ANNUAL AUDIT REPORT OF THE NEW YORK LIQUIDATION BUREAU

December 31, 2011 and 2010

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NEW YORK LIQUIDATION BUREAU

Statements of Cash Receipts and Disbursements – Cash Basis

For the Years Ended December 31, 2011 and 2010
With Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Superintendent of Financial Services of the State of New York as Receiver and the Management of the 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 each of the years ended December 31, 2011 and 2010. These statements of cash receipts and disbursements – cash basis are 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 audit to obtain reasonable assurance about whether the statement of cash receipts and disbursements – cash 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 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 was 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, 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 each of the years ended December 31, 2011 and 2010 in conformity with the basis of accounting as described in Note 1.

EISNERAMPER
ACCOUNTANTS & ADVISORS

This report is intended solely for the information and is restricted to the use of Superintendent of Financial Services 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 anyone other than these specified parties.

EisnerAmper LLP

New York, New York
August 1, 2012

NEW YORK LIQUIDATION BUREAU
Statements of Cash Receipts and Disbursements – Cash Basis
For the Years Ended December 31, 2011 and 2010

	2011	2010
Receipts:		
Investment Income Received	$ 52,180	$ 74,263
Reimbursement of Expenses	50,738,921	52,846,316
Reimbursement from Non-New York Liquidators	61,687,467	139,274,177
Deposits from Domestic Estates	-	3,245,000
Other Receipts	106,286	46,395
Total Receipts	112,584,854	195,486,151
Disbursements:		
Early Access Distributions	79,595,598	121,366,046
Loss Adjustment Expenses	960,278	531,797
Claims Paid	71,591	115,813
Salvage and subrogation	44,078	-
Refunds to Domestic Estates	65,000	6,755,000
Funds released to Collateral	6,523	-
Taxes Paid	9,038	151,257
Funds Released to Reinsurers	-	360,239
Salaries	19,579,194	22,115,579
Employee Relations and Welfare	10,212,136	9,570,828
Rent and Related Expenses	6,562,358	6,508,354
Professional Fees	4,741,652	8,300,410
General and Administrative Expenses	3,729,921	1,917,282
Other Disbursements	1,108,863	2,205,026
Total Disbursements	126,686,230	179,897,631
Net (Disbursements)/Receipts	(14,101,376)	15,588,520
Cash - Beginning of Year	30,611,077	15,022,557
Cash - End of Year	$ 16,509,701	$30,611,077

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).

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

A. Background

The New York Liquidation Bureau ("NYLB" or the "Bureau") is the office that carries out the duties of the Superintendent of Financial Services of the State of New York ("Superintendent") in his capacity as receiver ("Receiver") of impaired or insolvent insurance companies ("Estates") under New York Insurance Law ("Insurance Law") Article 74. The NYLB reports to the Superintendent in his capacity as Receiver rather than in his capacity as regulator and head of the Department of Financial Services ("DFS"). The NYLB operates separately from DFS. The Superintendent as Receiver has the authority under Insurance Law Section 7422 to make such appointments (including the Special Deputy Superintendent ("Special Deputy") and other Agents) as are necessary to carry out his functions as Receiver. The Agents, along with division directors and senior managers of the NYLB, are collectively referred to herein as "Management." Management carries out, through the NYLB, the responsibilities of the Receiver with regard to the Estates. The NYLB manages the daily operations of all Estates, including Domestic Estates in Liquidation ("Domestic Estates"), Domestic Estates in Rehabilitation, Ancillary Estates, Conservations and Fraternal Associations.

The NYLB receives no funding from the State budget; rather, the NYLB's costs are paid from the assets of the Estates under receivership, as well as expense reimbursements from the New York Property/Casualty Insurance Security Fund ("P/C Fund") and the Public Motor Vehicle Liability Security Fund ("PMV Fund"), established under Insurance Law Article 76, and the Workers' Compensation Security Fund ("WC Fund"), established under New York Workers' Compensation Law Article 6-A (collectively, the "Security Funds"), which are paid from assessments on industry.

For each Estate, the Superintendent is appointed Receiver by the Supreme Court of the State of New York ("Receivership Court"). Thereafter, the Receivership Court approves the actions of the Receiver and, by extension, the NYLB. Acting on behalf of the Receiver, the NYLB marshals the assets of the Estates, maximizes such assets and resolves the liabilities of the Estates in an effort either to rehabilitate the companies or liquidate them in order to distribute their assets to policyholders and creditors. In addition, the NYLB performs claims-handling and certain payment functions relating to the Security Funds. The Security Funds are used to pay eligible claims remaining unpaid by reason of an insolvent insurer's inability to meet its obligations to policyholders.

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, 2011 and 2010. The Statements of Cash Receipts and Disbursements – Cash Basis were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted

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

B. Basis of Presentation (continued)

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 comprised of pooled cash accounts that are funded solely by cash advances from the Estates and/or Security Funds. 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.

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 for the benefit of the policyholders and 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, the excess of which 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. In addition, for longer term investment opportunities, cash is placed in a Money Market Deposit Account ("MMDA") which provides for more attractive yields. The MMDA is insured by the Federal Deposit Insurance Corporation ("FDIC"), although balances are significantly in excess of the coverage limits. The MMDA is with JP Morgan Chase, whose current commercial paper ratings are P-1 (Moody's), A-1 (S & P) and F1 (Fitch). Other cash accounts are held with JP Morgan Chase and Bank of New York Mellon ("BONY"). BONY's current commercial paper rating is P-1 (Moody's), A-1 (S&P) and F1+ (Fitch).

As of December 31, 2011, the FDIC insured accounts up to $250,000 at the above named institutions. Management monitors balances of cash in excess of insured limits and believes that such balances do not represent a material credit risk to the NYLB. The NYLB's cash balances in excess of FDIC insured limits were approximately $8,543,275 and $21,695,813 as of December 31, 2011 and 2010, respectively.

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

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, 2011 and 2010.

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.

LAE on Security Fund covered claims is paid directly from the Security Fund's 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").

Deposits From Domestic Estates

The NYLB maintains deposits from each Domestic Estate to meet estimated monthly general and administrative expenses. These deposits are adjusted periodically to keep the balances in line with the most recent actual expenditures.

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.

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

E. Disbursements

Early Access Distributions

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.

Claims Paid

During 2011, the NYLB made claim payments for losses incurred on behalf of Lion Insurance Company in Rehabilitation from the CDA. These expenses were reimbursed to the CDA.

Refunds to Domestic Estates

The largest component of Refunds to Domestic Estates for 2011 and 2010 was monies owed to certain Domestic Estates as a result of recomputation of projected quarterly general and administrative expenses. These projected expenses were compared to the actual deposits for these Estates with the CDA. Any overage was refunded to each Estate accordingly.

Funds Released to Collateral

In 2011, the NYLB refunded $6523 of collateral that was being held by Contractors Casualty Insurance Company.

Taxes Paid

Taxes paid represents income and franchise taxes and local assessments paid from the CDA by the NYLB on behalf of various Estates.

Funds Released to Reinsurers

In 2010, the NYLB released segregated funds held for Ideal Mutual Insurance Company in the amount of $360,239 to AXA Insurance Company. This represents return of letter of credit proceeds.

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

E. Disbursements (continued)

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:

	2011	2010
Pension Plan	$ 2,732,255	$ 2,382,968
Health Insurance	5,637,408	5,343,475
Employee Relations	1,619,401	1,823,675
Other	223,072	20,710
Total	$ 10,212,136	$ 9,570,828

Rent and Related Expenses

The NYLB leases office space at 110 William Street, New York, New York ("Premises") and storage space at 168 39th Street, Brooklyn, New York ("Warehouse"). Such rent and related expenses are allocated to the Estates and Security Funds. In 2010, the NYLB entered into a 15 year lease agreement for office space at 110 William Street. Rental payments for the new office space began in February 2011 and payment for electricity commenced in November 2010.

The NYLB had leased the 123 William Street premises since 1986. The NYLB's lease for 123 William Street expired 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 its option to renew the lease for an additional term of five years.

In 2011 and 2010, the NYLB paid approximately $6.6 million and $6.5 million, respectively, in rent and related expenses for 110 and 123 William Street and the 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.

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

E. Disbursements (continued)

General and Administrative Expenses

The NYLB paid general and administrative expenses, the majority of which were 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/or 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.

	2011	2010
Investment Expenses	$ 207,763	$ 1,356,874
Insurance	326,588	360,564
Travel and Travel Related Items	50,627	70,867
Real Estate Taxes	6,399	10,832
Books and Reference Material	41,092	39,596
MCT Mobility Tax	63,249	73,937
Web/Internet Services	63,249	60,035
Fees and Assessments	52,184	500
Association Dues and Membership Fees	120,346	108,026
Other	177,366	123,795
Total	$ 1,108,863	$ 2,205,026

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. All NYLB employees must participate in the Retirement System. However, all NYLB employees hired *before* July 1, 2011, are required to contribute three percent of their salary annually until the employee achieves 10 years of membership. All NYLB employees hired *after* July 1, 2011, are

Note 2: Employee Retirement (continued)

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

required to contribute three percent of their salary annually until separation from service or retirement.

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: Federal and State Taxes

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 the taxes on behalf of various Estates as discussed in Note 1.

Note 4: Commitments

Lease Agreements

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

Offices

In 2011 and 2010, the NYLB paid approximately $5.0 million and $5.5 million, respectively, in rent and related expenses for 110 William Street and 123 William Street. The estimated minimum future lease payments are:

Offices ($ Millions)	110 William 2012	110 William 2013-2025	Total
Rent	$ 4.2	$ 52.9	$ 57.1
Real Estate Tax	-	2.6	2.6
Electric	0.1	4.3	4.4
Operating Expenses	-	5.5	5.5
Total	$ 4.3	$ 65.3	$ 69.6

Note 4: Commitments (continued)

Warehouse

For 2011 and 2010, the NYLB paid approximately $.7 million and $.9 million respectively, for Warehouse rent and related expenses. The estimated future minimum payments under the lease are:

Warehouse ($ Millions)	2012 -2018	Total
Rent and Related Expenses	$6.0	$6.0

Note 5: Subsequent Events

Subsequent events have been reviewed through August 1, 2012, the date on which these audited statements were available to be issued. Management is aware of the following subsequent events that may have a material impact on the financial condition or results of operations of the NYLB:

Early Access Distributions

During 2012, the NYLB received the following EAD monies from Non-New York Liquidators:

Acceleration National Insurance Company	$	1,785,980
American Eagle Insurance Company		2,414
The Home Insurance Company		2,853,734
Reliance Insurance Company		261,911
	$	4,904,039

Changes in Composition of Estates under NYLB Supervision

Pursuant to an order of the Receivership Court entered January 9, 2012, Autoglass Insurance Company was placed into liquidation and the Superintendent (and his successors in office) was appointed Liquidator.

Pursuant to an order of the Receivership Court entered June 28, 2012, Financial Guaranty Insurance Company was placed into rehabilitation and the Superintendent (and his successors in office) was appointed Rehabilitator.

THE DOMESTIC ESTATES IN LIQUIDATION

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

December 31, 2011 and 2010
With Independent Auditors' Report

THE DOMESTIC ESTATES IN LIQUIDATION

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

December 31, 2011 and 2010
With Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Superintendent of Financial Services of the State of New York as Receiver
Combined Domestic Estates in Liquidation managed by the New York Liquidation Bureau and Management of 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, 2011 and 2010, and the related combined statements of cash receipts and disbursements and changes in cash, cash equivalents and invested assets (unrestricted) – modified cash basis for each of the years then ended (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 audit 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 Combined Domestic Estates in Liquidation'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.

EISNERAMPER
ACCOUNTANTS & ADVISORS

In our opinion, the Combined Financial Statements referred to 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, 2011 and 2010, and the related combined statements of cash receipts and disbursements and changes in cash, cash equivalents and invested assets (unrestricted) – modified cash basis for each of 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 Combined Financial Statements as a whole. The accompanying combining schedules as detailed in Appendix A and B are presented for the purposes of additional analysis and are not a required part of the Combined Financial Statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Combined Financial Statements. The information has been subjected to the auditing procedures applied in the audits of the Combined Financial Statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Combined Financial Statements or to the Combined Financial Statements themselves, and other additional procedures in accordance with auditing standards general accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the Combined Financial Statements as a whole.

This report is intended solely for the information and is restricted to the use of the Superintendent of Financial Services 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 anyone other than these specified parties.

EisnerAmper LLP

New York, New York
August 1, 2012

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

	2011	2010
Combined Assets		
Unrestricted Assets:		
Cash and Cash Equivalents	$ 223,810,395	$ 315,422,288
Invested Assets:		
Short-term Investments, at fair market value	-	1,650
Certificates of Deposit	50,000,000	100,294,791
Bonds, at fair market value	567,307,875	478,992,576
Common Stocks, at fair market value	1,341,956	1,322,820
Total Invested Assets	618,649,831	580,611,837
Total Cash, Cash Equivalents and Invested Assets (Unrestricted)	**842,460,226**	**896,034,125**
Reinsurance Recoverables on Paid Losses and LAE	377,486,214	377,783,403
Less: Allowance for Uncollectible Reinsurance Recoverables	(313,765,954)	(317,067,359)
Net Reinsurance Recoverables on Paid Losses and LAE	63,720,260	60,716,044
Reinsurance Recoverables on Unpaid Losses and LAE	1,105,169,853	1,173,380,070
Less: Allowance for Uncollectible Reinsurance Recoverables	(829,281,057)	(857,606,808)
Net Reinsurance Recoverables on Unpaid Losses and LAE	275,888,796	315,773,262
Receivables from Others	13,858,897	13,958,897
Accrued Investment Income	3,304,292	2,087,155
Other Assets	4,273,212	4,215,287
Total Unrestricted Assets	**1,203,505,683**	**1,292,784,770**
Restricted Assets:		
Statutory Deposits in New York or Other States	3,509,954	5,149,257
Other Restricted Assets	21,521,455	20,757,830
Total Restricted Assets	**25,031,409**	**25,907,087**
Total Combined Assets	**$ 1,228,537,092**	**$ 1,318,691,857**

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).

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

	2011	2010
Combined Liabilities		
Secured Claims	$ 16,899,486	$ 16,755,154
Unsecured Claims:		
Class One - Administrative Claims	62,266,455	58,969,978
Class Two - Claims and Related Costs		
Allowed	2,174,018,407	2,179,179,361
Non-Allowed	1,518,749,679	1,679,057,917
Total Class Two – Claims and Related Costs	3,692,768,086	3,858,237,278
Class Three - Federal Government Claims	137,686	137,686
Class Four - Employee Claims	10,164	10,164
Class Five - State and Local Government Claims	12,647,392	12,606,520
Class Six - General Creditor Claims	745,415,736	656,184,305
Class Seven - Late Filed Claims	369,245,925	369,245,925
Class Eight - Section 1307 (Shareholder) Loans	5,196,634	5,196,635
Class Nine - Shareholder Claims	140,464,445	140,723,346
Total Combined Liabilities	**5,045,052,009**	**5,118,066,991**
Deficit of Combined Assets over Combined Liabilities	**(3,816,514,917)**	**(3,799,375,134)**
Total Combined Liabilities and Deficit of Combined Assets over Combined Liabilities	**$ 1,228,537,092**	**$ 1,318,691,857**

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).

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

	2011	2010
Receipts:		
Net Investment Income Received	$ 12,277,065	$ 8,073,136
Reinsurance Recovered	9,467,584	9,721,700
Premiums Collected	13,881	517,429
Salvage and Subrogation	440,111	272,791
Expense Reimbursement Received from Security Funds	195,218	1,030,285
Reimbursement from Central Disbursement Account	60,000	6,755,000
Release from Statutory Deposits	1,619,309	4,427,260
Litigation Awards	24,399,674	-
Miscellaneous	697,971	610,195
Total Receipts	**49,170,813**	**31,407,796**
Disbursements:		
Dividends	84,669,576	105,406,712
Deposit with Central Disbursement Account	345,437	3,257,973
Transfer to Collateral Account	-	56,957
Claims and Loss Adjustment Expenses	-	1,412,390
Loss Adjustment Expense	276,937	-
Reimbursement of Allocated Expenses	18,745,092	21,962,206
Salvage and Subrogation fees	329	15,272
Miscellaneous	339,310	1,257,078
Total Disbursements	**104,376,681**	**133,368,588**
Net Decrease of Receipts Over Disbursements	**(55,205,868)**	**(101,960,792)**
Cash, Cash Equivalents and Invested Assets (Unrestricted), Beginning of Year	**896,034,125**	**982,761,537**
Opening Cash Balances of New Estates	-	14,131,991
Unrealized Gain on Investments	1,631,969	1,101,389
Cash, Cash Equivalents and Invested Assets (Unrestricted) End of Year	**$ 842,460,226**	**$ 896,034,125**

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).

THE DOMESTIC ESTATES IN LIQUIDATION
Notes to Combined Financial Statements of the Domestic Estates In Liquidation – Modified Cash Basis
For the Years Ended December 31, 2011 and 2010

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

Background

The New York Liquidation Bureau ("NYLB" or the "Bureau") is the office that carries out the duties of the Superintendent of Financial Services of the State of New York ("Superintendent") in his capacity as receiver ("Receiver") of impaired or insolvent insurance companies ("Estates") under New York Insurance Law ("Insurance Law") Article 74. The NYLB reports to the Superintendent in his capacity as Receiver rather than in his capacity as regulator and head of the Department of Financial Services ("DFS"). The NYLB operates separately from DFS. The Superintendent as Receiver has the authority under Insurance Law Section 7422 to make such appointments (including the Special Deputy Superintendent ("Special Deputy") and other Agents) as are necessary to carry out his functions as Receiver. The Agents, along with division directors and senior managers of the NYLB, are collectively referred to herein as "Management." Management carries out, through the NYLB, the responsibilities of the Receiver with regard to the Estates. The NYLB manages the daily operations of all Estates. References to the liquidator or rehabilitator throughout this document refer to the Superintendent as Receiver.

The Combined Estates Financial Statements (as defined in Note 2) as of December 31, 2011 and 2010 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, Colonial Cooperative Insurance Company, Colonial Indemnity Insurance Company, 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 Healthcare of New York, Inc., Horizon Insurance Company, Ideal Mutual Insurance Company, The Insurance Corporation of New York, Long Island Insurance Company, MagnaHealth of New York, Inc., MDNY Healthcare, Inc., Midland Insurance Company, Midland Property and Casualty Insurance Company, MML Assurance, Inc., Nassau Insurance Company, New York Merchant Bakers Insurance Company, New York Surety Company, Realm National Insurance Company, Titledge Insurance Company of New York, Inc., Transtate Insurance Company, Union Indemnity Insurance Company of New York, United Community Insurance Company, U.S. Capital Insurance Company, and Whiting National Insurance Company.

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

<u>Background</u> (continued)

The MagnaHealth of New York, Inc. liquidation proceeding was terminated during the period ended December 31, 2010, and therefore not included in the 2011 presentation. The Horizon Healthcare of New York, Inc. and MML Assurance, Inc. liquidation proceedings were terminated during the period ended December 31, 2011, however activities for both Estates are included through the date of termination.

The NYLB hereinafter refers to each of the foregoing Estates 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, 2011 and 2010: (i) Atlantic Mutual Insurance Company in Liquidation and Centennial Insurance Company in Liquidation, which were placed into liquidation on April 27, 2011; (ii) Aspen U.S. Insurance Company placed into liquidation on August 24, 2011; (iii) Madison Insurance Company placed into liquidation on September 21, 2011; (iv) Washington Title Insurance Company placed into liquidation on November 18, 2011; (v) Lion Insurance Company in Rehabilitation, Executive Life Insurance Company of New York in Rehabilitation, Frontier Insurance Company in Rehabilitation, and Professional Liability Insurance Company of America in Rehabilitation (collectively, "Domestic Estates in Rehabilitation"); (vi) fraternal associations; (vii) ancillary estates; (viii) conservations; and (ix) seven shell companies that were placed into liquidation in 2011, of which six were unfunded shells.

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

The NYLB receives no funding from the State budget; rather, the NYLB's costs are paid from the assets of the Estates under receivership, as well as expense reimbursements from the New York Property/Casualty Insurance Security Fund ("P/C Fund") and the Public Motor Vehicle Liability Security Fund ("PMV Fund"), established under Insurance Law Article 76, and the Workers' Compensation Security Fund ("WC Fund"), established under New York Workers' Compensation Law Article 6-A (collectively, the "Security Funds"), which are paid from assessments on industry.

For each Estate, the Superintendent is appointed Receiver by the Supreme Court of the State of New York ("Receivership Court"). Thereafter, the Receivership Court approves the actions of the Receiver and, by extension, the NYLB. Acting on behalf of the Receiver, the NYLB marshals the assets of the Estates, maximizes such assets and resolves the liabilities of the Estates in an effort either to rehabilitate the

Note 1: Nature of Operations of the Combined Domestic Estates in Liquidation
NYLB's Role With Respect to the Security Funds (continued)

companies or liquidate them in order to distribute their assets to creditors, policyholders and shareholders. In addition, the NYLB performs claims-handling and certain payment functions relating to the Security Funds. The Security Funds are used to pay eligible claims remaining unpaid by reason of an insolvent insurer's inability to meet its obligations to policyholders.

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.

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 appropriate 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 (the "Board") and the NYLB is bound by the decisions of the 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.

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

Background (continued)

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 ("AAIC" or "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.

AAIC was owned by a sole shareholder, U.S. Agents Holding Corporation ("U.S. Agents"). AAIC 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 AAIC. A court order, entered on February 5, 2001, placed AAIC into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of AAIC.

(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 of Woodbury, New York and in May 1960, Eastern Casualty's present name, American Consumer Insurance Company ("American Consumer"), was adopted. In 1963, American Fidelity Fire Insurance Company acquired ownership of American Consumer, at which time it became a subsidiary of American Plan Corporation.

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.

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

(3) American Fidelity Fire Insurance Company

On December 14, 1923, Lincoln Fire Insurance Company of New York 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. On August 31, 1931, capital was increased by the absorption of Chicago Fire and Marine Insurance Company of Chicago, Illinois. The present name, American Fidelity Fire Insurance Company ("American Fidelity") was adopted in 1943.

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, which then acquired control of American Consumer. 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.

American Fidelity's rehabilitation required improvement or elimination of its impaired capital and surplus. American Fidelity failed to correct its impairment. Accordingly, efforts to rehabilitate American Fidelity were 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.

(4) Capital Mutual Insurance Company

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 as 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, Rensselaer 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.

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> (continued)

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, 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.

(5) <u>Colonial Cooperative Insurance Company</u>

Colonial Cooperative Insurance Company was licensed under the laws of the State of New York on May 14, 1896, as the Olive Cooperative Fire Insurance Association ("Olive Cooperative") for the purpose of transacting business as a cooperative fire insurance company in the towns of Olive, Marbletown and Shandaken in Ulster County, New York. In 1961, Olive Cooperative changed its name to Colonial Cooperative Insurance Company ("CCIC" or "Colonial Cooperative").

CCIC was licensed to transact the kinds of insurance set forth 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). CCIC's principal line of business was commercial multiple peril which accounted for a majority of the company's direct written business.

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

(5) <u>Colonial Cooperative Insurance Company</u> (continued)

A court order, entered on March 1, 2010, placed CCIC into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator. Efforts to rehabilitate CCIC were futile. A court order entered October 4, 2010, placed CCIC into liquidation and appointed the Superintendent (and his successors in office) as liquidator of CCIC.

(6) <u>Colonial Indemnity Insurance Company</u>

Colonial Indemnity Insurance Company ("Colonial Indemnity") 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 Indemnity's ultimate parent.

Colonial Indemnity is a property and casualty insurer domiciled in New York. Colonial Indemnity 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 Indemnity 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), 19 (Motor Vehicle and Aircraft Physical Damage), 20 (Marine and Inland Marine), 21 (Marine Protection and Indemnity) and 30 (Involuntary Unemployment).

A court order entered on September 6, 2007 placed Colonial Indemnity into rehabilitation and appointed the then-Superintendent (and his successors in office) rehabilitator of Colonial Indemnity. Efforts to rehabilitate Colonial Indemnity were futile. A court order entered on July 7, 2009 placed Colonial Indemnity into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Colonial Indemnity.

(7) <u>Consolidated Mutual Insurance Company</u>

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,

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

(7) Consolidated Mutual Insurance Company (continued)

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

(8) 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. 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.

(9) 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. On January 1, 1956, Cosmopolitan Mutual Fire Insurance Company, organized in 1945, was absorbed by Cosmopolitan Mutual Casualty Insurance Company, and its current name, Cosmopolitan Mutual Insurance Company ("Cosmopolitan") was adopted on January 1, 1956.

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

(9) Cosmopolitan Mutual Insurance Company (continued)

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).

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.

Cosmopolitan's rehabilitation required improvement or elimination of its impaired capital and surplus. Cosmopolitan failed to correct its impairment. 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.

(10) 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.

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

(10) First Central Insurance Company (continued)

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.

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.

Accordingly, 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.

(11) 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.

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

(11) Galaxy Insurance Company (continued)

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.

Galaxy failed to comply with the then-Superintendent's directive to remove the impairment to Galaxy's capital and minimum surplus. On September 30, 1994, Galaxy's Board of Directors adapted a resolution consenting to the commencement of a liquidation proceeding and to the entry of an order of liquidation. 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.

(12) Group Council Mutual Insurance Company

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 amount of general liability insurance was written as well as surety bonds. 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.

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

(13) Health Partners of New York, LLC

WSNCHS East Inc. d/b/a Broadlawn Health Partners d/b/a The Long Island Home ("The LI Home"), is a not-for-profit, tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. In September 2001, The LI 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 LI 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 LI Home unanimously passed a resolution consenting to the entry of an order of liquidation pursuant to Insurance Law Article 74.

HPNY was placed into liquidation by a court order entered December 22, 2008, and the then-Superintendent (and his successors in office) was appointed liquidator of HPNY.

(14) 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 ("NYMB") 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 NYMB and Home Mutual. The Pool called for all business to be pooled and combined losses and expenses to be pro-rated as follows: NYMB (85 percent) and Home Mutual (15 percent).

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

(14) Home Mutual Insurance Company of Binghamton, New York (continued)

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).

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 ("Agreement") with Eagle Insurance Company whereby Eagle would assume all business in effect as of October 1, 1997. Home Mutual issued a payment of $2.6 million and received a 5 percent ceding commission on all policies that were renewed. Despite the Agreement, Home Mutual remained liable for all 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. Accordingly, 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.

(15) Horizon Healthcare of New York, Inc.

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").

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> (continued)

Pursuant to Article 44 of the New York State Public Health Law, 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, effective April 1, 2005, HHNY was precluded from marketing to or enrolling new members, and effective October 1, 2005, HHNY's 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 Insurance Law Article 74.

Pursuant to an order entered April 17, 2008, HHNY was placed into liquidation and the then-Superintendent (and his successors in office) was appointed liquidator of HHNY.

A court order entered on March 3, 2011, closed and terminated the HHNY liquidation proceeding.

(16) <u>Horizon Insurance Company</u>

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.

Horizon was a wholly owned subsidiary of the Ambassador Group Inc., a Delaware holding company based in North Bergen, New Jersey. Ambassador Insurance Company ("Ambassador"), a Vermont company, was the other subsidiary of the group.

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

(16) Horizon Insurance Company

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).

