expense (benefit).

The Prescribed Practices, which adhere to Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* ("FIN 48"), requires neither recognition and measurement of a tax position taken or expected to be taken nor certain other related disclosures. By contrast, pursuant to US GAAP, accounting and disclosure for uncertainty in income taxes recognized in FASB Statement No. 109, *Accounting for Income Taxes* would be required.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Policy Acquisition Costs

Under the Prescribed Practices, policy acquisition costs such as commissions, premium taxes, and other items are charged to current operations as they are incurred. Under US GAAP, these costs are deferred to the extent recoverable and reported in the statement of operations on a pro-rata basis over the periods covered by the policies.

Variable Interest Entities

Pursuant to Financial Accounting Standards Board Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, statutory basis accounting does not require certain disclosures or the consolidation of certain variable interest entities. Under US GAAP, such disclosures would be required and variable interest entities would be consolidated.

Fair Value Measurements

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, ("Statement No. 157") clarifies the definition of fair value, establishes a framework for measuring fair value in US GAAP, and expands required disclosures about the use of fair value measurements in US GAAP financial statements. Fair value information is relevant to users of financial statements and is required as an objective means of measurement. The NAIC is currently reviewing and considering adopting Statement No. 157. Management has considered Statement No. 157 and has included an overview of the framework of Statement No. 157 in Note 4 below and will monitor the NAIC's actions in connection with Statement No. 157.

B. Use of Estimates in the Preparation of the Statutory Basis Balance Sheets

The preparation of these Statutory Basis Balance Sheets required Management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures. It also required disclosure of contingent assets and liabilities at the dates of the Statutory Basis Balance Sheets. Such estimates and assumptions could change in the future as more information becomes known and actual results could differ from those estimates reported and disclosed herein.

C. Accounting Policies

Management used the following methods and assumptions in the preparation of the Statutory Basis Balance Sheets.

Cash and Invested Assets

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less, including money market mutual funds, and are typically stated at amortized cost.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Cash and Invested Assets (continued)

Short-term investments, excluding cash equivalents, consist of investments with original maturities of one year or less at the time of acquisition and are typically stated at amortized cost.

Bonds not backed by loans are principally stated at amortized cost using the interest method.

As prescribed by the SVO, preferred stocks are stated at cost, amortized cost or fair market value, if fair market value is lower than cost or amortized cost. The related net unrealized capital gains (losses) are reported in unassigned surplus.

As prescribed by the SVO, common stocks are stated at fair market value and the net unrealized capital gains (losses) are reported in unassigned surplus/deficit, except that investments in insurance subsidiaries and affiliates are carried on the equity basis.

Investment income due and accrued includes revenues that are earned but not yet received. Amounts greater than 90 days past due are recognized as non-admitted assets.

Realized capital gains and losses are determined using the “first in, first out” method and recognized on the trade date. Investments that have declined in fair market value below cost, and for which the decline is judged to be other-than-temporary, are written down to fair market value and reported as realized losses.

Loan-backed securities are stated at amortized cost using the interest method, including anticipated prepayments, with the effective yield recalculated to reflect the actual payments received and the anticipated future payments. Prepayment assumptions are obtained from external pricing services (*e.g.*, Bloomberg, Hub-Data or brokers) or internal estimates and are based on the current interest rate and economic environment. The retrospective adjustment method is used to value all such securities except principal-only and interest-only securities, which are valued using the prospective method.

ELNY does not own derivative instruments.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Income Taxes

ELNY is subject to federal income tax and New York State income tax and files a tax return with both taxing authorities, but ELNY does not generate taxable income or have any tax liability because it is in rehabilitation.

Pursuant to the Prescribed Practices, deferred tax assets and liabilities are reported on the Statutory Basis Balance Sheets in order to recognize the future tax consequences that may occur as a result of the differences between the amounts of existing assets and liabilities stated in the Statutory Basis Balance Sheets and those amounts stated on a tax basis. Deferred tax assets and liabilities are measured using rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Such temporary differences relate primarily to net operating losses.

Claims in the Course of Settlement

Claims in the course of settlement represent annuity payments that are due to annuitants but are unpaid. As of December 31, 2008 and 2007, the aggregated amount of claims in the course of settlement was $7,026,210 and $7,396,441, respectively.

Revolving Fund

A revolving fund of $650,000 at December 31, 2008 and 2007, represents a contingency fund held by the NYLB to cover expenses owed to the NYLB by ELNY.

General Expenses Due and Accrued

As of December 31, 2008 and 2007, $3,767,801 and $2,852,768 respectively, represent expenses incurred but not paid by the NYLB and are recorded in the Statutory Basis Balance Sheets as general expenses due and accrued.

Amounts Held for Agents' Accounts

A reserve for unpaid commissions claimed by agents for placements prior to rehabilitation in the amount of $3,825,418 as of December 31, 2008 and 2007, is maintained as a liability in the Statutory Basis Balance Sheets.

Allocation of Expenses

The NYLB allocates general and administrative expenses, such as salaries, payroll taxes, rent for premises, office expenses and employee relations and welfare (*e.g.*, contributions to employee health, pension and other fringe benefits), among the Estates and the security funds established pursuant to Insurance Law Article 76 and New York Workers' Compensation Law Article 6-A. Such allocation is then reimbursed as appropriate by ELNY in a timely manner.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Special Statutory Reserves

Under a formula prescribed by the SVO, ELNY defers the portion of realized capital gains and losses on sales of fixed-income investments, principally bonds, attributable to changes in the general level of interest rates and amortizes those deferrals over the remaining period to maturity. As of December 31, 2008 and 2007, the IMR is reported in the Statutory Basis Balance Sheets as net deferral in the amounts of $93,247,417 and $94,977,870, respectively.

As of December 31, 2008 and 2007, the AVR balances of $0 and $92,372,596, respectively, represent credit-related losses on fixed-income assets (default component) and all types of equity investments (equity component). The reduction in the asset valuation reserve was due to a recognition of the periods credit and equity related capital gains/losses net of taxes of $(109,061,684) as well as the unrealized gains/losses net of taxes of $(67,517,866). An AVR balance is not recognized for US GAAP reporting purposes.

Note 3: Investments

Bonds

At December 31, 2008, the amortized cost, gross unrealized gains and losses, and fair market value of investments in bonds are summarized as follows:

	Book Adjusted Carrying Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
At December 31,2008: U.S. Government	$ 18,490,437	$ 18,549,057	$ 5,944,955	$ -	$ 24,435,392
Special Revenue Obligations (Non-Guaranteed)					
Public Utilities	66,785,848	67,096,611	6,206,973	(2,430,222)	70,562,599
Industrial & Miscellaneous	659,699,710	660,747,690	16,625,955	(26,512,655)	649,813,010
Total Bonds	$ 744,975,995	$ 746,393,358	$ 28,777,883	$ (28,942,877)	$ 744,811,001

Note 3: Investments (continued)

Bonds (continued)

At December 31, 2007, the amortized cost, gross unrealized gains and losses, and fair market value of investments in bonds are summarized as follows:

	Book Adjusted Carrying Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
At December 31, 2007:	$ 26,616,615	$ 26,663,065	$ 999,891	$ -	$ 27,662,956
U.S. Government					
Special Revenue Obligations (Non-Guaranteed)	5,220,840	5,245,894	1,227,414	-	6,473,308
Public Utilities	70,577,626	70,894,497	5,278,981	(945,871)	75,227,607
Industrial & Miscellaneous	755,920,581	757,271,997	30,272,717	(22,130,462)	765,414,252
Total Bonds	$ 858,335,662	$ 860,075,453	$ 37,779,003	$ (23,076,333)	$ 874,778,123

At December 31, 2008 and 2007, bonds with amortized costs of $1,030,680 and $1,039,656, respectively, were on deposit with various state insurance departments to satisfy regulatory requirements.

The amortized cost of debt securities at December 31, 2008, by date of contractual maturity, is shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2008 Book Adjusted Carrying Value
Less than one year	$ 100,662
One to five years	15,548,953
Five to ten years	64,543,389
Ten years or greater	664,071,592
	744,264,596
Mortgage and asset-backed securities	711,399
Total	$ 744,975,995

Note 3: Investments (continued)

Bonds (continued)

Preferred and Common Stocks

The cost, gross unrealized gains and losses, and fair market value of preferred and common stocks at December 31, 2008 are summarized as follows:

At December 31, 2008:	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Preferred and Common Stocks	$ 278,876,183	$ 13,243,620	$ (10,109,849)	$ 282,009,954
Total	$ 278,876,183	$ 13,243,620	$ (10,109,849)	$ 282,009,954

The cost, gross unrealized gains and losses, and fair market value of preferred and common stocks at December 31, 2007 are summarized as follows:

At December 31, 2007:	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Preferred Stocks	$ 1,675,208	-	-	$ 1,675,208
Common Stocks	$ 335,011,166	128,015,852	$ (3,178,406)	$ 459,848,612
Total	$ 336,686,374	$ 128,015,852	$ (3,178,406)	$ 461,523,820

Other-than-Temporary Analysis

For each reporting period (annual and interim periods), Management reviews investments with unrealized losses on a security-by-security basis and assesses whether such declines are other-than-temporary. In assessing whether a decline is other-than-temporary, Management considers various factors including, but not limited to: (i) the rating of the security available from external sources; (ii) the issuer's record of default, if any, on scheduled interest and principle payments; (iii) an analysis of the security's market value (e.g., amount, duration and significance of the decline); (iv) Management's intent and ability to hold the investment until recovery; (v) the market conditions during which the decline has occurred; (vi) an economic analysis of the issuer's industry; and (vii) the financial strength and liquidity of the issuer. Once a determination has been made that a specific other-than-temporary impairment exists, a decrease in surplus is incurred and the cost basis of the impaired asset is adjusted to its fair market value.

At December 31, 2008, Management wrote down the cost of certain debt and equity investments to fair market value. The write-downs amounted to approximately $100,530,401 on bonds, $1,674,999 on preferred stocks, and $94,808,650 for common stocks which were all due to a decline in the fair market value of the debt and equity securities which, in the opinion of Management, were considered to be

Note 3: Investments (continued)

Other-than-Temporary Analysis (continued)

other-than-temporary. The write-downs on bonds and preferred stocks are included in the unassigned deficit in the accompanying Statutory Basis Balance Sheet as of December 31, 2008. The write-downs to common stocks resulted in a change from an unrealized loss to a realized loss which was recorded to operations.

At December 31, 2007, Management wrote down the cost of certain debt and equity investments to fair market value due to a decline in the fair market value of the debt and equity securities. The write-downs amounted to approximately $4,745,111 on bonds, $138,165 on preferred stocks, and $21,139,379 for common stocks. The write-downs on bonds and preferred stocks are included in the unassigned deficit in the accompanying Statutory Basis Balance Sheet as of December 31, 2007. The write-downs to common stocks resulted in a change from an unrealized loss to a realized loss which was recorded to operations.

Net Unrealized Capital Losses

Aggregate unrealized losses on bonds, preferred stocks and common stocks were as follows at December 31, 2008:

	Aggregate Fair Market Value With Unrealized Losses For 12 Months Or Less	Aggregate Unrealized Losses For 12 Months Or Less	Aggregate Fair Market Value With Unrealized Losses For Greater Than 12 Months	Aggregate Unrealized Losses For Greater Than 12 Months	Total Fair Market Value	Total Unrealized Losses
Bonds	$ 160,094,859	$ (11,351,798)	$ 149,728,540	$ (17,591,079)	$309,823,399	$ (28,942,877)
Preferred stocks	-	-	-	-	-	-
Common stocks	70,991,299	(8,510,244)	10,349,040	(1,599,605)	81,340,339	(10,109,849)
	$ 231,086,158	$ (19,862,042)	$ 160,077,580	$ (19,190,684)	$391,163,738	$ (39,052,726)

Note 3: Investments (continued)

Net Unrealized Capital Losses (continued)

Aggregate unrealized losses on bonds, preferred stocks and common stocks were as follows at December 31, 2007:

	Aggregate Fair Market Value With Unrealized Losses For 12 Months Or Less	Aggregate Unrealized Losses For 12 Months Or Less	Aggregate Fair Market Value With Unrealized Losses For Greater Than 12 Months	Aggregate Unrealized Losses For Greater Than 12 Months	Total Fair Market Value	Total Unrealized Losses
Bonds	$ 133,012,409	$ (5,497,521)	$ 231,757,339	$ (16,362,955)	$ 364,769,748	$ (21,860,476)
Preferred Stocks	-	-	-	-	-	-
Common stocks	22,439,567	(2,833,515)	5,612,793	(344,891)	28,052,360	(3,178,406)
	$ 155,451,976	$ (8,331,036)	$ 237,370,132	$ (16,707,846)	$ 392,822,108	$ (25,038,882)

Management concluded that these unrealized losses were not other-than-temporary, based on its review of the nature of the investments, including credit quality of the obligor, the payment history and repayment terms for the particular investment, and the severity and duration of the fair market value decline. Where bonds and stocks suffered continuous unrealized losses, such losses were primarily due to the impact of changes in the general level of interest rates. None of these securities were deemed to have any valuation issues that would lead Management to believe that they were other than temporarily impaired. To the extent that ELNY does not have the ability to hold these bonds and stocks to maturity, provision for future losses has been made through the establishment of additional reserves.

Subprime Exposure

Management has reviewed ELNY's portfolio as of December 31, 2008 and 2007 and has determined that:

(1) ELNY has no direct subprime exposure through investments in subprime mortgage loans.

(2) ELNY has indirect subprime exposure through mortgage-backed securities. All such holdings are fixed-income instruments. As of December 31, 2008, ELNY held one investment in mortgage-backed securities with a par value of $4,308, cost of $4,090 and fair value of $4,228, which resulted in an unrealized gain of $138. As of December 31, 2007, ELNY held two investments in mortgage-backed securities with a par value of $5,063, cost of $4,812 and fair value of $5,431, which resulted in an unrealized loss of $619.

ELNY has no underwriting exposure to subprime mortgage risk through mortgage guaranty or financial guaranty insurance coverage.

Note 4: Fair Market Value of Cash and Invested Assets

Cash and Cash Equivalents, Short-Term Investments and Other Invested Assets

The carrying amounts reported in the Statutory Basis Balance Sheets for cash and cash equivalents, short-term investments and other invested assets are a reasonable estimate of fair market value.

Investment Securities

Fair market values for investment securities are based on unit prices published by the SVO. However, for certain securities for which the SVO does not provide a value, Management uses market prices quoted by third parties, if available. When both SVO-published unit prices and market quotes are unavailable, Management's best estimate of fair market value is based on quoted market prices of financial instruments with similar characteristics or on industry-recognized valuation techniques. The fair market values of ELNY's investments are disclosed in Note 3 hereof.

Fair Value Measurements

Certain investment related line items in the Statutory Basis Financial Statements are consistently carried at fair market value. Others are periodically measured at fair market value, such as when impaired, or, for certain bonds and preferred stocks, when carried at the lower of cost or fair market value.

The fair market value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties other than in a forced or liquidation sale. The fair market value of a liability is the amount at which that liability could be released or otherwise resolved in a current transaction between willing parties other than in a forced transaction.

Fair market values are based on quoted market prices when available. When market prices are not available, fair market value is generally estimated using discounted cash flow analyses and incorporating current market inputs for similar financial instruments with comparable terms and credit quality. In instances where there is little or no market activity for the same or similar instruments, Management estimates fair market value using methods, models and assumptions that Management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment which becomes increasingly significant with complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

Statement No. 157 requires that financial statements prepared pursuant to US GAAP classify financial assets and liabilities carried at fair value by using the fair value hierarchy. Because ELNY's Statutory Basis Financial Statements were not

Note 4: Fair Market Value of Cash and Invested Assets

Fair Value Measurements (continued)

prepared pursuant to US GAAP, Management has not applied the fair value hierarchy classification as outlined in Statement No. 157.

Statement No. 157 establishes a fair value hierarchy that prioritizes the use of inputs in valuation techniques into the following three levels:

- Level One: observable prices in active markets for identical assets and liabilities;
- Level Two: observable inputs other than quoted prices in active markets for identical assets and liabilities; and
- Level Three: unobservable inputs.

An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

Note 5: Concentration of Credit Risk

Financial instruments that have the potential to subject ELNY to credit risk consist of cash, cash equivalents and short-term investments.

Cash and cash equivalents are deposited with one high-quality financial institution. At times, such amounts may exceed the insured limits of the Federal Deposit Insurance Corporation ("FDIC") and/or the Securities Investor Protection Corporation. Certain cash equivalents and short-term investments include investments in money market mutual fund securities, which are not necessarily insured by the FDIC.

Management monitors balances of cash in excess of insured limits and believes, based on the information currently available to it, that such balances do not represent a material credit risk to ELNY. As of December 31, 2008, balances in excess of these limits were approximately $1,915,741.

Note 6: Life Insurance and Annuity Reserves

Life insurance and annuity reserves are developed by actuarial methods and are determined based on statutory valuation methods and mortality tables developed by the Society of Actuaries Committee on Annuities and adopted as a recognized mortality table by the NAIC. ELNY's independent actuarial firm applied the 1971 individual annuitant mortality table and the 1971 group annuity mortality table for individual annuities and group annuities issued as of December 31, 1983. ELNY's independent actuarial firm applied the 1983 individual annuitant mortality table and the 1983 group annuity mortality table for individual annuities and group annuities issued subsequent to December 31, 1983. ELNY's independent actuarial firm applied the 1983 group annuity mortality table for CQRAs.

Note 6: Life Insurance and Annuity Reserves (continued)

As previously discussed in Note 1, in 2006, in an effort to more accurately reflect the financial status of ELNY, valuation rates were adjusted to reflect then-current year maximum valuation rates. The 2008 and 2007 reserves for the annuity line of business, reported in the Statutory Basis Balance Sheets, were calculated using the statutory valuation rates of 5.50 and 5.50 percent, respectively. Because ELNY is in rehabilitation and is not operating as a going concern, ELNY's independent actuarial firm did not calculate any additional cash flow testing reserves that might have otherwise been required under 11 N.Y.C.R.R. 95 (Regulation 126).

Accordingly, Management has accounted for this change in the Statutory Basis Balance Sheets by increasing aggregate reserves by $907,829,162 and $920,933,100 for 2008 and 2007, respectively, over the original reserve basis. As set forth in Note 1, Management first instituted the valuation rate adjustment, to the then-current year rate, in connection with the preparation of the 2006 Statutory Basis Balance Sheet. Management, in preparation of the 2007 and 2008 Statutory Basis Balance Sheets, continued to use the then-current year rate, which has resulted in a reduction of the December 31, 2006, reported reserve. In future years, Management anticipates the valuation interest rate will be adjusted to the then-current year maximum statutory valuation rate. This will result in a basis change and corresponding change in reserves.

Note 7: Federal Income Taxes

Deferred income taxes arise from the temporary differences in the valuation of certain assets and liabilities as determined for financial reporting purposes and income tax purposes. Such temporary differences relate primarily to net operating losses. Because ELNY is in rehabilitation and not operating as a going concern, it does not generate net income. Therefore, Management has not calculated or disclosed the components of net deferred tax assets ("DTA") or of deferred tax liability ("DTL") because all such amounts would be deemed non-admitted assets as specified by SSAP No. 10, *Income Taxes*. Further, due to recurring operating losses, Management does not expect ELNY to realize the benefit of the temporary differences giving rise to the DTA in the near term. As of December 31, 2008 and 2007, ELNY did not have any DTL.

ELNY files a stand-alone federal income tax return. There was no provision for income taxes incurred on earnings for the years ended December 31, 2008 and 2007.

At December 31, 2008, ELNY had the following unused operating loss carry forwards available to offset future taxable income, which carry forwards begin to expire in 2010:

Note 7: Federal Income Taxes (continued)

Arising from Tax Year:	2008 Net Operating Losses	Year of Expiry
1994	$ 13,528,567	2010
1995	7,415,519	2011
1996	32,205,611	2012
1997	11,408,371	2013
1998	49,182,515	2014
1999	63,117,721	2015
2000	3,726,080	2016
2001	51,450,147	2017
2002	58,369,798	2018
2003	*72,600,417	2019
2004	69,529,977	2020
2005	67,886,433	2021
2006	40,430,763	2022
2007	5,705,055	2023
2008	40,249,109	2024
Total	$586,806,083	

***** Includes adjustment to original filed federal income tax return.

Note 8: Capital and Surplus

The portion of unassigned deficit represented or reduced by each item below is as follows for December 31, 2008 and 2007:

	2008	2007
Change in net unrealized capital gains (losses)	$ (100,564,296)	$ (21,978,104)
Change in Non-admitted assets	33,046,428	1,118,074
Change in reserve on account of change in valuation basis	-	76,788,748
Change in asset valuation reserve	64,052,593	1,106,299
	$ (3,465,275)	$ 57,035,017

Note 9: Amounts Withheld or Retained by ELNY

Amounts Retained by ELNY (Claim-Overs)

Generally, holders of ELNY SPDAs received MetLife SPDAs in exchange for their ELNY contracts. Because the MetLife SPDAs had substantially higher surrender charges than the exchanged ELNY SPDAs, former ELNY SPDA holders who surrendered their MetLife SPDAs before the applicable surrender charges decreased to zero were allowed a claim against the ELNY estate for the amount of the surrender charge so incurred. These claims are called claim-overs. The Rehabilitation Plan provides that: (a) the claim-overs rank *pari passu* with the claims of ELNY SPIA policyholders; and (b) there will be no payment on the claim-overs until the earlier of such time as: (i) the ELNY estate is liquidated and a payout of 95 or 97½ percent (depending on the age of the annuitant) of obligations to ELNY SPIA beneficiaries has been funded with certainty, or (ii) the Rehabilitator has determined with certainty that, due to ELNY's ownership of sufficient assets having appropriate quality and liquidity, ELNY SPIA beneficiaries will receive 95 or 97.5 percent (depending on age of the annuitant) of the obligations owing to them. These conditions have not yet been satisfied and no payment of claim-overs has been made. Interest accrues on the claim-overs at four percent per annum from the date of surrender of the ELNY policy. As of December 31, 2008, Management reported, as a liability in the Statutory Basis Balance Sheets, claim-overs in the amount of $36,504,030, which included then-current year interest accrued in the amount of $1,407,771. As of December 31, 2007, Management reported, as a liability in the Statutory Basis Balance Sheets, claim-overs in the amount of $35,096,259, which included then-current year interest accrued in the amount of $1,349,858.

Note 10: **Reconciliation to Annual Statement**

The following is a reconciliation of differences that exist between the amounts stated in the Annual Statement filed with the Insurance Department for 2008 ("2008 Annual Report") and the audited Statutory Basis Balance Sheets contained herein.

	Admitted Assets	Liabilities	Capital and (Deficit)
As filed in the 2008 Annual Statement	$ 1,034,456,386	$ 2,430,423,780	$ (1,395,967,394)
Reclassification of due and unpaid amounts from cash to liabilities	5,616,201	5,616,201	-
Adjustment to increase general expenses due and accrued	-	1,659,852	(1,659,852)
Adjustment to reconcile benefits and outstanding cash	2,441,252	-	2,441,252
Adjustment to bonds for assets no longer held	(100,000)	-	(100,000)
As filed in the audited balance sheet herein	$ 1,042,413,839	$ 2,437,699,833	$ (1,395,285,994)

The following is a reconciliation of differences that exist between the amounts stated in the annual report filed with the Insurance Department for 2007 ("2007 Annual Report") and the audited 2007 Statutory Basis Balance Sheet.

	Admitted Assets	Liabilities	Capital and (Deficit)
As filed in the 2008 Annual Statement	$ 1,341,074,429	$ 2,504,881,144	$ (1,163,806,715)
Reclassification of due and unpaid amounts from cash to liabilities	6,010,150	6,010,150	-
Adjustment to increase general expenses due and accrued	-	1,571,804	(1,571,804)
Adjustment to reconcile benefits and outstanding cash	2,628,601	-	2,628,601
Adjustment to bonds for assets no longer held	(100,000)	-	(100,000)
Adjustment to asset value reserves	-	28,320,003	(28,320,003)
Adjustment to interest maintenance reserves	-	(2,234,976)	2,234,976
Adjustment to bonds related to other-than-temporary analysis	(4,745,111)	-	(4,745,111)
Adjustment to preferred stocks related to other-than-temporary analysis	(138,165)	-	(138,165)
As filed in the audited balance sheet herein	$ 1,344,729,904	$ 2,538,548,125	$ (1,193,818,221)

Note 11: Subsequent Events

Market Volatility

The financial markets' volatility in 2009 may materially impact the valuation of ELNY's investments, as well as the ability to raise sufficient funds to meet all of ELNY's future obligations. Accordingly, the valuation of investments at December 31, 2008, may not necessarily be indicative of amounts that could be realized in a current market exchange.

Potential ELNY Plan

As discussed in Note 1, Management is presently working to develop a plan to permit ELNY to meet all of its future obligations. The approval of such a plan could affect ELNY's reserve calculations and assets.

FRONTIER INSURANCE COMPANY IN REHABILITATION
(A Wholly Owned Subsidiary of Frontier Insurance Group, LLC)

Statutory Basis Financial Statements

December 31, 2008 and 2007
With Report of Independent Auditors

FRONTIER INSURANCE COMPANY IN REHABILITATION
(A Wholly Owned Subsidiary of Frontier Insurance Group, LLC)

Statutory Basis Financial Statements

December 31, 2008 and 2007
With Report of Independent Auditors

Report of Independent Auditors

To the Superintendent of Insurance of the State of New York as Rehabilitator and the Management of Frontier Insurance Company in Rehabilitation

We have audited the accompanying statutory basis balance sheets of Frontier Insurance Company in Rehabilitation (the "Company") as of December 31, 2008 and 2007 and the related statutory basis statements of operations, changes in capital and deficit and cash flows for the years then ended (collectively referred to as the "statutory basis financial statements"). These statutory basis financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the statutory basis financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the statutory basis financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory basis financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statutory basis financial statements presentation. We believe that our audits of the statutory basis financial statements provide a reasonable basis for our opinion.

As described in Note 2, the accompanying statutory basis financial statements has been prepared in conformity with accounting practices prescribed or permitted by the New York State Insurance Department (the "Insurance Department"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As more fully described in Note 11 to the statutory basis financial statements, the Company did not calculate or disclose the components of deferred taxes in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 10, *Income Taxes* which is not in conformity with the accounting practices prescribed or permitted by the Insurance Department as described in Note 2.

As more fully described in Note 12, the Reinsurance Contract is not accounted for in accordance with reinsurance accounting pursuant to SSAP No. 62 *Property and Casualty Reinsurance*, which is not in conformity with the accounting practices prescribed or permitted by the Insurance Department as described in Note 2.

In our opinion, except for not calculating and disclosing the components of deferred taxes in accordance with SSAP No. 10 and for not accounting for the Reinsurance Contract in accordance with SSAP No. 62, as discussed in the preceding paragraphs, the statutory basis financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations, changes in capital and deficit and its cash flows for the years then ended, in conformity with accounting practices prescribed or permitted by the Insurance Department, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America as described in Note 2.

The accompanying statutory basis financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the statutory basis financial statements, the Company has been in rehabilitation since 2001, has a net capital deficiency and recurring losses that raises substantial doubt about its ability to continue as a going concern. Management does not have finalized plans with regard to these matters. The statutory basis financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1 and Note 8 to the statutory basis financial statements, the Company's receivables from its primary reinsurer, National Indemnity Company, is significant with current reinsurance receivables of $6,018,084 and $15,358,950 and ceded reinsurance reserves of $62,334,868 and $70,784,904, respectively, as of December 31, 2008 and 2007.

This report is intended solely for the information of and restricted to the use of the Superintendent of Insurance of the State of New York as Rehabilitator and management of the Company and is not intended to be and should not be used by other than the above specified parties.