On January 10, 1980, all outstanding capital stock was purchased from Sasco Holding Corporation by Ambassador and subsequently the administrative offices were moved from Valley Stream, New York to North Bergen, New Jersey. On December 29, 1980, Ambassador entered into a full service agreement with Horizon whereby Ambassador would furnish all administrative services and functions necessary to operate Horizon.

A court order, entered November 29, 1984, placed Horizon into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Horizon.

(17) Ideal Mutual Insurance Company

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) and Section 4107 paragraphs d, e and f.

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

(17) 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. Accordingly, 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).

(18) The Insurance Corporation of New York

The Insurance Corporation of New York ("Inscorp") was incorporated as a stock insurance company on May 27, 1968, and was licensed under the laws of the State of New York on July 11, 1968. Inscorp is a wholly-owned subsidiary of Trenwick America Reinsurance Corporation, a Connecticut company wholly-owned by Trenwick America LLC, a Delaware limited liability company.

Prior to 1996, Inscorp underwrote treaty and facultative reinsurance through reinsurance brokers for property and casualty risks and maintained a Canadian branch. From 1996 through 2002, Inscorp underwrote U.S. property and casualty insurance through specialty program administrators. In 2002, Inscorp substantially reduced its underwriting of new policies and began a voluntary run-off. On January 9, 2004, Inscorp entered into a stipulation with the New York State Insurance Department ("Insurance Department") whereby it agreed not to write or renew business without the Insurance Department's written approval. On June 1, 2005 Inscorp submitted a plan to the Department to eliminate its capital impairment. Throughout 2006, Inscorp submitted further modifications and initiatives to the original plan. However, despite these efforts, Inscorp continued to experience adverse developments in its primary business.

Pursuant to an order entered June 30, 2009, Inscorp was placed into rehabilitation and the then-Superintendent (and his successors in office) was appointed rehabilitator of Inscorp. By an order entered March 10, 2010, Inscorp was placed into liquidation and the Superintendent (and his successors in office) was appointed liquidator of Inscorp.

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

(19) Long Island Insurance Company

On July 14, 1998, Long Island Insurance Company ("LIIC") was incorporated under the laws of the State of New York and was licensed to conduct the business of insurance on April 1, 1999. LIIC is licensed to transact the kinds of insurance specified in Insurance Law Section 1113(a) paragraph 13 (Personal Injury Liability) 14 (Property Damage Liability) and 19 (Motor Vehicle and Aircraft Physical Damage).

On August 3, 2009, the Insurance Department and LIIC entered into a stipulation pursuant to Section 1104 of the Insurance Law which required LIIC to reduce its net written premiums to surplus ratio and to seek the Insurance Department's approval prior to making payments or incurring debts in excess of $5,000.

In April 2010, the LIIC Board of Directors entered into a stipulation with the Insurance Department to submit a restoration plan by September 10, 2010 ("Plan"). Certain requirements of the Plan were not met and efforts to rehabilitate LIIC were futile.

A court order, entered October 19, 2010, placed LIIC into liquidation and appointed the Superintendent (and his successors in office) liquidator of LIIC.

(20) 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 Health Department authorized MagnaHealth to operate as a health maintenance organization pursuant to Article 44 of the New York Public Health Law.

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 Health Department 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.

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. A court order entered August 20, 2010, closed out and terminated the MagnaHealth liquidation proceeding.

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

(21) <u>MDNY Healthcare, Inc.</u>

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 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 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 Insurance Law Article 74. A court order, entered on July 31, 2008, placed MDNY into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of MDNY.

(22) <u>Midland Insurance Company</u>

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.

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

(22) <u>Midland Insurance Company</u> (continued)

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

On July 1, 2011, the Receivership Court entered an order, which established January 31, 2012, as the last date on which the holder of a claim against Midland, except Guaranty Funds, may submit to the Liquidator an amendment to a previously filed (or deemed filed) proof of claim, including a policyholder protection proof of claim, and established January 31, 2013, as the last date on which the holder of a claim against Midland, except Guaranty Funds, may submit to the Liquidator proof in support of allowance of a previously filed (or deemed filed) claim against Midland.

(23) <u>Midland Property and Casualty Insurance Company</u>

On December 19, 1973, Reserve Insurance Company of New York ("Reserve Insurance") was incorporated under the laws of the State of New York and as of April 1, 1974, was licensed to transact business in New York as a stock casualty insurer. On January 29, 1981, Midland Insurance Company purchased all of the outstanding capital stock of Midland Property and Casualty Insurance Company ("MIDPAC") from the Market Insurance Company, which acquired its interest by a surplus contribution from its former parent, Reserve Insurance. In 1981, Reserve Insurance, with administrative offices in Chicago, Illinois, adopted the company name Midland Property and Casualty Insurance Company ("MIDPAC") and moved its offices to New York, New York.

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).

As a specialty carrier, MIDPAC restricted underwriting acceptances almost exclusively to the handling of excess and surplus lines of business. On an admitted basis in the states in which MIDPAC was licensed, MIDPAC wrote a limited volume of excess limits and umbrella liability coverage. MIDPAC, an asset and

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

(23) Midland Property and Casualty Insurance Company (continued)

wholly-owned subsidiary of Midland, was taken over by the NYLB on April 3, 1986 when Midland was placed into liquidation by a court order.

On March 2, 1990, MIDPAC'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 MIDPAC, despite being solvent. A court order entered on June 1, 1990 placed MIDPAC into liquidation and 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.

(24) 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 for the purchase and cancellation of certain common shares of MMLA's capital stock. Pursuant to the board's action, on August 10, 2006, MMLA'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.

A court order entered on May 20, 2011 closed out and terminated the MMLA liquidation proceeding.

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

(25) 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).

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

(26) New York Merchant Bakers Insurance Company

On June 6, 1932, New York Merchant Bakers Insurance Company ("NYMB") 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 31, 1995.

NYMB and HMIC were subsidiary companies of Home State Holdings Inc., a Delaware corporation.

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

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

(26) New York Merchant Bakers Insurance Company

The rehabilitation of NYMB required a willing investor to invest sufficient capital in NYMB to eliminate its insolvency and meet minimum surplus requirements. In October 1997, the Superintendent as rehabilitator entered into a policy acquisition agreement ("Agreement") with Eagle Insurance Company by which Eagle assumed all liability for claims and expenses on all in-force NYMB private passenger business incurred after October 1, 1997.

The Agreement did not include the commercial automobile policies, which were canceled as of October 1997 and for which NYMB remained liable. No person or entity was willing to make the required investment in NYMB. Accordingly, efforts to rehabilitate NYMB were futile. A court order entered on January 26, 1998, placed NYMB into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of NYMB.

(27) 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.

No person or entity was willing to make the required investment in NY Surety. Accordingly, 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.

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

(28) 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). On December 15, 2003, AlphaStar filed for bankruptcy protection under Chapter XI of the Federal Bankruptcy Laws.

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.

(29) Titledge Insurance Company of New York, Inc.

On January 16, 2004, Titledge Insurance Company of New York, Inc. ("Titledge") was incorporated under the laws of the State of New York and on April 11, 2007, was licensed to transact business in New York. Titledge was authorized to transact the kind of business specified in Insurance Law Section 1113(a) paragraph 18 (Title). Titledge was part of an affiliated group of companies which included Integrity Title Agency, Titledge Technology of Delaware and Charleston Associates.

Titledge failed to fulfill its obligations under Insurance Law Sections 307a(1) and 301 and did not submit its books, papers and accounts to the Superintendent for inspection. An order, entered June 16, 2010, placed Titledge into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of Titledge.

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

(30) 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' 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. Accordingly, 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.

(31) 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.

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).

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

(31) Union Indemnity Insurance Company of New York (continued)

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.

(32) United Community Insurance Company

As of February 28, 1967, Urban Community Insurance Company ("Urban Community") was incorporated under the laws of the State of New York. Urban Community was authorized to transact business as a stock property/casualty insurer in thirty eight states. On December 30, 1981, Albert W. Lawrence acquired Urban Community. On February 12, 1982, Urban Community was reorganized and incorporated as United Community Insurance Company ("UCIC"). In 1982, Lawrence Group Inc. ("Lawrence Group") acquired UCIC as a subsidiary and in 1986 Lawrence Insurance Group acquired UCIC as a wholly owned subsidiary.

In 1985 UCIC commenced underwriting commercial business, targeting industry associations and groups providing coverage through insurance programs designed for public schools, municipalities, hospitals, related business associations, and commercial enterprises. UCIC also wrote workers' compensation policies in many of the states in which it had been licensed.

In February 1994, UCIC voluntarily ceased underwriting all new and renewal personal and commercial lines of business. Pursuant to Insurance Law Article 74, on July 7, 1994, the Supreme Court of the State of New York, County of Schenectady, issued an order of rehabilitation placing UCIC into rehabilitation and appointing the then-Superintendent as Rehabilitator. On June 9, 1995, pursuant to an agreement,

Andrew A. Alberti was appointed as agent for the Rehabilitator to ascertain whether UCIC could be rehabilitated. Efforts to rehabilitate UCIC proved futile. Accordingly, an order entered on November 10, 1995 placed UCIC into liquidation and appointed the then-Superintendent (and his successors in office) liquidator of UCIC.

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

(33) 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 May 25, 1989, Multiplus changed its name to United Capital Insurance Company.

The current name, U.S. Capital Insurance Company ("U.S. Capital"), was adopted on June 14, 1989.

Outstanding capital stock was held by U.S. Capital Group Inc. (formerly known as Pan Atlantic Inc.) a publicly traded Delaware corporation. The holding company group was comprised of 12 companies fully integrated into the international insurance markets and operated through five subsidiary insurance and reinsurance companies.

U.S. Capital 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), 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) 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.

Accordingly, 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.

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

(34) 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 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, Cash Equivalents and Invested Assets (Unrestricted) – Modified Cash Basis (collectively, "Combined Estates Financial Statements") reflect the combined financial position and combined 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 other than generally accepted accounting principles in the United States of America ("US GAAP"). This modified cash basis presentation differs from US GAAP in that the unrealized gains or losses on invested assets are reported on the combined statements of cash receipts and disbursements, 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

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

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 supplementary schedules are attached hereto as:

- Appendix A: December 31, 2011: The Domestic Estates in Liquidation Combining Schedules of the Estates Assets, Liabilities and (Deficit) Surplus of Assets Over Liabilities, and Cash Receipts and Disbursements and Changes in Cash, Cash Equivalents and Invested Assets – Modified Cash Basis ("2011 Supplementary Combining Schedules"); and

- Appendix B: December 31, 2010: The Domestic Estates in Liquidation Combining Schedules of the Estates Assets, Liabilities and (Deficit) Surplus of Assets Over Liabilities, and Cash Receipts and Disbursements and Changes in Cash, Cash Equivalents and Invested Assets – Modified Cash Basis ("2010 Supplementary Combining Schedules")

The 2011 and 2010 Supplementary Combining Schedules both include cash transactions, the accruals noted above, case reserves and paid liabilities to the Security and Guaranty Funds.

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.

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.

<u>Cash and Cash Equivalents</u>

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 in investments and at financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC"). These institutions currently have short term ratings of P-1 (Moody's), A-1 (S&P) and F1 (Fitch) for JP Morgan Chase P-2 (Moody's), A-2 (S&P) and F1 (Fitch) for Bank of America Corp. and P-1 (Moody's),

Note 2: Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents (continued)

A-1 (S&P) and F1+ for Bank of New York Mellon. These ratings are the highest possible short-term ratings. As of December 31, 2011, the FDIC insured accounts up to $250,000 at the above named institutions. Management monitors balances of cash in excess of insured limits and believes that such balances do not represent a material credit risk to the Combined Domestic Estates in Liquidation. The Combined Domestic Estates in Liquidation's cash balances in excess of FDIC insured limits were approximately $252,301,407 and $311,617,552 as of December 31, 2011 and 2010, respectively.

Invested Assets

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

Certificates of deposits ("CDs") include investments with maturities greater than 6 months expected to be held to maturity. These investments are recorded at fair market value based on quoted market prices.

Bonds include long-term U.S. treasury and agency securities that are generally held until maturity, some of which may be subject to demand features. 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. Long term investments also include CDs with maturities in excess of one year from the date of acquisition. These are also generally held to maturity.

Equity securities include common stocks and are carried at market value with the related unrealized gains or losses shown in the Combined Statements of Cash Receipts and Disbursements and Changes in Cash, Cash Equivalents and Invested Assets (Unrestricted) Modified Cash Basis.

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 Statements 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.

Investment income received includes interest income received from cash deposits, interest on bonds and short-term investments, dividends, realized gains or losses on sale of investments and the amortization of bond premium and discount.

Note 2: Summary of Significant Accounting Policies (continued)

Invested Assets (continued)

Realized gains and losses on investments sold are computed using the specific identification method, wherein gains and losses are recognized as of the settlement 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 principal 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, an increase in deficit 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 estimates and therefore related reinsurance recoverables are subject to adjustment. Provision is made for uncollectable reinsurance as explained in Note 4 below.

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.

Note 2: Summary of Significant Accounting Policies (continued)

Receivables from Others

Receivables from Others include: (i) net balances receivable from affiliates of NYMB and Cosmopolitan; (ii) cash deposited with the central disbursement account ("CDA") for administrative expenses; and (iii) expense reimbursement receivables from the Security Funds.

As of December 31, 2011 and 2010, the Receivables from Others are as follows:

	2011	2010
Receivable From Affiliates	$ 690,121	$ 887,685
Cash on Deposit with CDA	12,181,000	12,431,000
Security Fund Expense Reimbursement Receivables	987,776	640,212
Total	$ 13,858,897	$ 13,958,897

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

Other Assets

As of December 31, 2011 and 2010, the components of other assets held by certain Domestic Estates in Liquidation are as follows:

	2011	2010
Real Estate	$ 1,397,000	$ 1,397,000
Other Assets	2,876,212	2,818,287
Total	$ 4,273,212	$ 4,215,287

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 and recorded at fair market value.

The sale of securities may be restricted pursuant to insolvency deposit requirements in states where one or more of the 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.

Note 2: Summary of Significant Accounting Policies (continued)

Restricted Assets (continued)

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.

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 to meet other obligations, such as dividends, second injury claim payments and escheated funds.

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

<u>Restricted Assets</u> (continued)

As of December 31, 2011, the details of the Restricted Assets for each Domestic Estate in Liquidation are set forth in the table below:

	Domestic Estate in Liquidation	Statutory Deposits	Other Restricted Assets: Security Fund Cash	Other Restricted Assets: Funds Held for Secured Claims	Other Restricted Assets: Other Assets	Total
(1)	American Agents	$ -	$ 19,167	$ -	$ -	$ 19,167
(2)	American Consumer	-		-	41,064	41,064
(3)	American Fidelity	50,402	28,300	64,649	113,752	257,103
(4)	Capital Mutual	-	247,564	56,410	-	303,974
(5)	Colonial Cooperative	-	-	-	-	-
(6)	Colonial Indemnity	-	-	-	-	-
(7)	Consolidated Mutual	-	-	10,945	390,881	401,826
(8)	Contractors Casualty	-	-	152,643	-	152,643
(9)	Cosmopolitan	-	4,564	665,512	241,202	911,278
(10)	First Central	-	66,178	53,421	387,222	506,821
(11)	Galaxy	-	-	131,035	-	131,035
(12)	Group Council	-	201,333	-	5,642	206,975
(13)	HPNY	-	-	-	-	-
(14)	Home Mutual	-	-	1,387	-	1,387
(15)	HHNY	-	-	-	-	-
(16)	Horizon	-	-	-	-	-
(17)	Ideal	133,701	-	3,256,421	341,097	3,731,219
(18)	Inscorp	2,071,911	-	2,463,191	967,581	5,502,683
(19)	LIIC	-	-	-	-	-
(20)	MagnaHealth	-	-	-	-	-
(21)	MDNY	-	-	35,162	-	35,162
(22)	Midland	219,933	250	1,202,283	408,795	1,831,261
(23)	MIDPAC	-	-	-	-	-
(24)	MMLA	-	-	-	-	-
(25)	Nassau	-	10,795	-	-	10,795
(26)	NYMB	-	1,902,462	180,160	-	2,082,622
(27)	NY Surety	-	-	992,112	-	992,112
(28)	Realm	658,785	14,716	165,049	25,934	864,484
(29)	Titledge	-	-	-	-	-
(30)	Transtate	-	-	-	-	-
(31)	Union	375,222	-	5,601,174	351,587	6,327,983
(32)	UCIC	-	-	-	524,150	524,150
(33)	U.S. Capital	-	1,500	82,752	-	84,252
(34)	Whiting	-	-	-	111,413	111,413
	Total:	$3,509,954	$2,496,829	$15,114,306	$ 3,910,320	$25,031,409

Note 2: Summary of Significant Accounting Policies (continued)

Restricted Assets (continued)

As of December 31, 2010, the details of the Restricted Assets for each 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 Assets	Total
			Other Restricted Assets			
(1)	American Agents	$ -	$ 19,165	$ -	$ -	$ 19,165
(2)	American Consumer	-	-	-	40,962	40,962
(3)	American Fidelity	199,625	28,298	64,642	113,469	406,034
(4)	Capital Mutual	-	247,537	56,405	-	303,942
(5)	Colonial Cooperative	-	-	-	-	-
(6)	Colonial Indemnity	-	-	-	-	-
(7)	Consolidated Mutual	-	-	10,944	389,911	400,855
(8)	Contractors Casualty	-	-	158,814	-	158,814
(9)	Cosmopolitan	-	4,564	665,444	240,438	910,446
(10)	First Central	-	66,171	53,416	387,100	506,687
(11)	Galaxy	-	-	161,130	-	161,130
(12)	Group Council	-	201,312	-	27,263	228,575
(13)	HPNY	-	-	-	-	-
(14)	Home Mutual	-	-	1,387	-	1,387
(15)	HHNY	-	-	-	-	-
(16)	Horizon	-	-	-	337,494	337,494
(17)	Ideal	137,058	-	3,256,077	340,395	3,733,530
(18)	Inscorp	3,277,102	-	2,032,015	967,582	6,276,699
(19)	LIIC	-	-	-	-	-
(20)	MagnaHealth	-	-	-	-	-
(21)	MDNY	-	-	35,160	-	35,160
(22)	Midland	239,870	250	1,092,125	80,443	1,412,688
(23)	MIDPAC	-	-	-	-	-
(24)	MMLA	-	-	-	-	-
(25)	Nassau	-	10,793	-	-	10,793
(26)	NYMB	-	1,902,258	180,143	-	2,082,401
(27)	NY Surety	-	-	992,006	-	992,006
(28)	Realm	915,111	14,716	165,030	25,933	1,120,790
(29)	Titledge	-	-	-	-	-
(30)	Transtate	-	-	-	-	-
(31)	Union	380,491	-	5,639,533	29,012	6,049,036
(32)	UCIC	-	-	-	522,850	522,850
(33)	U.S. Capital	-	1,500	82,747	-	84,247
(34)	Whiting	-	-	-	111,396	111,396
	Total:	$ 5,149,257	$ 2,496,564	$ 14,647,018	$ 3,614,248	$ 25,907,087

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

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 Receivership Court for incurred covered losses and/or LAE. The liability carried is net of distributions, if any, that may have been paid as early access or dividends.

The details for dividends distributed from the Domestic Estates in Liquidation listed below for the years ended December 31, 2011 and 2010, are as follows and reported as an offset to liabilities on the balance sheet:

	2011	2010
American Agents	118,173	$ 792,358
American Consumer	2,057,053	-
American Fidelity	11,683,246	-
Capital Mutual	6,421,910	-
Cosmopolitan	1,622,939	1,128,882
First Central	7,320,007	1,364,258
Galaxy	7,830,864	-
HPNY	1,479,186	-
Horizon	3,622,498	-
HHNY	3,727,312	-
Ideal	4,907,867	-
MDNY	2,313,515	-
Midland	2,714,222	42,828,595
MMLA	1,009,498	1,045,881
Transtate	20,090,040	-
Union	177,095	58,246,738
UCIC	528,641	-
Whiting	7,045,510	-
Total	$ 84,669,576	$ 105,406,712

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

(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 Management 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. Management reviews the individual claim reserves that were established by the company prior to receivership and may make adjustments based on the following factors: applicable contracts, comparative liability, injuries and causal relationship, past and future pain and suffering; physical damage estimates; time on the line for exposure to toxin(s); venue, and verdict values.

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.

Established reserves are calculated on an undiscounted basis and stated gross of reinsurance recoverables. Workers' compensation reserves are adjusted annually to reflect life expectancies and are not discounted. 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 primarily 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.

Note 2: Summary of Significant Accounting Policies (continued)

Unsecured Claims (continued)

(ii) Non-Allowed Claims (continued)

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.

Distribution of Assets

The Receiver recommends and seeks court approval regarding any 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. In 2005, the scheme of distribution of assets provided in Insurance Law Section 7434 was applied retroactively.

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

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 stated above in Class two.

(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 stated above in 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.

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

Provided below is a detailed description of the creditor classes.

Class One – Administrative Claims

Claims with respect to the actual and necessary expenses of administration incurred by the Receiver. 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.

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 dividend distribution. The NYLB's policy is not to incur additional costs on claims not expected to be paid. Therefore, these subordinate classes of creditor 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.

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), 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 franchise and local taxes. The net income is offset against any net operating loss ("NOL") carry forwards.

Note 3: Investments

The components of net investment income received for the years ended December 31, 2011 and 2010, are as follows:

	2011	2010
Interest on Bonds	$ 9,628,292	$ 6,125,014
Interest on Short-Term Investments and Cash Equivalents	1,546,880	1,998,516
Realized Gain/(Loss) on Sale of Investments	1,099,297	(189,514)
Dividends	11,658	28,583
Total Gross Investment Income	12,286,127	7,962,599
Net Amortization of Bond Premium and Discount	(9,062)	110,537
Net Investment Income Received	$ 12,277,065	$ 8,073,136

Note 3: Investments (continued)

As of December 31, 2011, the cost or amortized cost and fair market value of short-term investments, certificates of deposit, bonds and equities for each Domestic Estate in Liquidation are as follows:

	Domestic Estates in Liquidation	December 31, 2011 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
(1)	American Agents	$ 11,238,443	$ 32,173	$ -	$ 11,270,616
(2)	American Consumer	-	-	-	-
(3)	American Fidelity	16,483	-	(2,030)	14,453
(4)	Capital Mutual	3,999,001	6,239	-	4,005,240
(5)	Colonial Cooperative	399,854	7,679	-	407,533
(6)	Colonial Indemnity	-	-	-	-
(7)	Consolidated Mutual	-	-	-	-
(8)	Contractors Casualty	-	-	-	-
(9)	Cosmopolitan	35,361,833	95,696	(46,569)	35,410,960
(10)	First Central	48,477,771	121,626	(42,075)	48,557,322
(11)	Galaxy	10,000,263	19,927	(1,070)	10,019,120
(12)	Group Council	-	-	-	-
(13)	HPNY	300,015	551	-	300,566
(14)	Home Mutual	3,999,899	3,321	(469)	4,002,751
(15)	HHNY	-	-	-	-
(16)	Horizon	-	-	-	-
(17)	Ideal	60,007,878	71,246	-	60,079,124
(18)	Inscorp	20,198,966	40,354	(7)	20,239,313
(19)	LIIC	-	-	-	-
(20)	MagnaHealth	-	-	-	-
(21)	MDNY	250,936	3,672	-	254,608
(22)	Midland	315,829,715	694,448	(29,729)	316,494,434
(23)	MIDPAC	6,996,322	10,172	-	7,006,494
(24)	MMLA	-	-	-	-
(25)	Nassau	2,467,106	13,707	(292)	2,480,521
(26)	NYMB	19,497,237	39,344	-	19,536,581
(27)	NY Surety	-	-	-	-
(28)	Realm	344,763	14,441	-	359,204
(29)	Titledge	-	-	-	-
(30)	Transtate	28,930,903	1,973,938	(7,165)	30,897,676
(31)	Union	29,966,184	87,116	(469)	30,052,831
(32)	UCIC	16,163,820	45,769	(75)	16,209,514
(33)	U.S. Capital	1,043,031	7,939	-	1,050,970
(34)	Whiting	-	-	-	-
	Total	$ 615,490,423	$ 3,289,358	$ (129,950)	$ 618,649,831

Note 3: Investments (continued)

As of December 31, 2010, the cost or amortized cost and fair market value of the short-term investments, certificates of deposit, bonds and equities for each Domestic Estate in Liquidation are as follows:

Domestic Estates in Liquidation	December 31, 2010 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
(1) American Agents	$ 4,997,912	$ 43,538	$ -	$ 5,041,450
(2) American Consumer	-	-	-	-
(3) American Fidelity	16,483	-	(2,029)	14,454
(4) Capital Mutual	5,000,000	1,900	-	5,001,900
(5) Colonial Cooperative	454,371	14,822	-	469,193
(6) Colonial Indemnity	-	-	-	-
(7) Consolidated Mutual	-	-	-	-
(8) Contractors Casualty	-	-	-	-
(9) Cosmopolitan	33,999,582	40,213	(31,000)	34,008,795
(10) First Central	53,498,329	58,381	(24,200)	53,532,510
(11) Galaxy	9,998,650	62,566	(610)	10,060,606
(12) Group Council	-	-	-	-
(13) HPNY	401,127	16,033	-	417,160
(14) Home Mutual	1,749,582	9,383	-	1,758,965
(15) HHNY	-	-	-	-
(16) Horizon	-	-	-	-
(17) Ideal	68,514,528	54,954	(55,200)	68,514,282
(18) Inscorp	610,893	40,909	-	651,802
(19) LIIC	294,791	-	-	294,791
(20) MagnaHealth	-	-	-	-
(21) MDNY	251,059	13,856	-	264,915
(22) Midland	307,909,842	489,267	(508,435)	307,890,674
(23) MIDPAC	1,250,000	1,100	-	1,251,100
(24) MMLA	-	-	-	-
(25) Nassau	2,372	-	(292)	2,080
(26) NYMB	4,498,329	35,281	-	4,533,610
(27) NY Surety	-	-	-	-
(28) Realm	169,838	10,440	-	180,278
(29) Titledge	-	-	-	-
(30) Transtate	49,158,400	1,291,895	(40,360)	50,409,935
(31) Union	34,999,165	24,215	(55,200)	34,968,180
(32) UCIC	1,254,901	29,104	(58)	1,283,947
(33) U.S. Capital	54,244	6,966	-	61,210
(34) Whiting	-	-	-	-
Total	$ 579,084,398	$ 2,244,823	$ (717,384)	$ 580,611,837

Note 3: Investments (continued)

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

December 31, 2011

	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	$ 75,054,517	$ (129,449)	$ 10,948	$ (501)	$ 75,065,465	$ (129,950)
Total Fixed Income	75,054,517	(129,449)	10,948	(501)	75,065,465	(129,950)
Total	$ 75,054,517	$ (129,449)	$ 10,948	$ (501)	$ 75,065,465	$ (129,950)

December 31, 2010

	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	$ 174,307,331	$ (699,555)	$ 124,431	$ (17,829)	$ 174,431,762	$ (717,384)
Total Fixed Income	174,307,331	(699,555)	124,431	(17,829)	174,431,762	(717,384)
Total	$ 174,307,331	$ (699,555)	$ 124,431	$ (17,829)	$ 174,431,762	$ (717,384)

The NYLB's portfolio of short-term investments, certificates of deposits 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 the NYLB's portfolio of short-term investments and bonds as other-than-temporary impairments as of December 31, 2011 and 2010.

The amortized cost and fair market value of certificates of deposits and bonds held to maturity at December 31, 2011 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.

Note 3: Investments (continued)

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	2011	
	Fair Market Value	Amortized Cost
Combined Estates		
Due within one year	$ 117,176,561	$ 116,877,809
Due after one year and before five years	110,584,277	110,462,201
Due after five years and before ten years	331,550,534	330,054,812
Due after ten years and before fifteen years	59,318,937	58,079,127
Due after fifteen years	19,522	16,474
Total Combined Estates	$ 618,649,831	$ 615,490,424

The proceeds received and gains (losses) on called bonds at December 31, 2011 and 2010 are as follows:

	Proceeds Received		Gains (losses) on Call	
	2011	2010	2011	2010
American Agents	$ -	$ 2,724,437	$ -	$ 1,762
American Fidelity	-	-	-	-
Capital Mutual	5,025,000	3,821,375	-	10,133
Colonial Cooperative	10,263	-	-	-
Consolidated Mutual	-	2,614,625	-	7,049
Contractors Casualty	-	301,687	-	1,322
Cosmopolitan	48,508,668	11,070,125	(29,514)	8,811
First Central	60,174,325	60,559,083	-	(15,917)
Galaxy	4,029,625	9,068,375	-	6,609
HPNY	-	630,593	-	(120)
Home Mutual	756,750	9,645,875	-	-
Ideal	67,166,168	94,428,604	(29,515)	17,322
Inscorp	20,107,500	-	(1,905)	-
Midland	439,877,053	377,381,008	(947,742)	126,111
MIDPAC	2,269,700	8,543,562	725	2,203
NYMB	504,500	17,884,875	-	5,287
Transtate	29,111,393	18,102,062	(61,915)	2,203
UCIC	-	8,045,000	-	-
Union	18,150,243	83,341,458	(29,514)	4,105
U.S. Capital	-	4,022,500	-	8,811
TOTALS	$ 695,691,188	$ 712,185,244	$ (1,099,380)	$ 185,691

Note 3: Investments (continued)

Mortgage-Backed Securities

In 2011 and 2010, Management identified thirty and thirty-one mortgage-backed securities, respectively, with amortized costs of approximately $345,053 and $432,613, respectively.

After reviewing these 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 LAE. Reinsurance recoverables are also calculated on outstanding case reserves (unpaid losses and unpaid LAE) for loss events occurring prior to the cut-off date.

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 Domestic Estate in Liquidation of its obligation should the reinsurer not honor its commitments.

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

Note 4: Reinsurance (continued)

to collect reinsurance recoverables owed to a specific Domestic Estate in Liquidation may have a material effect on such estate.

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, 2011 and 2010, 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 policy of charging the intercompany accounts of each respective Domestic Estate in Liquidation for expenses paid by the NYLB on behalf of such estate.

As of December 31, 2011 and 2010, the amounts remaining due to the NYLB are $2 million and $2.3 million, respectively, and included in Class 1 – Administrative Claims. During 2011 and 2010, the Combined Domestic Estates in Liquidation paid $18.8 million and $21.9 million, respectively, of allocated expenses, detailed as follows:

	2011	2010
Salaries	$ 6,221,942	$ 8,161,160
Employee Relations & Welfare	3,695,797	3,366,302
Rent and Related Expenses	2,355,838	2,886,117
Professional Fees	4,655,145	6,220,040
General and Administrative	1,861,370	1,328,587
	$ 18,745,092	$ 21,962,206

Note 6: <u>Expense Reimbursement</u>

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 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: <u>Asbestos and Environmental Reserves</u>

Major policyholders ("MPHs") – *i.e.*, 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 updated continually and as needed based on developed case law, claim history and experience.

The Combined Estates Financial Statements do not include IBNR reserves, including expected future development on claims already reported.

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

Note 7: Asbestos and Environmental Reserves (continued)

As of December 31, 2011 and 2010, 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:

	2011	2010
Union		
Gross Reserves		
Asbestos	$ 17,200,252	$ 17,950,045
Environmental	107,951	677,771
Products	1,300,378	4,130,730
Total Gross Reserves	18,608,581	22,758,546
Less Ceded Reserves	-	-
Net Reserves	$ 18,608,581	$ 22,758,546

	2011	2010
Ideal		
Gross Reserves		
Asbestos	$ 2,250,135	$ 43,649.964
Environmental	2,678,112	19,349,937
Products	5,000,977	20,700,099
Total Gross Reserves	9,929,224	83,700,000
Less Ceded Reserves	-	(13,612,500)
Net Reserves	$ 9,929,224	$ 70,087,500

	2011	2010
Midland		
Gross Reserves		
Asbestos	$ 798,120,715	$ 754,648,378
Environmental	25,150,606	25,979,314
Products	179,451,998	257,687,235
Total Gross Reserves	1,002,723,319	1,038,314,927
Less Ceded Reserves	(471,042,930)	(532,523,412)
Net Reserves	$ 531,680,389	$ 505,791,515

In 2010, the MPH claim reserves for Ideal were carried at full policy limits. However, in 2011, those reserves were reduced significantly to actual claim reserve values. Ceded reinsurance reserves for Ideal were likewise reduced as a result of the reduction in direct reserves. The decrease in ceded reinsurance reserves for Midland was due primarily to commutations finalized in 2011. The changes in MPH reserves are reported in Class 2 – Claims and Related Costs Non-Allowed.

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.

For the 2011 tax year, none of the Domestic Estates in Liquidation paid estimated federal income tax liabilities with their tax extensions filed in March 2012.

The Combined Domestic Estates in Liquidation are subject to New York State franchise tax and Metropolitan Transit Authority local tax. Each Domestic Estate in Liquidation's tax is generally calculated at the minimum because the estates are in liquidation and do not generate premium income. State and local taxes paid on a combined basis were $8,497 in 2011, compared to $9,271 in 2010.

Effective March 1, 2009, the Combined Domestic Estates in Liquidation were subject to the Metropolitan Commuter Transportation ("MCT") mobility tax. In 2011, the total MCT mobility tax paid by the Combined Domestic Estates in Liquidation was $18,541 compared to $27,824 in 2010.

Note 8: Taxes (continued)

At December 31, 2010, certain Domestic Estates in Liquidation had unused NOL carry-forwards available to offset against future taxable income as follows:

Estate	Year in Which NOL Carry-forward Begin Expiring	Trued Up NOL Carry-forward @ 12/31/09	Expired NOL and FINAL RETURN	Taxable Income (Loss) For 2010	Final Return and Other Adjustments	Section Reduction of (NOL) Form 982	NOL Carry-forward @ 12/31/2010
American Agents	2020	$ (65,920,193)	$ -	$ (1,354,378)	$ -	$ -	$ (67,274,571)
American Consumer	2017	(15,494,788)	2,801,597	(121,780)	-	28,509	(12,786,462)
American Fidelity	2017	(37,582,098)	1,728,782	(105,807)	-	783,759	(35,175,364)
Capital Mutual	2021	(42,398,277)	-	(1,319,506)	-	505,763	(43,212,020)
Colonial Cooperative	2024	-	-	(18,431,692)	(1,184,441)	-	(19,616,133)
Colonial Indemnity	2027	(18,656,836)	-	(111,235)	-	1,080,077	(17,687,994)
Consolidated Mutual	2025	(10,923,052)	-	(120,863)	-		(11,043,915)
Contractors Casualty	2019	(8,919,613)	-	(46,083)	-	27,639	(8,938,057)
Cosmopolitan	2017	(60,581,543)	-	308,948	-		(60,272,595)
First Central	2017	(150,059,320)	-	(825,620)	-	648,661	(150,236,279)
Galaxy	2017	(43,135,003)	14,541,955	(681,243)	-	1,074,207	(28,200,084)
Group Council	2024	(386,371,561)	-	(357,771)	-	13,201,702	(373,527,630)
HPNY	-	-	-	-	-	-	-
Home Mutual	2017	(37,454,311)	-	(761,040)	-	-	(38,215,351)
HHNY	-	-	-	-	-	-	-
Horizon	2019	(39,446,192)	-	(216,405)	-	-	(39,662,597)
Ideal	2017	(564,536,203)		(2,336,870)	-	38,872,751	(528,000,322)
LIIC	2028	-	-	(2,691,460)	(6,165,030)	-	(8,856,490)
MagnaHealth	-	-	-	-	-	-	-
MDNY	2017	(51,733,820)	-	(9,967,543)	-	-	(61,701,363)
Midland	2024	(1,149,130,349)	-	(44,510,747)	-	78,155,786	(1,115,485,310)
MIDPAC	2018	(10,709,053)	-	(57,742)	-	69,596	(10,697,199)
MMLA	-	-	-	-	-	-	-
Nassau	2018	(28,881,740)	-	(204,530)	-	8,336	(29,077,934)
NYMB	2017	(153,967,891)	-	(676,984)	-	1,039,185	(153,605,690)
NY Surety	2018	(16,143,055)	-	(145,337)	-	409,945	(15,878,447)
Realm	2024	(150,090,103)	-	(16,624,502)	-	12,548,420	(154,166,185)
Titledge	2030	-	-	(791,150)	-	-	(791,150)
Transtate	2024	(26,854,767)	-	312,394	-	-	(26,542,373)
Union	2018	(636,782,756)	21,884,923	(7,856,882)	-	6,071,915	(616,682,800)
U.S. Capital	2017	(43,965,622)	-	(244,289)	-	442,654	(43,767,257)
Whiting	2017	(20,129,290)	23,322	(90,473)	-	-	(20,196,441)
		(3,769,867,436)	40,980,579	(110,030,590)	(7,349,471)	154,968,905	(3,691,298,013)
Valuation Allowance		3,769,867,436	(40,980,579)	110,030,590	7,349,471	(154,968,905)	3,691,298,013
Operating Loss Carry Forward, Net of Valuation Allowance		$ -	$ -	$ -	$ -	$ -	$ -

Note 8: Taxes (continued)

As of December 31, 2010, the Combined Domestic Estates in Liquidation have accumulated NOLs of $3.7 billion. NOLs for 2011 will be updated upon completion of the 2011 tax returns. 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

Financial Accounting Standard Board ("FASB") Accounting Standards Codification ("ASC") 715, *Compensation – Retirement Benefits* ("ASC 715") 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 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 that 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. Terminated vested employees who pay the full premium until they reach retirement age are also eligible for retirement benefits.

An independent actuarial firm conducted a valuation of the post-retirement plan for the years ended December 31, 2011 and 2010, using ASC 715 and reported its conclusions in reports dated January 2012 and January 2011, respectively (collectively, "Actuarial Reports"). Pursuant to the Actuarial Reports, discount rates of 4.50 and 5.50 percent were selected by Management and used to determine the initial accumulated post-retirement benefit obligation ("APBO") and discount rates of 4.50 and 5.50 percent were applied to determine the APBO as of December 31, 2011

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

and 2010, respectively. The post-retirement benefit liability is as follows:

		2011			2010
APBO (Initial Accrual) as of January 1, 2011:	$	100,114,088	APBO (Initial Accrual) as of January 1, 2010:	$	81,468,263
APBO as of December 31, 2011:		113,382,706	APBO as of December 31, 2010:		100,114,088
Net Periodic Benefit Cost for the fiscal year 2011:	$	7,167,673	Net Periodic Benefit Cost for the fiscal year 2010:	$	7,311,160

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, 2011 and 2010:

	Post-Retirement Benefits	
Reconciliation of benefit obligation	2011	2010
Obligation at beginning of year	$ 100,114,088	$ 81,468,263
Service cost including expenses	2,145,699	2,100,542
Interest cost	5,021,974	5,210,618
Plan amendments	-	-
Actuarial (gain) / loss	8,848,690	13,694,706
Acquisitions / (divestitures)	-	-
Benefit payments and expected expenses	(2,888,848)	(2,489,743)
Medicare Part D reimbursements	141,103	129,702
Curtailments	-	-
Special termination benefits	-	-
Settlements	-	-
Obligation at end of year	$ 113,382,706	$ 100,114,088
Reconciliation of fair value of plan assets		
Fair value of plan assets at beginning of year	$ -	$ -
Actual return on plan assets	-	-
Acquisitions / (divestitures)	-	-
Employer contributions	2,747,745	2,360,041
Benefit payments and actual expenses	(2,888,848)	(2,489,743)
Medicare Part D reimbursements	141,103	129,702
Settlements	-	-
Fair value of plan assets at end of year	-	-
Unfunded status at end of year	$ (113,382,706)	$ (100,114,088)

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

As of December 31, 2011 and 2010, the Combined Domestic Estates in Liquidation have accrued as liabilities approximately $113 million and $100 million, respectively, relating to post-retirement medical benefit plan expenses. This liability is allocated among the Estates and Security Funds based on allocated salary expense. As of December 31, 2011 and 2010, the Combined Domestic Estates in Liquidation share of the estimated liability was $50 million and $44 million, respectively, and included in Class 1 – Administrative Claims.

Cash Flows

Expected Future Benefit Payments

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

Fiscal Year Beginning:

2012	$	3,263,651
2013		3,562,798
2014		3,892,817
2015		4,204,589
2016		4,511,422
Years 2017-2021	$	27,003,355

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. All NYLB employees must participate in the Retirement System. However, all NYLB employees hired *before* July 1, 2011, are required to contribute three percent of their salary annually until the employee achieves 10 years of membership. All NYLB employees hired *after* July 1, 2011, are required to contribute three percent of their salary annually until separation from service or retirement. Funding consists of contributions from active employees, as well as payment by the NYLB of an annual invoice which is based on the total salaries that were paid to NYLB employees as of the close of the previous New York State fiscal year.

Note 9: Employers Accounting for Defined Benefit Pension and Other Post-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 begins again for the new day's investment.

The balances of the RAA as of December 31, 2011 and 2010, were $7,379,702 and $3,235,917, respectively. The collateral balances as of December 31, 2011 and 2010, were $7,527,296 and $3,300,635, respectively, and included in 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 Management reasonably believes will have a material adverse effect on the financial condition or the results of operations of the Combined Domestic Estates in Liquidation.

Management, 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: Litigation Awards

Pursuant to a court order entered January 24, 2011, the Liquidator entered into a global settlement and release agreement with several insurance companies, settling the claims of Inscorp against certain former officers and directors of the company for $23.2 million. In addition, the Liquidator of the Nassau estate collected $1.2 million on a previously entered judgment against the former directors of the company.

Note 13: Subsequent Events

Subsequent events have been reviewed through August 1, 2012, the date which these audited statements were available to be issued. Management is aware of the following subsequent events that may have a material impact on the financial condition or results of operations of the Combined Domestic Estates in Liquidation.

Note 13: <u>Subsequent Events</u> (continued)

<u>Reinsurance Collected</u>

The amount of reinsurance collected for each Domestic Estate in Liquidation subsequent to December 31, 2011, is listed in the table below. This table represents all cash collected relating to reinsurance recoverable balances open at December 31, 2011, and billed and subsequently paid in 2012.

	Domestic Estate in Liquidation	Collections of Reinsurance Recoverable on Paid Losses and LAE
(1)	American Agents	$ 32,033
(2)	American Consumer	-
(3)	American Fidelity	3,650
(4)	Capital Mutual	-
(5)	Colonial Cooperative	-
(6)	Colonial Indemnity	-
(7)	Consolidated Mutual	-
(8)	Contractors Casualty	-
(9)	Cosmopolitan	-
(10)	First Central	-
(11)	Galaxy	630,018
(12)	Group Council	343
(13)	HPNY	-
(14)	Home Mutual	36,718
(15)	HHNY	-
(16)	Horizon	-
(17)	Ideal	418,033
(18)	Inscorp	108,329
(19)	LIIC	-
(20)	MagnaHealth	- -
(21)	MDNY	-
(22)	Midland	16,124,813
(23)	MIDPAC	-
(24)	MMLA	-
(25)	Nassau	-
(26)	NYMB	17,112
(27)	NY Surety	-
(28)	Realm	561,622
(29)	Titledge	-
(30)	Transtate	-
(31)	Union	345,996
(32)	UCIC	-
(33)	U.S. Capital	-
(34)	Whiting	-
	Total	$ 18,278,667

Note 13: Subsequent Events (continued)

Market Volatility

The financial markets' continuing volatility in 2012 may materially impact the valuation of the Combined Domestic Estates in Liquidation's investments subsequent to December 31, 2011. Accordingly, the valuation of investments at December 31, 2011 may not necessarily be indicative of amounts that could be realized in a current market exchange.

Changes in Composition of Estates Under NYLB Supervision

Pursuant to an order of the Supreme Court of the State of New York entered January 9, 2012, Autoglass Insurance Company was placed into liquidation and the Superintendent (and his successors in office) was appointed Liquidator.

Pursuant to an order of the Receivership Court entered June 28, 2012, Financial Guaranty Insurance Company was placed into rehabilitation and the Superintendent (and his successors in office) was appointed Rehabilitator.

Dividends Distributed

The following estates made dividend distributions subsequent to December 31, 2011:

American Agents	$ 36,778
Capital Mutual	107,524
Consolidated Mutual	6,404,494
Cosmopolitan	1,627,569
First Central	2,468,877
Galaxy	1,110,965
HPNY	240,127
Horizon	13
Ideal	20,768,198
MDNY	2,024,261
Midland	28,986
NY Surety	251,045
Transtate	116,323
UCIC	916,342
Union	19,410,112
	$ 55,511,614

Sale of Realm Property

On May 21, 2012, the Liquidator entered into a contract for the sale of Realm real property located in Stanly County North Carolina for the sale price of $2,130,000.

Appendix A

December 31, 2011

The Domestic Estates in Liquidation

Combining Schedules of the Estates Assets, Liabilities and (Deficit) Surplus of Assets Over Liabilities, and Cash Receipts and Disbursements and Changes in Cash, Cash Equivalents and Invested Assets (Unrestricted) – Modified Cash Basis

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF
COMBINING ESTATES ASSETS - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2011

Assets	AMERICAN AGENTS	AMERICAN CONSUMER	AMERICAN FIDELITY	CAPITAL MUTUAL	COLONIAL INDEMNITY	COLONIAL COOPERATIVE
Unrestricted Assets:						
Cash and cash equivalents	$ 1,261,680	$ 1,357,110	$ 6,749,393	$ 4,543,090	$ 204,196	$ 125,302
Invested Assets						
Short-term Investments, at fair value	-	-	-	-	-	-
Certificate of Deposits	-	-	-	-	-	-
Bonds, at fair value	11,270,616	-	-	4,005,240	-	407,533
Common Stocks, at fair value	-	-	14,454	-	-	-
Total Invested Assets	11,270,616	-	14,454	4,005,240	-	407,533
Total Cash, Cash equivalents and Invested Assets	12,532,296	1,357,110	6,763,847	8,548,330	204,196	532,835
Reinsurance Recoverables on Paid Losses and LAE	28,435	5,691,909	1,670,601	6,355,844	2,754,185	1,131,226
Less: Allowance for Uncollectible Reinsurance Recoverables	-	(5,691,909)	(1,670,601)	(6,355,844)	(2,754,185)	(1,131,226)
Net Reinsurance Recoverables on Paid Losses and LAE	28,435	-	-	-	-	-
Reinsurance Recoverables on Unpaid Losses and LAE	163,522	520,334	263,628	390,992	2,107,348	11,797,153
Less: Allowance for Uncollectible Reinsurance Recoverables	-	(520,334)	(263,628)	(390,992)	(2,107,348)	(11,797,153)
Net Reinsurance Recoverables on Unpaid Losses and LAE	163,522	-	-	-	-	-
Receivables from Others	1,205,000	65,000	80,000	266,000	150,000	-
Accrued Investment Income	23,620	-	-	913	-	6,969
Other Assets	-	-	-	38,948	-	994,790
Total Unrestricted Assets	13,952,873	1,422,110	6,843,847	8,854,191	354,196	1,534,594
Restricted Assets:						
Statutory Deposits in New York or Other States	-	-	50,402	-	-	-
Other Restricted Assets	19,167	41,064	206,701	303,974	-	-
Total Restricted Assets	19,167	41,064	257,103	303,974	-	-
Total Assets	$ 13,972,040	$ 1,463,174	$ 7,100,950	$ 9,158,165	$ 354,196	$ 1,534,594

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES ASSETS - MODIFIED CASH BASIS AS OF DECEMBER 31, 2011

Assets	CONSOLIDATED MUTUAL	CONTRACTORS CASUALTY	COSMOPOLITAN MUTUAL	FIRST CENTRAL	GALAXY	GROUP COUNCIL
Unrestricted Assets:						
Cash and cash equivalents	$ 7,067,925	$ 647,447	$ 7,618,027	$ 15,866,756	$ 5,925,446	$ 2,477,247
Invested Assets						
Short-term Investments, at fair value	-	-	-	-	-	-
Certificate of Deposits	-	-	-	10,000,000	-	-
Bonds, at fair value	-	-	35,410,961	38,557,321	10,019,121	-
Common Stocks, at fair value	-	-	-	-	-	-
Total Invested Assets	-	-	35,410,961	48,557,321	10,019,121	-
Total Cash, Cash equivalents and Invested Assets	7,067,925	647,447	43,028,988	64,424,077	15,944,567	2,477,247
Reinsurance Recoverables on Paid Losses and LAE	1,411,497	568,274	4,847,137	599,776	215,244	23,061,998
Less: Allowance for Uncollectible Reinsurance Recoverables	(1,411,497)	(568,274)	(4,847,137)	-	(215,244)	(23,061,998)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	599,776	-	-
Reinsurance Recoverables on Unpaid Losses and LAE	749,062	763,200	8,930,314	4,087,861	851,924	-
Less: Allowance for Uncollectible Reinsurance Recoverables	(749,062)	(763,200)	(8,930,314)	-	(851,924)	-
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	4,087,861	-	-
Receivables from Others	49,000	60,000	159,609	989,000	212,000	1,967,000
Accrued Investment Income	-	-	245,232	226,497	24,391	-
Other Assets	-	-	964,741	34,330	-	-
Total Unrestricted Assets	7,116,925	707,447	44,398,570	70,361,541	16,180,958	4,444,247
Restricted Assets:						
Statutory Deposits in New York or Other States	-	-	-	-	-	-
Other Restricted Assets	401,825	152,643	911,278	506,821	131,035	206,975
Total Restricted Assets	401,825	152,643	911,278	506,821	131,035	206,975
Total Assets	$ 7,518,750	$ 860,090	$ 45,309,848	$ 70,868,362	$ 16,311,993	$ 4,651,222

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES ASSETS - MODIFIED CASH BASIS AS OF DECEMBER 31, 2011

Assets	HEALTH PARTNERS	HOME MUTUAL	HORIZON HEALTHCARE	HORIZON	IDEAL MUTUAL	INSCORP
Unrestricted Assets:						
Cash and cash equivalents	$ (4)	$ 6,682,867	$ -	$ -	$ 23,782,579	$ 14,579,989
Invested Assets						
Short-term Investments, at fair value	-	-	-	-	-	-
Certificate of Deposits	-	-	-	-	15,000,000	-
Bonds, at fair value	300,566	4,002,751	-	-	45,079,124	20,239,313
Common Stocks, at fair value	-	-	-	-	-	-
Total Invested Assets	300,566	4,002,751	-	-	60,079,124	20,239,313
Total Cash, Cash equivalents and Invested Assets	300,562	10,685,618	-	-	83,861,703	34,819,302
Reinsurance Recoverables on Paid Losses and LAE	-	1,700,041	-	20,927,698	54,015,694	22,239,473
Less: Allowance for Uncollectible Reinsurance Recoverables	-	(1,700,041)	-	(20,927,698)	(54,015,694)	(22,239,473)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	-	-
Reinsurance Recoverables on Unpaid Losses and LAE	-	14,125	-	-	7,359,188	35,736,272
Less: Allowance for Uncollectible Reinsurance Recoverables	-	(14,125)	-	-	(7,359,188)	(35,736,272)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	-	-
Receivables from Others	50,000	127,000	-	-	660,000	447,565
Accrued Investment Income	6,466	11,063	-	-	397,270	25,229
Other Assets	-	288,460	-	-	-	187,112
Total Unrestricted Assets	357,028	11,112,141	-	-	84,918,973	35,479,208
Restricted Assets:						
Statutory Deposits in New York or Other States	-	-	-	-	133,701	2,071,911
Other Restricted Assets	-	1,387	-	-	3,597,518	3,430,772
Total Restricted Assets	-	1,387	-	-	3,731,219	5,502,683
Total Assets	$ 357,028	$ 11,113,528	$ -	$ -	$ 88,650,192	$ 40,981,891

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF
COMBINING ESTATES ASSETS - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2011

Assets	**LONG ISLAND**	**MDNY**	**MIDLAND**	**ELIMINATION OF IBNR**	**MIDLAND ADJUSTED**	**MIDPAC**
Unrestricted Assets:						
Cash and cash equivalents	$ 1,253,590	$ 2,114,802	$ 75,500,765	$ -	$ 75,500,765	$ 1,747,478
Invested Assets						
Short-term Investments, at fair value	-	-	-		-	-
Certificate of Deposits	-	-	15,000,000		15,000,000	-
Bonds, at fair value	-	254,608	301,388,354		301,388,354	7,006,494
Common Stocks, at fair value	-	-	106,080		106,080	-
Total Invested Assets	-	254,608	316,494,434		316,494,434	7,006,494
Total Cash, Cash equivalents and Invested Assets	1,253,590	2,369,410	391,995,199		391,995,199	8,753,972
Reinsurance Recoverables on Paid Losses and LAE	-	-	134,226,612		134,226,612	140,440
Less: Allowance for Uncollectible Reinsurance Recoverables	-	-	(71,650,192)		(71,650,192)	(70,101)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	62,576,420	-	62,576,420	70,339
Reinsurance Recoverables on Unpaid Losses and LAE	-	-	1,563,239,887	(558,717,500)	1,004,522,387	4,013,270
Less: Allowance for Uncollectible Reinsurance Recoverables	-	-	(1,231,829,291)	495,861,781	(735,967,510)	(1,493,492)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	331,410,596	(62,855,719)	268,554,877	2,519,778
Receivables from Others	-	150,000	3,260,000		3,260,000	50,000
Accrued Investment Income	-	1,606	1,608,861		1,608,861	81,675
Other Assets	82,067	-	-			
Total Unrestricted Assets	1,335,657	2,521,016	790,851,076	(62,855,719)	727,995,357	11,475,764
Restricted Assets:						
Statutory Deposits in New York or Other States	-	-	219,933		219,933	-
Other Restricted Assets	-	35,162	1,611,328		1,611,328	-
Total Restricted Assets	-	35,162	1,831,261	-	1,831,261	-
Total Assets	$ 1,335,657	$ 2,556,178	$ 792,682,337	$ (62,855,719)	$ 729,826,618	$ 11,475,764

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF
COMBINING ESTATES ASSETS - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2011