Amper, Politziner & Mattia, LLP

July 28, 2010
New York, New York

FRONTIER INSURANCE COMPANY IN REHABILITATION
Statutory Basis Balance Sheets
As of December 31, 2008 and 2007

	2008	2007
Admitted assets		
Cash and invested assets		
Bonds, at amortized cost or fair market value (Note 4)	$25,672,597	$ 26,504,462
Common stocks, at fair market value (Note 4)	1,691,537	3,010,584
Home office building and improvements, net of allowance (Note 4)	7,796,786	8,053,874
Cash and short-term investments	21,047,494	20,263,867
Other invested assets (Note 4)	2,330,345	10,020,860
Receivable for securities	540,000	-
Total cash and invested assets	**59,078,759**	**67,853,647**
Agents' balances and uncollected premiums (Note 2)	17,366,943	24,728,387
Less: Allowance for agents' balances and uncollected premiums (Note 2)	(17,366,943)	(24,728,387)
Net Agents' balances and uncollected premiums	-	-
Reinsurance recoverables on paid losses and loss adjustment expenses (Note 8)	30,760,243	39,813,053
Less: Allowance for uncollectible reinsurance recoverables (Note 2)	(4,270,222)	(7,729,361)
Net Reinsurance balance recoverable on paid losses and loss adjustment expenses	26,490,021	32,083,692
Electronic data processing equipment	556	5,570
Accrued investment income	460,622	568,255
Receivable under retroactive reinsurance contract (Note 8)	6,018,084	15,358,950
Other admitted assets	1,264,526	1,385,228
Total admitted assets	**$93,312,568**	**$117,255,342**
Liabilities		
Reserves		
Unpaid losses	$95,346,266	$155,733,571
Unpaid loss adjustment expenses	33,472,901	14,066,762
Total reserves on unpaid loss and loss adjustment expenses (Note 3 and 8)	128,819,167	169,800,333
Unearned premiums (Note 8)	644,431	1,160,131
Reinsurance balances payable	7,166,803	7,649,322
Provision for reinsurance (Note 2)	14,121,891	18,175,508
Accounts payable and accrued expenses (Note 9)	17,955,000	17,188,869
Reinsurance payable on paid losses and loss adjustment expenses	18,164,824	18,954,195
Funds held under reinsurance agreements	161,202	161,202
Taxes, licenses and fees	1,383,600	1,383,600
Amounts withheld for account of others	1,438,144	1,607,325
Retroactive reinsurance reserves – ceded (Note 8)	(62,334,868)	(70,784,904)
Other liabilities (Note 9)	59,001,053	64,612,048
Total liabilities	**186,521,247**	**229,907,629**
Capital and Deficit		
Common stock, par value $20 per share authorized, issued and outstanding – 250,000 shares	5,000,000	5,000,000
Aggregate write in for special surplus (Note 8)	149,417,434	147,608,785
Paid-in surplus	265,974,592	265,974,602
Unassigned deficit	(513,600,705)	(531,235,674)
Total capital and deficit	**(93,208,679)**	**(112,652,287)**
Total liabilities and capital and deficit	**$93,312,568**	**$117,255,342**

See accompanying notes to the Statutory Basis Financial Statements. The Statutory Basis Financial Statements and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein) and is not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based on such person's or entity's use of or reliance upon the Statutory Basis Financial Statements and accompanying notes.

FRONTIER INSURANCE COMPANY IN REHABILITATION
Statutory Basis Statement of Operations
For the Years Ended December 31, 2008 and 2007

	2008	2007
Premiums earned (returned)	$(2,265,988)	$ 831,358
Losses and loss adjustment expenses incurred (income)	(13,255,178)	(50,284)
Other underwriting expenses incurred (Note 16)	3,751,561	4,076,912
Underwriting gain (loss)	7,237,629	(3,195,270)
Net investment income earned (Note 4)	1,839,387	2,476,924
Net realized capital losses (Note 4)	(7,407,960)	(7,606,730)
Net investment loss	(5,568,573)	(5,129,806)
Other income (expenses)		
Allowance for uncollectible reinsurance recoverables (Note 2)	(4,270,222)	(7,729,361)
Write-off of inter-company balances	-	(6,216,480)
Miscellaneous income (expenses)	1,476,842	(3,435,623)
Total other expenses	(2,793,380)	(17,381,464)
Retroactive reinsurance gain (Note 8)	1,808,649	761,075
Income (loss) before federal income taxes	684,325	(24,945,645)
Federal income tax incurred (Note 11)	-	(24,223,902)
Net income (loss)	$ 684,325	$(49,169,367)

FRONTIER INSURANCE COMPANY IN REHABILITATION
Statutory Basis Statement of Changes in Capital and Deficit
December 31, 2008 and 2007

2007	Common Stock	Paid-In Surplus	Aggregate Write in for Special Surplus	Unassigned Deficit	Total Capital and Deficit
Balances at December 31, 2006	$5,000,000	$265,974,602	$146,847,710	$(534,327,326)	$(116,505,014)
Net loss	-	-	-	(49,169,367)	(49,169,367)
Reversal of prior year valuation				4,227,247	4,227,247
Increase in net unrealized capital gains	-	-	-	5,756,803	5,756,803
Decrease in provision for reinsurance	-	-	-	8,596,017	8,596,017
Decrease in non-admitted assets	-	-	-	33,996,685	33,996,685
Change in special surplus	-	-	761,075	-	761,075
Correction of prior year error				(315,733)	(315,733)
Balances at December 31, 2007	$5,000,000	$265,974,602	$147,608,785	$(531,235,674)	$(112,652,287)

2008	Common Stock	Paid-In Surplus	Aggregate Write in for Special Surplus	Unassigned Deficit	Total Capital and Deficit
Balances at December 31, 2007	$5,000,000	$265,974,602	$147,608,785	$(531,235,674)	$(112,652,287)
Net income	-	-	-	684,325	684,325
Reversal of prior year valuation	-	-	-	(2,749,113)	(2,749,113)
Increase in net unrealized capital gains	-	-	-	7,075,182	7,075,182
Decrease in provision for reinsurance	-	-	-	4,053,617	4,053,617
Decrease in non-admitted assets	-	-	-	10,379,597	10,379,597
Change in special surplus	-	-	1,808,649	(1,808,649)	-
Reclass	-	(10)	-	10	-
Balances at December 31, 2008	$5,000,000	$265,974,592	$149,417,434	$(513,600,705)	$(93,208,679)

See accompanying notes to the Statutory Basis Financial Statements. The Statutory Basis Financial Statements and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein) and is not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based on such person's or entity's use of or reliance upon the Statutory Basis Financial Statements and accompanying notes.

FRONTIER INSURANCE COMPANY IN REHABILITATION
Statutory Basis Statement of Cash Flow
December 31, 2008 and 2007

Operating activities:	2008	2007
Premiums collected, net of reinsurance	$4,097,236	$1,950,263
Losses and loss adjustment expenses paid	(14,837,146)	(19,424,390)
Underwriting expenses paid	(18,089,171)	(16,276,566)
Net investment income received	2,024,770	2,779,697
Additional provision for uncollectibles	7,729,361	(7,729,361)
Write off of inter-company balances	-	(6,216,480)
Increase in creditors data base	(199,813)	(2,167,292)
(Increase) decrease in reinsurance recoverables	(115,533)	436,987
Agents balance charged off	(56,306)	(637,813)
Loss on reinsurance commutation	(567,822)	(697,385)
Clarendon settlement loss net of F/H by reinsurer	(926,864)	-
Additional liability for corporate lawsuits	(4,000,000)	-
Income from settlement from corporate lawsuits	2,926,932	-
Miscellaneous other	1,022,359	(600,351)
Net cash used in operating activities	**(20,991,997)**	**(48,582,691)**
Investment activities:		
Proceeds from sales, maturities, or repayments of investments		
Bonds	10,062,209	3,871,733
Stocks	1,591,324	140,389
Mortgage loans	384	2,881,468
Other invested asset	5,324,002	5,475,928
Miscellaneous proceeds	52,304	241,908
Total proceeds from sales, maturities, or repayments of investments	17,030,223	12,611,426
Cost of investments acquired		
Bonds	10,090,094	2,412,829
Stocks	197,025	625
Other invested assets	569,042	19
Total cost of investments acquired	10,856,161	2,413,473
Net cash provided by investment activities	**6,174,062**	**10,197,953**
Financing and miscellaneous activities:		
Other cash provided		
Change in retrospective reinsurance reserve	8,450,036	26,350,385
Other, miscellaneous	(824,801)	15,185,548
Total other cash provided	7,625,235	41,535,933
Other cash applied		
Other application	(7,976,327)	7,659,195
Total other cash applied	(7,976,327)	7,659,195
Net cash provided by financing and miscellaneous activities	**15,601,562**	**33,876,738**
Net increase(decrease) in cash and short-term investments	**783,627**	**(4,508,000)**
Cash and short-term investments		
Beginning of year	**20,263,867**	**24,771,867**

End of year	**$21,047,494**	**$20,263,867**

Note 1: Organization and Nature of Operations

On November 2, 1962, P.T.F. Health Insurance Company, Inc. ("P.T.F") was incorporated in the State of New York. In 1977, P.T.F. changed its name to Frontier Insurance Company ("FIC"). FIC was licensed to write insurance in 50 states, the District of Columbia and the U.S. territories of Puerto Rico and the Virgin Islands. It was authorized to transact all lines of business typical of a property/casualty insurance writer, including workers' compensation, surety, and medical malpractice lines of business. On October 1, 1986, FIC was acquired by Frontier Insurance Group, Inc. ("FIGI"), an insurance holding company. On July 5, 2005, FIGI filed for reorganization under Chapter 11 of Title 11 of the United States Code ("Bankruptcy Code"). Thereafter, FIGI was merged into Frontier Insurance Group, LLC and is currently owned by Lancer Financial Group, Inc. ("Lancer"), an Illinois holding company.

On October 1, 1991, FIC purchased Frontier Pacific Insurance Company ("FPIC"), formerly known as Contractors' Surety Company. FPIC was a California-domiciled property and casualty insurance company. On November 30, 2001, the California Department of Insurance placed FPIC into liquidation.

On May 22, 1996, FIC purchased United Capitol Holding Company ("UCHC") and its wholly-owned subsidiaries, United Capitol Insurance Company ("United Capitol"), United Capitol Managers, Inc. and Fischer Underwriting Group. On November 14, 2001, the State of Illinois placed United Capitol into liquidation.

On November 2, 1998, FIC entered into a stock purchase agreement to acquire all of the issued and outstanding shares of Surety Bond Connection Agency, Inc. ("Surety Bond Connection") and its wholly-owned subsidiary, Agents Bond Connection Agency. Initially, the investment was funded and reported by FIGI. In 1999, the investment was transferred to FIC's books at a value of $2,821,507, the net book value of Surety Bond Connection at June 30, 1999.

Because FIC suffered deficiencies in its reserves, FIC voluntarily agreed with the New York State Insurance Department ("Insurance Department"), among other things, not to write any new or renewal business effective March 12, 2001.

Pursuant to Article 74 of the New York Insurance Law ("Insurance Law"), on October 15, 2001, the Supreme Court of the State of New York, County of New York ("Receivership Court"), issued an order of rehabilitation ("Rehabilitation Order") placing FIC into rehabilitation and appointing the then-Superintendent of Insurance of the State of New York and each of his successors in office ("Superintendent") as rehabilitator of FIC ("Rehabilitator"). The Rehabilitation Order directed the Rehabilitator to, among other things, take possession of the FIC's property, conduct

FIC's business and take such steps toward the removal of the causes and conditions which made the rehabilitation proceeding necessary.

Note 1: Organization and Nature of Operations (continued)

Separate from his capacity as regulator, the Superintendent acts in his capacity as receiver ("Receiver") when he is appointed as rehabilitator, liquidator, conservator or ancillary receiver of an impaired insurance company pursuant to Insurance Law Article 74. Pursuant to Insurance Law Section 7422, the Receiver may appoint special deputy and assistant special deputy superintendents as his agents. The agents carry out, through the New York Liquidation Bureau ("NYLB"), the responsibilities of the Receiver with regard to each and every estate under the statutory supervision of the Receiver where the agents have been appointed as agents of the Receiver ("Estate"), including FIC. The NYLB manages the daily operations of all Estates. The Receiver has appointed a Special Deputy Superintendent ("Special Deputy") as his agent for FIC. The Special Deputy has appointed a Chief Executive Officer ("CEO") of FIC to manage the daily operations of FIC. The Special Deputy, along with the CEO, some division directors and other senior managers of the NYLB are hereinafter collectively referred to as "Management."

As shown in the accompanying Statutory Basis Financial Statements (as defined below) and footnotes, Frontier has been in rehabilitation since 2001 and has a net capital deficiency. In addition, Frontier had income from operations of $684,325 for the year ended December 31, 2008. Frontier has incurred recurring losses from operations of $49,169,367 for the year ended December 31, 2007. These factors raise substantial doubt about Frontier's ability to continue as a going concern. While Management believes that the rehabilitation effort will continue, no formal rehabilitation plan has been submitted for approval by the Receivership Court. The Statutory Basis Financial Statements do not include any adjustments that may be necessary if Frontier is unable to continue as a going concern.

Note 2: Summary of Significant Accounting Policies

A. Accounting Practices

The *Accounting Practices and Procedures Manual* ("APP Manual") of the National Association of Insurance Commissioners ("NAIC") summarizes statutory accounting practices and provides guidance to regulatory agencies in formulating prescribed or permitted practices. The Insurance Department adopted portions of the APP Manual, subject to exceptions, conflicts and additions set forth in Section 83.4 of 11 N.Y.C.R.R. 83 (Regulation 172) ("Prescribed Practices").

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Permitted statutory accounting practices include practices that differ from Prescribed Practices but that are allowed by the Insurance Department. Management did not seek permission from the Insurance Department to deviate from the Prescribed Practices. As a result, there are no permitted practices applicable to FIC. The outcome of applying the Prescribed Practices to FIC would not be significantly different from the outcome of applying the APP Manual to FIC.

Management elected to prepare, in accordance with Prescribed Practices, FIC's Statutory Basis Balance Sheets as of December 31, 2008 and 2007 ("Statutory Basis Balance Sheets"), and the Statutory Basis Statement of Operations, Statement of Changes in Capital and Deficit and Statement of Cash Flows, all for the years ended December 31, 2008 and 2007 (collectively, "Statutory Basis Financial Statements"). Prior year amounts for cash and short-term investments have been reclassified to conform to current year presentation.

The Prescribed Practices used to prepare the Statutory Basis Financial Statements are a comprehensive basis of accounting different from generally accepted accounting principles in the United States of America ("US GAAP"). Below are the significant differences between the Prescribed Practices and US GAAP:

Investments

Pursuant to the Prescribed Practices, investments in bonds are reported at amortized cost or fair market value based on their NAIC rating. Pursuant to US GAAP, such fixed-maturity investments would be designated at purchase as held-to-maturity, trading or available-for-sale. Held-to-maturity investments under US GAAP would be reported at amortized cost. Trading investments under US GAAP would be reported at fair market value, with unrealized gains and losses reported in the statement of operations. Available-for-sale investments under US GAAP would be reported at fair market value, with unrealized gains and losses reported as a separate component of shareholders' equity in the category of other comprehensive income.

Pursuant to the Prescribed Practices, cumulative and current year changes in unrealized gains and losses are included in unassigned surplus, net of deferred taxes. For US GAAP purposes, unrealized gains or losses are recognized in surplus or income, depending on whether management plans to hold or actively trade the related securities.

Pursuant to the Prescribed Practices, asset-backed securities (*e.g.*, mortgage-backed securities) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities, using either the retrospective or prospective methods. If it is determined that a decline in

Note 2: <u>Summary of Significant Accounting Policies</u> (continued)

A. <u>Accounting Practices</u> (continued)

fair market value is other-than-temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows. Under US GAAP, all asset-backed securities, other than high-credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If high-credit quality securities are adjusted, the retrospective method is used. If it is determined that a decline in fair market value is other-than-temporary, the cost basis of the security is written down to the discounted fair market value.