Assets	MMLA	NASSAU	NEW YORK MERCHANT	NEW YORK SURETY	REALM NATIONAL	TITLEDGE
Unrestricted Assets:						
Cash and cash equivalents	$ -	$ 101,083	$ 3,706,308	$ 1,084,637	$ 3,057,879	$ 672,196
Invested Assets						
Short-term Investments, at fair value	-	-	-	-	-	-
Certificate of Deposits	-	-	-	-	-	-
Bonds, at fair value	-	2,478,440	19,536,581	-	359,204	-
Common Stocks, at fair value	-	2,080	-	-	-	-
Total Invested Assets	-	2,480,520	19,536,581	-	359,204	-
Total Cash, Cash equivalents and Invested Assets	-	2,581,603	23,242,889	1,084,637	3,417,083	672,196
Reinsurance Recoverables on Paid Losses and LAE	-	12,961,618	23,919,187	1,694,170	7,046,047	-
Less: Allowance for Uncollectible Reinsurance Recoverables	-	(12,961,618)	(23,919,187)	(1,694,170)	(7,046,047)	-
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	-	-
Reinsurance Recoverables on Unpaid Losses and LAE	-	-	1,005,283	-	7,198,131	-
Less: Allowance for Uncollectible Reinsurance Recoverables	-	-	(1,005,283)	-	(7,198,131)	-
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	-	-
Receivables from Others	-	200,000	1,513,725	63,996	600,000	-
Accrued Investment Income	-	6,112	91,060	-	1,976	-
Other Assets	-	10,000	104,034	-	1,568,730	-
Total Unrestricted Assets	-	2,797,715	24,951,708	1,148,633	5,587,789	672,196
Restricted Assets:						
Statutory Deposits in New York or Other States	-	-	-	-	658,785	-
Other Restricted Assets	-	10,795	2,082,622	992,112	205,699	-
Total Restricted Assets	-	10,795	2,082,622	992,112	864,484	-
Total Assets	$ -	$ 2,808,510	$ 27,034,330	$ 2,140,745	$ 6,452,273	$ 672,196

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES ASSETS - MODIFIED CASH BASIS AS OF DECEMBER 31, 2011

Assets	TRANSTATE	UNION INDEMNITY	UNITED COMMUNITY	U. S. CAPITAL	WHITING NATIONAL	COMBINED ESTATE TOTALS
Unrestricted Assets:						
Cash and cash equivalents	$ 8,115,116	$ 14,639,646	$ 1,690,484	$ 10,113,502	$ 1,123,859	$ 223,810,395
Invested Assets						
Short-term Investments, at fair value	-	-	-	-	-	-
Certificate of Deposits	10,000,000	-	-	-	-	50,000,000
Bonds, at fair value	20,897,675	30,052,831	14,990,171	1,050,971	-	567,307,875
Common Stocks, at fair value	-	-	1,219,342	-	-	1,341,956
Total Invested Assets	30,897,675	30,052,831	16,209,513	1,050,971	-	618,649,831
Total Cash, Cash equivalents and Invested Assets	39,012,791	44,692,477	17,899,997	11,164,473	1,123,859	842,460,226
Reinsurance Recoverables on Paid Losses and LAE	445,449	40,610,530	7,647,077	419,592	1,156,460	377,486,214
Less: Allowance for Uncollectible Reinsurance Recoverables	(159)	(40,610,530)	(7,647,077)	(419,592)	(1,156,460)	(313,765,954)
Net Reinsurance Recoverables on Paid Losses and LAE	445,290	-	-	-	-	63,720,260
Reinsurance Recoverables on Unpaid Losses and LAE	11,562,758	1,117,885	1,822,732	181,651	10,833	1,105,169,853
Less: Allowance for Uncollectible Reinsurance Recoverables	(11,000,000)	(1,117,885)	(1,822,732)	(181,651)	(10,833)	(829,281,057)
Net Reinsurance Recoverables on Unpaid Losses and LAE	562,758	-	-	-	-	275,888,796
Receivables from Others	315,000	470,000	500,000	167,000	82,002	13,858,897
Accrued Investment Income	253,000	173,742	118,124	486	-	3,304,292
Other Assets	-	-	-	-	-	4,273,212
Total Unrestricted Assets	40,588,839	45,336,219	18,518,121	11,331,959	1,205,861	1,203,505,683
Restricted Assets:						
Statutory Deposits in New York or Other States	-	375,222	-	-	-	3,509,954
Other Restricted Assets	-	5,952,761	524,150	84,253	111,413	21,521,455
Total Restricted Assets	-	6,327,983	524,150	84,253	111,413	25,031,409
Total Assets	$ 40,588,839	$ 51,664,202	$ 19,042,271	$ 11,416,212	$ 1,317,274	$ 1,228,537,092

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES LIABILITIES AND (DEFICIT) SURPLUS OF ASSETS OVER LIABILITIES - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2011

Liabilities	**AMERICAN AGENTS**	**AMERICAN CONSUMER**	**AMERICAN FIDELITY**	**CAPITAL MUTUAL**	**COLONIAL INDEMNITY**	**COLONIAL COOPERATIVE**
Secured Claims	$ -	$ 34,217	$ 163,179	$ 56,410	$ -	$ 7,829
Unsecured Claims						
Class I - Administrative Claims:	3,701,952	475,582	699,962	1,725,041	145,951	118,768
Class II - Claims and Related Costs:						
Allowed	51,059,941	15,535,052	37,537,865	36,915,891	662,500	101,671
Non Allowed	665,057	-	-	1,692,094	3,673,123	19,378,817
IBNR	-	-	-	-	-	-
Total	51,724,998	15,535,052	37,537,865	38,607,985	4,335,623	19,480,488
Class III - Federal Government Claims:	-	-	-	441	-	-
Class IV - Employee Claims:	-	-	-	3,123	-	-
Class V - State and Local Government Claims:	306,878	44,842	92,237	52,295	54	-
Class VI - General Creditors:	682,397	5,353,253	9,464,237	3,997,787	543,856	1,117,449
Class VII - Late Filed Claims:	335	67,852	6,324,613	-	-	-
Class VIII - Section 1307 (Shareholder) Loans:	-	-	-	-	-	1,075,375
Class IX - Share Holder Claims:	-	-	-	-	-	-
Total Liabilities	56,416,560	21,510,798	54,282,093	44,443,082	5,025,484	21,799,909
(Deficit) Surplus of Assets over Liabilities	(42,444,520)	(20,047,624)	(47,181,143)	(35,284,917)	(4,671,288)	(20,265,315)
Total Liabilities and Surplus (Deficit) of Assets Over Liabilities	$ 13,972,040	$ 1,463,174	$ 7,100,950	$ 9,158,165	$ 354,196	$ 1,534,594

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES LIABILITIES AND (DEFICIT) SURPLUS OF ASSETS OVER LIABILITIES - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2011

Liabilities	CONSOLIDATED MUTUAL	CONTRACTORS CASUALTY	COSMOPOLITAN MUTUAL	FIRST CENTRAL	GALAXY	GROUP COUNCIL
Secured Claims	$ 338,495	$ 152,643	$ 934,964	$ 86,052	$ 131,035	$ 5,641
Unsecured Claims						
Class I - Administrative Claims:	520,461	430,921	1,132,316	4,027,967	2,083,478	2,320,378
Class II - Claims and Related Costs:						
Allowed	13,459,517	5,177,711	53,339,306	130,301,888	45,987,101	218,373,367
Non Allowed	-	814,169	15,706,564	10,451,718	1,374,374	57,862,227
IBNR	-	-	-	-	-	-
Total	13,459,517	5,991,880	69,045,870	140,753,606	47,361,475	276,235,594
Class III - Federal Government Claims:	-	-	-	-	-	-
Class IV - Employee Claims:	-	-	-	-	-	4,425
Class V - State and Local Government Claims:	3,053	7,941	7,476	874,434	2,720	22,828
Class VI - General Creditors:	3,317,898	929,702	18,657,142	1,763,389	501,255	56,202,748
Class VII - Late Filed Claims:	15,120,795	-	9,973,857	-	-	-
Class VIII - Section 1307 (Shareholder) Loans:	-	60,000	-	-	-	-
Class IX - Share Holder Claims:	-	-	-	1	-	-
Total Liabilities	32,760,219	7,573,087	99,751,625	147,505,449	50,079,963	334,791,614
(Deficit) Surplus of Assets over Liabilities	(25,241,469)	(6,712,997)	(54,441,777)	(76,637,087)	(33,767,970)	(330,140,392)
Total Liabilities and Surplus (Deficit) of Assets Over Liabilities	$ 7,518,750	$ 860,090	$ 45,309,848	$ 70,868,362	$ 16,311,993	$ 4,651,222

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES LIABILITIES AND (DEFICIT) SURPLUS OF ASSETS OVER LIABILITIES - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2011

Liabilities	HEALTH PARTNERS	HOME MUTUAL	HORIZON HEALTHCARE	HORIZON	IDEAL MUTUAL	INSCORP
Secured Claims	$ -	$ 1,387	$ -	$ -	$ 3,487,505	$ 1,448,087
Unsecured Claims						
Class I - Administrative Claims:	72,677	2,669,700	-	29,260	8,141,843	1,413,323
Class II - Claims and Related Costs:						
Allowed	1,299,539	31,257,309	-	64,771,874	260,799,470	1,441,217
Non Allowed	303,585	817,700	-	-	43,632,574	37,912,583
IBNR	-	-	-	-	-	-
Total	1,603,124	32,075,009	-	64,771,874	304,432,044	39,353,800
Class III - Federal Government Claims:	-	-	-	-	-	-
Class IV - Employee Claims:	-	-	-	-	-	-
Class V - State and Local Government Claims:	29,935	126,590	-	-	280,887	1,515,774
Class VI - General Creditors:	-	1,880,708	-	628,562	101,262,616	124,878,247
Class VII - Late Filed Claims:	-	-	-	23,758,815	70,961,525	-
Class VIII - Section 1307 (Shareholder) Loans:	-	-	-	-	-	-
Class IX - Share Holder Claims:	-	-	-	-	-	107,467,599
Total Liabilities	1,705,736	36,753,394	-	89,188,511	488,566,420	276,076,830
(Deficit) Surplus of Assets over Liabilities	(1,348,708)	(25,639,866)	-	(89,188,511)	(399,916,228)	(235,094,939)
Total Liabilities and Surplus (Deficit) of Assets Over Liabilities	$ 357,028	$ 11,113,528	$ -	$ -	$ 88,650,192	$ 40,981,891

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES LIABILITIES AND (DEFICIT) SURPLUS OF ASSETS OVER LIABILITIES - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2011

Liabilities	**LONG ISLAND**	**MDNY**	**MIDLAND**	**ELIMINATION OF IBNR**	**MIDLAND ADJUSTED**	**MIDPAC**
Secured Claims	$ -	$ 35,162	$ 1,569,949	$ -	$ 1,569,949	$ -
Unsecured Claims						
Class I - Administrative Claims:	453,639	390,934	15,970,727		15,970,727	482,625
Class II - Claims and Related Costs:						
Allowed	1,684,667	9,254,059	566,878,140		566,878,140	-
Non Allowed	20,329,495	4,857,171	1,187,989,327		1,187,989,327	7,500,036
IBNR	-	-	605,000,000	(605,000,000)	-	-
Total	22,014,162	14,111,230	2,359,867,467	(605,000,000)	1,754,867,467	7,500,036
Class III - Federal Government Claims:	-	-	-		-	-
Class IV - Employee Claims:	-	-	-		-	-
Class V - State and Local Government Claims:	28,186	102,072	8,317,575		8,317,575	-
Class VI - General Creditors:	521,724	29,110,131	186,292,634		186,292,634	570
Class VII - Late Filed Claims:	-	-	169,550,639		169,550,639	-
Class VIII - Section 1307 (Shareholder) Loans:	-	4,061,259	-		-	-
Class IX - Share Holder Claims:	-	13,580,000	-		-	-
Total Liabilities	23,017,711	61,390,788	2,741,568,991	(605,000,000)	2,136,568,991	7,983,231
(Deficit) Surplus of Assets over Liabilities	(21,682,054)	(58,834,610)	(1,948,886,654)	542,144,281	(1,406,742,373)	3,492,533
Total Liabilities and Surplus (Deficit) of Assets Over Liabilities	$ 1,335,657	$ 2,556,178	$ 792,682,337	$ (62,855,719)	$ 729,826,618	$ 11,475,764

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES LIABILITIES AND (DEFICIT) SURPLUS OF ASSETS OVER LIABILITIES - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2011

Liabilities	**MMLA**	**NASSAU**	**NEW YORK MERCHANT**	**NEW YORK SURETY**	**REALM NATIONAL**	**TITLEDGE**
Secured Claims	$ -	$ -	$ 180,160	$ 992,112	$ 326,914	$ -
Unsecured Claims						
Class I - Administrative Claims:	-	56,385	3,295,442	452,403	3,627,853	13,948
Class II - Claims and Related Costs:						
Allowed	-	38,512,801	123,586,763	8,549,334	37,369,162	-
Non Allowed	-	84,477	2,147,247	493,185	54,660,072	521,956
IBNR	-	-	-	-	-	-
Total	-	38,597,278	125,734,010	9,042,519	92,029,234	521,956
Class III - Federal Government Claims:	-	-	-	-	-	-
Class IV - Employee Claims:	-	-	-	-	2,616	-
Class V - State and Local Government Claims:	-	77,966	482,493	17,725	61,013	11,906
Class VI - General Creditors:	-	592,483	3,002,412	469,220	18,200,695	-
Class VII - Late Filed Claims:	-	3,943,046	-	-	401	-
Class VIII - Section 1307 (Shareholder) Loans:	-	-	-	-	-	-
Class IX - Share Holder Claims:	-	-	-	-	-	750,000
Total Liabilities	-	43,267,158	132,694,517	10,973,979	114,248,726	1,297,810
(Deficit) Surplus of Assets over Liabilities	-	(40,458,648)	(105,660,187)	(8,833,234)	(107,796,453)	(625,614)
Total Liabilities and Surplus (Deficit) of Assets Over Liabilities	$ -	$ 2,808,510	$ 27,034,330	$ 2,140,745	$ 6,452,273	$ 672,196

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES LIABILITIES AND (DEFICIT) SURPLUS OF ASSETS OVER LIABILITIES - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2011

Liabilities	**TRANSTATE**	**UNION INDEMNITY**	**UNITED COMMUNITY**	**U. S. CAPITAL**	**WHITING NATIONAL**	**COMBINED ESTATE TOTALS**
Secured Claims	$ -	$ 6,175,126	$ 658,622	$ 112,955	$ 1,042	$ 16,899,486
Unsecured Claims						
Class I - Administrative Claims:	1,281,771	3,934,690	1,137,993	1,077,146	381,319	62,266,455
Class II - Claims and Related Costs:						
Allowed	60,706,219	182,690,718	126,041,646	31,635,404	19,088,275	2,174,018,407
Non Allowed	1,655,983	29,888,553	14,106,088	231,504	-	1,518,749,679
IBNR	-	-	-	-	-	-
Total	62,362,202	212,579,271	140,147,734	31,866,908	19,088,275	3,692,768,086
Class III - Federal Government Claims:	-	137,245	-	-	-	137,686
Class IV - Employee Claims:	-	-	-	-	-	10,164
Class V - State and Local Government Claims:	-	71,337	-	109,175	-	12,647,392
Class VI - General Creditors:	931,512	160,991,940	2,490,396	3,257,795	8,372,978	745,415,736
Class VII - Late Filed Claims:	-	69,492,805	-	-	51,242	369,245,925
Class VIII - Section 1307 (Shareholder) Loans:	-	-	-	-	-	5,196,634
Class IX - Share Holder Claims:	-	-	18,666,845	-	-	140,464,445
Total Liabilities	64,575,485	453,382,414	163,101,590	36,423,979	27,894,856	5,045,052,009
(Deficit) Surplus of Assets over Liabilities	(23,986,646)	(401,718,212)	(144,059,319)	(25,007,767)	(26,577,582)	(3,816,514,917)
Total Liabilities and Surplus (Deficit) of Assets Over Liabilities	$ 40,588,839	$ 51,664,202	$ 19,042,271	$ 11,416,212	$ 1,317,274	$ 1,228,537,092

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN CASH, CASH EQUIVALENTS AND INVESTED ASSETS (UNRESTRICTED) FOR THE YEAR ENDED DECEMBER 31, 2011

	AMERICAN AGENTS	AMERICAN CONSUMER	AMERICAN FIDELITY	CAPITAL MUTUAL	COLONIAL INDEMNITY
Receipts:					
Investment Income Received	$ 85,744	$ 14,766	$ 77,822	$ 51,095	$ 1,079
Reinsurance Recovered	39,143	1,649	140,903	259,007	-
Premiums Collected	-	-	-	-	-
Salvage and Subrogation	679	-	-	7,453	-
Refund from Central Disbursement Account	-	-	-	-	-
Reimbursement from New York Security Funds	-	-	-	-	-
Release from Ancillary Special Deposits	-	-	143,574	-	-
Litigation Awards	-	-	-	-	-
Miscellaneous	78	-	3	1,269	-
Total Receipts	125,644	16,415	362,302	318,824	1,079
Disbursements:					
Dividends	118,173	2,057,053	11,683,246	6,421,910	-
Deposit with Central Disbursement Account	-	-	-	-	-
Loss Adjustment Expense	-	-	-	-	-
Salvage and Subrogation Fees	119	-	-	-	-
Salaries	101,232	25,008	40,802	133,339	45,639
Employee Relations & Welfare	53,517	14,071	22,859	72,859	-
Rent and Related Expenses	39,014	6,269	11,347	50,775	19,882
Professional Fees	16,323	15,248	15,361	16,280	16,565
General and Administrative Expenses	65,912	10,569	15,652	54,162	425
Miscellaneous	5,234	1,207	1,673	9,498	26
Total Disbursements	399,524	2,129,425	11,790,940	6,758,823	82,537
Net Increase (Decrease) of Receipts Over Disbursements	(273,880)	(2,113,010)	(11,428,638)	(6,439,999)	(81,458)
Cash, Cash Equivalents and Invested Assets (Unrestricted), Beginning of Year	12,817,541	3,470,120	18,192,485	14,983,990	285,654
Unrealized Gain / (Loss) on Investments	(11,365)	-	-	4,339	-
Cash, Cash Equivalents and Invested Assets (Unrestricted), End of Year	$ 12,532,296	$ 1,357,110	$ 6,763,847	$ 8,548,330	$ 204,196

See paragraph on supplementary schedules in the accompanying independent autidors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN CASH, CASH EQUIVALENTS AND INVESTED ASSETS (UNRESTRICTED) FOR THE YEAR ENDED DECEMBER 31, 2011

	COLONIAL COOPERATIVE	CONSOLIDATED MUTUAL	CONTRACTORS CASUALTY	COSMOPOLITAN MUTUAL	FIRST CENTRAL
Receipts:					
Investment Income Received	$ 11,564	$ 28,538	$ 3,218	$ 703,183	$ 1,050,774
Reinsurance Recovered	-	-	48,307	85,637	1,516,478
Premiums Collected	-	-	-	-	-
Salvage and Subrogation	-	-	-	-	-
Refund from Central Disbursement Account	-	-	-	-	-
Reimbursement from New York Security Funds	-	-	-	-	-
Release from Ancillary Special Deposits	-	-	-	-	-
Litigation Awards	-	-	-	-	-
Miscellaneous	131,973	-	-	-	30
Total Receipts	143,537	28,538	51,525	788,820	2,567,282
Disbursements:					
Dividends	-	-	-	1,622,939	7,320,007
Deposit with Central Disbursement Account	-	-	-	-	-
Loss Adjustment Expense	118,722	-	-	-	1,000
Salvage and Subrogation Fees	-	-	-	-	-
Salaries	209,962	23,146	71,503	136,051	117,192
Employee Relations & Welfare	505	12,644	37,193	76,205	63,485
Rent and Related Expenses	4,008	24,671	18,547	65,286	53,315
Professional Fees	51,898	15,818	14,709	16,091	15,933
General and Administrative Expenses	10	12,402	13,670	30,388	56,689
Miscellaneous	1,792	2,868	2,942	8,330	12,340
Total Disbursements	386,897	91,549	158,564	1,955,290	7,639,961
Net Increase (Decrease) of Receipts Over Disbursements	(243,360)	(63,011)	(107,039)	(1,166,470)	(5,072,679)
Cash, Cash Equivalents and Invested Assets (Unrestricted), Beginning of Year	783,338	7,130,936	754,486	44,155,543	69,451,387
Unrealized Gain / (Loss) on Investments	(7,143)	-	-	39,915	45,369
Cash, Cash Equivalents and Invested Assets (Unrestricted), End of Year	$ 532,835	$ 7,067,925	$ 647,447	$ 43,028,988	$ 64,424,077

See paragraph on supplementary schedules in the accompanying independent autidors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN CASH, CASH EQUIVALENTS AND INVESTED ASSETS (UNRESTRICTED) FOR THE YEAR ENDED DECEMBER 31, 2011

	GALAXY	GROUP COUNCIL	HEALTH PARTNERS	HOME MUTUAL	HORIZON HEALTHCARE
Receipts:					
Investment Income Received	$ 159,984	$ 11,560	$ 14,822	$ 42,868	$ 2,785
Reinsurance Recovered	302,125	-	-	242,750	-
Premiums Collected	-	-	-	-	-
Salvage and Subrogation	-	-	-	-	-
Refund from Central Disbursement Account	-	-	-	-	10,000
Reimbursement from New York Security Funds	-	-	-	-	-
Release from Ancillary Special Deposits	-	-	-	-	-
Litigation Awards	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Receipts	462,109	11,560	14,822	285,618	12,785
Disbursements:					
Dividends	7,830,864	-	1,479,186	-	3,727,312
Deposit with Central Disbursement Account	-	-	-	-	-
Loss Adjustment Expense	-	-	-	-	-
Salvage and Subrogation Fees	-	-	-	-	-
Salaries	47,179	54,868	48,075	104,680	793
Employee Relations & Welfare	25,896	27,879	24,793	52,369	-
Rent and Related Expenses	21,015	26,932	13,110	51,186	-
Professional Fees	15,585	19,760	14,931	16,107	-
General and Administrative Expenses	54,494	17,750	7,782	34,657	1,700
Miscellaneous	9,665	2,205	3,630	12,847	-
Total Disbursements	8,004,698	149,394	1,591,507	271,846	3,729,805
Net Increase (Decrease) of Receipts Over Disbursements	(7,542,589)	(137,834)	(1,576,685)	13,772	(3,717,020)
Cash, Cash Equivalents and Invested Assets (Unrestricted), Beginning of Year	23,530,255	2,615,081	1,892,729	10,678,377	3,717,020
Unrealized Gain / (Loss) on Investments	(43,099)	-	(15,482)	(6,531)	-
Cash, Cash Equivalents and Invested Assets (Unrestricted), End of Year	$ 15,944,567	$ 2,477,247	$ 300,562	$ 10,685,618	$ -

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN CASH, CASH EQUIVALENTS AND INVESTED ASSETS (UNRESTRICTED) FOR THE YEAR ENDED DECEMBER 31, 2011

	HORIZON	IDEAL MUTUAL	INSCORP
Receipts:			
Investment Income Received	$ 19,806	$ 1,258,166	$ 230,976
Reinsurance Recovered	-	654,173	27,956
Premiums Collected	-	-	-
Salvage and Subrogation	625	1,695	17,877
Refund from Central Disbursement Account	50,000	-	-
Reimbursement from New York Security Funds	-	-	-
Release from Ancillary Special Deposits	-	-	1,204,469
Litigation Awards	-	-	23,193,365
Miscellaneous	97,540	25	57,057
Total Receipts	167,971	1,914,059	24,731,700
Disbursements:			
Dividends	3,622,498	4,907,867	-
Deposit with Central Disbursement Account	-	-	345,437
Loss Adjustment Expense	-	-	143,584
Salvage and Subrogation Fees	208	-	-
Salaries	39,275	940,244	630,495
Employee Relations & Welfare	630,556	514,272	337,180
Rent and Related Expenses	36,650	377,127	210,704
Professional Fees	16,596	118,684	639,479
General and Administrative Expenses	129,070	209,949	208,936
Miscellaneous	1,562	39,015	33,305
Total Disbursements	4,476,415	7,107,158	2,549,120
Net Increase (Decrease) of Receipts Over Disbursements	(4,308,444)	(5,193,099)	22,182,580
Cash, Cash Equivalents and Invested Assets (Unrestricted), Beginning of Year	4,308,444	88,983,309	12,637,284
Unrealized Gain / (Loss) on Investments	-	71,493	(562)
Cash, Cash Equivalents and Invested Assets (Unrestricted), End of Year	$ -	$ 83,861,703	$ 34,819,302

See paragraph on supplementary schedules in the accompanying independent autidors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN CASH, CASH EQUIVALENTS AND INVESTED ASSETS (UNRESTRICTED) FOR THE YEAR ENDED DECEMBER 31, 2011

	LONG ISLAND	MDNY	MIDLAND	MIDPAC	MMLA	NASSAU
Receipts:						
Investment Income Received	$ 7,815	$ 30,205	$ 6,737,632	$ 112,318	$ 1,846	$ 9,154
Reinsurance Recovered	-	-	1,330,457	-	-	-
Premiums Collected	8,381	-	-	-	-	-
Salvage and Subrogation	70,164	-	-	-	-	-
Refund from Central Disbursement Account	-	-	-	-	-	-
Reimbursement from New York Security Funds	77,933	-	-	-	-	-
Release from Ancillary Special Deposits	-	-	431	-	25,000	-
Litigation Awards	-	-	-	-	-	1,206,309
Miscellaneous	379,340	6,403	17,900	-	-	-
Total Receipts	543,633	36,608	8,086,420	112,318	26,846	1,215,463
Disbursements:						
Dividends	-	2,313,515	2,714,222	-	1,009,498	-
Deposit with Central Disbursement Account	-	-	-	-	-	-
Loss Adjustment Expense	-	-	2,792	-	-	10,000
Salvage and Subrogation Fees	-	-	-	-	-	-
Salaries	411,847	84,562	1,901,962	13,024	1,337	60,087
Employee Relations & Welfare	144,870	46,444	1,026,805	7,385	584	33,646
Rent and Related Expenses	109,183	31,978	653,352	3,688	412	33,153
Professional Fees	23,851	15,964	2,414,852	21,647	16,160	675,719
General and Administrative Expenses	139,718	9,625	440,405	11,245	132	5,444
Miscellaneous	19,275	4,472	95,485	2,830	60	3,839
Total Disbursements	848,744	2,506,560	9,249,875	59,819	1,028,183	821,888
Net Increase (Decrease) of Receipts Over Disbursements	(305,111)	(2,469,952)	(1,163,455)	52,499	(1,001,337)	393,575
Cash, Cash Equivalents and Invested Assets (Unrestricted), Beginning of Year	1,558,701	4,849,545	392,474,767	8,692,401	1,001,337	2,174,321
Unrealized Gain / (Loss) on Investments	-	(10,183)	683,887	9,072	-	13,707
Cash, Cash Equivalents and Invested Assets (Unrestricted), End of Year	$ 1,253,590	$ 2,369,410	$ 391,995,199	$ 8,753,972	$ -	$ 2,581,603

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN CASH, CASH EQUIVALENTS AND INVESTED ASSETS (UNRESTRICTED) FOR THE YEAR ENDED DECEMBER 31, 2011

	NEW YORK MERCHANT	NEW YORK SURETY	REALM NATIONAL	TITLEDGE	TRANSTATE	UNION INDEMNITY
Receipts:						
Investment Income Received	$ 97,881	$ 4,968	$ 15,885	$ 3,151	$ 663,982	$ 612,217
Reinsurance Recovered	878,678	158,072	2,010,220	-	35,075	513,943
Premiums Collected	-	-	5,500	-	-	-
Salvage and Subrogation	3,678	-	239,951	-	-	97,989
Refund from Central Disbursement Account	-	-	-	-	-	-
Reimbursement from New York Security Funds	-	-	-	-	-	-
Release from Ancillary Special Deposits	-	-	245,835	-	-	-
Litigation Awards	-	-	-	-	-	-
Miscellaneous	-	-	5,900	-	-	10
Total Receipts	980,237	163,040	2,523,291	3,151	699,057	1,224,159
Disbursements:						
Dividends	-	-	-	-	20,090,040	177,095
Deposit with Central Disbursement Account	-	-	-	-	-	-
Loss Adjustment Expense	-	-	-	-	839	-
Salvage and Subrogation Fees	-	-	-	-	-	-
Salaries	142,278	125,940	113,172	21,108	63,395	269,576
Employee Relations & Welfare	79,068	69,952	-	10,097	34,672	146,656
Rent and Related Expenses	73,179	42,071	34,673	5,184	28,562	121,389
Professional Fees	16,422	15,211	17,984	10,839	15,249	232,790
General and Administrative Expenses	72,520	16,196	13,485	1,783	26,986	91,608
Miscellaneous	9,426	4,369	12,324	1,290	5,315	13,315
Total Disbursements	392,893	273,739	191,638	50,301	20,265,058	1,052,429
Net Increase (Decrease) of Receipts Over Disbursements	587,344	(110,699)	2,331,653	(47,150)	(19,566,001)	171,730
Cash, Cash Equivalents and Invested Assets (Unrestricted), Beginning of Year	22,651,482	1,195,336	1,081,429	719,346	57,863,555	44,403,115
Unrealized Gain / (Loss) on Investments	4,063	-	4,001	-	715,237	117,632
Cash, Cash Equivalents and Invested Assets (Unrestricted), End of Year	$ 23,242,889	$ 1,084,637	$ 3,417,083	$ 672,196	$ 39,012,791	$ 44,692,477

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN CASH, CASH EQUIVALENTS AND INVESTED ASSETS (UNRESTRICTED) FOR THE YEAR ENDED DECEMBER 31, 2011

	UNITED COMMUNITY	U. S. CAPITAL	WHITING NATIONAL	COMBINED ESTATE TOTALS
Receipts:				
Investment Income Received	$ 131,882	$ 46,783	$ 32,596	$ 12,277,065
Reinsurance Recovered	1,198,166	24,845	-	9,467,584
Premiums Collected	-	-	-	13,881
Salvage and Subrogation	-	-	-	440,111
Refund from Central Disbursement Account	-	-	-	60,000
Reimbursement from New York Security Funds	117,285	-	-	195,218
Release from Ancillary Special Deposits	-	-	-	1,619,309
Litigation Awards	-	-	-	24,399,674
Miscellaneous	150	293	-	697,971
Total Receipts	1,447,483	71,921	32,596	49,170,813
Disbursements:				
Dividends	528,641	-	7,045,510	84,669,576
Deposit with Central Disbursement Account	-	-	-	345,437
Loss Adjustment Expense	-	-	-	276,937
Salvage and Subrogation Fees	-	-	-	327
Salaries	132,015	74,705	37,451	6,221,942
Employee Relations & Welfare	70,960	37,270	21,105	3,695,797
Rent and Related Expenses	126,695	47,688	14,793	2,355,838
Professional Fees	112,019	16,145	14,925	4,655,145
General and Administrative Expenses	29,237	24,143	9,626	1,816,370
Miscellaneous	9,804	6,773	2,594	339,310
Total Disbursements	1,009,371	206,724	7,146,004	104,376,679
Net Increase (Decrease) of Receipts Over Disbursements	438,112	(134,803)	(7,113,408)	(55,205,866)
Cash, Cash Equivalents and Invested Assets (Unrestricted), Beginning of Year	17,445,238	11,298,305	8,237,267	896,034,124
Unrealized Gain / (Loss) on Investments	16,647	971	-	1,631,968
Cash, Cash Equivalents and Invested Assets (Unrestricted), End of Year	$ 17,899,997	$ 11,164,473	$ 1,123,859	$ 842,460,226

See paragraph on supplementary schedules in the accompanying independent autidors' report

Appendix B

December 31, 2010

The Domestic Estates in Liquidation

Combining Schedules of the Estates Assets, Liabilities and (Deficit) Surplus of Assets Over Liabilities, and Cash Receipts and Disbursements and Changes in Cash, Cash Equivalents and Invested Assets (Unrestricted) – Modified Cash Basis

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES ASSETS - MODIFIED CASH BASIS AS OF DECEMBER 31, 2010

Assets	AAIC	ACIC	AFF	CMIC	COLONIAL	COLONIAL COOPERATIVE	CONSOLIDATED
Unrestricted Assets:							
Cash and cash equivalents	$ 7,776,091	$ 3,470,120	$ 18,178,031	$ 9,982,090	$ 285,654	$ 314,145	$ 7,130,936
Invested Assets							
Certificate of Deposits, at fair value	-	-	-	-	-	-	-
Short-term Investments, at fair value	-	-	-	-	-	-	-
Bonds, at fair value	5,041,450	-	-	5,001,900	-	469,193	-
Common Stocks, at fair value	-	-	14,454	-	-	-	-
Total Invested Assets	5,041,450	-	14,454	5,001,900	-	469,193	-
Total Cash, cash equivalents and invested assets	12,817,541	3,470,120	18,192,485	14,983,990	285,654	783,338	7,130,936
Reinsurance Recoverables on Paid Losses and LAE	1,951	5,693,557	1,721,352	7,187,196	2,754,185	1,131,226	1,411,497
Less: Allowance for Uncollectible Reinsurance Recoverables	-	(5,693,557)	(1,721,352)	(7,187,196)	(2,754,185)	(1,131,226)	(1,411,497)
Net Reinsurance Recoverables on Paid Losses and LAE	1,951	-	-	-	-	-	-
Reinsurance Recoverables on Unpaid Losses and LAE	303,833	520,334	1,594,057	568,391	2,873,339	11,330,651	749,062
Less: Allowance for Uncollectible Reinsurance Recoverables	-	(520,334)	(1,594,057)	(568,391)	(2,873,339)	(11,330,651)	(749,062)
Net Reinsurance Recoverables on Unpaid Losses and LAE	303,833	-	-	-	-	-	-
Receivables from others	1,205,000	65,000	80,000	266,000	150,000	-	49,000
Accrued Investment Income	10,312	-	-	21,250	-	4,155	-
Other Assets	-	-	-	38,948	-	994,790	-
Total Unrestricted Assets	14,338,637	3,535,120	18,272,485	15,310,188	435,654	1,782,283	7,179,936
Restricted Assets:							
Statutory Deposits in New York or Other States	-	-	199,626	-	-	-	-
Other Restricted Assets	19,165	40,962	206,408	303,942	-	-	400,855
Total Restricted Assets	19,165	40,962	406,034	303,942	-	-	400,855
Total Assets	$ 14,357,802	$ 3,576,082	$ 18,678,519	$ 15,614,130	$ 435,654	$ 1,782,283	$ 7,580,791

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF
COMBINING ESTATES ASSETS - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2010

Assets

	CCSC	COSMOPOLITAN	FCIC	GALAXY	GROUP COUNCIL	HPNY	HMIC
Unrestricted Assets:							
Cash and cash equivalents	$ 754,486	$ 10,146,748	$ 15,918,877	$ 13,469,648	$ 2,615,081	$ 1,475,569	$ 8,919,412
Invested Assets							
Certificate of Deposits, at fair value	-	-	20,000,000	-	-	-	-
Short-term Investments, at fair value	-	-	-	-	-	1,253	-
Bonds, at fair value	-	34,008,795	33,532,510	10,060,607	-	415,907	1,758,965
Common Stocks, at fair value	-	-	-	-	-	-	-
Total Invested Assets	-	34,008,795	53,532,510	10,060,607	-	417,160	1,758,965
Total Cash, cash equivalents and invested assets	754,486	44,155,543	69,451,387	23,530,255	2,615,081	1,892,729	10,678,377
Reinsurance Recoverables on Paid Losses and LAE	616,580	4,911,727	301,497	356,385	23,061,998	-	2,042,389
Less: Allowance for Uncollectible Reinsurance Recoverables	(616,580)	(4,911,727)	-	(356,385)	(23,061,998)	-	(2,042,389)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	301,497	-	-	-	-
Reinsurance Recoverables on Unpaid Losses and LAE	763,201	8,424,023	4,638,002	1,004,424	-	-	12,320
Less: Allowance for Uncollectible Reinsurance Recoverables	(763,201)	(8,424,023)	-	(1,004,424)	-	-	(12,320)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	4,638,002	-	-	-	-
Receivables from others	60,000	159,609	989,000	212,000	1,967,000	50,000	127,000
Accrued Investment Income	-	257,044	175,324	38,607	-	1,881	7,800
Other Assets	-	964,741	34,330	-	-	-	288,460
Total Unrestricted Assets	814,486	45,536,937	75,589,540	23,780,862	4,582,081	1,944,610	11,101,637
Restricted Assets:							
Statutory Deposits in New York or Other States	-	-	-	-	-	-	-
Other Restricted Assets	158,814	910,446	506,688	161,130	228,575	-	1,387
Total Restricted Assets	158,814	910,446	506,688	161,130	228,575	-	1,387
Total Assets	$ 973,300	$ 46,447,383	$ 76,096,228	$ 23,941,992	$ 4,810,656	$ 1,944,610	$ 11,103,024

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES ASSETS - MODIFIED CASH BASIS AS OF DECEMBER 31, 2010

Assets	HHNY	HORIZON	IDEAL	INSCORP	Elimination of IBNR	INSCORP Adjusted
Unrestricted Assets:						
Cash and cash equivalents	$ 3,717,020	$ 4,308,444	$ 20,469,028	$ 11,985,483	$ -	$ 11,985,483
Invested Assets						
Certificate of Deposits, at fair value	-	-	25,000,000	-	-	-
Short-term Investments, at fair value	-	-	-	397	-	397
Bonds, at fair value	-	-	43,514,281	651,405	-	651,405
Common Stocks, at fair value	-	-	-	-	-	-
Total Invested Assets	-	-	68,514,281	651,802	-	651,802
Total Cash, cash equivalents and invested assets	3,717,020	4,308,444	88,983,309	12,637,285	-	12,637,285
Reinsurance Recoverables on Paid Losses and LAE	-	20,927,698	53,409,596	25,754,395	-	25,754,395
Less: Allowance for Uncollectible Reinsurance Recoverables	-	(20,927,698)	(53,409,596)	(25,754,395)	-	(25,754,395)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	-	-	-
Reinsurance Recoverables on Unpaid Losses and LAE	-	-	21,147,862	32,801,805	(7,603,847)	25,197,958
Less: Allowance for Uncollectible Reinsurance Recoverables	-	-	(21,147,862)	(32,801,805)	7,603,847	(25,197,958)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	-	-
Receivables from others	10,000	65,000	660,000	447,565	-	447,565
Accrued Investment Income	-	-	248,195	3,959	-	3,959
Other Assets	-	-	-	64,389	-	64,389
Total Unrestricted Assets	3,727,020	4,373,444	89,891,504	13,153,198	-	13,153,198
Restricted Assets:						
Statutory Deposits in New York or Other States	-	-	137,058	3,277,101	-	3,277,101
Other Restricted Assets	-	337,494	3,596,471	2,999,596	-	2,999,596
Total Restricted Assets	-	337,494	3,733,529	6,276,697	-	6,276,697
Total Assets	$ 3,727,020	$ 4,710,938	$ 93,625,033	$ 19,429,895	$ -	$ 19,429,895

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF
COMBINING ESTATES ASSETS - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2010

Assets	LONG ISLAND	MDNY	MIDLAND	Elimination of IBNR	Midland Adjusted
Unrestricted Assets:					
Cash and cash equivalents	$ 1,263,910	$ 4,584,631	$ 84,584,092		$ 84,584,092
Invested Assets					
Certificate of Deposits, at fair value	294,791	-	30,000,000		30,000,000
Short-term Investments, at fair value	-	-	-		-
Bonds, at fair value	-	264,914	277,784,595		277,784,595
Common Stocks, at fair value	-	-	106,080		106,080
Total Invested Assets	294,791	264,914	307,890,675	-	307,890,675
Total Cash, cash equivalents and invested assets	1,558,701	4,849,545	392,474,767		392,474,767
Reinsurance Recoverables on Paid Losses and LAE	-	-	129,829,688		129,829,688
Less: Allowance for Uncollectible Reinsurance Recoverables	-	-	(69,531,783)		(69,531,783)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	60,297,905		60,297,905
Reinsurance Recoverables on Unpaid Losses and LAE	-	-	1,624,178,724	(558,717,500)	1,065,461,224
Less: Allowance for Uncollectible Reinsurance Recoverables	-	-	(1,253,821,872)	495,861,781	(757,960,091)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	370,356,852	(62,855,719)	307,501,133
Receivables from others	-	150,000	3,260,000		3,260,000
Accrued Investment Income	-	1,606	1,087,689		1,087,689
Other Assets	156,865	-	-		-
Total Unrestricted Assets	1,715,566	5,001,151	827,477,213	(62,855,719)	764,621,494
Restricted Assets:					
Statutory Deposits in New York or Other States	-	-	239,870		239,870
Other Restricted Assets	-	35,160	1,172,818		1,172,818
Total Restricted Assets	-	35,160	1,412,688		1,412,688
Total Assets	$ 1,715,566	$ 5,036,311	$ 828,889,901	$ (62,855,719)	$ 766,034,182

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF
COMBINING ESTATES ASSETS - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2010

Assets	MIDPAC	Elimination of IBNR	MIDPAC Adjusted	MMLA	NASSAU	NYMB
Unrestricted Assets:						
Cash and cash equivalents	$ 7,441,301		$ 7,441,301	$ 1,001,337	$ 2,172,241	$ 18,117,872
Invested Assets						
Certificate of Deposits, at fair value	-		-	-	-	-
Short-term Investments, at fair value	-		-	-	-	-
Bonds, at fair value	1,251,100		1,251,100	-	-	4,533,610
Common Stocks, at fair value	-		-	-	2,080	-
Total Invested Assets	1,251,100	-	1,251,100	-	2,080	4,533,610
Total Cash, cash equivalents and invested assets	8,692,401		8,692,401	1,001,337	2,174,321	22,651,482
Reinsurance Recoverables on Paid Losses and LAE	140,440		140,440	-	12,961,618	24,877,817
Less: Allowance for Uncollectible Reinsurance Recoverables	(70,101)		(70,101)	-	(12,961,618)	(24,877,817)
Net Reinsurance Recoverables on Paid Losses and LAE	70,339		70,339	-	-	-
Reinsurance Recoverables on Unpaid Losses and LAE	6,100,160	(2,086,890)	4,013,270	-	-	1,144,156
Less: Allowance for Uncollectible Reinsurance Recoverables	(3,362,850)	1,869,358	(1,493,492)	-	-	(1,144,156)
Net Reinsurance Recoverables on Unpaid Losses and LAE	2,737,310	(217,532)	2,519,778	-	-	-
Receivables from others	50,000		50,000	25,000	200,000	1,513,725
Accrued Investment Income	13,157		13,157	-	-	12,075
Other Assets			-	-	-	104,034
Total Unrestricted Assets	11,563,207	(217,532)	11,345,675	1,026,337	2,374,321	24,281,316
Restricted Assets:						
Statutory Deposits in New York or Other States	-		-	-	-	-
Other Restricted Assets	-		-	-	10,793	2,082,402
Total Restricted Assets	-		-	-	10,793	2,082,402
Total Assets	$ 11,563,207	$ (217,532)	$11,345,675	$ 1,026,337	$ 2,385,114	$ 26,363,718

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES ASSETS - MODIFIED CASH BASIS AS OF DECEMBER 31, 2010

Assets	NYSCO	REALM	TITLEDGE	TRANSTATE	UNION
Unrestricted Assets:					
Cash and cash equivalents	$ 1,195,336	$ 901,151	$ 719,346	$ 7,453,620	$ 9,434,935
Invested Assets					
Certificate of Deposits, at fair value	-	-	-	10,000,000	15,000,000
Short-term Investments, at fair value	-	-	-	-	-
Bonds, at fair value	-	180,278	-	40,409,935	19,968,180
Common Stocks, at fair value	-	-	-	-	-
Total Invested Assets	-	180,278	-	50,409,935	34,968,180
Total Cash, cash equivalents and invested assets	1,195,336	1,081,429	719,346	57,863,555	44,403,115
Reinsurance Recoverables on Paid Losses and LAE	1,847,456	5,648,129	-	44,511	40,913,819
Less: Allowance for Uncollectible Reinsurance Recoverables	(1,847,456)	(5,648,129)	-	(159)	(40,913,819)
Net Reinsurance Recoverables on Paid Losses and LAE	-	-	-	44,352	-
Reinsurance Recoverables on Unpaid Losses and LAE	906,418	7,430,826	-	11,810,516	1,117,885
Less: Allowance for Uncollectible Reinsurance Recoverables	(906,418)	(7,430,826)	-	(11,000,000)	(1,117,885)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	810,516	-
Receivables from others	63,996	600,000	-	315,000	470,000
Accrued Investment Income	-	2,637	-	163,786	36,903
Other Assets	-	1,568,730	-	-	-
Total Unrestricted Assets	1,259,332	3,252,796	719,346	59,197,209	44,910,018
Restricted Assets:					
Statutory Deposits in New York or Other States	-	915,111	-	-	380,491
Other Restricted Assets	992,006	205,680	-	-	5,668,545
Total Restricted Assets	992,006	1,120,791	-	-	6,049,036
Total Assets	$ 2,251,338	$ 4,373,587	$ 719,346	$ 59,197,209	$ 50,959,054

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES ASSETS - MODIFIED CASH BASIS AS OF DECEMBER 31, 2010

Assets	UCIC	Elimination of IBNR	UCIC Adjusted	U. S. CAPITAL	WHITING	COMBINED ESTATE TOTALS
Unrestricted Assets:						
Cash and cash equivalents	$ 16,161,291		$16,161,291	$ 11,237,095	$ 8,237,267	$ 315,422,288
Invested Assets						
Certificate of Deposits, at fair value	-		-	-	-	100,294,791
Short-term Investments, at fair value	-		-	-	-	1,650
Bonds, at fair value	83,741		83,741	61,210	-	478,992,576
Common Stocks, at fair value	1,200,206		1,200,206	-	-	1,322,820
Total Invested Assets	1,283,947	-	1,283,947	61,210	-	580,611,837
Total Cash, cash equivalents and invested assets	17,445,238		17,445,238	11,298,305	8,237,267	896,034,125
Reinsurance Recoverables on Paid Losses and LAE	8,647,897		8,647,897	444,437	1,144,362	377,783,403
Less: Allowance for Uncollectible Reinsurance Recoverables	(8,647,897)		(8,647,897)	(444,437)	(1,144,362)	(317,067,359)
Net Reinsurance Recoverables on Paid Losses and LAE	-		-	-	-	60,716,044
Reinsurance Recoverables on Unpaid Losses and LAE	2,439,036	(263,202)	2,175,834	181,651	10,833	1,173,380,070
Less: Allowance for Uncollectible Reinsurance Recoverables	(2,439,036)	263,202	(2,175,834)	(181,651)	(10,833)	(857,606,808)
Net Reinsurance Recoverables on Unpaid Losses and LAE	-	-	-	-	-	315,773,262
Receivables from others	500,000		500,000	167,000	82,002	13,958,897
Accrued Investment Income	445		445	330	-	2,087,155
Other Assets	-		-		-	4,215,287
Total Unrestricted Assets	17,945,683	-	17,945,683	11,465,635	8,319,269	1,292,784,770
Restricted Assets:						
Statutory Deposits in New York or Other States	-		-	-	-	5,149,257
Other Restricted Assets	522,850		522,850	84,247	111,396	20,757,830
Total Restricted Assets	522,850	-	522,850	84,247	111,396	25,907,087
Total Assets	$ 18,468,533	$ -	$18,468,533	$ 11,549,882	$ 8,430,665	$ 1,318,691,857

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES LIABILITIES AND (DEFICIT) SURPLUS OF ASSETS OVER LIABILITIES - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2010

Liabilities	AAIC	ACIC	AFF	CMIC	COLONIAL	COLONIAL COOPERATIVE	CONSOLIDATED
Secured Claims	$ -	$ 34,217	$ 163,172	$ 56,405	$ -	$ 7,829	$ 338,494
Unsecured Claims							
Class I - Administrative Claims:	3,524,159	436,731	637,395	1,592,850	124,920	196,206	444,219
Class II - Claims and Related Costs:							
Allowed	49,953,951	17,592,104	47,866,102	42,344,982	190,000	-	13,459,517
Non Allowed	2,080,846	-	2,539,712	1,998,816	5,224,943	18,487,128	-
IBNR	-	-	-	-	-	-	-
Total	52,034,797	17,592,104	50,405,814	44,343,798	5,414,943	18,487,128	13,459,517
Class III - Federal Government Claims:	-	-	-	441	-	-	-
Class IV - Employee Claims:	-	-	-	3,123	-	-	-
Class V - State and Local Government Claims:	306,878	44,842	92,237	52,295	54	-	3,053
Class VI - General Creditors:	682,397	5,353,253	9,374,085	3,997,787	456,541	1,072,484	3,317,898
Class VII - Late Filed Claims:	335	67,852	6,324,613	-	-	-	15,120,795
Class VIII - Section 1307 (Shareholder) Loans:	-	-	-	-	-	1,075,375	-
Class IX - Share Holder Claims:	-	-	-	-	-	-	-
Total Liabilities	56,548,566	23,528,999	66,997,316	50,046,699	5,996,458	20,839,022	32,683,976
(Deficit) Surplus of Assets over Liabilities	(42,190,764)	(19,952,917)	(48,318,797)	(34,432,569)	(5,560,804)	(19,056,739)	(25,103,185)
Total Liabilities and (Deficit) surplus of Assets over Liabilities	$ 14,357,802	$ 3,576,082	$ 18,678,519	$ 15,614,130	$ 435,654	$ 1,782,283	$ 7,580,791

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES LIABILITIES AND (DEFICIT) SURPLUS OF ASSETS OVER LIABILITIES - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2010

Liabilities	CCSC	COSMOPOLITAN	FCIC	GALAXY	GROUP COUNCIL	HPNY	HMIC
Secured Claims	$ 158,814	$ 934,896	$ 86,047	$ 161,130	$ 27,263	$ -	$ 1,387
Unsecured Claims							
Class I - Administrative Claims:	398,971	1,039,929	3,846,697	1,944,083	2,279,463	55,534	2,595,274
Class II - Claims and Related Costs:							
Allowed	5,177,711	52,507,982	131,735,562	53,237,965	209,278,091	2,410,511	31,061,717
Non Allowed	1,533,165	16,871,943	14,422,921	2,188,679	71,583,702	419,773	982,633
IBNR	-	-	-	-	-	-	-
Total	6,710,876	69,379,925	146,158,483	55,426,644	280,861,793	2,830,284	32,044,350
Class III - Federal Government Claims:	-	-	-	-	-	-	-
Class IV - Employee Claims:	-	-	-	-	4,425	-	-
Class V - State and Local Government Claims:	7,941	7,476	874,434	2,720	22,828	29,935	126,590
Class VI - General Creditors:	929,702	18,657,142	1,763,389	506,611	56,202,748	-	1,903,565
Class VII - Late Filed Claims:	-	9,973,857	-	-	-	-	-
Class VIII - Section 1307 (Shareholder) Loans:	60,000	-	1	-	-	-	-
Class IX - Share Holder Claims:	-	-	-	-	-	-	-
Total Liabilities	8,266,304	99,993,225	152,729,051	58,041,188	339,398,520	2,915,753	36,671,166
(Deficit) Surplus of Assets over Liabilities	(7,293,004)	(53,545,842)	(76,632,823)	(34,099,196)	(334,587,864)	(971,143)	(25,568,142)
Total Liabilities and (Deficit) surplus of Assets over Liabilities	$ 973,300	$ 46,447,383	$ 76,096,228	$ 23,941,992	$ 4,810,656	$ 1,944,610	$ 11,103,024

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES LIABILITIES AND (DEFICIT) SURPLUS OF ASSETS OVER LIABILITIES - MODIFIED CASH BASIS AS OF DECEMBER 31, 2010

Liabilities	HHNY	HORIZON	IDEAL	INSCORP	Elimination of IBNR	INSCORP Adjusted
Secured Claims	$ -	$ 301,064	$ 3,487,160	$ 1,665,513	$ -	$ 1,665,513
Unsecured Claims						
Class I - Administrative Claims:	8,561	623,946	7,405,637	1,311,961	-	1,311,961
Class II - Claims and Related Costs:						
Allowed	-	68,371,236	252,794,436	(576,295)	-	(576,295)
Non Allowed	-	23,148	127,220,570	36,474,471	-	36,474,471
IBNR	-	-	-	-	-	-
Total	-	68,394,384	380,015,006	35,898,176	-	35,898,176
Class III - Federal Government Claims:	-	-	-	-		-
Class IV - Employee Claims:	-	-	-	-		-
Class V - State and Local Government Claims:	-	-	280,887	1,514,994	-	1,514,994
Class VI - General Creditors:	61,750	628,562	101,138,145	114,649,853	(51,810,923)	62,838,930
						-
Class VII - Late Filed Claims:	-	23,758,815	70,961,525	-	-	-
Class VIII - Section 1307 (Shareholder) Loans:	-	-	-	-	-	-
Class IX - Share Holder Claims:	58,902	-	-	107,467,599	-	107,467,599
Total Liabilities	129,213	93,706,771	563,288,360	262,508,096	(51,810,923)	210,697,173
(Deficit) Surplus of Assets over Liabilities	3,597,807	(88,995,833)	(469,663,327)	(243,078,201)	51,810,923	(191,267,278)
Total Liabilities and (Deficit) surplus of Assets over Liabilities	$ 3,727,020	$ 4,710,938	$ 93,625,033	$ 19,429,895	$ -	$ 19,429,895

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES LIABILITIES AND (DEFICIT) SURPLUS OF ASSETS OVER LIABILITIES - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2010

Liabilities	LONG ISLAND	MDNY	MIDLAND	Elimination of IBNR	Midland Adjusted
Secured Claims	$ -	$ 35,160	$ 1,131,626		$ 1,131,626
Unsecured Claims					
Class I - Administrative Claims:	553,538	340,299	14,915,597		14,915,597
Class II - Claims and Related Costs:					
Allowed	11,948	10,164,187	556,658,636		556,658,636
Non Allowed	8,160,313	11,583,886	1,229,431,479		1,229,431,479
IBNR	-	-	605,000,000	(605,000,000)	-
Total	8,172,261	21,748,073	2,391,090,115	(605,000,000)	1,786,090,115
Class III - Federal Government Claims:	-	-	-		-
Class IV - Employee Claims:	-	-	-		-
Class V - State and Local Government Claims:	-	102,072	8,317,575		8,317,575
Class VI - General Creditors:	-	29,110,131	160,889,114		160,889,114
Class VII - Late Filed Claims:	-	-	169,550,639		169,550,639
Class VIII - Section 1307 (Shareholder) Loans:	-	4,061,259	-		-
Class IX - Share Holder Claims:	-	13,580,000	-		-
Total Liabilities	8,725,799	68,976,994	2,745,894,666	(605,000,000)	2,140,894,666
(Deficit) Surplus of Assets over Liabilities	(7,010,233)	(63,940,683)	(1,917,004,765)	542,144,281	(1,374,860,484)
Total Liabilities and (Deficit) surplus of Assets over Liabilities	$ 1,715,566	$ 5,036,311	$ 828,889,901	$ (62,855,719)	$ 766,034,182