<u>Non-Admitted Assets</u>

Pursuant to the Prescribed Practices, certain assets designated as "non-admitted," such as investments in excess of statutory limitations and those not in compliance with statutory requirements (*i.e.*, deferred federal income tax assets, over due agents' balances in the course of collection, non-operating system software, furniture and equipment, receivables from transactions with related parties without timely settlement in accordance with a written agreement, prepaid expenses and other assets not specifically identified as an admitted asset), are excluded from the Statutory Basis Financial Statements and are charged directly to unassigned surplus. These assets would be recognized under US GAAP.

<u>Real Estate</u>

Pursuant to the Prescribed Practices, investment in real estate is shown net of encumbrances, whereas for US GAAP purposes such investments do not reflect encumbrances.

<u>Federal Income Taxes</u>

The Prescribed Practices, which do not adhere to Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* ("FIN 48"), require neither recognition and measurement of a tax position taken or expected to be taken, nor certain other related disclosures. By contrast, under US GAAP, accounting and disclosure for uncertainty in income taxes recognized in FASB Statement No. 109, *Accounting for Income Taxes* would be required.

<u>Reinsurance</u>

Pursuant to the Prescribed Practices, estimated reinsurance recoverables arising from ceding transactions and amounts paid to reinsurers related to unexpired portions of reinsurance contracts are netted against related gross liabilities. Whereas for US GAAP purposes such estimated reinsurance recoverables are reported as separate assets.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Policy Acquisition Costs

Under the Prescribed Practices, policy acquisition costs such as commissions, premium taxes, and other items, are charged to current operations as they are incurred. Under US GAAP, these costs are deferred to the extent recoverable and reported in the statement of operations on a pro-rata basis over the periods covered by the policies.

Variable Interest Entities

Pursuant to Financial Accounting Standards Board Interpretation No. 46(R), *Consolidation of Variable Interest Entities,* statutory basis accounting does not require certain disclosures or the consolidation of certain variable interest entities. Under US GAAP, such disclosures would be required and variable interest entities would be consolidated.

Fair Value Measurements

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, ("Statement No. 157") clarifies the definition of fair value, establishes a framework for measuring fair value in US GAAP, and expands required disclosures about fair value measurements in US GAAP financial statements. Fair value information is relevant to users of financial statements and is required as an objective means of measuring fair value. The NAIC is currently reviewing and considering adopting Statement No. 157. Management has considered Statement No. 157 and has included an overview of the framework in Note 4 below and will monitor the NAIC's actions in connection with Statement No. 157.

B. Use of Estimates in the Preparation of the Statutory Basis Balance Sheet

The preparation of these Statutory Basis Financial Statements required Management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures. It also required disclosure of contingent assets and liabilities at the date of the Statutory Basis Financial Statements. When these amounts are ultimately determined (*i.e.*, no longer require the use of estimates and assumptions to be calculated), the determined amounts may differ significantly from the amounts reported herein.

C. Accounting Policies

Management used the following methods and assumptions in the preparation of the Statutory Basis Financial Statements.

Cash and Invested Assets

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less, including money market mutual funds, and are typically stated at amortized cost.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Cash and Invested Assets (continued)

Short-term investments, excluding cash equivalents, consist of investments with original maturities of one year or less at the time of acquisition and are typically stated at amortized cost.

Bonds not backed by loans are principally stated at amortized cost using the interest method.

As prescribed by the Securities Valuation Office ("SVO"), preferred stocks are stated at cost, amortized cost or fair market value, if fair market value is lower than cost or amortized cost. The related net unrealized capital gains (losses) are reported in unassigned surplus.

As prescribed by the SVO, common stocks are stated at fair market value and the net unrealized capital gains (losses) are reported in unassigned surplus/deficit, except that investments in insurance subsidiaries and affiliates are carried on the equity basis.

FIC owns 100 percent of the common stock of FPIC and 100 percent of UCHC. United Capitol, a subsidiary of UCHC, and FPIC were placed into liquidation by their respective states of domicile, therefore, the stock value of FPIC and UCHC has been reduced to $0.

Investment income due and accrued includes revenues that are earned but not yet received. Amounts greater than 90 days past due are recognized as non-admitted assets.

Realized capital gains and losses are determined using the "first in, first out" method and recognized on the trade date. Investments that have declined in fair market value below cost, and for which the decline is judged to be other-than-temporary, are written down to fair market value and reported as realized losses.

Mortgage loans on real estate are stated at the aggregate carrying value less accrued interest.

Loan-backed securities are stated at amortized cost using the interest method, including anticipated prepayments, with the effective yield recalculated to reflect the actual payments received and the anticipated future payments. Prepayment assumptions are obtained from external pricing services (*e.g.*, Bloomberg, Hub-Data or brokers) or internal estimates and are based on the current interest rate and economic environment. The retrospective adjustment method is used to value all such securities except principal-only and interest-only securities, which are valued using the prospective method.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Cash and Invested Assets (continued)

FIC has ownership interest in equity partnerships and such interest is reported on the Statutory Basis Balance Sheets as other invested assets. FIC carries these interests based on the underlying audited US GAAP equity of the investee.

FIC does not own derivative instruments.

Because FIC is in rehabilitation, Management did not calculate premium deficiency reserves.

Real Estate

Real estate owned and occupied by FIC is included on the Statutory Basis Balance Sheets in invested assets and in the Statement of Operations in investment income. Real estate is reported at cost, net of depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of the building owned by FIC. The estimated useful life of the building owned and occupied by FIC is 20 years. Real Estate is discussed in further detail in Note 4 below.

Premiums

Premiums are earned over the term of the insurance policies. Unearned premium reserves are established to cover premium due on non-cancellable surety bonds.

Reserves on Unpaid Losses and Loss Adjustment Expenses

Reserves on unpaid losses and loss adjustment expenses ("LAE") include an amount determined from individual case estimates and loss reports and an amount, based on past experience, on an undiscounted basis. LAE are the expenses associated with adjusting and litigating a claim (*e.g.*, expert witness and investigation costs), excluding the payment for the loss itself. FIC's reserve on unpaid loss and LAE are stated net of reinsurance recoverables. Reserves for losses incurred but not reported are set by an independent actuary on an undiscounted basis. Such liabilities are based on assumptions and estimates and, while Management believes the amount to be adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing resulting liabilities are continually reviewed and adjustments are reflected in the period determined.

Non-Admitted Assets

As of December 31, 2008 and 2007, the agents' balances in the course of collection totaled $17,366,943 and $24,728,387, respectively and were recorded as non-admitted assets. As of December 31, 2008 and 2007, the receivable under the retroactive reinsurance contract totaled $6,018,084 and $15,358,950, respectively, of which $1,364,539 and $0, respectively, were recorded as non-admitted assets. As of December 31, 2008 and 2007, federal income tax recoverables due from FIGI totaled $0 and $0, respectively, and was recorded as a non-admitted asset. See Notes 11 and

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Non-Admitted Assets (continued)

15 for additional information related to the federal income tax recoverables.

Data Processing Equipment and Software

Data processing equipment and operating systems software is carried at cost less accumulated depreciation. Non-operating system software is charged to surplus as a non-admitted asset. The equipment and all software is being depreciated over three to five years using the straight-line method.

Reinsurance

Prospective reinsurance premiums, losses and LAE are accounted for on a basis consistent with the accounting for the original policies issued and the terms of the reinsurance contracts.

Retroactive reinsurance loss and LAE reserves are recorded on a gross basis without recognition of the retroactive reinsurance. The difference between consideration paid to the reinsurer and the total reserves ceded is recorded as a retroactive reinsurance gain or loss and reported as other income or expense in the Statutory Basis Statement of Operations. Retroactive reinsurance reserves ceded are reported as a contra-liability on the Statutory Basis Balance Sheets. Surplus gains and losses are recorded as restricted surplus and not unassigned funds. Subsequent increases or reductions in ceded reserves will realize a gain or loss arising from these increases or reductions.

Provision for reinsurance provides a minimum reserve for uncollectible reinsurance, which is recorded as a liability in the Statutory Basis Balance Sheets, and the change between years is recorded as a gain or loss directly to unassigned deficit. As of December 31, 2008 and 2007, provision for reinsurance totaled $14,121,891 and $18,175,508, respectively, resulting in a benefit of $4,053,617 for the year ended December 31, 2008. In accordance with Statement of Statutory Accounting Practices ("SSAP") No. 62, *Property and Casualty Reinsurance* ("SSAP No. 62"), Management recorded an allowance for uncollectible reinsurance recoveries as of December 31, 2008 and 2007 in the amounts of $4,270,222 and $7,729,631, respectively.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Income Taxes

FIC consolidates its federal and state income tax returns with Lancer.

Pursuant to the Prescribed Practices, deferred tax assets and liabilities are reported on the Statutory Basis Financial Statements in order to recognize the future tax consequences that may occur as a result of the differences between those amounts of existing assets and liabilities stated in the Statutory Basis Financial Statements and the amounts stated on a tax basis. Deferred tax assets and liabilities are measured using rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Such temporary differences relate primarily to net operating losses.

Allocation of Expense

Certain NYLB employees work on FIC matters in addition to matters pertaining to other Estates. Based on the amount of time spent by each such NYLB employee on FIC matters, the proportional share of his or her salary (and salary-related taxes) is charged to FIC on a monthly basis. Each month's charges are then reimbursed as appropriate by FIC. Management is presently considering whether changes to this method of allocation are warranted. Such changes could retroactively affect the Statutory Basis Financial Statements.

Note 3: Reserve for Unpaid Losses and LAE

FIC's reserves for unpaid losses and LAE as of December 31, 2008 and 2007 include: (a) estimates for claims reported; (b) estimates for claims incurred but not reported; (c) development of claims paid and/or reported; and (d) deductions for anticipated reinsurance recoverables related to (a), (b) and (c) above.

The following table provides a reconciliation of reserves for unpaid losses and LAE, net of reinsurance recoverables, in the amounts of $27,029,463 and $42,501,723, as of December 31, 2008 and 2007, respectively.

Note 3: Reserve for Unpaid Losses and LAE (continued)

	2008	2007
Loss and LAE Reserves, at beginning of year	$169,800,333	$213,828,232
Incurred Loss and LAE related to:		
Current Year	10,998	-
Prior Years	(13,266,176)	(50,285)
Total Incurred	(13,255,178)	(50,285)
Paid Loss and LAE related to:		
Current Year	13,569	-
Prior Years	27,712,419	43,977,614
Total Paid	27,725,988	43,977,614
Loss and LAE Reserves, at end of year	$128,819,167	$169,800,333

The provision for incurred losses of prior years decreased in 2008 primarily as a result of the re-estimation of unpaid losses and LAE categorized as "Other Liability" by the NAIC.

Note 4: Investments

Bonds

At December 31, 2008, the amortized cost, gross unrealized gains and losses and fair market value of investments in bonds are summarized as follows:

	Amortized Cost/Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
U.S. Government	$25,411,496	$1,486,314	$ -	$26,897,810
Special Revenue Obligations (Non-guaranteed)	43,958	8,395	-	52,353
Other Government	-	-	-	-
Industrial & Miscellaneous	217,143	-	-	217,143
Total Bonds	$25,672,597	$1,494,709	$ -	$27,167,306

Note 4: Investments (continued)

Bonds (continued)

At December 31, 2007, the amortized cost, gross unrealized gains and losses and fair market values of investments in bonds are summarized as follows:

	Amortized Cost/Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
U.S. Government	$ 4,074,466	$ 91,581	$ -	$ 4,139,137
Special Revenue Obligations (Non-guaranteed)	21,270,067	839,389	2,812	22,037,951
Other Government	10,000	-	-	10,000
Industrial & Miscellaneous	1,124,929	-	8,255,087	1,124,930
Total Bonds	$ 26,479,462	$ 930,970	$ 8,257,899	$ 27,312,018

At December 31, 2008 and 2007, securities on deposit with fair market values of $26,115,023 and $28,367,607, respectively, were on deposit with various state insurance departments to satisfy regulatory requirements.

The amortized cost of debt securities at December 31, 2008 by date of contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2008	
	Amortized Cost	Fair Market Value
Less than one year	$ 4,820,597	$ 4,855,946
One to five years	20,792,491	22,251,851
Five to ten years	-	-
Ten years or greater	-	-
	$ 25,613,088	$ 27,107,797
Mortgage-backed securities	59,509	59,509
Total	$ 25,672,597	$ 27,167,306

Note 4: <u>Investments</u> (continued)

Bonds (continued)

FIC utilizes the specific identification method for calculating gains or losses on the sale of debt securities and other investments. In 2008 and 2007, FIC received proceeds from sales of debt securities in the amount of $10,062,209 and $4,012,122 respectively, which proceeds include $7,050,209 and $3,774,000, respectively, from debt securities that matured or were repaid. In 2008 and 2007, gross realized gains (losses) on sales of debt securities were $335 and $97, respectively.

Preferred and Common Stocks

The cost, gross unrealized gains and losses, and fair market values of preferred and common stocks are summarized as follows:

December 31, 2008

	Carrying Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Preferred Stocks	$ -	$ -	$ -	$ -	$ -
Common Stocks	1,691,537	1,986,241	546,393	841,097	1,691,537
Total	$ 1,691,537	$ 1,986,241	$ 546,393	$ 841,097	$ 1,691,537

December 31, 2007

	Carrying Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Preferred Stocks	$ -	$ -	$ -	$ -	$ -
Common Stocks	3,010,584	2,125,381	1,201,109	315,906	3,010,584
Total	$ 3,010,584	$ 2,125,381	$ 1,201,109	$ 315,906	$ 3,010,584

In 2008 and 2007, FIC received proceeds from the sale of common stocks in the amounts of $1,591,324 and $140,389, respectively. In 2008 and 2007, gross losses of $8,348 and $4,457, respectively and gross gains of $127,683 and $22,580, respectively were realized on those sales.

Note 4: Investments (continued)

Unrealized losses

The estimated fair market value and unrealized loss for temporarily impaired securities as of December 31, 2008, is as follows:

	Less than 12 months		12 months or longer		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
U.S Government	$ -	$ -	$ -	$ -	$ -	$ -
Special Revenue Bonds	-	-	-	-	-	-
Corporate Securities	-	-	-	-	-	-
Residential Mortgage Backed Securities	-	-	-	-	-	-
Subtotal, Debt Securities	-	-	-	-	-	-
Common Stocks	523,765	253,159	231,052	587,938	754,817	841,097
Preferred Stock	-	-	-	-	-	-
Subtotal, Equity Securities	523,765	253,159	231,052	587,938	754,817	841,097
Total Temporarily Impaired Securities	$ 523,765	$ 253,159	$ 231,052	$ 587,938	$ 754,817	$ 841,097

The estimated fair market value and unrealized loss for temporarily impaired securities as of December 31, 2007, is as follows:

	Less than 12 months		12 months or longer		Total	
	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses	Fair Market Value	Unrealized Losses
U.S Government	$ -	$ -	$ -	$ -	$ -	$ -
Special Revenue Bonds	-	-	995,938	2,812	995,938	2,812
Corporate Securities	-	-	171,589	7,097,000	171,589	7,097,000
Residential Mortgage Backed Securities	-	-	-	1,158,087	-	1,158,087
Subtotal, Debt Securities	-	-	1,167,527	8,257,899	1,167,527	8,257,899
Common Stocks	-	-	606,496	315,906	606,496	315,906
Preferred Stock	-	-	-	-	-	-
Subtotal, Equity Securities	-	-	606,496	315,906	606,496	315,906
Total Temporarily Impaired Securities	$ -	$ -	$1,774,023	$ 8,573,805	$ 1,774,023	$ 8,573,805

For each reporting period (annual and interim periods), Management reviews investments with unrealized losses on a security-by-security basis and assesses whether such declines are other-than-temporary. In assessing whether a decline is other-than-temporary, Management considers various factors including, but not limited to: (i) the rating of the security available from external sources; (ii) the issuer's record of default, if any, on scheduled interest and principle payments;

Note 4: Investments (continued)

Unrealized losses (continued)

(iii) an analysis of the security's market value (*e.g.*, amount, duration and significance of the decline); (iv) Management's intent and ability to hold the investment until recovery; (v) the market conditions during which the decline has occurred; (vi) an economic analysis of the issuer's industry; and (vii) the financial strength and liquidity of the issuer. Once a determination has been made that a specific other-than-temporary impairment exists, a decrease in surplus is incurred and the cost basis of the impaired asset is adjusted to its fair market value.

The unrealized losses related to corporate securities for December 31, 2008 and 2007, totaled $0 and $7,097,000, respectively. Because those corporate securities had an NAIC rating designation of six for December 31, 2008 and 2007, the fair market values of those corporate securities were $0 and $171,589, respectively. Generally, securities with an NAIC rating designation of six are reported at the lower of cost or fair market value.

As of December 31, 2008 and 2007, the unrealized losses related to common stocks totaled $841,097 and $315,906, respectively. As of December 31, 2008 and 2007, the fair market value of those securities were $754,817 and $606,496, respectively, because one common stock had no identifiable fair market value. Because FIC is in rehabilitation, Management elected to record the impairment in the amount of $5,000,000 as a realized loss in 2007 for the entire carrying value for this one particular common stock.

At December 31, 2008 and 2007, Management wrote down the cost of certain debt investments to fair market value. The write-down amounted to approximately $9,207,038 and $15,264 for 2008 and 2007, respectively, and was due to a decline in the fair market value of the debt securities which, in the opinion of Management, was considered to be other-than-temporary. The write-down is included in the realized losses in the accompanying Statutory Basis Balance Sheets.

At December 31, 2008 and 2007, Management wrote down the cost of certain equity investments to fair market value. The write-down amounted to approximately $0 and $6,000,000, for 2008 and 2007, respectively, and was due to a decline in the fair market value of the equity securities which, in the opinion of Management, was considered to be other-than-temporary. The write-down is included in the realized losses in the accompanying Statutory Basis Statement of Operations.

On February 14, 2008, one of the aforementioned common stocks with no identifiable fair market value was sold for $1,312,500, resulting in a realized gain of $1,312,500 as recorded in the 2008 Statement of Operations.

Note 4: Investments (continued)

Unrealized losses (continued)

The financial markets' volatility in 2008 and thereafter may materially impact the valuation of FIC's investments subsequent to December 31, 2008 and 2007. Accordingly, the valuation of investments at December 31, 2008 and 2007, may not necessarily be indicative of amounts that could be realized in a current market exchange. As of December 31, 2008, the market value of the common stock portfolio declined by approximately 27 percent and the market value of investments in limited partnerships declined by approximately 77 percent.

Other Invested Assets

Prior to rehabilitation, FIC participated in limited partnerships that invested primarily in equity securities that FIC could not invest in directly ("Limited Partnerships"). The Limited Partnerships provided FIC with access to management services and investments that FIC did not possess directly. As of December 31, 2008 and 2007, FIC's aggregate investment in the Limited Partnerships was $2,330,345 and $10,020,860, respectively. In 2008 and 2007, FIC received distributions from the Limited Partnerships in the amount of $5,324,002 and $5,475,928, respectively. In 2008 and 2007, gross gains of $163,439 and $2,399,010, respectively, and gross losses of $0 and $0, respectively, were realized on such distributions.

FIC recorded losses of $191,777 and $3,419,515 for 2008 and 2007, respectively, from other-than-temporary declines in fair market value of its investment in the Limited Partnerships. Measurement of the impairment is based on the extent of fair market value decline and length of time in decline of the underlying investment held by the Limited Partnerships. FIC's exposure is equal to its financial investment in the Limited Partnerships and such amount is reported on the Statutory Basis Balance Sheets. Management does not have any capital commitments for FIC's existing investments in Limited Partnerships, nor does Management have any plans to invest in any new limited partnerships.

Subprime Exposures

Management, in conjunction with its outside investment advisors, has reviewed FIC's portfolio as of December 31, 2008 and 2007, and has determined that:

(1) FIC has no direct subprime exposure through investments in subprime mortgage loans.

(2) FIC has indirect subprime exposure through residential mortgage-backed securities. All such holdings are fixed-income instruments. As of December 31, 2008 and 2007, FIC held three investments in mortgage-backed securities with par values of $1,490,542 and $1,490,542, respectively. As of December 31, 2008 and 2007, these three securities had been written down to fair market values of $59,509 and $0, respectively, resulting in unrealized losses of $0 and $1,470,165, respectively.

Note 4: Investments (continued)

Subprime Exposures (continued)

FIC has no underwriting exposure to subprime mortgage risk through mortgage guaranty or financial guaranty insurance coverage.

Net Investment Income Earned

Net investment income earned consisted of the following for the years ended December 31:

	2008	2007
Bonds	$1,486,927	$1,395,342
Common and preferred stocks	28,351	63,485
Cash and short-term investments	662,843	1,746,293
Mortgage loans	1,816	107,979
Net real estate	223,121	474,072
Other invested assets	45,282	-
Other income	791,336	890,820
Gross investment income	3,239,676	4,677,991
Less: Investment expenses	(1,400,289)	(2,201,067)
Net investment income earned	$1,839,387	$2,476,924

Real Estate

FIC's investment in real estate is its ownership and occupation of a commercial building and the property on which the building is located in Rock Hill, New York ("Rock Hill Property"). As of December 31, 2008 and 2007, the value of the Rock Hill Property is broken-down as follows:

	2008	2007
Land	$ 577,483	$ 577,483
Building	18,922,518	18,922,518
Accumulated depreciation	(6,879,969)	(6,622,881)
Valuation allowance	(4,823,246)	(4,823,246)
Value of Rock Hill Property	$ 7,796,786	$ 8,053,874

Note 4: Investments (continued)

Mortgage Loans

As of December 31, 2008 and 2007, FIC held one outstanding mortgage as shown below:

Mortgagor	Interest Rate	Location	Outstanding Balance	Non-admitted	Carrying Value
Well Assist, Inc.	6.00%	New York	$ 340,596	$ (340,596)	$ -

Net realized capital gains (losses)

Set forth below are the net realized capital gains recognized by FIC in 2008 and 2007. These amounts include other-than-temporary impairments of $(7,407,960) and $(7,606,730) for 2008 and 2007, respectively.

	2008	2007
Bonds	$(9,206,703)	$(305,107)
Short-term investments	52,304	(299,241)
Common stocks	1,431,834	(5,981,877)
Other invested assets	314,605	(1,020,505)
	$(7,407,960)	$(7,606,730)

Note 5: Fair Market Value of Cash and Invested Assets

Cash and Cash Equivalents, Short-term Investments and Other Invested Assets

The carrying amounts reported in the Statutory Basis Balance Sheets for cash and cash equivalents, short-term investments and other invested assets are a reasonable estimate of fair market value.

Investment securities

Fair market values for investment securities are based on unit prices published by the SVO. However, for certain securities for which the SVO does not provide a value, Management uses market prices quoted by third parties, if available. When both SVO-published unit prices and market quotes are unavailable, Management's best estimate of fair market value is based on quoted market prices of financial instruments with similar characteristics or on industry recognized valuation techniques. The fair market values of FIC's invested assets are disclosed in Note 4 hereof.

FIC has no derivative financial instruments as defined by SSAP No. 86, *Accounting for Derivative Instruments and Hedging Activities*.

Note 5: Fair Market Value of Cash and Invested Assets (continued)

Mortgage Loans

As of December 31, 2008 and 2007, the Well Assist, Inc. mortgage loan was in default and carried as a non-admitted asset.

As of December 31, 2007, the IPX mortgage loan was paid in full.

Fair Value Measurements

Certain investment related line items in the Statutory Basis Financial Statements are consistently carried at fair market value. Others are periodically measured at fair market value, such as when impaired, or, for certain bonds and preferred stocks, when carried at the lower of cost or fair market value.

The fair market value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, other than in a forced or liquidation sale. The fair market value of a liability is the amount at which that liability could be released or otherwise resolved in a current transaction between willing parties, other than in a forced transaction.

Fair market values are based on quoted market prices when available. When market prices are not available, fair market value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality. In instances where there is little or no market activity for the same or similar instruments, Management estimates fair market value using methods, models and assumptions that Management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment which become increasingly significant with complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

Statement No. 157 requires that financial statements prepared pursuant to US GAAP classify financial assets and liabilities carried at fair value by using the fair value hierarchy. Because FIC's Statutory Basis Financial Statements were not prepared pursuant to US GAAP, Management has not applied the fair value hierarchy classification as outlined below in Statement No. 157.

Statement No. 157 establishes a fair value hierarchy that prioritizes the use of inputs in valuation techniques into the following three levels:

- Level One: observable prices in active markets for identical assets and liabilities;
- Level Two: observable inputs other than quoted prices in active markets for identical assets and liabilities; and
- Level Three: unobservable inputs.

Note 5: Fair Market Value of Cash and Invested Assets (continued)

Fair Value Measurements (continued)

An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

Note 6: Capital and Deficit, Dividend Restrictions and Statutory Requirements

Pursuant to Insurance Law Section 4105, all dividends on capital stock must be distributed exclusively out of earned surplus. Dividends that exceed the lesser of: (i) 10 percent of FIC's most recent year-end policyholders' surplus, (ii) the net income earned for the year, or (iii) 100 percent of adjusted net investment income for such period, cannot be declared or distributed without prior approval of the Superintendent. FIC's required minimum level of capital and surplus is $3,300,000. For the years ended December 31, 2008 and 2007, FIC did not declare or pay any dividends on common stock.

The portion of unassigned funds (surplus) represented or reduced by each item below is as follows for December 31, 2008 and 2007:

	2008	2007
Unrealized losses	$(54,564,705)	$ (56,973,562)
Non-admitted asset values	(20,727,325)	(31,106,921)
Provision for reinsurance	(14,121,891)	(18,175,508)
	$(89,413,921)	$(106,255,991)

Note 7: Concentration of Credit Risk

Financial instruments that have the potential to subject FIC to credit risk consist of cash, cash equivalents and short-term investments.

Cash and cash equivalents are deposited with high quality financial institutions. At times such amounts may exceed the insured limits of the Federal Deposit Insurance Corporation ("FDIC") and/or the Securities Investor Protection Corporation. Certain cash equivalents and short-term investments include investments in money market mutual fund securities, which are not necessarily insured by the FDIC.

FIC maintains cash balances at financial institutions that are insured by the FDIC. As of the date hereof, the FDIC insures accounts up to $250,000 at these institutions. Management monitors balances of cash in excess of insured limits and believes, based on the information currently available to it, that such balances do not represent a material credit risk to FIC. As of December 31, 2008, when FDIC-insured limits were $250,000, balances in excess of these limits were approximately $1,770,086. As of December 31, 2007, when FDIC-insured limits were $100,000, balances in excess of these limits were approximately $2,301,280. As of December 31, 2008, money market funds not insured by the FDIC are in excess of $7,627,379.

Note 8: <u>Reinsurance Recoverables</u>

<u>Prospective Reinsurance Recoverables</u>

FIC wrote insurance coverage on a direct basis and entered into reinsurance agreements with other insurance companies in the ordinary course of business. The reinsurance arrangements include a wide variety of treaty and facultative contracts providing pro-rata, excess of loss, quota share and catastrophe coverage. Reinsurance Recoverables relate to amounts due to FIC arising under reinsurance agreements originating prior to FIC's rehabilitation. The net reinsurance recoverable represents amounts due from reinsurers for paid loss claims and LAE and the estimated recovery for outstanding loss case reserves. FIC remains liable in the event that a reinsurer is unable to meet the obligations assumed under the reinsurance agreements. The following is a summary of the components of net premiums written and earned for the years ended December 31, 2008 and 2007:

	2008 Premiums Written	2008 Premiums Earned	2007 Premiums Written	2007 Premiums Earned
Direct business	$ (1,457,710)	$ (1,016,007)	$ (252,968)	$ 44,680
Reinsurance assumed	45,569	119,532	281,532	229,791
Reinsurance ceded	(1,369,549)	(1,369,513)	556,922	556,887
	$ (2,781,690)	$ (2,265,988)	$ 585,486	$ 831,358

The effect of reinsurance on unearned premiums as of December 31, 2008 and 2007, are as follows:

	2008	2007
Direct business	$ 290,581	$ 732,284
Reinsurance assumed	353,892	427,853
Reinsurance ceded	(42)	(6)
	$ 644,431	$ 1,160,131

The effect of reinsurance on the liabilities for losses and LAE reserves as of December 31, and losses and loss expense incurred for the years ended December 31, are as follows:

	2008 Liability for Losses and LAE	2008 Losses and LAE Incurred	2007 Liability for losses and LAE	2007 Losses and LAE Incurred
Direct business	$153,583,010	$ (10,034,058)	$ 199,327,465	$ (41,311)
Reinsurance assumed	2,265,620	(11,268,964)	12,974,591	(8,974)
Reinsurance ceded	27,029,463	(8,047,844)	42,501,723	-
	$128,819,167	$ (13,255,178)	$ 169,800,333	$ (50,285)

Note 8: Reinsurance Recoverables (continued)

Prospective Reinsurance Recoverables (continued)

The following is a summary of the components of commission expense, net, for the years ended December 31:

	2008	2007
Commissions:		
Direct	$ (287,061)	$ (788,535)
Reinsurance assumed	17,253	69,543
Reinsurance ceded	(925)	(2,885)
Contingent ceded	-	77,191
Net commissions	$ (268,883)	$ (793,298)