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES LIABILITIES AND (DEFICIT) SURPLUS OF ASSETS OVER LIABILITIES - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2010

Liabilities	MIDPAC	Elimination of IBNR	MIDPAC Adjusted	MMLA	NASSAU	NYMB
Secured Claims	$ -		$ -	$ -	$ -	$ 180,143
Unsecured Claims			-			
Class I - Administrative Claims:	451,842		451,842	13,547	32,431	3,053,906
Class II - Claims and Related Costs:			-			
Allowed	-		-	-	38,512,801	122,825,727
Non Allowed	7,500,036		7,500,036	-	78,083	3,040,939
IBNR	3,900,000	(3,900,000)	-	-	-	-
Total	11,400,036	(3,900,000)	7,500,036	-	38,590,884	125,866,666
Class III - Federal Government Claims:	-		-	-	-	-
Class IV - Employee Claims:	-		-	-	-	-
Class V - State and Local Government Claims:	-		-	-	77,966	482,493
Class VI - General Creditors:	570		570	-	587,206	2,798,739
Class VII - Late Filed Claims:	-		-	-	3,943,046	-
Class VIII - Section 1307 (Shareholder) Loans:	-		-	-	-	-
Class IX - Share Holder Claims:	-		-	-	-	-
Total Liabilities	11,852,448	(3,900,000)	7,952,448	13,547	43,231,533	132,381,947
(Deficit) Surplus of Assets over Liabilities	(289,241)	3,682,468	3,393,227	1,012,790	(40,846,419)	(106,018,229)
Total Liabilities and (Deficit) surplus of Assets over Liabilities	$ 11,563,207	$ (217,532)	$ 11,345,675	$ 1,026,337	$ 2,385,114	$ 26,363,718

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES LIABILITIES AND (DEFICIT) SURPLUS OF ASSETS OVER LIABILITIES - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2010

Liabilities	NYSCO	REALM	TITLEDGE	TRANSTATE	UNION
Secured Claims	$ 992,006	$ 326,896	$ -	$ -	$ 5,893,318
Unsecured Claims					
Class I - Administrative Claims:	381,518	3,531,649	9,191	1,193,984	3,642,632
Class II - Claims and Related Costs:					
Allowed	8,406,224	23,721,455	-	79,892,223	181,949,440
Non Allowed	1,963,307	57,763,752	-	2,548,528	35,868,640
IBNR	-	-	-	-	-
Total	10,369,531	81,485,207	-	82,440,751	217,818,080
Class III - Federal Government Claims:	-	-	-	-	137,245
Class IV - Employee Claims:	-	2,616	-	-	-
Class V - State and Local Government Claims:	17,725	61,013	-	-	71,337
Class VI - General Creditors:	484,134	17,170,252	-	931,512	160,991,940
Class VII - Late Filed Claims:	-	401	-	-	69,492,805
Class VIII - Section 1307 (Shareholder) Loans:	-	-	-	-	-
Class IX - Share Holder Claims:	-	-	750,000	-	-
Total Liabilities	12,244,914	102,578,034	759,191	84,566,247	458,047,357
(Deficit) Surplus of Assets over Liabilities	(9,993,576)	(98,204,447)	(39,845)	(25,369,038)	(407,088,303)
Total Liabilities and (Deficit) surplus of Assets over Liabilities	$ 2,251,338	$ 4,373,587	$ 719,346	$ 59,197,209	$ 50,959,054

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES LIABILITIES AND (DEFICIT) SURPLUS OF ASSETS OVER LIABILITIES - MODIFIED CASH BASIS
AS OF DECEMBER 31, 2010

Liabilities	UCIC	Elimination of IBNR	UCIC Adjusted	U. S. CAPITAL	WHITING	COMBINED ESTATE TOTALS
Secured Claims	$ 658,622		$ 658,622	$ 112,950	$ 1,042	$ 16,755,154
Unsecured Claims			-			
Class I - Administrative Claims:	1,054,674		1,054,674	983,032	345,602	58,969,978
Class II - Claims and Related Costs:			-			
Allowed	122,375,239		122,375,239	31,122,123	26,133,786	2,179,179,361
Non Allowed	17,962,586		17,962,586	1,103,918	-	1,679,057,917
IBNR	263,202	(263,202)	-	-	-	-
Total	140,601,027	(263,202)	140,337,825	32,226,041	26,133,786	3,858,237,278
Class III - Federal Government Claims:	-		-	-	-	137,686
Class IV - Employee Claims:	-		-	-	-	10,164
Class V - State and Local Government Claims:	-		-	109,175	-	12,606,520
Class VI - General Creditors:	2,701,921		2,701,921	3,257,795	8,376,002	656,184,305
Class VII - Late Filed Claims:	-		-	-	51,242	369,245,925
Class VIII - Section 1307 (Shareholder) Loans:	-		-	-	-	5,196,635
Class IX - Share Holder Claims:	18,866,845		18,866,845	-	-	140,723,346
Total Liabilities	163,883,089	(263,202)	163,619,887	36,688,993	34,907,674	5,118,066,991
(Deficit) Surplus of Assets over Liabilities	(145,414,556)	263,202	(145,151,354)	(25,139,111)	(26,477,009)	(3,799,375,134)
Total Liabilities and (Deficit) surplus of Assets over Liabilities	$ 18,468,533	$ -	$ 18,468,533	$ 11,549,882	$ 8,430,665	$ 1,318,691,857

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES CASH RECEIPTS AND DISBURSEMENTS
AND CHANGES IN CASH, CASH EQUIVALENTS AND INVESTED ASSETS (UNRESTRICTED)
FOR THE YEAR ENDED DECEMBER 31, 2010

	AAIC	ACIC	AFF	CMIC	COLONIAL	COLONIAL COOPERATIVE
Receipts:						
Investment Income Received	$ 114,961	$ 20,817	$ 110,179	$ 95,934	$ 2,768	$ 1,573
Reinsurance Recovered	28,989	28,510	468,716	91,662	-	-
Premiums Collected	-	-	-	-	-	1,626
Salvage and Subrogation	1,495	-	-	-	-	40,365
Refund from Central Disbursement Account	800,000	110,000	175,000	-	-	-
Reimbursement from New York Security Funds	-	-	-	-	-	-
Partial payment of WCSF loan	-	-	-	-	-	-
Release from Ancillary Special Deposits	-	-	-	-	-	-
Littigation Awards	-	-	-	-	-	-
Miscellaneous	168	-	396	(817)	-	-
Total Receipts	945,613	159,327	754,291	186,779	2,768	43,564
Disbursements:						
Dividends	792,358	-	-	-	-	-
New York Misc Special Revenue Fund	-	-	-	-	-	-
Claims Paid	-	-	-	-	-	-
Deposit with Central Disbursement Account	-	-	-	150,000	150,000	-
Collateral	-	-	-	-	-	-
Funds Released to Reinsurers	-	-	-	-	-	-
Escrow Account for Abandoned Property	-	-	-	-	-	-
Loss Adjustment Expense	-	-	-	-	-	17,689
Salvage and Subrogation Fees	-	-	-	-	-	6,055
Salaries	353,223	31,544	73,138	202,684	145,232	63,626
Employee Relations & Welfare	150,944	13,623	30,991	88,519	56,190	-
Rent and Related Expenses	108,561	8,734	19,393	66,234	52,406	861
Professional Fees	23,655	20,986	21,207	22,300	180,002	1,132
General and Administrative Expenses	76,615	11,255	13,723	40,946	6,165	13,155
Miscellaneous	16,314	1,800	3,829	9,117	6,182	(497)
Total Disbursements	1,521,670	87,942	162,281	579,800	596,177	102,021
Net (Decrease) Increase of Receipts Over Disbursements	(576,057)	71,385	592,010	(393,021)	(593,409)	(58,457)
Cash, Cash Equivalents and Invested Assets (Unrestricted), Beginning of Year	13,353,610	3,398,735	17,600,475	15,377,697	879,063	845,038
Unrealized Gain / (Loss) on Investments	39,988	-	-	(686)	-	(3,243)
Cash, Cash Equivalents and Invested Assets (Unrestricted), End of Year	$ 12,817,541	$ 3,470,120	$ 18,192,485	$ 14,983,990	$ 285,654	$ 783,338

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN CASH, CASH EQUIVALENTS AND INVESTED ASSETS (UNRESTRICTED) FOR THE YEAR ENDED DECEMBER 31, 2010

	CONSOLIDATED	CCSC	COSMOPOLITAN	FCIC	GALAXY	GROUP COUNCIL
Receipts:						
Investment Income Received	$ 51,052	$ 5,384	$ 513,971	$ 636,647	$ 187,251	$ 14,755
Reinsurance Recovered	-	27,027	320,480	1,177,672	530,170	155
Premiums Collected	-	-	-	-	-	-
Salvage and Subrogation	-	-	-	-	1,894	-
Refund from Central Disbursement Account	165,000	-	55,000	1,500,000	1,000,000	-
Reimbursement from New York Security Funds	-	-	-	-	-	-
Partial payment of WCSF loan	-	-	-	-	-	-
Release from Ancillary Special Deposits	-	-	-	-	-	-
Litigation Awards	-	-	-	-	-	-
Miscellaneous	-	-	-	15	-	3,074
Total Receipts	216,052	32,411	889,451	3,314,334	1,719,315	17,984
Disbursements:						
Dividends	-	-	1,128,882	1,364,258	-	-
New York Misc Special Revenue Fund	-	-	-	-	-	-
Claims Paid	-	-	-	-	-	-
Deposit with Central Disbursement Account	-	50,000	-	-	-	100,000
Collateral	-	-	-	-	-	-
Funds Released to Reinsurers	-	-	-	-	-	-
Escrow Account for Abandoned Property	-	-	-	-	-	-
Loss Adjustment Expense	-	-	-	-	-	-
Salvage and Subrogation Fees	-	-	-	-	-	-
Salaries	27,348	55,721	137,724	211,666	161,687	119,333
Employee Relations & Welfare	11,272	20,826	56,898	89,288	68,236	48,438
Rent and Related Expenses	22,773	15,601	57,377	81,310	51,436	50,704
Professional Fees	21,786	20,971	27,697	29,573	22,951	37,090
General and Administrative Expenses	10,401	12,646	23,848	47,276	29,407	26,055
Miscellaneous	2,594	2,825	8,999	12,926	10,560	4,918
Total Disbursements	96,174	178,590	1,441,425	1,836,297	344,277	386,538
Net (Decrease) Increase of Receipts Over Disbursements	119,878	(146,179)	(551,974)	1,478,037	1,375,038	(368,554)
Cash, Cash Equivalents and Invested Assets (Unrestricted), Beginning of Year	7,015,131	900,665	44,812,938	67,946,226	22,082,906	2,983,635
Unrealized Gain / (Loss) on Investments	(4,073)	-	(105,421)	27,124	72,311	-
Cash, Cash Equivalents and Invested Assets (Unrestricted), End of Year	$ 7,130,936	$ 754,486	$ 44,155,543	$ 69,451,387	$ 23,530,255	$ 2,615,081

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN CASH, CASH EQUIVALENTS AND INVESTED ASSETS (UNRESTRICTED) FOR THE YEAR ENDED DECEMBER 31, 2010

	HPNY	HMIC	HHNY	HORIZON	IDEAL	INSCORP
Receipts:						
Investment Income Received	$ 37,317	$ 82,579	$ 22,852	$ 25,070	$ 767,051	$ 98,192
Reinsurance Recovered	-	142,732	-	-	251,229	557,548
Premiums Collected	-	-	-	-	-	-
Salvage and Subrogation	-	-	-	400	-	220
Refund from Central Disbursement Account	-	125,000	-	450,000	325,000	-
Reimbursement from New York Security Funds	-	-	-	-	-	-
Partial payment of WCSF loan	-	-	-	-	-	-
Release from Ancillary Special Deposits	-	-	-	-	12,189	3,519,625
Litigation Awards	-	-	-	-	-	-
Miscellaneous	-	407	178	-	1,023	357,787
Total Receipts	37,317	350,718	23,030	475,470	1,356,492	4,533,372
Disbursements:						
Dividends	-	-	-	-	-	-
New York Misc Special Revenue Fund	-	-	-	-	-	-
Claims Paid	-	-	-	-	-	1,031,823
Deposit with Central Disbursement Account	50,000	-	10,000	-	-	250,000
Collateral	-	1,387	-	-	1,148	5,219
Funds Released to Reinsurers	-	272	-	-	-	-
Escrow Account for Abandoned Property	-	-	-	-	-	-
Loss Adjustment Expense	-	-	-	-	10,646	214,061
Salvage and Subrogation Fees	-	-	-	133	-	-
Salaries	80,904	99,215	8,473	55,179	1,004,182	586,118
Employee Relations & Welfare	33,862	42,471	3,974	25,226	423,217	240,721
Rent and Related Expenses	21,739	49,069	2,377	32,903	366,112	170,180
Professional Fees	20,420	22,834	18,125	21,764	114,155	723,143
General and Administrative Expenses	6,360	16,434	2,807	11,806	125,189	159,933
Miscellaneous	3,513	24,696	395	2,981	60,393	143,724
Total Disbursements	216,798	256,378	46,151	149,992	2,105,042	3,524,922
Net (Decrease) Increase of Receipts Over Disbursements	(179,481)	94,340	(23,121)	325,478	(748,550)	1,008,450
Cash, Cash Equivalents and Invested Assets (Unrestricted), Beginning of Year	2,092,195	10,572,880	3,740,141	3,983,113	89,642,627	11,634,986
Unrealized Gain / (Loss) on Investments	(19,985)	11,157	-	(147)	89,232	(6,151)
Cash, Cash Equivalents and Invested Assets (Unrestricted), End of Year	$ 1,892,729	$ 10,678,377	$ 3,717,020	$ 4,308,444	$ 88,983,309	$ 12,637,285

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN CASH, CASH EQUIVALENTS AND INVESTED ASSETS (UNRESTRICTED) FOR THE YEAR ENDED DECEMBER 31, 2010

	LONG ISLAND	MDNY	MIDLAND	MIDPAC	MMLA	NASSAU
Receipts:						
Investment Income Received	$ 778	$ 43,479	$ 3,367,086	$ 70,211	$ 12,077	$ 12,480
Reinsurance Recovered	-	76,776	4,245,176	95,082	-	8,335
Premiums Collected	500,803	-	-	-	-	-
Salvage and Subrogation	15,605	4,162	-	-	-	-
Refund from Central Disbursement Account	-	-	-	-	-	-
Reimbursement from New York Security Funds	-	-	-	-	-	-
Partial payment of WCSF loan	-	-	-	-	-	-
Release from Ancillary Special Deposits	570,446	-	-	-	-	-
Littigation Awards	-	-	-	-	-	-
Miscellaneous	301	6,549	420	-	-	-
Total Receipts	1,087,933	130,966	7,612,682	165,293	12,077	20,815
Disbursements:						
Dividends	-	-	42,828,595	-	1,045,881	-
New York Misc Special Revenue Fund	-	-	-	-	-	-
Claims Paid	-	-	-	-	-	-
Deposit with Central Disbursement Account	-	150,000	1,500,000	10,000	25,000	200,000
Collateral	-	35,160	-	-	-	-
Funds Released to Reinsurers	-	-	-	-	-	-
Escrow Account for Abandoned Property	-	-	-	-	-	-
Loss Adjustment Expense	-	-	118,293	-	-	-
Salvage and Subrogation Fees	-	-	-	-	-	-
Salaries	221,262	183,674	2,681,425	25,079	-	30,498
Employee Relations & Welfare	40,483	78,261	1,126,503	11,221	-	11,636
Rent and Related Expenses	42,239	56,906	827,222	6,766	-	24,646
Professional Fees	5,637	21,641	3,762,908	23,410	46,335	146,721
General and Administrative Expenses	40,332	14,441	344,709	8,893	(228)	1,803
Miscellaneous	79,944	7,227	600,228	3,446	3,280	34,587
Total Disbursements	429,897	547,310	53,789,883	88,815	1,120,268	449,891
Net (Decrease) Increase of Receipts Over Disbursements	658,036	(416,344)	(46,177,201)	76,478	(1,108,191)	(429,076)
Cash, Cash Equivalents and Invested Assets (Unrestricted), Beginning of Year	900,665	5,274,315	437,961,011	8,608,301	2,109,528	2,603,397
Unrealized Gain / (Loss) on Investments	-	(8,426)	690,957	7,622	-	-
Cash, Cash Equivalents and Invested Assets (Unrestricted), End of Year	$ 1,558,701	$ 4,849,545	$ 392,474,767	$ 8,692,401	$ 1,001,337	$ 2,174,321

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN CASH, CASH EQUIVALENTS AND INVESTED ASSETS (UNRESTRICTED) FOR THE YEAR ENDED DECEMBER 31, 2010

	NYMB	NYSCO	REALM	TITLEDGE	TRANSTATE	UNION
Receipts:						
Investment Income Received	$ 163,197	$ 6,705	$ 50,613	$ 1,645	$ 705,194	$ 594,711
Reinsurance Recovered	759,858	-	460,893	-	245,896	-
Premiums Collected	-	-	15,000	-	-	-
Salvage and Subrogation	15,000	-	187,082	-	6,156	-
Refund from Central Disbursement Account	1,200,000	-	-	-	-	800,000
Reimbursement from New York Security Funds	1,030,285	-	-	-	-	-
Partial payment of WCSF loan	-	-	-	-	-	-
Release from Ancillary Special Deposits	-	-	325,000	-	-	-
Littigation Awards	-	-	-	-	-	-
Miscellaneous	274	-	2,125	-	-	237,406
Total Receipts	3,168,614	6,705	1,040,713	1,645	957,246	1,632,117
Disbursements:						
Dividends	-	-	-	-	-	58,246,738
New York Misc Special Revenue Fund	-	-	-	-	-	-
Claims Paid	-	-	-	-	-	-
Deposit with Central Disbursement Account	-	-	100,000	-	-	-
Collateral	14,043	-	-	-	-	-
Funds Released to Reinsurers	-	-	-	-	-	-
Escrow Account for Abandoned Property	-	-	-	-	-	-
Loss Adjustment Expense	-	-	-	-	-	19,878
Salvage and Subrogation Fees	-	-	-	-	-	9,084
Salaries	183,544	25,042	312,577	15,648	83,492	567,738
Employee Relations & Welfare	72,697	11,645	87,316	6,484	36,549	295,933
Rent and Related Expenses	72,020	14,687	89,527	4,439	32,304	315,596
Professional Fees	29,903	37,408	97,196	431	21,530	266,112
General and Administrative Expenses	49,963	7,229	50,277	5,968	21,405	97,822
Miscellaneous	93,655	3,363	30,241	634	25,156	43,737
Total Disbursements	515,825	99,374	767,134	33,604	220,436	59,862,638
Net (Decrease) Increase of Receipts Over Disbursements	2,652,789	(92,669)	273,579	(31,959)	736,810	(58,230,521)
Cash, Cash Equivalents and Invested Assets (Unrestricted), Beginning of Year	19,960,281	1,288,005	809,538	751,305	56,858,475	102,629,870
Unrealized Gain / (Loss) on Investments	38,412	-	(1,688)	-	268,270	3,766
Cash, Cash Equivalents and Invested Assets (Unrestricted), End of Year	$ 22,651,482	$ 1,195,336	$ 1,081,429	$ 719,346	$ 57,863,555	$ 44,403,115

See paragraph on supplementary schedules in the accompanying independent auditors' report

THE DOMESTIC ESTATES IN LIQUIDATION SCHEDULES OF COMBINING ESTATES CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN CASH, CASH EQUIVALENTS AND INVESTED ASSETS (UNRESTRICTED) FOR THE YEAR ENDED DECEMBER 31, 2010

	UCIC	U. S. CAPITAL	WHITING	COMBINED ESTATE TOTALS
Receipts:				
Investment Income Received	$ 121,592	$ 83,879	$ 51,136	$ 8,073,136
Reinsurance Recovered	204,794	-	-	9,721,700
Premiums Collected	-	-	-	517,429
Salvage and Subrogation	412	-	-	272,791
Refund from Central Disbursement Account	-	-	50,000	6,755,000
Reimbursement from New York Security Funds	-	-	-	1,030,285
Partial payment of WCSF loan	-	-	-	-
Release from Ancillary Special Deposits	-	-	-	4,427,260
Littigation Awards	-	-	-	-
Miscellaneous	173	703	13	610,195
Total Receipts	326,971	84,582	101,149	31,407,796
Disbursements:				
Dividends	-	-	-	105,406,712
New York Misc Special Revenue Fund	-	-	-	-
Claims Paid	-	-	-	1,031,823
Deposit with Central Disbursement Account	512,973	-	-	3,257,973
Collateral	-	-	-	56,957
Funds Released to Reinsurers	-	-	-	272
Escrow Account for Abandoned Property	-	-	-	-
Loss Adjustment Expense	-	-	-	380,567
Salvage and Subrogation Fees	-	-	-	15,272
Salaries	300,446	79,192	34,546	8,161,160
Employee Relations & Welfare	133,819	34,112	14,947	3,366,302
Rent and Related Expenses	161,440	46,286	14,269	2,886,117
Professional Fees	368,145	21,449	21,423	6,220,040
General and Administrative Expenses	26,184	15,262	10,506	1,328,587
Miscellaneous	9,307	5,288	1,444	1,256,806
Total Disbursements	1,512,314	201,589	97,135	133,368,588
Net (Decrease) Increase of Receipts Over Disbursements	(1,185,343)	(117,007)	4,014	(101,960,792)
Cash, Cash Equivalents and Invested Assets (Unrestricted), Beginning of Year	18,622,536	11,420,545	8,233,695	996,893,528
Unrealized Gain / (Loss) on Investments	8,045	(5,233)	(442)	1,101,389
Cash, Cash Equivalents and Invested Assets (Unrestricted), End of Year	$ 17,445,238	$ 11,298,305	$ 8,237,267	$ 896,034,125

See paragraph on supplementary schedules in the accompanying independent auditors' report

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK IN REHABILITATION

Statutory Basis Balance Sheets

As of December 31, 2011 and 2010
With Independent Auditors' Report

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK
IN REHABILITATION

Statutory Basis Balance Sheets

As of December 31, 2011 and 2010
With Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Superintendent of Financial Services of the State of New York as Receiver 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 ("ELNY" or the "Company") as of December 31, 2011 and 2010. These statutory basis balance sheets are the responsibility of the Company's management. Our responsibility is to express an opinion on the 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 audit 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 sheet 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 Department of Financial Services (the "Financial Services 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 7 to the statutory basis balance sheets, the Company did not calculate or disclose the components of current or deferred taxes in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 10R, *Income Taxes - Revised*, which is not in conformity with the accounting practices prescribed or permitted by the Financial Services Department as described in Note 2.

In our opinion, except for not calculating and disclosing the components of current or deferred taxes in accordance with SSAP No. 10R, 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, 2011 and 2010, in conformity with accounting practices prescribed or permitted by the Financial Services 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.

EISNERAMPER
ACCOUNTANTS & ADVISORS

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. The statutory basis balance sheets do not include any adjustments that might result from the outcome of this uncertainty. As discussed in Note 1 and Note 11, the Receivership Court entered an Order to Show Cause dated September 1, 2011 to convert the ELNY rehabilitation to a liquidation and on April 16, 2012 approved an Agreement of Restructuring providing for the orderly liquidation and restructuring of the Company.

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

EisnerAmper LLP

New York, New York
August 1, 2012

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK IN REHABILITATION
Notes to Statutory Basis Balance Sheets
As of December 31, 2011 and 2010

	2011	2010
Admitted assets		
Cash and invested assets:		
Bonds (Note 3)	$ 763,700,494	$ 780,035,549
Preferred stock (Note 3)	186	186
Common stocks (Note 3)	31,823,033	103,388,347
Cash, cash equivalents and short-term investments	8,470,309	8,940,087
Receivables for securities	34,528	24,633
Total cash and invested assets	804,028,550	892,388,802
Accrued investment income	12,758,204	12,906,399
Revolving fund (Note 2)	650,000	650,000
Total admitted assets	817,436,754	905,945,201
Liabilities and capital and deficit		
Liabilities:		
Life insurance and annuity reserves (Notes 1, 2, and 5)	2,556,841,892	2,267,513,113
Claims in course of settlement and unreported claims (Note 2)	1,832,623	1,525,066
Interest maintenance reserve (Note 2)	147,345,600	129,558,281
Asset valuation reserve (Note 2)	9,032,501	22,568,618
Amounts withheld or retained by company as agent (claim-overs) (Note 7)	46,722,281	45,631,572
Amounts held for agents' account (Note 2)	3,825,418	3,825,418
General expenses due and accrued (Note 2)	3,688,165	3,621,158
Payable for securities	31,853	74,117
Total liabilities	2,769,320,333	2,474,317,343
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	(2,302,769,522)	(1,919,258,085)
Total capital and deficit	(1,951,883,579)	(1,568,372,142)
Total liabilities and capital and deficit	$ 817, 436,754	$ 905,945,201

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).

Note 1: **Business Plan and Management Directives**

Introduction

Executive Life Insurance Company of New York ("ELNY") is a wholly-owned 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 former 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 former Superintendent of Insurance of the State of New York 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.

The New York Liquidation Bureau ("NYLB" or the "Bureau") is the office that carries out the duties of the Superintendent of Financial Services of the State of New York ("Superintendent") in his capacity as receiver ("Receiver") of impaired or insolvent insurance companies ("Estates") under New York Insurance Law ("Insurance Law") Article 74. The NYLB reports to the Superintendent in his capacity as Receiver rather than in his capacity as regulator and head of the Department of Financial Services ("DFS"), which has succeeded the Insurance Department. The NYLB operates separately from DFS. The Superintendent as

Note 1: Business Plan and Management Directives (continued)

History (continued)

Receiver has the authority under Insurance Law Section 7422 to make such appointments (including the Special Deputy Superintendent ("Special Deputy") and other Agents) as necessary to carry out his functions as Receiver. Acting on behalf of the Receiver, the NYLB marshals the assets of the Estates, maximizes such assets and resolves the liabilities of the Estates in an effort either to rehabilitate the companies or liquidate them in order to distribute their assets to policyholders and creditors. The Special Deputy, along with division directors and senior managers of the Bureau, are collectively referred to herein as "Management". Management carries out, through the NYLB, the responsibilities of the Rehabilitator.

On July 24, 1991, the Receivership Court entered an order approving and confirming the Rehabilitator's engagement of First Boston Asset Management Corporation ("FBAM"), as investment advisor, which merged with Credit Suisse Asset Management ("CSAM"). In 2009, the Rehabilitator replaced CSAM with Wellington Management Company, LLP ("Wellington") and Goldman Sachs Asset Management ("GSAM"), as investment advisors. 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 realize 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 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% of its remaining SPIA obligations in more than 90% of 500 randomly generated scenarios using base case assumptions concerning default and

Note 1: Business Plan and Management Directives (continued)

History (continued)

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 FBAM.

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

The salient features of the ELNY Rehabilitation Plan, which was approved by the Receivership Court, are as follows:

- 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.