Reinsurance Recoverables in Dispute

The reinsurance recoverables on paid loss and LAE, on a gross basis, listed below as of December 31, 2008 and 2007, are in dispute and are recorded in reinsurance balances recoverable on paid loss and LAE:

Name of Reinsurer	**Amounts in Dispute** 2008	2007
Everest Reinsurance Company	$ 1,747,474	$ 2,210,110
Munich Re America	1,771,062	-
XL Reinsurance America Inc.	2,794,562	3,547,081
Toa Reinsurance Company of America	2,881,403	2,881,080
Automotive Services Insurance Ltd.	-	365,705
Hartford Fire Insurance Company	547,540	1,415,739
Swiss Reinsurance America Corp.	318,184	552,809
Trenwick America Reinsurance Corp.	1,066,228	449,899
	$ 11,126,453	$ 11,422,423

Note 8: Reinsurance Recoverables (continued)

Unsecured Reinsurance Recoverables

FIC had the following unsecured reinsurance recoverables on paid losses and LAE as of December 31, 2008 and 2007:

	2008	2007
ACE USA	$ 409,135	$ 175,998
Automotive Services Insurance Ltd.	750	365,705
Bowling Green Indemnity Ltd.	3,221,108	2,919,165
Calvert	2,730	3,095
Chubb Atlantic Indemnity Ltd.	911,616	911,616
Cigna Insurance Group	11,691	11,691
Clearwater Insurance Company	17,799	(22,959)
Connecticut General Life Insurance Company	80,341	79,912
Continental Casualty Company	13,143	159,457
The Doctors Company	136,802	136,802
Evanston Insurance Company	329,044	351,059
Everest Reinsurance Company	1,973,683	2,215,310
Federal Insurance Company	9,628	-
First Professional Insurance Company	(2,155)	137,490
Global Reinsurance Corporation	25,483	1,311,063
Hannover Rueckversicherung AG	335,068	1,351,249
Hartford Fire Insurance Company	547,540	1,415,739
Houston Casualty Company	21,816	12,787
John Hancock Life Insurance Company	70,807	141,217
Lansdowne	727,920	713,557
Lincoln National Life Insurance Company	42,849	42,620
Lloyd’s of London Syndicate 435	410,483	303,096
Markel International Insurance Company	410,365	159,575
Munich Reinsurance America Inc.	1,771,063	1,481,732
Mutual Assurance	24,622	24,622
Nursing Home Risk & Indemnity Ltd.	1,033,811	1,033,811
Odyssey America Reinsurance Company	15,704	(29,294)
Paradym Insurance Company Ltd.	1,117,372	995,199
Phoenix Home Life Mutual Insurance Company	53,561	53,275
Potomac Indemnity Company	3,427,928	3,431,317
QBE Insurance (Europe)	82,302	82,302
ReliaStar Life Insurance Company	20,569	12,056
Security Insurance Company of Hartford	136,623	136,623
Sinser Insurance Ltd.	266,393	198,001
St. Paul Fire & Marine Insurance Company	19,989	1,066,762
Swiss Reinsurance America Corporation	1,968,225	1,621,524
Toa Reinsurance Company of America	2,881,403	2,881,080
Transatlantic Reinsurance Company	136,073	1,314,842
Trenwick America Reinsurance Corporation	1,066,228	449,899
Van Meter	151,997	-
XL Reinsurance America Inc.	2,794,564	5,047,081
Sub Total	$26,676,073	$32,696,076
Other	-	-
Net Total	$26,676,073	$32,696,076

Note 8: Reinsurance Recoverables (continued)

Retroactive Reinsurance Agreement

Effective July 1, 2000, FIC entered into a retroactive aggregate reinsurance agreement with NICO for the purpose of mitigating the impact of claims arising under accident years prior to December 31, 1999 ("NICO Agreement"). The NICO Agreement has been amended three times, as more fully set forth in Note 13 below. The following table sets forth data related to the NICO Agreement:

	2008 Ceded	2007 Ceded
Reserves transferred:		
Initial reserves	$ 542,986,936	$ 542,986,936
Adjustments – prior years	163,282,511	162,521,436
Adjustments – current year	1,808,649	761,075
Current total	$ 708,078,096	$ 706,269,447
Consideration paid:		
Initial consideration	$ 533,728,693	$ 533,728,693
Adjustments – prior years	24,931,969	24,931,969
Adjustments – current year	-	-
Current total	$ 558,660,662	$ 558,660,662
Paid losses recovered:		
Prior years	$522,672,616	$ 495,561,156
Current year	10,258,684	27,111,460
Current total	$532,931,300	$ 522,672,616
Special Surplus from Retro Active Reinsurance		
Initial surplus gain	$9,258,243	$ 9,258,243
Adjustments – prior years	$138,350,542	$ 137,589,467
Adjustments – current year	1,808,649	761,075
Current year restricted surplus	$149,417,434	$ 147,608,785
Cumulative total transferred to unassigned surplus	$149,417,434	$ 147,608,785

In accordance with SSAP No. 62, the surplus gain of $149,417,434 and $147,608,785 as of December 31, 2008 and 2007, respectively, is restricted surplus until such time as amounts recovered exceed consideration paid.

Retroactive reinsurance reserves ceded to NICO under the NICO Agreement, as amended, totaled $62,334,868 and $70,784,904 as of December 31, 2008 and 2007, respectively. FPIC also maintains reinsurance with NICO as part of the NICO Agreement. Under the NICO Agreement, FPIC has its own contractual limit to the reinsurance coverage. NICO has disputed the FPIC reinsurance claims and the two parties are prepared to arbitrate the issue. FPIC states in a court report dated October 30, 2009, that it has billed $12.1 million to NICO to date and estimates that its total net reinsurance asset remaining, inclusive of all other reinsurance treaties, is $28.5 million. Any recovery by FPIC against NICO would reduce the ceded reinsurance available to FIC under the NICO Agreement. If FPIC prevails, Management estimates FPIC's maximum potential recovery at $12 to $14 million.

Retroactive reinsurance reserves do not offset reserves and are recorded as a separate contra-liability. The change in the balance of special surplus funds from the prior year of $1,808,649 and $761,075 for December 31, 2008 and 2007, respectively, represents a gain from the NICO Agreement. As of December 31, 2008 and 2007, the amounts receivable under the NICO Agreement were $6,018,084 and $15,358,950, respectively.

Note 9: Other Liabilities

Creditor Database

As of December 31, 2008 and 2007, Management reported in the Statutory Basis Balance Sheets as accounts payable and accrued expenses the amount of $17,955,000 and $17,188,869, respectively. The 2008 amount includes creditor claims in the amount of $14,913,401 and other various accounts payable in the amount of $3,041,598. The 2007 amount includes creditor claims in the amount of $13,178,660 and other various accounts payable in the amount of $4,010,209. Management reviewed the submitted creditors' claims and found that some claims or portions thereof were duplicative. Management continues to update the creditor database to correct this estimate.

Other Liabilities

As of December 31, 2008 and 2007, Management reported in the Statutory Basis Balance Sheets $59,001,053 and $64,612,048, respectively, in other liabilities, which amounts include $52,243,878 and $52,382,296, respectively, as a bulk reserve and other payables, primarily to Clarendon National Insurance Company ("Clarendon") of $2,593,263 and $7,709,564, respectively.

The bulk reserve for December 31, 2008 and 2007, of $51,537,448 and $51,537,448, respectively, while not specific to any line of business or program, has been established to estimate the ultimate liability of a pattern of emerging or unreported substantial claims that have been incurred from non-traditional and, in some cases, unlicensed underwriting activity or related continual obligations. While Management vigorously investigates and defends, where appropriate, each irregular or non-traditional claim, this reserve is Management's best estimate as to total potential liability.

The $2,593,263 and $7,709,564 reported as other payables as of December 31, 2008 and 2007, respectively is due to Clarendon on those FIC policies where: (i) Clarendon issued cut-through endorsements, and (ii) FIC collected reinsurance on Clarendon's behalf or owed Clarendon premiums.

Note 10: Commitments and Contingencies

Contingent Commitments

FIC is contingently liable for its proportional share of three insurance pools that FIC participated in prior to rehabilitation. When FIC ceased writing new business in March 2001, its participation in the Pools ended. The liability recorded for these commitments is recorded in the creditor database discussed above.

Leases

FIC leases storage space pursuant to two separate lease arrangements that expire on December 31, 2009. Rental expense for 2008 and 2007 was approximately $62,400 and $62,992, respectively. At December 31, 2008, approximate rental commitments under non-cancellable leases are as follows:

Year Ending December 31,	Amount
2009	$ 63,600
2010	$ 63,600

Other Contingencies

FIC recognizes and accrues known or probable loss contingencies in the period when such contingencies become known and estimable.

Various legal actions have been commenced arising principally from claims made under insurance policies and contracts issued by FIC. Those actions are considered by FIC in estimating reserves for policy and contract liabilities. Contingent liabilities arise from litigation, income taxes, and other matters, but are not considered material in relation to the financial position of FIC.

Note 11: Federal Income Taxes

Deferred income taxes arise from the temporary differences in the valuation of certain assets and liabilities as determined for financial reporting purposes and income tax purposes. Such temporary differences relate primarily to net operating losses.

FIC did not generate taxable income for fiscal years 2008 and 2007. Therefore, Management has not calculated or disclosed the components of net deferred tax assets (“DTA”) or of deferred tax liability (“DTL”) because all such amounts would be deemed non-admitted as specified by SSAP No. 10, *Income Taxes*. Further, due to recurring operating losses, Management does not expect FIC to realize the benefit of the temporary differences giving rise to the DTA in the near term. As of December 31, 2008 and 2007, FIC did not have DTL.

FIC files a consolidated tax return with Lancer as discussed in Note 2. No provision for income taxes incurred has been recorded for the years ended December 31, 2008 and 2007. As further discussed in Note 15, an accumulated recoverable balance of

Note 11: Federal Income Taxes (continued)

$24,233,902 was written off in 2007 and recorded in the Statutory Basis Statement of Operations as federal income tax incurred.

As of December 31, 2007, FIC had net operating loss carry forwards in the amount of $221,668,492, which will begin to expire in 2020. The net operating loss for 2008 has not been calculated. Since there was a significant book income in the current year that would materially change the disclosure of the net operating losses, we determined only to disclose the 2007 net operating losses. Any amount of net operating losses utilized in 2008 and 2007 is not indicative of future estimates.

Note 12: Reinsurance Litigation

In May 2005, FIC initiated a lawsuit against Everest Reinsurance Company ("Everest Re") and Benfield Inc. f/k/a E.W. Blanch Company, Inc. ("Benfield") to rescind a professional liability excess loss reinsurance contract ("Everest Re Contract") and related trust agreement ("Trust Agreement") or alternatively to recover all funds paid by FIC to Benfield and Everest Re as fraudulent conveyances ("Everest Re Litigation"). Management has alleged that the Everest Re Contract was entered into while FIC was insolvent and consequently any fees paid to Benfield and Everest Re, and investment income and interest thereon, must be returned to FIC. Management has also alleged that the Everest Re Contract is not in accordance with standards set forth in SSAP No. 62 because it did not meet risk-transfer standards. On March 6, 2009, the United States District Court for the Southern District of New York (the "Court") granted Everest Re's summary judgment motion and denied Benfield's. Management is currently considering its options with regard to the Court's decision.

Prior to rehabilitation, FIC reported the reinsurance recoverables due under the Everest Re Contract as reinsurance. Given Management's allegation that the Everest Re Contract is not in accordance with standards set forth in SSAP No. 62 because it did not meet the risk-transfer standards, the reinsurance recoverables due under the Everest Re Contract should be reported in the Statutory Basis Balance Sheets as a deposit, not reinsurance. Management, as part of its litigation strategy and for consistency with reporting methodologies used in prior years, has reported the reinsurance recoverables due under the Everest Re Contract as reinsurance.

Pending resolution of the Everest Re Litigation, Management has reported as of December 31, 2008 and 2007, $4,084,170 and $7,116,986, respectively, as reinsurance recoverable on paid losses and paid LAE and $7,682,996 and $3,941,051, respectively, as reinsurance recoverable on outstanding reserves for losses and LAE. Management did not establish a receivable for the full amount in the account established pursuant to the Trust Agreement, but rather only that amount necessary to offset losses recoverable.

Note 13: **National Indemnity Company Reinsurance Arrangement with Frontier Insurance Company in Rehabilitation**

As previously discussed in Note 8 herein, the NICO Agreement has been subsequently amended three times as follows:

Endorsement No. 1, dated January 5, 2001, added coverage for FIC's surety business for years 2000 and forward, added FPIC as an insured party and also increased NICO's ultimate net loss obligation from $780,000,000 to $858,554,275, with a sublimit of $47,089,799 established for FPIC claims.

Endorsement No. 2, dated September 20, 2001, sets forth the administrative duties and the financial obligations of the parties with respect to the handling of claims reinsured by NICO.

Endorsement No. 3, dated March 24, 2004, eliminated the surety coverage afforded FIC under the NICO Agreement, resolved certain balances owed to NICO by FIC and reduced the remaining cover limit as of January 1, 2004, to $225 million, inclusive of both the FIC cover limit and the FPIC sublimit.

Note 14: **Employee Retirement Plan**

Prior to rehabilitation, FIC, along with its affiliates, participated in a profit sharing plan and a 401(k) plan sponsored by FIGI, covering officers and employees.

Beginning in 2003, FIC sponsored a 401(k) tax-qualified defined contribution plan ("Plan"). Substantially all FIC employees, subject to certain waiting periods, are eligible to participate in the Plan. Plan participants may elect to contribute up to 100 percent of their compensation (subject to an annual IRS limit) into the Plan. Contribution amounts vary by employee up to the maximum limits defined by the IRS. FIC made no contribution to the Plan for 2008 or 2007. As of December 31, 2008 and 2007, the fair market value of Plan assets was $1,042,800 and $1,551,367, respectively.

Note 15: **Related Party Transactions**

Prior to rehabilitation, FIC participated in a tax allocation agreement with its parent, FIGI. As a result of this tax allocation agreement, FIC for the years 1999 through 2001 accumulated $24,233,902 in federal income tax recoverables from FIGI. This balance is considered a non-admitted asset, as FIGI has failed to remit to FIC within 90 days from the date of billing. Subsequent to December 31, 2006, FIGI petitioned for and was granted relief under the Bankruptcy Code. As such, the recoverable was then written off by FIC in 2007 and recorded in the Statutory Basis Statement of Operations as federal income tax incurred.

Note 16: <u>Expenses</u>

The following table indicates the components of the FIC's expense categories for the year ended December 31, 2008:

	2008		
	General	Investment	Total
Salaries and Benefits	$ 2,517,613	$ -	$ 2,517,613
Real property expenses, including taxes	-	1,328,708	1,328,708
Legal and auditing	856,024	-	856,024
Professional services	456,456	-	456,456
Bank servicing fees	-	71,581	71,581
Insurance	55,835	-	55,835
EDP and equipment costs	119,884	-	119,884
Rent and Rent Items	20,494	-	20,494
All other expenses	(5,862)	-	(5,862)
Net Commission & Brokerage	(268,883)	-	(268,883)
	$ 3,751,561	$ 1,400,289	$ 5,151,850

The following table indicates the components of the FIC's expense categories for the year ended December 31, 2007:

	2007		
	General	Investment	Total
Salaries and Benefits	$ 2,817,222	$ 48,926	$ 2,866,148
Real property expenses, including taxes	-	2,007,889	2,007,889
Legal and auditing	882,512	41,195	923,707
Professional services	635,230	-	635,230
Bank servicing fees	-	75,322	75,322
Insurance	73,824	-	73,824
EDP and equipment costs	185,584	27,735	213,319
Rent and Rent Items	22,578	-	22,578
All other expenses	253,261	-	253,261
Net Commission & Brokerage	(793,299)	-	(793,299)
	$ 4,076,912	$ 2,201,067	$ 6,277,979

No bonus or retention plans were in place for the years ending December 31, 2008 and 2007.

Note 17: <u>Subsequent Events</u>

<u>Settlement with Clarendon</u>

As discussed in Note 9 herein, on February 4, 2008, FIC and Clarendon entered into a settlement agreement ("Clarendon Agreement"). Pursuant to the terms of the Clarendon Agreement, Clarendon will continue to perform its obligations under the cut-through endorsements with FIC and FIC will continue to bill and collect reinsurance on Clarendon's behalf.

Note 17: Subsequent Events (continued)

NICO Retro Reinsurance Agreement

By letter dated July 6, 2010, NICO notified FIC that it is suspending payment to FIC under the NICO Agreement (see Footnote 8 herein) until the remaining reinsurance limit under the NICO Agreement is apportioned between FIC and FPIC.

Market Volatility

FIC invests in various investment securities. Investment securities are exposed to various risks, such as interest rate risk, market risk and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that changes may materially affect the participants' account balances and the amounts reported in the Statutory Basis Financial Statements.

The financial markets' volatility in 2008 and thereafter materially impacted the valuation of FIC's investments subsequent to December 31, 2008 and 2007. Accordingly, the valuation of investments at December 31, 2008 and 2007, may not necessarily be indicative of amounts that could be realized in a current market exchange.

As of June 30, 2009, the market value of the common stock portfolio increased by approximately eight percent and the market value of investments in Limited Partnerships decreased in market value by approximately thirty-three percent due to a redemption of $1.4 million in assets.

Bar Dates

Pursuant to an order entered in November 2009, the Receivership Court established March 12, 2010, as the last date upon which a person may submit notice ("Notice") to the Rehabilitator for any claim under a policy or contract issued by Terramar Insurance Company, Terramar Insurance Agency, Advanced Risk International, Ltd. or Terramar General Agency (collectively, "Terramar") or any bond. Any bond or Terramar claim, where the Rehabilitator has not received Notice, is barred. In addition, any claim under any bond in which the triggering event occurred after January 11, 2010 is barred.

Note 18: <u>Reconciliation to Annual Statement</u>

Following is a summary of the changes between FIC's 2008 Statutory Basis Financial Statements as prepared in the 2008 annual statement filed with the Insurance Department and the amounts reported in these audited Statutory Basis Financial Statements:

	Admitted Assets	Liabilities	Capital & (Deficit)	Net Income (Loss)
As reported in the December 31, 2008 Statutory Basis Balance Sheet	$ 95,917,761	$ (186,471,525)	$ (90,553,764)	$ 3,529,396
Reversal of prior year audit adjustments	-	-	-	10,582,905
Write down of bonds	(996,719)	-	(996,719)	(9,207,038)
Write down of due and accrued interest	(52,160)	-	(52,160)	(52,160)
Write down of limited partnerships	(191,775)	-	(191,775)	151,166
Reclass potential for uncollectable reinsurance recoverable	-	-	-	(4,270,222)
Increase in accrued expense	-	(49,722)	(49,722)	(49,722)
Decrease in receivable (balance over 90 days due)	(1,364,539)		(1,364,539)	-
As reported in the audited December 31, 2008 Statutory Basis Balance Sheet	$ 93,312,568	$ (186,521,247)	$ (93,208,679)	$ 684,325

Note 18: Reconciliation to Annual Statement (continued)

Following is a summary of the changes between FIC's 2007 Statutory Basis Financial Statements as prepared in the 2007 annual statement filed with the Insurance Department and the amounts reported in these audited Statutory Basis Financial Statements:

	Admitted Assets	Liabilities	Capital & (Deficit)	Net Income (Loss)
As reported in the December 31, 2007 Statutory Basis Balance Sheet	$ 133,452,446	$ (236,797,203)	$ (103,344,757)	$ (39,613,823)
Decrease in accrued income	(112,016)	-	(112,016)	(112,016)
Allowance on reinsurance recoverables on paid losses and LAE	(7,729,361)	-	-	-
Reclass provision for reinsurance to allowance	-	7,729,361	-	-
Correction to bond portfolio for assets no longer held	(305,107)	-	(305,107)	(305,107)
Increase in cash	4,475	-	4,475	4,475
Increase in accrued expenses		(839,787)	(839,787)	(67,895)
Increase in common stock	187,670	-	187,670	-
Valuation adjustment for limited partnerships	(3,419,519)	-	(3,419,519)	(3,419,519)
Valuation adjustment for stocks	-	-	-	(6,000,000)
Valuation adjustment to home office, Rock Hill, N.Y.	(4,823,246)	-	(4,823,246)	344,518
As reported in the audited December 31, 2007 Statutory Basis Balance Sheet	$ 117,255,342	$ (229,907,629)	$ (112,652,287)	$ (49,169,367)

LION INSURANCE COMPANY IN REHABILITATION

Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis

As of December 31, 2008
With Report of Independent Auditors

LION INSURANCE COMPANY IN REHABILITATION

Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis

As of December 31, 2008
With Report of Independent Auditors

Report of Independent Auditors

To the Superintendent of Insurance of the State of New York as Rehabilitator and the Management of Lion Insurance Company in Rehabilitation

We have audited the accompanying schedule of cash, cash equivalents and short-term investments - statutory basis of Lion Insurance Company in Rehabilitation (the "Company") as of December 31, 2008. This schedule of cash, cash equivalents and short-term investments - statutory basis is the responsibility of the Company's management. Our responsibility is to express an opinion on this schedule of cash, cash equivalents and short-term investments - statutory basis based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of cash and cash equivalents - statutory basis is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of cash, cash equivalents and short-term investments - statutory basis, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit of the schedule of cash, cash equivalents and short-term investments - statutory basis provides a reasonable basis for our opinion.

As described in Note 2, the accompanying schedule of cash, cash equivalents and short-term investments - statutory basis has been prepared in conformity with accounting practices prescribed or permitted by the New York State Insurance Department (the "Insurance Department"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the schedule of cash, cash equivalents and short-term investments - statutory basis referred to above presents fairly, in all material respects, the cash, cash equivalents and short-term investments on a statutory basis of the Company as of December 31, 2008, in conformity with accounting practices prescribed or permitted by the Insurance Department, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America as described in Note 2.

The accompanying schedule of cash, cash equivalents and short-term investments - statutory basis has been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the schedule of cash, cash equivalents and short-term investments - statutory basis, the Company has been in rehabilitation since 2007 that raises substantial doubt about its ability to continue as a going concern. Management has not finalized plans with regard to these matters. The schedule of cash, cash equivalents and short-term investments - statutory basis does not include any adjustments that might result from the outcome of this uncertainty.

This report is intended solely for the information of and restricted to the use of the Superintendent of Insurance of the State of New York as Rehabilitator and management of the Company and is not intended to be and should not be used by other than the above specified parties.

Amper, Politziner & Mattia, LLP

July 28, 2010
New York, New York

LION INSURANCE COMPANY IN REHABILITATION
Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis
As of December 31, 2008

		2008
Cash, Cash Equivalents and Short Term Investments - Statutory Basis		
Short-term investment at amortized cost (Note 3)	$	2,346,113
Cash, cash equivalents		224,630
Total Cash, Cash Equivalents and Short Term Investments - Statutory Basis	**$**	**2,570,743**

See accompanying notes to the Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis. The Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein) and is not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based on such person's or entity's use of or reliance upon the Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis and accompanying notes.

Note 1: Organization and Nature of Operations

Lion Insurance Company ("Lion") is a wholly-owned subsidiary of Eagle Insurance Company ("Eagle"), a New Jersey domiciled property and casualty insurance company, which is, in turn, a wholly-owned subsidiary of The Robert Plan Corporation ("The Robert Plan"), Lion's ultimate parent.

Lion was incorporated as a stock insurance company on July 14, 1989 and was licensed under the laws of the state of New York on October 1, 1990. Lion was licensed to transact the kinds of insurance specified in New York Insurance Law ("Insurance Law") Section 1113(a) paragraphs: 13 (Personal Injury Liability), 14 (Property Damage Liability), 19 (Motor Vehicle and Aircraft Physical Damage). In 1991, Lion began writing private passenger car insurance. Substantially all of the policies issued by Lion are located in New York State.

Lion had significant transactions with Eagle and The Robert Plan Corporation of New York ("Robert-NY"), a third party claims service administrator and a wholly-owned subsidiary of The Robert Plan. In return for servicing fees, Robert-NY provided Lion with claims administration services, which included loss adjustment and control and loss payment functions. This agreement has since been terminated.

On February 16, 2006, Lion transferred $1,500,000 to The Robert Plan without first obtaining approval from The New York State Department of Insurance (the "Insurance Department").

On September 26, 2006, Lion entered into a stipulation with The Robert Plan and the Insurance Department (the "Stipulation") whereby, The Robert Plan agreed to repay the loans to Lion pursuant to a repayment schedule. Accordingly, if The Robert Plan defaulted in any manner in making repayment, Lion consented to being placed into rehabilitation. Simultaneous with the execution of the Stipulation, Lion's Board of Directors held a special meeting at which the Board unanimously approved the resolution consenting to an entry of an order of rehabilitation and the commencement of proceedings for that purpose in the Supreme Court of the State of New York, County of New York.

The Robert Plan failed to make the required payments for October 2006 and all dates thereafter and thus defaulted, therefore violating the Stipulation. Accordingly, Lion consented to being placed into rehabilitation.

Note 1: Organization and Nature of Operations (continued)

Pursuant to Insurance Law Article 74, on September 6, 2007, the Supreme Court of the State of New York, County of New York ("Receivership Court"), issued an order of rehabilitation ("Rehabilitation Order") placing Lion into rehabilitation and appointing the then-Superintendent of Insurance of the State of New York (and his successors in office) ("Superintendent") rehabilitator of Lion ("Rehabilitator"). The Rehabilitation Order directed the Rehabilitator to, among other things, take possession of Lion's property, conduct Lion's business and take such steps toward the removal of the causes and conditions which made the rehabilitation proceeding necessary.

Pursuant to Insurance Law Section 7422, the Receiver may appoint a special deputy and assistant special deputy superintendents as his agents. The agents, along with division directors and senior managers of the New York Liquidation Bureau ("NYLB"), are referred to herein as "Management." Management carries out through the NYLB, the responsibilities of the Receiver with regard to each and every estate under the statutory supervision of the Receiver where the agents have been appointed as agents of the Receiver ("Estate"), including Lion.

Lion has been in rehabilitation since 2007. This factor raises substantial doubt about Lion's ability to continue as a going concern. The Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis does not include any adjustments that might be necessary if Lion is unable to continue as a going concern.

Note 2: Summary of Significant Accounting Policies

A. Accounting Practices

The *Accounting Practices and Procedures Manual* ("APP Manual") of the National Association of Insurance Commissioners ("NAIC") summarizes statutory accounting practices and provides guidance to regulatory agencies in formulating prescribed or permitted practices. The Insurance Department adopted portions of the APP Manual, subject to exceptions, conflicts and additions set forth in Section 83.4 of 11 N.Y.C.R.R. 83 (Regulation 172) ("Prescribed Practices").

Permitted statutory accounting practices include practices that differ from Prescribed Practices but that are allowed by the Insurance Department. Management did not seek permission from the Insurance Department to deviate from the Prescribed Practices. As a result, there are no permitted practices applicable to Lion. The outcome of applying the Prescribed Practices to Lion would not be significantly different from the outcome of applying the APP Manual to Lion.

Note 2: <u>Summary of Significant Accounting Policies</u> (continued)

A. <u>Accounting Practices</u> (continued)

Management has elected to prepare in accordance with Prescribed Practices, Lion's Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis as of December 31, 2008. The Prescribed Practices used to prepare the Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis are a comprehensive basis of accounting different from generally accepted accounting principles in the United States of America ("US GAAP"). Below are the significant differences between the Prescribed Practices and US GAAP:

<u>Cash, Cash Equivalents and Short Term Investments</u>

Cash, Cash Equivalents and Short Term Investments represent cash balances and unrestricted invested assets with maturities of one year or less at the date of purchase. Under US GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

<u>Investments</u>

Pursuant to the Prescribed Practices, investments in bonds are reported at amortized cost or fair market value based on their NAIC rating. Pursuant to US GAAP, such fixed-maturity investments would be designated at purchase as held-to-maturity, trading or available-for-sale. Held-to-maturity investments under US GAAP would be reported at amortized cost. Trading investments under US GAAP would be reported at fair market value, with unrealized gains and losses reported in the statement of operations. Available-for-sale investments under US GAAP would be reported at fair market value, with unrealized gains and losses reported as a separate component of shareholders' equity in the category of other comprehensive income.

If it is determined that a decline in the fair market value is other than temporary, the cost basis of the security is written down to fair value.

Pursuant to the Prescribed Practices, cumulative and current year changes in unrealized gains and losses are included in unassigned surplus, net of deferred taxes. For US GAAP purposes, unrealized gains or losses are recognized in surplus or income, depending on whether management plans to hold or actively trade the related securities.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Investments (continued)

Pursuant to the Prescribed Practices, asset-backed securities (*e.g.*, mortgage-backed securities) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities, using either the retrospective or prospective methods. If it is determined that a decline in fair market value is other-than-temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows. Under US GAAP, all asset-backed securities, other than high-credit quality securities are adjusted using the prospective method when there is a change in estimated future cash flows. If high-credit quality securities are adjusted, the retrospective method is used. If it is determined that a decline in fair market value is other-than-temporary, the cost basis of the security is written down to the discounted fair market value.