The Plan of Liquidation and Restructuring

On September 1, 2011, the Receivership Court entered an Order to Show Cause ("OTSC") to convert the ELNY rehabilitation to a liquidation on the basis that ELNY was insolvent and further efforts to rehabilitate the company would be futile. In connection with the OTSC, the Superintendent also filed an Agreement of Restructuring to provide the greatest benefit to ELNY policyholders and creditors. The hearing on the OTSC was held on March 15 - 29, 2012, and the Agreement for Restructuring and an Order of Liquidation were approved by the Receivership Court in an order dated April 16, 2012. *See* Note 11, *Subsequent Events*.

Change in Reserve Valuation Basis for Life Insurance and Annuity Reserves

Prior to April 2007 ELNY's reserve requirements were reported 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 assumed valuation rates of between 10% and 11%.

Note 1: **Business Plan and Management Directives (continued)**

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

In order to avoid potential confusion caused by the use of historic reserve standards in the Statutory Basis Financial Statements (in spite of clarifying disclosures in such statements), ELNY's reserve requirements were calculated as of December 31, 2006, on the then-current issue year statutory basis of 5.25%. 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%, were $2,293,209,794. The same reserves for 2007 were $2,301,907,670. As of December 31, 2009, ELNY determined that continuation of the 2006 valuation rate of 5.25% was the most appropriate approach to both reflect the current economics of the business and provide stability to measure performance across periods. Management continued the use of the 5.25% rate for 2010.

ELNY's reserve requirements for 2011 were reported on a statutory basis using an assumed interest rate of 4.25%. This rate is consistent with the rate used to determine the liquidation value of ELNY contracts in the proposed Restructuring Agreement that was filed with the Court on September 1, 2011. As of December 31, 2011 and 2010, ELNY's reported reserves at 4.25% were $2,556,841,892 and $2,267,513,113, respectively. As a result of these changes in valuation basis, and in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 51, *Life Contracts and Corrections of Errors*, and SSAP No. 3, *Accounting Changes and Corrections of Errors*, ELNY has recorded the following adjustments on the Statutory Basis Balance Sheets as unassigned deficit: (i) an increase of $339,351,981 as of December 31, 2011; and (ii) no change as of December 31, 2010.

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. On April 16, 2012, the Receivership Court approved the Rehabilitator's restructuring agreement and entered an order of liquidation, which could affect ELNY's reserve calculations and assets. *See* Note 11, *Subsequent Events*, for additional information. The Statutory Basis Balance Sheets do not include any adjustments that may be necessary if ELNY is unable to continue as a going concern.

Securities and Other Asset Management

As of December 31, 2011 and 2010, investments of bonds, preferred stock, common stocks, cash equivalents and short-term investments were managed by GSAM and Wellington in accordance with the investment guidelines, which were established under the Rehabilitation Plan and may be modified 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 DFS has adopted the APP Manual, subject to exceptions, conflicts and additions set forth in Insurance Regulation 172, 11 N.Y.C.R.R. 83 ("Prescribed Practices").

ELNY's balance sheets as of December 31, 2011 and 2010 ("Statutory Basis Balance Sheets"), were prepared in accordance with the Prescribed Practices, which are a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America ("US GAAP").

Permitted statutory accounting practices include practices that differ from Prescribed Practices but that are allowed by the DFS. ELNY did not seek permission from the DFS 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.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Invested Assets (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.

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.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

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 does not adhere to Financial Accounting Standards Board ("FASB") Topic 740, *Income Taxes* ("Topic 740"), require neither recognition nor 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 Topic 740 would be required.

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 FASB Topic 810, *Consolidation* ("Topic 810"), 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.

Note 2: Summary of Significant Accounting Policies (continued)

A. Accounting Practices (continued)

Fair Value Measurements

FASB issued Topic 820, *Fair Value Measurement and Disclosure*, ("Topic 820") which 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 guidance similar to Topic 820 through Statement of Statutory Accounting Principle ("SSAP") No. 100, *Fair Value Measurements* ("SSAP No. 100"). SSAP No. 100 is effective for statutory basis financial statements starting the period ending December 31, 2010. Management has considered Topic 820 and SSAP No. 100 and has included an overview of the framework in Note 4 herein.

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

The preparation of the Statutory Basis Balance Sheets requires Management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures. It also requires disclosure of contingent assets and liabilities at the dates of the Statutory Basis Balance Sheets. 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 Balance Sheets.

Cash and Invested Assets

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less at time of acquisition, 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.

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/deficit.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Cash and Invested Assets (continued)

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.

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 due to recurring operating losses.

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.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Claims in the Course of Settlement

Claims in the course of settlement represent pending life and annuity claims. As of December 31, 2011 and 2010, the aggregated amount of claims in the course of settlement was $1,832,623 and $1,525,066, respectively.

Revolving Fund

A revolving fund of $650,000 at December 31, 2011 and 2010 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, 2011 and 2010, $3,688,165 and $3,621,158 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, 2011 and 2010 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.

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, 2011 and 2010, the IMR is reported in the Statutory Basis Balance Sheets as net deferral in the amounts of $147,345,600 and $129,558,281, respectively. IMR balances are not recognized for US GAAP reporting purposes.

As of December 31, 2011 and 2010, the AVR balances of $9,032,501 and $22,568,618, respectively, represent credit-related losses on fixed-income assets (default component) and all types of equity investments (equity component). The decrease in the asset valuation reserve was primarily due to the decrease in common stock positions and recognition of the period's credit and equity related capital gains/losses net of taxes of $10,391,126 as well as the unrealized gains/losses net of

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Special Statutory Reserves (continued)

taxes of ($12,012,406). An AVR balance is not recognized for US GAAP reporting purposes.

Note 3: Investments

Bonds

At December 31, 2011, the book adjusted carrying values, fair market values, gross unrealized gains and losses of investments in bonds are summarized follows:

	Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
U.S. Government Obligations	$ 17,749,322	$ 5,598,571	$ -	$ 23,347,893
All Other Governments	5,141,620	500,682	-	5,642,302
U.S. States, Territories, Possessions	13,412,734	1,812,999	-	15,225,733
U.S. Political Subdivisions	7,278,074	928,886	-	8,206,960
U.S. Special Revenue & Assessments	77,048,199	14,494,240	-	91,542,439
Industrial and Miscellaneous	643,070,545	128,213,103	(4,575,228)	766,708,420
Total	$ 763,700,494	$ 151,548,481	$ (4,575,228)	$ 910,673,747

At December 31, 2010, the book adjusted carrying values, fair market values, gross unrealized gains and losses of investments in bonds are summarized follows:

	Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
U.S. Government Obligations	$ 22,820,621	$ 313,478	$ (1,730,713)	$ 21,403,386
All Other Governments	5,749,906	472,694	-	6,222,600
U.S. States, Territories, Possessions	7,276,352	-	(327,792)	6,948,560
U.S. Special Revenue & Assessments	73,770,014	605,687	(1,570,426)	72,805,275
Industrial and Miscellaneous	670,418,656	90,458,964	(3,505,752)	757,371,868
Total	$ 780,035,549	$ 91,850,823	$ (7,134,683)	$ 864,751,689

Note 3: Investments (continued)

Bonds (continued)

The book adjusted carrying value of debt securities at December 31, 2011, 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.

	Book Adjusted Carrying Value	Fair Market Value
Less than one year	$ -	$ -
One to five years	-	-
Five to ten years	22,189,090	24,191,751
Ten years or greater	736,903,597	880,655,332
	759,092,687	904,847,083
Mortgage and asset-backed securities	4,607,807	5,826,664
Total	$ 763,700,494	$ 910,673,747

Preferred and Common Stocks

The cost, fair market value, gross unrealized gains and losses of preferred and common stocks at December 31, 2011 and 2010 are summarized as follows (preferred stock is reported at the lower of fair value or cost depending on the NAIC rating and carried at $186 at December 31, 2011 and 2010):

	December 31, 2011			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Preferred stock	$ 186	$ 744	$ -	$ 930
Common stocks	29,811,243	3,421,632	(1,409,842)	31,823,033
Total	$ 29,811,429	$ 3,422,376	$ (1,409,842)	$ 31,823,963

	December 31, 2010			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
Preferred stock	$ 186	$ 279	$ -	$ 465
Common stocks	89,364,150	15,296,813	(1,272,616)	103,388,347
Total	$ 89,364,336	$ 15,297,092	$ (1,272,616)	$ 103,388,812

Note 3: Investments (continued)

Preferred and Common Stocks (continued)

Other-than-Temporary Analysis (continued)

For each reporting period (annual and interim periods), ELNY's investments with unrealized losses are reviewed on a security-by-security basis and it is determined whether such declines are other-than-temporary. In assessing whether a decline is other-than-temporary, various factors are considered 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 principal payments; (iii) an analysis of the security's market value (*e.g.*, amount, duration and significance of the decline); (iv) ELNY'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 unassigned deficit is incurred and the cost basis of the impaired asset is adjusted to its fair market value.

At December 31, 2011, ELNY did not have to write down any investments.

At December 31, 2010, ELNY wrote down a total of $466 of investments, $442 on common stocks, and $24 on preferred stock, which were all due to a decline in the fair market value of the securities which, in the opinion of the management of ELNY, were considered to be other-than-temporary. The write-downs to the securities resulted in a change from an unrealized loss to a realized loss which was recorded to operations.

Note 3: Investments (continued)

Net Unrealized Capital Losses

Aggregate unrealized losses on bonds, preferred and common stocks are as follows at December 31, 2011:

	December 31, 2011					
	For Less than 12 Months		For Greater than 12 Months		Total	
	Aggregate Fair Market Value	Aggregate Unrealized Losses	Aggregate Fair Market Value	Aggregate Unrealized Losses	Fair Market Value	Unrealized Losses
Bonds	$ 71,569,607	$ (4,563,632)	$ 1,158,300	$ (11,596)	$ 72,727,907	$ (4,575,228)
Common stocks	7,177,777	(1,329,440)	510,952	(80,402)	7,688,729	(1,409,842)
Total	$ 78,747,384	$ (5,893,072)	$ 1,669,252	$ (91,998)	$ 80,416,636	$ (5,985,070)

Aggregate unrealized losses on bonds, preferred and common stocks are as follows at December 31, 2010:

	December 31, 2010					
	For Less than 12 Months		For Greater than 12 Months		Total	
	Aggregate Fair Market Value	Aggregate Unrealized Losses	Aggregate Fair Market Value	Aggregate Unrealized Losses	Fair Market Value	Unrealized Losses
Bonds	$ 133,615,737	$ (5,510,549)	$ 41,656,075	$ (1,624,134)	$ 175,271,812	$ (7,134,683)
Common stocks	8,208,323	(625,976)	3,508,921	(646,640)	11,717,244	(1,272,616)
Total	$ 141,824,060	$ (6,136,525)	$ 45,164,996	$ (2,270,774)	$ 186,989,056	$ (8,407,299)

Note 3: Investments (continued)

Net Unrealized Capital Losses (continued)

ELNY 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 ELNY 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

As of December 31, 2011 and 2010, ELNY 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.

- At December 31, 2011, ELNY held five mortgage-backed securities with a total fair value of $5,826,664, a cost of $4,302,885, a book carrying value of $4,607,807, and a par value of $5,300,000, which resulted in an unrealized gain of $1,218,857.
- At December 31, 2010, ELNY held nine mortgage-backed securities with a total fair value of $17,579,312, a cost of $14,683,485, a book carrying value of $15,036,108, and a par value of $16,887,662, which resulted in an unrealized gain of $2,543,204.

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, ELNY uses market prices quoted by third parties, if available. When both

Note 4: Fair Market Value of Cash and Invested Assets (continued)

Investment Securities (continued)

SVO-published unit prices and market quotes are unavailable, ELNY'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, ELNY estimates fair market value using methods, models and assumptions that ELNY 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.

SSAP No. 100 requires that financial statements prepared pursuant to Prescribed Practices classify financial assets and liabilities carried at fair value by using the fair value hierarchy for the period ended December 31, 2011. Management adopted the fair value hierarchy classification as outlined in SSAP No. 100, and has provided additional disclosure regarding the fair value framework below.

SSAP No. 100 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 4: 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).

The table below represents investments that are held at fair value at the reporting date:

	Level 1	Level 2	Level 3
Common Stock –			
2011 Industrial & Miscellaneous	$31,823,033	-	-
2010 Industrial & Miscellaneous	$103,386,347	-	-

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.

ELNY 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. ELNY 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, 2011, balances in excess of these limits were approximately $8,220,309.

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, 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 5.25%, 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 Insurance Regulation 126, 11 N.Y.C.R.R. 95.

Accordingly, ELNY has accounted for this change in the Statutory Basis Balance Sheets by increasing aggregate reserves by $1,272,014,982 and $949,784,562 for 2011 and 2010, respectively, over the original reserve basis. As set forth in Note 1, ELNY first instituted the valuation rate adjustment, to the then-current year rate, in connection with the preparation of the 2006 Statutory Basis Balance Sheet. ELNY, in preparation of the 2009 Statutory Basis Balance Sheets, used the 2006 valuation rate of 5.25% and continued to use the 5.25% until 2010.

ELNY's reserve requirements for 2011 were reported on a statutory basis using an assumed interest rate of 4.25%. This rate is consistent with the rate used to determine the liquidation value of ELNY contracts in the proposed Restructuring Agreement that was filed with the Court on September 1, 2011.

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, ELNY 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. 10R, *Income Taxes- Revised*. Further, due to recurring operating losses, ELNY does not expect to realize the benefit of the temporary differences giving rise to the DTA in the near term. As of December 31, 2011 and 2010, 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, 2011 and 2010.

Note 7: **Federal Income Taxes (continued)**

At December 31, 2011, ELNY had the following unused operating loss carry forwards available to offset future taxable income, which carry forwards begin to expire in 2012:

Arising from Tax Year:	Net Operating Losses	Year of Expiry
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	40,249,774	2024
2009	80,985,088	2025
2010	78,466,769	2026
Total	$ 725,314,519	

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

Note 8: **Capital and Deficit**

The portion of unassigned deficit represented or reduced by each item below is as follows for the period ended December 31, 2011 and 2010:

	2011	2010
Net loss - unaudited	$ (45,436,613)	$ (41,636,891)
Change in net unrealized capital losses	(12,011,943)	(4,933,320)
Change in non-admitted assets	-	-
Change in reserve on account of change in valuation basis (Note 1)	(339,351,981)	-
Change in asset valuation reserve	13,536,117	10,671,889
Aggregate write-ins for net losses in deficit	(247,017)	(1,099,998)
Net change in capital and deficit for the year	$ (383,511,437)	$ (36,998,320)

Note 9: Amounts Withheld or 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% (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% (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 4% per annum from the date of surrender of the ELNY policy. As of December 31, 2011 and 2010, ELNY reported, as a liability in the Statutory Basis Balance Sheets as amounts withheld or retained, claim-overs in the amount of $41,062,069 and $39,482,758, which included then-current year interest, accrued of $1,579,311 and $1,518,567, respectively.

Note 10: Reconciliation to Annual Statement

There were no differences between the amounts stated in the Annual Statement filed with the Insurance Department for 2011 and 2010 and the audited 2011 and 2010 Statutory Basis Balance Sheets herein.

Note 11: Subsequent Events

Subsequent Events have been reviewed in accordance with SSAP No. 9R, *Subsequent Events*, for both annual statement reporting and through issuance of these audited Statutory Basis Balance Sheets. Subsequent events were initially reviewed through April 15, 2012 for annual statement reporting, which is the date when the annual statement was issued and filed with the Superintendent as Receiver. After this date, subsequent events have been reviewed through August 1, 2012, the date on which these audited Statutory Basis Balance Sheets were available to be issued.

Market Volatility

The financial markets' continuing volatility in 2012 may materially impact the valuation of ELNY's investments, as well as the ability to meet all of ELNY's future obligations. Accordingly, the valuation of investments at December 31, 2011, may not necessarily be indicative of amounts that could be realized in a current market exchange.

Note 11: Subsequent Events (continued)

The Plan of Liquidation and Restructuring

On September 1, 2011, the Receivership Court entered an Order to Show Cause ("OTSC") to convert the ELNY rehabilitation to a liquidation on the basis that ELNY was insolvent and further efforts to rehabilitate the company would be futile. In connection with the OTSC, the Superintendent also filed an Agreement of Restructuring to provide the greatest benefit to ELNY policyholders and creditors.

The development of the Agreement of Restructuring, which provides for an orderly liquidation and restructuring of ELNY, was a collaborative effort between the Superintendent, the National Organization of Life and Health Insurance Guaranty Association, 40 state insurance guaranty associations, the Life Insurance Guaranty Corporation (Article 75), the Life Insurance Company Guaranty Corporation of New York (Article 77), and members of the life insurance industry.

Under the Agreement of Restructuring, a not-for-profit captive insurance company will be formed under the laws of the District of Columbia. This new insurance company, Guaranty Association Benefits Company ("GABC"), will be managed by insurance professionals and independent directors and owned by state insurance guaranty associations. The Superintendent will maintain a level of oversight that provides for the monitoring of GABC to ensure that it is operating in compliance with the provisions of the Agreement of Restructuring and is not subject to judicial oversight.

The Agreement of Restructuring guarantees that nearly 85% of policyholders will have no reduction or disruption in their benefit payments. Payments to all policyholders are guaranteed by a consortium of life insurers and guaranty associations. Approximately $1.6 billion of funding for the Agreement of Restructuring will come from ELNY's remaining assets and life insurance guaranty coverage. An additional $71 million of voluntary contributions will come from life insurance companies for enhanced benefits to policyholders that may not be covered by a state guaranty association or whose state guaranty association coverage is below $250,000. In addition to these enhancements, members of the life insurance industry are establishing a $100 million Hardship Fund for policyholders expected to receive a reduction in their benefit payments. The Hardship Fund is not a formal component of the Agreement of Restructuring and will not require Court approval.

In order to provide as much information as possible to policyholders and the public, the Receiver set up a separate call center (888-398-8213) to answer questions related primarily to the liquidation and Agreement of Restructuring. A separate static website (www.elny.org) was also developed for policyholders and the public to visit and obtain Receivership Court filings and other documents related to the liquidation and Agreement of Restructuring. From September 2011 through December 31, 2011, there were more than 6,700 unique visits to this dedicated website and more than 1,800 calls to the call center.

Note 11: Subsequent Events (continued)

The Plan of Liquidation and Restructuring (continued)

On December 7, 2011, a communications package containing an explanation letter, statement of financial impact, legal notice, a series of Q&As, a summary of the Agreement of Restructuring and a future contact information questionnaire was mailed to more than 9,600 ELNY policyholders.

Objectors to the liquidation of ELNY and the Agreement of Restructuring were required to submit their objections to the Receivership Court by January 16, 2012. The Superintendent was required to submit reply papers to the objections by March 1, 2012. The hearing date for the OTSC was March 15, 2012, and the Agreement of Restructuring and an Order of Liquidation were approved by the Receivership Court in an order dated April 16, 2012. The rehabilitation of ELNY will be converted to a liquidation upon the closing date of the Agreement of Restructuring (as defined therein).

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

Statutory Basis Financial Statements

December 31, 2011 and 2010
With Independent Auditors' Report

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

Statutory Basis Financial Statements

December 31, 2011 and 2010
With Independent Auditors' Report

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EISNERAMPER
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

Superintendent of Financial Services 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, 2011 and 2010, and the related statutory basis statements of operations, changes in capital and deficit and cash flows for each of 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 these statutory basis financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit 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 statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, the accompanying statutory basis financial statements have been prepared in conformity with accounting practices prescribed or permitted by the New York State Department of Financial Services (the "Financial Services 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 current or deferred taxes in accordance with Statement of Statutory Accounting Principles ("SSAP") No. 10R ("SSAP No. 10R), *Income Taxes – Revised* which is not in conformity with the accounting practices prescribed or permitted by the Financial Services Department as described in Note 2.

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

EISNERAMPER
ACCOUNTANTS & ADVISORS

In our opinion, except for not calculating and disclosing the components of current or deferred taxes in accordance with SSAP No. 10R and for not accounting for the Reinsurance Contract in accordance with SSAP No. 62R, 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, 2011 and 2010, and the related statutory basis statements of operations, changes in capital and deficit and cash flows for each of the years then ended, in conformity with accounting practices prescribed or permitted by the Financial Services 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 primarily recurring losses that raises substantial doubt about its ability to continue as a going concern. Management has not 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 9 during 2011, the Company reduced the bulk reserve by approximately $51 million and increased the incurred but not reported reserves reported in unpaid loss and loss adjustment expenses reserves by approximately $28 million.

As discussed in Note 1 and Note 17, in compliance with the Receivership Court's directive, the Rehabilitator submitted a proposed plan for rehabilitation dated January 9, 2012. As discussed in Note 17, on May 23, 2012, the Receivership Court concluded surety claims were to be afforded priority status as Class two policyholder claims and the Company reassessed the surety claims at full value and estimates that this will increase the negative surplus by approximately $43 million.

As discussed in Note 1 and Note 13 to the statutory basis financial statements, the Company's receivables from its primary reinsurer, National Indemnity Company ("NICO"), are significant with current reinsurance receivables of $7,630,259, which have been non-admitted and an estimated retrospective reserves ceded of $16,500,000 as of December 31, 2011. Frontier is currently resolving a dispute with NICO as discussed in Note 13.

This report is intended solely for the information of and restricted to the use of the Superintendent of Financial Services 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 anyone other than the above specified parties.

EisnerAmper LLP

New York, New York
August 1, 2012

FRONTIER INSURANCE COMPANY IN REHABILITATION
Statutory Basis Balance Sheets
As of December 31, 2011 and 2010

	2011	2010
Admitted assets		
Cash and invested assets		
Bonds, at amortized cost or fair market value (Note 4)	$ 27,797,797	$ 16,837,161
Common stocks, at fair market value (Note 4)	40,000	50,000
Home office building and improvements, net of allowance (Note 4)	5,991,962	6,593,570
Cash and short-term investments	8,477,423	17,100,726
Other invested assets (Note 4)	1,066,029	1,459,725
Total cash and invested assets	**43,373,211**	**42,041,182**
Agents' balances and uncollected premiums (Note 2)	6,332,467	11,689,951
Less: Allowance for agents' balances and uncollected premiums (Note 2)	(6,332,467)	(11,689,951)
Net agents' balances and uncollected premiums	-	-
Reinsurance recoverables on paid losses and loss adjustment expenses (Note 8)	23,546,420	23,480,007
Less: Allowance for uncollectible reinsurance recoverables (Note 2)	(2,826,135)	(2,848,519)
Net reinsurance balance recoverable on paid losses and loss adjustment expenses	20,720,285	20,631,488
Electronic data processing equipment	1,028	6,426
Accrued investment income	117,621	295,986
Receivable under retroactive reinsurance contract (Note 8)	-	-
Other admitted assets	277,219	2,963,007
Total admitted assets	**$ 64,489,364**	**$ 65,938,089**
Liabilities		
Reserves		
Unpaid losses	97,353,393	74,609,807
Unpaid loss adjustment expenses	16,100,643	25,171,623
Total reserves on unpaid loss and loss adjustment expenses (Note 3 and 8)	113,454,036	99,781,430
Unearned premiums (Note 8)	-	-
Reinsurance balances payable	5,796,185	7,167,023
Provision for reinsurance (Note 2)	12,139,932	12,761,677
Accounts payable and accrued expenses (Note 9)	19,612,898	19,405,399
Reinsurance payable on paid losses and loss adjustment expenses	12,922,631	12,909,964
Funds held under reinsurance agreements	-	161,201
Taxes, licenses and fees	1,381,969	1,381,968
Amounts withheld for account of others	551,720	546,452
Retroactive reinsurance reserves – ceded (Note 8)	(16,500,000)	(21,324,193)
Other liabilities (Note 9)	304,675	52,358,711
Total liabilities	**149,664,046**	**185,149,632**
Capital and Deficit		
Common stock, par value $20 per share authorized, issued and outstanding – 250,000 shares	5,000,000	5,000,000
Aggregate write in for special surplus (Note 8)	7,505,862	12,330,055
Paid-in surplus	265,974,592	265,974,592
Unassigned deficit	(363,655,136)	(402,516,190)
Total capital and deficit	**(85,174,682)**	**(119,211,543)**
Total liabilities and capital and deficit	**$ 64,489,364**	**$ 65,938,089**

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 Rehabilitator, the NYLB and Management (as defined herein).

FRONTIER INSURANCE COMPANY IN REHABILITATION
Statutory Basis Statements of Operations
For the Years Ended December 31, 2011 and 2010

	2011	2010
Premiums returned	$ (231,794)	$ (170,599)
Losses and loss adjustment expenses incurred	28,355,429	14,984,250
Other underwriting expenses incurred (Note 16)	2,906,949	2,962,551
Underwriting loss	(31,494,172)	(18,117,400)
Net investment income (expense) earned (Note 4)	(587,350)	24,233
Net realized capital gains (Note 4)	1,478,066	213,067
Net investment (expense) income earned	890,716	237,300
Other income (expenses)		
Allowance for uncollectible reinsurance recoverables	22,384	(2,848,519)
Expense (income) on changes in creditor database, settlement of reinsurance payable amounts and other liabilities	(2,631,163)	7,331,117
Bulk reserves reclassed to IBNR	51,537,448	-
Miscellaneous income (Note 16)	13,458,575	40,931
Total other income	62,387,244	4,523,529
Loss on retroactive reinsurance (Note 8)	(4,824,193)	(8,300,000)
Income (loss) before federal income taxes	26,959,595	(21,656,571)
Federal income tax incurred (Note 11)	-	-
Net income (loss)	$ 26,959,595	$ (21,656,571)

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 Rehabilitator, the NYLB and Management (as defined herein).

FRONTIER INSURANCE COMPANY IN REHABILITATION
Statutory Basis Statements of Changes in Capital and Deficit
For the Years Ended December 31,

2010	Common Stock	Paid-In Surplus	Aggregate Write in for Special Surplus	Unassigned Deficit	Total Capital and Deficit
Balances at December 31, 2009	$ 5,000,000	$ 265,974,592	$ 20,630,055	$ (385,226,830)	$ (93,622,183)
Net loss	-	-	-	(21,656,571)	(21,656,571)
Reversal of prior year valuation	-	-	-	9,447,785	9,447,785
Decrease in net unrealized capital gains	-	-	-	(9,241,458)	(9,241,458)
Decrease in provision for reinsurance	-	-	-	151,750	151,750
Increase in non-admitted assets	-	-	-	(4,290,866)	(4,290,866)
Change in special surplus	-	-	(8,300,000)	8,300,000	-
Balances at December 31, 2010	$ 5,000,000	$ 265,974,592	$ 12,330,055	$ (402,516,190)	$ (119,211,543)

2011	Common Stock	Paid-In Surplus	Aggregate Write in for Special Surplus	Unassigned Deficit	Total Capital and Deficit
Balances at December 31, 2010	$ 5,000,000	$ 265,974,592	$ 12,330,055	$ (402,516,190)	$ (119,211,543)
Net income	-	-	-	26,959,595	26,959,595
Decrease in net unrealized capital losses	-	-	-	(831,881)	(831,881)
Decrease in provision for reinsurance	-	-	-	621,745	621,745
Decrease in non-admitted assets	-	-	-	7,287,402	7,287,402
Change in special surplus	-	-	(4,824,193)	4,824,193	-
Balances at December 31, 2011	$ 5,000,000	$ 265,974,592	$ 7,505,862	$ (363,655,136)	$ (85,174,682)

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 Rehabilitator, the NYLB and Management (as defined herein).