Fair Value Measurements

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, (“Statement No. 157”) clarifies the definition of fair value, establishes a framework for measuring fair value in US GAAP, and expands required disclosures about the use of fair value measurements in US GAAP financial statements. Fair value information is relevant to users of financial statements and is required as an objective means of measurement. The NAIC has issued guidelines similar to Statement No. 157 through Statement of Statutory Accounting Principle (“SSAP”) No. 100, *Fair Value Measurements* (“SSAP No. 100”) effective for periods ending December 31, 2010. Management has considered Statement No. 157 and SSAP No. 100 and has determined that the impact is immaterial.

B. Accounting Policies

Management used the following methods and assumptions in the preparation of the Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis.

Cash and Invested Assets

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less, including money market mutual funds, and are typically stated at amortized cost.

Short-term investments, excluding cash equivalents, consist of investments with original maturities of one year or less at the time of acquisition and are typically stated at amortized cost.

Investment income due and accrued included revenues that are earned but not yet received. Amounts greater than 90 days past due are recognized as non-admitted assets.

Note 3: **Fair Market Value of Cash, Cash Equivalents and Short-term Investments**

The carrying amounts reported in the Schedule of Cash, Cash Equivalents and Short Term Investments – Statutory Basis for cash and cash equivalents, short-term investments and other invested assets are a reasonable estimate of fair market value.

Note 4: **Concentration of Credit Risk**

Financial instruments that have the potential to subject Lion to credit risk consist of cash, cash equivalents and short-term investments.

Cash and cash equivalents are deposited with high quality financial institutions. At times such amounts may exceed the insured limits of the Federal Deposit Insurance Corporation ("FDIC") and/or the Securities Investor Protection Corporation. Certain cash equivalents and short-term investments include investments in money market mutual fund securities, which are not necessarily insured by the FDIC.

Lion maintains cash balances at a financial institution that is insured by the FDIC. As of the date hereof, the FDIC insures accounts up to $250,000 at this institution. Management monitors balances of cash in excess of insured limits and believes, based on the information currently available to it, that such balances do not represent a material credit risk to Lion.

Lion also maintains an account at Wilmington Trust Company consisting of restricted collateral (securities) for the benefit of New York State policyholders. As of December 31, 2008, the account had money market funds of $13,765 and a US Treasury bill valued at $495,926.

Note 5: **Subsequent Events**

The financial markets' continuing volatility in 2009 may materially impact the valuation of Lion's investments subsequent to December 31, 2008. Accordingly, the valuation of investments at December 31, 2008, may not necessarily be indicative of amounts that could be realized in a current market exchange.

COLONIAL INDEMNITY INSURANCE COMPANY IN REHABILITATION

Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis

As of December 31, 2008
With Report of Independent Auditors

COLONIAL INDEMNITY INSURANCE COMPANY IN REHABILITATION

Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis

As of December 31, 2008
With Report of Independent Auditors

Report of Independent Auditors

To the Superintendent of Insurance of the State of New York as Rehabilitator and the Management of Colonial Indemnity Insurance Company in Rehabilitation

We have audited the accompanying schedule of cash, cash equivalents and short-term investments - statutory basis of Colonial Indemnity Insurance Company in Rehabilitation (the "Company") as of December 31, 2008. This schedule of cash, cash equivalents and short-term investments - statutory basis is the responsibility of the Company's management. Our responsibility is to express an opinion on this schedule of cash, cash equivalents and short-term investments - statutory basis based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of cash and cash equivalents - statutory basis is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of cash, cash equivalents and short-term investments - statutory basis, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit of the schedule of cash, cash equivalents and short-term investments - statutory basis provides a reasonable basis for our opinion.

As described in Note 2, the accompanying schedule of cash, cash equivalents and short-term investments - statutory basis has been prepared in conformity with accounting practices prescribed or permitted by the New York State Insurance Department (the "Insurance Department"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the schedule of cash, cash equivalents and short-term investments - statutory basis referred to above presents fairly, in all material respects, the cash, cash equivalents and short-term investments on a statutory basis of the Company as of December 31, 2008, in conformity with accounting practices prescribed or permitted by the Insurance Department, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America as described in Note 2.

The accompanying schedule of cash, cash equivalents and short-term investments - statutory basis has been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the schedule of cash, cash equivalents and short-term investments - statutory basis, the Company has been in rehabilitation since 2007 that raises substantial doubt about its ability to continue as a going concern. Management has not finalized plans with regard to these matters. The schedule of cash, cash equivalents and short-term investments - statutory basis does not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 13, on July 7, 2009, an order of liquidation was filed placing the Company in liquidation.

This report is intended solely for the information of and restricted to the use of the Superintendent of Insurance of the State of New York as Rehabilitator and management of the Company and is not intended to be and should not be used by other than the above specified parties.

Amper, Politziner & Mattia, LLP

July 28, 2010
New York, New York

COLONIAL INDEMNITY INSURANCE COMPANY IN REHABILITATION
Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis
As of December 31, 2008

		2008
Cash, Cash Equivalents and Short Term Investments - Statutory Basis		
Cash and cash equivalents	$	1,340,572
Total Cash, Cash Equivalents and Short Term Investments - Statutory Basis	**$**	**1,340,572**

See accompanying notes to the Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis. The Schedule of Cash, Cash Equivalents and Short Term Investments – Statutory Basis and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein) and is not intended for and cannot and may not be used or relied upon by any person or entity other than the Receiver, the NYLB and Management. The Receiver, the NYLB and Management accept no responsibility for any loss or damages suffered by any person or entity based on such person's or entity's use of or reliance upon the Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis accompanying notes.

Note 1: **Organization and Nature of Operations**

Colonial Indemnity Insurance Company ("Colonial") is a wholly-owned subsidiary of Eagle Insurance Company ("Eagle"), a New Jersey domiciled property and casualty insurance company, which is, in turn, a wholly-owned subsidiary of The Robert Plan Corporation ("The Robert Plan"), Colonial's ultimate parent.

Colonial is a property and casualty insurer domiciled in New York. Colonial was incorporated on September 13, 1961 as the Charter Indemnity Company, commenced business on August 24, 1962 and adopted its present name on March 10, 1986. Colonial was licensed to transact the kinds of insurance specified in New York Insurance Law ("Insurance Law") Section 1113 (a) paragraphs: 3 (Accident and Health), 4 (Fire), 5 (Miscellaneous Property), 6 (Water Damage), 7 (Burglary and Theft), 8 (Glass), 9 (Boiler and Machinery), 10 (Elevator), 11 (Animal), 12 (Collision), 13 (Personal Injury Liability), 14 (Property Damage Liability), 15 (Workers' Compensation and Employers' Liability), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine), 21 (Marine Protection and Indemnity) and 30 (Involuntary Unemployment), in New York State.

Colonial had significant transactions with Eagle and The Robert Plan Corporation of New York ("Robert-NY"), a third party claims service administrator and a wholly-owned subsidiary of The Robert Plan. In return for servicing fees, Robert-NY provided Colonial with claims administration services, which included loss adjustment and control and loss payment functions. The agreement has been terminated.

On February 16, 2006 and May 3, 2006, Colonial transferred $1,000,000 and $1,200,000, respectively to The Robert Plan without first obtaining approval from The New York State Department of Insurance ("Insurance Department").

On September 26, 2006, Colonial entered into a stipulation with The Robert Plan and the Insurance Department ("Stipulation") whereby, The Robert Plan agreed to repay the loans to Colonial pursuant to a repayment schedule. Accordingly, if The Robert Plan defaulted in any manner in making repayment, Colonial consented to be placed into rehabilitation. Simultaneous with the execution of the Stipulation, Colonial's Board of Directors held a special meeting at which the board unanimously approved the resolution consenting to entry of an order of rehabilitation and the commencement of proceedings for that purpose in the Supreme Court of the State of New York, County of New York. The Robert Plan failed to make the required payments for October 2006 and all dates thereafter and thus defaulted, thereby violating the stipulation. Accordingly, Colonial consented to being placed into rehabilitation.

Note 1: Organization and Nature of Operations (continued)

Pursuant to Insurance Law Article 74, on September 6, 2007, the Supreme Court of the State of New York, County of New York ("Receivership Court"), issued an order of rehabilitation ("Rehabilitation Order") placing Colonial into rehabilitation and appointing the then-Superintendent of Insurance of the State of New York (and his successors in office) ("Superintendent") rehabilitator of Colonial ("Rehabilitator"). The Rehabilitation Order directed the Rehabilitator to, among other things, take possession of Colonial's property, conduct Colonial's business and take such steps toward the removal of the causes and conditions which made the rehabilitation proceeding necessary.

Pursuant to Insurance Law Section 7422, the Receiver may appoint a special deputy and assistant special deputy superintendents as his agents. The agents, along with division directors and senior managers of the New York Liquidation Bureau ("NYLB"), are collectively referred to herein as "Management." Management, through the NYLB, carries out the responsibilities of the Receiver with regard to each and every estate under the statutory supervision of the Receiver where the agents have been appointed as agents of the Receiver ("Estate"), including Colonial.

Colonial has been in rehabilitation since 2007. This factor raises substantial doubt about Colonial's ability to continue as a going concern. The Schedule of Cash, Cash Equivalents and Short Term Investments – Statutory Basis does not include any adjustments that might be necessary if Colonial is unable to continue as a going concern. .

Note 2: Summary of Significant Accounting Policies

A. Accounting Practices

The *Accounting Practices and Procedures Manual* ("APP Manual") of the National Association of Insurance Commissioners ("NAIC") summarizes statutory accounting practices and provides guidance to regulatory agencies in formulating prescribed or permitted practices. The Insurance Department adopted portions of the APP Manual, subject to exceptions, conflicts and additions set forth in Section 83.4 of 11 N.Y.C.R.R. 83 (Regulation 172) ("Prescribed Practices").

Permitted statutory accounting practices include practices that differ from Prescribed Practices but that are allowed by the Insurance Department. Management did not seek permission from the Insurance Department to deviate from the Prescribed Practices. As a result, there are no permitted practices applicable to Colonial. The outcome of applying the Prescribed Practices to Colonial would not be significantly different from the outcome of applying the APP Manual to Colonial.

Note 2: <u>Summary of Significant Accounting Policies</u> (continued)

A. <u>Accounting Practices</u> (continued)

Management has elected to prepare, in accordance with Prescribed Practices, a Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis as of December 31, 2008. The Prescribed Practices used to prepare the Schedule of Cash, Cash Equivalents and Short Term Investments – Statutory Basis are a comprehensive basis of accounting different from generally accepted accounting principles in the United States of America (“US GAAP”). Below are the significant differences between the Prescribed Practices and US GAAP:

<u>Cash, Cash Equivalents and Short Term Investments</u>

Cash, Cash Equivalents and Short Term Investments represent cash balances and unrestricted invested assets with maturities of one year or less at the date of purchase. Under US GAAP, the corresponding caption of cash equivalents includes cash balances and investments with initial maturities of three months or less.

<u>Investments</u>

Pursuant to the Prescribed Practices, investments in bonds are reported at amortized cost or fair market value based on their NAIC rating. Pursuant to US GAAP, such fixed-maturity investments would be designated at purchase as held-to-maturity, trading or available-for-sale. Held-to-maturity investments under US GAAP would be reported at amortized cost. Trading investments under US GAAP would be reported at fair market value, with unrealized gains and losses reported in the statement of operations. Available-for-sale investments under US GAAP would be reported at fair market value, with unrealized gains and losses reported as a separate component of shareholders’ equity in the category of other comprehensive income.

If it is determined that a decline in the fair market value is other-than-temporary, the cost basis of the security is written down to the fair value.

Pursuant to the Prescribed Practices, cumulative and current year changes in unrealized gains and losses are included in unassigned surplus, net of deferred taxes. For US GAAP purposes, unrealized gains or losses are recognized in surplus or income, depending on whether management plans to hold or actively trade the related securities.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Pursuant to the Prescribed Practices, asset-backed securities (*e.g.*, mortgage-backed securities) are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities, using either the retrospective or prospective methods. If it is determined that a decline in fair market value is other-than-temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows. Under US GAAP, all asset-backed securities, other than high-credit quality securities are adjusted using the prospective method when there is a change in estimated future cash flows. If high-credit quality securities are adjusted, the retrospective method is used. If it is determined that a decline in fair market value is other-than-temporary, the cost basis of the security is written down to the discounted fair market value.

Fair Value Measurements

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, ("Statement No. 157") clarifies the definition of fair value, establishes a framework for measuring fair value in US GAAP, and expands required disclosures about the use of fair value measurements in US GAAP financial statements. Fair value information is relevant to users of financial statements and is required as an objective means of measurement. The NAIC has issued guidelines similar to statement No. 157 through Statement of Statutory Accounting Principles ("SSAP") No. 100, *Fair Value Measurements* ("SSAP No. 100") effective for periods ending December 31, 2010. Management has considered statement No. 157 and SSAP No. 100 and has determined that the impact is immaterial.

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B. Accounting Policies

Management used the following methods and assumptions in the preparation of the Schedule of Cash, Cash Equivalents and Short Term Investments - Statutory Basis.

Cash and Invested Assets

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less, including money market mutual funds, and are typically stated at amortized cost.

Short-term investments, excluding cash equivalents, consist of investments with original maturities of one year or less at the time of acquisition and are typically stated at amortized cost.

Investment income due and accrued includes revenues that are earned but not yet received. Amounts greater than 90 days past due are recognized as non-admitted assets.

Note 3: **Fair Market Value of Cash, Cash Equivalents and Short-term Investments**

The carrying amounts reported in the Schedule of Cash, Cash Investments and Short Term Investments – Statutory Basis for cash and cash equivalents, short-term investments and other invested assets are a reasonable estimate of fair market value.

Note 4: **Concentration of Credit Risk**

Financial instruments that have the potential to subject Colonial to credit risk consist of cash, cash equivalents and short-term investments.

Cash and cash equivalents are deposited with high quality financial institutions. At times such amounts may exceed the insured limits of the Federal Deposit Insurance Corporation ("FDIC"). Certain cash equivalents and short-term investments include investments in money market mutual fund securities, which are not necessarily insured by the FDIC.

Colonial maintains cash balances at a financial institution that is insured by the FDIC. As of the date hereof, the FDIC insures accounts up to $250,000 at this institution. Management monitors balances of cash in excess of insured limits and believes, based on the information currently available to it, that such balances do not represent a material credit risk to Colonial.

Colonial also maintains an account at Wilmington Trust Company consisting of restricted collateral (cash) for the benefit of New York State policyholders. As of December 31, 2008, the account had cash in the amount of $366,183.

Note 5: **Subsequent Events**

Efforts to rehabilitate Colonial were futile. Pursuant to an order of the Receivership Court entered July 7, 2009, Colonial was placed into liquidation.

The financial markets' continuing volatility in 2009 may materially impact the valuation of Colonial's investments subsequent to December 31, 2008. Accordingly, the valuation of investments at December 31, 2008, may not necessarily be indicative of amounts that could be realized in a current market exchange.