FRONTIER INSURANCE COMPANY IN REHABILITATION
Statutory Basis Statements of Cash Flows
For the Years ended December 31, 2011 and 2010

	2011	2010
Operating activities:		
Premiums collected (returned) net of reinsurance	$ 3,754,852	$ (243,738)
Losses and loss adjustment expenses paid	(10,877,388)	(9,075,338)
Underwriting expenses paid	(6,385,827)	(9,986,998)
Net investment income received	211,472	938,496
Decrease of liabilities now in creditors database	-	441,270
(Increase) decrease in creditors database	(9,204)	161,243
Agents balance charged off	(4,035,588)	40,931
Gain (loss) on reinsurance commutation	2,684,219	3,323,680
Clarendon settlement loss net of funds held by reinsurer	-	2,926,039
Income from settlement from corporate lawsuits	15,425,000	300,000
Writedown uncollectible receivable / payable balances	(1,672,292)	-
Re-class bulk reserves to IBNR	51,537,448	-
Miscellaneous other	(6,388,917)	(17,821,113)
Net cash provided by (used in) operating activities	**44,243,775**	**(28,995,528)**
Investment activities:		
Proceeds from sales, maturities, or repayments of investments		
Bonds	28,016,000	23,234,495
Other invested asset	1,794,841	947,680
Miscellaneous proceeds	-	3,072,377
Total proceeds from sales, maturities, or repayments of investments	29,810,841	27,254,552
Cost of investments acquired		
Bonds	39,051,616	12,259,602
Other invested assets	698,467	-
Miscellaneous applications	-	3,072,666
Total cost of investments acquired	39,750,083	15,332,268
Net cash (used in) provided by investment activities	**(9,939,242)**	**11,922,284**
Financing and miscellaneous activities:		
Other cash provided		
Change in retrospective reinsurance reserve	4,824,193	26,277,696
Reduction of bulk IBNR	(51,537,448)	-
Other, miscellaneous	3,785,419	(6,947,847)
Total other cash (used in) provided by	(42,927,836)	19,329,849
Other cash applied		
Other application	-	2,675,197
Total other cash applied	-	2,675,197
Net cash (used in) provided by financing and miscellaneous activities	(42,927,836)	16,654,652
Net decrease in cash and short-term investments	**(8,623,303)**	**(418,592)**
Cash and short-term investments		
Beginning of year	**17,100,726**	**17,519,318**
End of year	**$ 8,477,423**	**$ 17,100,726**

Note 1: <u>Organization and Nature of Operations</u>

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 ("Frontier"). Frontier 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. On October 1, 1986, Frontier 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, Frontier 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, Frontier 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, Frontier 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 Frontier's books at a value of $2,821,507, the net book value of Surety Bond Connection at June 30, 1999.

Frontier voluntarily agreed with the then New York State Insurance Department ("Insurance Department"), among other things, not to write any new or renewal business effective March 12, 2001, primarily due to deficiencies in its reserves for unpaid losses and loss adjustment expenses.

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 ("Rehabilitation Order") placing Frontier into rehabilitation and appointing the then-Superintendent of Insurance of the State of New York (and his successors in office) as rehabilitator of Frontier. The Rehabilitation Order directed the Rehabilitator to, among other things, take possession of the Frontier's property, conduct Frontier'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)

The New York Liquidation Bureau ("NYLB" or the "Bureau") is the office that carries out the duties of the Superintendent of Financial Services of the State of New York (Superintendent") in his capacity as receiver ("Receiver") of impaired or insolvent insurance companies ("Estates") under New York Insurance Law ("Insurance Law") Article 74. The NYLB reports to the Superintendent in his capacity as Receiver rather than in his capacity as regulator and head of the Department of Financial Services ("DFS"), which has succeeded the Insurance Department. The NYLB operates separately from DFS. The Superintendent as Receiver has the authority under Insurance Law Section 7422 to make such appointments (including the Special Deputy Superintendent ("Special Deputy") and other Agents) as necessary to carry out his functions as Receiver. Acting on behalf of the Receiver, the NYLB marshals the assets of the Estates, maximizes such assets and resolves the liabilities of the Estates in an effort either to rehabilitate the companies or liquidate them in order to distribute their assets to policyholders and creditors. The Special Deputy, along with the Chief Executive Officer ("CEO") and the Accounting Manager are collectively referred to herein as "Management."

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 surety bond. Any surety bond or Terramar claim, where the Rehabilitator has not received Notice, is barred. In addition, any claim under any surety bond in which the triggering event occurred after January 11, 2010 is barred. In response to the bar date notification, Frontier received 31 new bond claims and approximately 40 Terramar claims.

Frontier has been in rehabilitation since 2001 and has a net capital deficiency. For the year ended December 31, 2011, Frontier had a gain from operations in the amount of $26,959,595, resulting from adjustments to the company's bulk reserve, loss reserves and settlements. Based on an outside actuarial study, Management reduced the bulk reserve by approximately $51 million and increased the incurred but not reported ("IBNR") reserves by approximately $28 million. Although reduced, the company's negative surplus remains a deficit in the amount of $85,174,682. Based on the foregoing factors, substantial doubt remains about Frontier's ability to continue as a going concern. The Statutory Basis Financial Statements (as defined below) do not include any adjustments that may be necessary if Frontier is unable to continue as a going concern.

In compliance with the Receivership Court's directive, the Rehabilitator submitted a proposed plan for rehabilitation dated January 9, 2012 ("Plan for Rehabilitation"), which was rejected by the Court in a decision dated May 23, 2012. *See* Note 17, *Subsequent Events*.

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 DFS has adopted the APP Manual, subject to exceptions, conflicts and additions set forth in Insurance Regulation 172, 11 N.Y.C.R.R. 83 ("Prescribed Practices").

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

Management elected to prepare, in accordance with the Prescribed Practices, Frontier's Statutory Basis Balance Sheets, Statutory Basis Statements of Operations, Statements of Changes in Capital and Deficit and Statements of Cash Flows, all for the years ended December 31, 2011 and 2010 (collectively, "Statutory Basis Financial Statements").

The Prescribed Practices used to prepare the Statutory Basis Financial Statements are a comprehensive basis of accounting other than 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>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.

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

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

<u>Investments</u> (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.

<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, overdue 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 with related valuation allowance, if any.

<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") Topic 740, *Income Taxes* ("Topic 740"), 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 Topic 740, *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

Pursuant to 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 FASB, Topic 810, *Consolidation* (“Topic 810”) 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

FASB issued Topic 820, *Fair Value Measurement and Disclosure* ("Topic 820") which 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 has issued guidance similar to Topic 820 through Statement of Statutory Accounting Principle ("SSAP") No. 100, *Fair Value Measurements* ("SSAP No. 100"). SSAP No. 100 is effective for Statutory Basis Financial Statements starting the period ending December 31, 2010.

Statement of Cash Flows

Under US GAAP, the statement of cash flows reconciles to the change in cash and cash equivalents that are financial instruments with an original maturity period of three months or less. Pursuant to Prescribed Practices, this caption reconciles the changes in cash, cash equivalents and short-term investments with original maturities of one year or less.

B. Use of Estimates in the Preparation of the Statutory Basis Financial Statements

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.

Note 2: Summary of Significant Accounting Policies (continued)

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 at the time of acquisition, 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. 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 deficit.

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 a statutory basis.

Frontier owns 100% of the common stock of FPIC and 100% 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, which had values of $18,600,000 and $35,670,000, respectively, had both been reduced to $0 in 2001.

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.

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

C. <u>Accounting Policies</u> (continued)

<u>Cash and Invested Assets</u> (continued)

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.

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

Frontier does not own derivative instruments.

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

<u>Other-Than-Temporary Impairments on Investments</u>

When a decline in fair market value is deemed to be other-than-temporary, a provision for impairment is charged to operations, included in net realized investment losses, and the cost basis of that investment is reduced accordingly. *See* Note 4, *Investments*.

<u>Real Estate</u>

Real estate owned and occupied by Frontier is included on the Statutory Basis Balance Sheets in "invested assets". In accordance with Prescribed Practices, Frontier records rental income through "investment income" and rental expense through "other underwriting expense" both of which represent the imputed rent for home office space occupied. 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 and occupied by Frontier, which is 20 years. Real Estate is discussed in further detail in Note 4 below.

<u>Premiums</u>

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

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

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. Frontier's reserve on unpaid loss and LAE are stated net of reinsurance recoverables. Management has reviewed and agreed to report the IBNR reserves as calculated by an independent actuary. 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, 2011 and 2010, the agents' balances in the course of collection totaled $6,332,467 and $11,689,951, respectively, and were recorded as non-admitted assets. As of December 31, 2011 and 2010, the receivable under the retroactive reinsurance contracts totaled $7,630,259 and $7,630,259, respectively, net of $7,630,259 and $7,630,259, respectively, and were recorded as non-admitted assets.

Data Processing Equipment and Software

Data processing equipment and operating systems software are carried at cost less accumulated depreciation. Non-operating system software is charged to surplus as a non-admitted asset. The equipment and all software are 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 Statements 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.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Reinsurance (continued)

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 in the Statutory Basis Statements of Changes in Capital and Deficit. As of December 31, 2011 and 2010, "provision for reinsurance" totaled $12,139,932 and $12,761,677, respectively, and the change between years resulted in a benefit of $621,745 and $151,750, respectively. In accordance with SSAP No. 62R, *Property and Casualty Reinsurance* ("SSAP No. 62R"), Management recorded allowances for uncollectible reinsurance recoveries as of December 31, 2011 and 2010, in the amounts of $2,826,135 and $2,848,519, respectively.

Income Taxes

Frontier 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 employees of the NYLB work on Frontier matters in addition to matters pertaining to other Estates. Based on the amount of time spent by each such NYLB employee on Frontier matters, the proportional share of his or her salary (and salary-related taxes) is charged to Frontier on a monthly basis. Each month's charges are then reimbursed as appropriate by Frontier.

Note 3: Reserve for Unpaid Losses and LAE

Frontier's reserves for unpaid losses and LAE as of December 31, 2011 and 2010, 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.

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

The following table provides a reconciliation of reserves for unpaid losses and LAE, net of reinsurance recoverables, in the amounts of $24,988,110 and $16,548,634, as of December 31, 2011 and 2010, respectively.

	2011	2010
Loss and LAE Reserves, at beginning of year	$ 99,781,430	$ 102,384,259
Incurred Loss and LAE related to:		
Current Year	-	-
Prior Years	28,355,429	14,984,250
Total Incurred (Income)	28,355,429	14,984,250
Paid Loss and LAE related to:		
Current Year	-	-
Prior Years	14,682,823	17,587,079
Total Paid	14,682,823	17,587,079
Loss and LAE Reserves, at end of year	$ 113,454,036	$ 99,781,430

The provision for incurred losses and LAE of prior years increased in 2011 primarily as a result of Management's revision of the IBNR reserves categorized as "Other Liability", "Fidelity/Surety", "Workers' Compensation", "Commercial Multiple Peril" and "Medical Professional Liability" by the NAIC.

Note 4: **Investments**

Bonds

At December 31, 2011, the amortized cost/carrying value, 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	$ 27,797,797	$ 631,660	$ -	$ 28,429,457
Total Bonds	$ 27,797,797	$ 631,660	$ -	$ 28,429,457

At December 31, 2010, 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	$ 16,728,890	$ 143,886	$ -	$ 16,872,776
Industrial & Miscellaneous	108,271	-	-	108,271
Total Bonds	$ 16,837,161	$ 143,886	$ -	$ 16,981,047

Note 4: Investments (continued)

Bonds (continued)

At December 31, 2011 and 2010, securities on deposit with fair market values of $21,282,246 and $22,034,488, respectively, were on deposit with various state insurance departments to satisfy regulatory requirements.

The amortized costs of debt securities at December 31, 2011, 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.

	2011	
	Amortized Cost	Fair Market Value
Less than one year	$ 769,460	$ 783,436
One to five years	15,034,040	15,620,035
Ten years or greater	11,994,297	12,025,986
Total	$ 27,797,797	$ 28,429,457

Frontier utilizes the specific identification method for calculating gains or losses on the sale of debt securities and other investments. In 2011 and 2010, Frontier received proceeds from sales of debt securities in the amount of $28,016,000 and $23,234,495, respectively, which proceeds include $16,016,000 and $7,152,634, respectively, from debt securities that matured. In 2011 and 2010, gross realized gains (losses) on sales of debt securities were $(46,493) and $3,408, respectively.

Common Stocks

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

December 31, 2011

	Carrying Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Common Stocks	$ 40,000	$ -	$ -	$ (10,000)	$ 40,000
Total	$ 40,000	$ -	$ -	$ (10,000)	$ 40,000

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

<u>Common Stocks</u> (continued)

December 31, 2010

	Carrying Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Common Stocks	$ 50,000	$ -	$ -	$ -	$ 50,000
Total	$ 50,000	$ -	$ -	$ -	$ 50,000

In 2011 and 2010, Frontier received proceeds from the sale of common stocks in the amounts of $0 and $0 respectively. In 2011 and 2010, gross losses of $0 and $2,117, respectively and gross gains of $0 and $0, respectively were realized on those sales.

<u>Unrealized losses</u>

As of December 31, 2011 and December 31, 2010, there were no bonds in an unrealized losses position. If bonds had an NAIC rating designation of six, the fair market values of those bonds would be zero. Generally, securities with an NAIC rating designation of six are reported at the lower of cost or fair market value.

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.

As of December 31, 2011 and 2010, there were unrealized losses of $10,000 and $0, respectively, related to common stock.

At December 31, 2011 and 2010, Management did not write down the cost of certain debt investments to fair market value. If there were a write down it would be included in "realized losses" in the Statutory Basis Statements of Operations.

At December 31, 2011 and 2010, Management did not write down the cost of equity investments to fair market value. If there was a write-down it would be included in the "realized losses" in the Statutory Basis Statements of Operations.

Note 4: Investments (continued)

Other Invested Assets

Prior to rehabilitation, Frontier participated in limited partnerships that invested primarily in equity securities that Frontier could not invest in directly ("Limited Partnerships"). The Limited Partnerships provided Frontier with access to management services and investments that Frontier did not possess directly. As of December 31, 2011 and 2010, Frontier's aggregate investment in the Limited Partnerships was $1,066,029 and $1,459,725, respectively. As of December 31, 2011 and 2010, Frontier's aggregate costs in the Limited Partnerships was $3,577,547 and $3,149,361, resulting in a change in unrealized loss of $821,881 recorded through the Statutory Basis Statements of Changes in Capital and Deficit for the year ended December 31, 2011. In 2011 and 2010, Frontier received distributions from the Limited Partnerships in the amounts of $1,794,841 and $947,680, respectively. In 2011 and 2010, gross gains of $1,524,559 and $231,740, respectively, and gross losses of $0 and $19,964, respectively, were realized on such distributions.

At December 31, 2011 and 2010, Management did not write down the cost of Limited Partnerships to fair market value. 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. Frontier'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 Frontier'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 Frontier's portfolio as of December 31, 2011 and 2010, and has determined that:

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

(2) Frontier had indirect subprime exposure through residential mortgage-backed securities. All such holdings were fixed-income instruments. As of December 31, 2011 and 2010, Frontier held one investment in mortgage-backed securities with par value of $0 and $1,123,189, respectively. As of December 31, 2011 and 2010, this security had been written down to fair market value of $0 and $58,271 respectively, resulting in unrealized losses of $0 and $0, respectively.

(3) Frontier has no underwriting exposure to subprime mortgage risk through mortgage guaranty or financial guaranty insurance coverage.

Note 4: Investments (continued)

Net Investment Income Earned

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

	2011	2010
Bonds	$421,485	$779,932
Cash and short-term investments	63,469	59,931
Net real estate	504,665	453,240
Other invested assets	2,072	177,643
Other income	57,371	313,852
Gross investment income	1,049,062	1,784,598
Less: Investment expenses	(1,636,412)	(1,760,365)
Net investment income earned	$ (587,350)	$ 24,233

Real Estate

Frontier'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, 2011 and 2010, the value of the Rock Hill Property is summarized as follows:

	2011	2010
Land	$ 577,483	$ 577,483
Building	18,922,518	18,922,518
Accumulated depreciation	(8,684,793)	(8,083,185)
Valuation allowance	(4,823,246)	(4,823,246)
Value of Rock Hill Property	$ 5,991,962	$ 6,593,570

Net realized capital gains (losses)

Set forth below are the net realized capital gains/(losses) recognized by Frontier in 2011 and 2010.

	2011	2010
Bonds	$ (46,493)	$ 3,408
Common stocks	-	(2,117)
Other invested assets	1,524,559	211,776
	$ 1,478,066	$ 213,067

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 Frontier's invested assets are disclosed in Note 4 hereof.

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

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. SSAP No. 100 requires that financial statements, prepared pursuant to the Prescribed Practices, classify financial assets and liabilities at fair value by using the fair value hierarchy.

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

Fair Value Measurements (continued)

SSAP No.100 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).

The following table provides information as of December 31, 2011 about the company's financial assets and liabilities measured at fair value.

	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Common stocks	$ 40,000	$ -	$ -	$ 40,000
Other invested assets	$ -	$ -	$ 1,066,029	$ 1,066,029
Real Estate	$ -	$ -	$ 5,991,962	$ 5,991,962

The following table provides information as of December 31, 2010 about the company's financial assets and liabilities measured at fair value.

	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Common stocks	$ 50,000	$ -	$ -	$ 50,000
Other invested assets	$ -	$ -	$ 1,459,725	$ 1,459,725
Real Estate	$ -	$ -	$ 6,593,570	$ 6,593,570

For real estate, the Company placed a valuation allowance on the home office building using an appraisal.

Level 1 assets include actively-traded exchange-listed common stocks. Unadjusted quoted prices for these securities are provided to the Company by independent pricing services. Level 3 assets include the Company's other invested assets consisting of limited partnership interests using the inputs of the underlying audited financial statements of the partnerships.

Note 6: <u>Capital and Deficit, Dividend Restrictions and Statutory Requirements</u>

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% of Frontier's most recent year-end policyholders' surplus, (ii) the net income earned for the year, or (iii) 100 % of adjusted net investment income for such period, cannot be declared or distributed without prior approval of the Superintendent. Frontier's required minimum level of capital and surplus is $3,300,000. For the years ended December 31, 2011 and 2010, Frontier did not declare or pay any dividends on common stock.

The portion of unassigned deficit represented or reduced by each item below is as follows for December 31, 2011 and 2010:

	2011	2010
Net Unrealized losses	$ (54,230,000)	$ (54,220,000)
Non-admitted asset values	(17,116,678)	(24,404,080)
Provision for reinsurance	(12,139,932)	(12,761,677)

Note 7: <u>Concentration of Credit Risk</u>

Financial instruments that have the potential to subject Frontier 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.

Frontier 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 Frontier. As of December 31, 2011 and 2010, when FDIC insured limits were $250,000, cash balances in excess of these limits were approximately $4,877,337 and $9,776,246, respectively. As of December 31, 2011 and 2010, money market funds not insured by the FDIC are in excess of $3,730,719 and $3,706,009, respectively.

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

<u>Prospective Reinsurance Recoverables</u>

Frontier 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 Frontier arising under reinsurance agreements

Note 8: Reinsurance Recoverables (continued)

Prospective Reinsurance Recoverables (continued)

originating prior to Frontier'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.

Frontier 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 (returned) and earned for the years ended December 31, 2011 and 2010:

	2011 Premiums Written (Canceled)	2011 (Negative) Premiums Earned	2010 Premiums Written (Canceled)	2010 (Negative) Premiums Earned
Direct business	$ (231,794)	$ (231,794)	$ (685,999)	$ (509,513)
Reinsurance assumed	-	-	58,655	338,914
	$ (231,794)	$ (231,794)	$ (627,344)	$ (170,599)

There were no unearned premiums as of December 31, 2011 and 2010. Therefore, there was no effect of reinsurance on unearned premiums.

The effect of reinsurance on the liabilities for losses and LAE reserves and losses and loss expense incurred for the years ended December 31, 2011 and 2010 are as follows:

	2011 Liability for Losses and LAE	2011 Losses and LAE Incurred	2010 Liability for Losses and LAE	2010 Losses and LAE Incurred
Direct business	$ 136,235,677	$ 38,465,591	$ 114,098,254	$ 11,910,961
Reinsurance assumed	2,206,470	(15,275)	2,231,810	230,089
Reinsurance ceded	(24,988,111)	(10,094,887)	(16,548,634)	2,843,200
	$ 113,454,036	$ 28,355,429	$ 99,781,430	$ 14,984,250

Note 8: Reinsurance Recoverables (continued)

Prospective Reinsurance Recoverables (continued)

The following is a summary of the components of commission income, net, for the years ended December 31, 2011 and 2010:

	Commissions 2011	Commissions 2010
Direct	$ (58,533)	$ (129,197)
Reinsurance assumed	-	17,794
Reinsurance ceded	-	-
Contingent ceded	-	-
Net commissions	$ (58,533)	$ (111,403)

Reinsurance Recoverables in Dispute

The reinsurance recoverables on paid loss and LAE, on a gross basis, listed below as of December 31, 2011 and 2010, are in dispute and are recorded in reinsurance balances recoverable on paid loss and LAE:

Name of Reinsurer	Amounts in Dispute 2011	Amounts in Dispute 2010
XL Reinsurance America Inc.	$ 2,857,558	$ 2,848,702
	$ 2,857,558	$ 2,848,702

Note 8: Reinsurance Recoverables (continued)

Reinsurance Recoverables in Dispute (continued)

Frontier had the following unsecured and secured reinsurance recoverables on paid losses and LAE as of December 31, 2011 and 2010:

Unsecured Reinsurance Recoverables	2011	2010
ACE USA	$ 598,080	$ 544,653
Bowling Green Indemnity Ltd.	3,769,496	3,581,395
Calvert	-	2,755
Chubb Atlantic Indemnity Ltd.	911,616	911,616
Clearwater Insurance Company	50,999	50,999
Continental Casualty Company	27,967	16,107
Delphi Insurance Company, Ltd.	21,534	21,534
Evanston Insurance Company	336,390	333,906
Everest Resinruance Company	(135,031)	-
Federal Insurance Company	7,904	7,905
First Professional Insurance Company	419	18,627
Gerling Global Reinsurance Corporation	-	110,322
Hannover Ruckversicherungs	352,124	352,124
Hartford Fire Insurance Company	200,302	198,896
John Hancock Life Insurance Company	203,845	49,087
Lansdowne	727,920	727,920
Lloyd’s of London Syndicate 435	310,327	310,327
Markel International Insurance Company	301,852	301,852
Nursing Home Risk & Indemnity Ltd.	1,033,811	1,033,812
Odyssey America Reinsurance Company	121,999	126,458
Paradym Insurance Company Ltd.	1,117,203	1,117,203
Potomac Indemnity Company	3,437,120	3,432,773
ReliaStar Life Insurance Company	6,407	12,057
Security Insurance Company of Hartford	136,238	136,408
Sinser Insurance Ltd.	315,143	302,568
St. Paul Fire & Marine Insurance Company	-	171,198
Swiss Reinsurance America Corporation	673,832	673,832
Transatlantic Reinsurance Company	266,286	189,891
XL Reinsurance America Inc.	2,857,557	2,848,702
Total Unsecured Reinsurance Recoverables	17,651,340	17,584,927
Secured Reinsurance Recoverables		
Total Secured Reinsurance Recoverables	5,895,080	5,895,080
Total Reinsurance Recoverables	$ 23,546,420	$ 23,480,007

Note 8: Reinsurance Recoverables (continued)

Retroactive Reinsurance Agreement

Effective July 1, 2000, Frontier 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:

	2011 Ceded	2010 Ceded
Reserves transferred:		
Initial reserves	$ 542,986,936	$ 542,986,936
Adjustments – prior years	28,003,781	36,303,781
Adjustments – current year	(4,824,193)	(8,300,000)
Current total	$ 566,166,524	$ 570,990,717
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	$ 549,666,526	$ 541,388,830
Current year	-	8,277,696
Current total	$ 549,666,526	$ 549,666,526
Special Surplus from Retro Active Reinsurance		
Initial surplus gain	$ 9,258,243	$ 9,258,243
Adjustments – prior years	3,071,812	11,371,812
Adjustments – current year	(4,824,193)	(8,300,000)
Current year restricted surplus	$ 7,505,862	$ 12,330,055
Cumulative total transferred to unassigned surplus	$ 7,505,862	$ 12,330,055

In accordance with SSAP No. 62, the surplus gain of $7,505,862 and $12,330,055 as of December 31, 2011 and 2010, 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 $16,500,000 and $21,324,193 as of December 31, 2011 and 2010, respectively. FPIC also maintains reinsurance with NICO as part of the NICO Agreement and has its own contractual limit of reinsurance coverage. On July 6, 2010, NICO communicated to Frontier that payments under the NICO Agreement will be suspended pending an allocation of the remaining reinsurance coverage between Frontier and FPIC. NICO disputed the amount of FPIC's reinsurance claims and the

Note 8: Reinsurance Recoverables (continued

Retroactive Reinsurance Agreement (continued)

two parties arbitrated the issue. On August 12, 2011, the arbitrators awarded FPIC approximately $13 million for losses covered under the reinsurance treaty, plus interest of approximately $4.7 million. FPIC has separately alleged additional losses and expenses that may be recoverable under the NICO Agreement. Any recovery by FPIC against NICO reduces the ceded reinsurance available to Frontier under the NICO Agreement and, as a result of the arbitration award, and the possibility of additional losses payable to FPIC, Management estimates that the remaining reinsurance coverage available to Frontier will be approximately $16,500,000.

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 is $(4,824,193) and $(8,300,000) for December 31, 2011 and 2010, respectively, and represents a gain from the NICO Agreement. As of December 31, 2011 and 2010, the amounts receivable under the NICO Agreement were $5,564,333 and $5,564,333, and subsequently non-admitted to $0 and $0, respectively.

Note 9: Creditor Database and Other Liabilities

Creditor Database

As of December 31, 2011 and 2010, Management reported in the Statutory Basis Balance Sheets as accounts payable and accrued expenses the amounts of $19,612,898 and $19,405,399, respectively. The 2011 amount includes creditor claims in the amount of $17,001,133 and other various accounts payable in the amount of $2,611,765. The 2010 amount includes creditor claims in the amount of $16,799,814 and other various accounts payable in the amount of $2,605,585. Management continues to update the creditor database to correct this estimate. The creditor database is a database set up to capture Frontier's liabilities that either were incurred prior to rehabilitation or have not been approved by Management for payment, while in rehabilitation. These liabilities are made up of legal expenses, assessments, service and merchandise expenses, etc.

Other Liabilities

As of December 31, 2011 and 2010, Management reported in the Statutory Basis Balance Sheets $304,675 and $52,358,711, respectively, in other liabilities. This represents bulk reserves of $0 and $51,537,448, respectively, and other payables of $304,675 and $821,263, for December 31, 2011 and 2010.

The bulk reserve for December 31, 2011 and 2010, of $0 and $51,537,448, respectively, while not specific to any line of business or program, had 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

Note 9: Creditor Database and Other Liabilities (continued)

Other Liabilities (continued)

vigorously investigates and defends, where appropriate, each irregular or non-traditional claim, this reserve was Management's best estimate as to total potential liability.

In 2011, Frontier retained an outside actuarial firm to conduct an independent study of its outstanding loss and LAE reserves. As a result of that study, Frontier increased its IBNR by approximately $28 million. Due to this reserve analysis, Frontier decreased the bulk reserves from $51 million to zero as recorded in the 2011 Statutory Basis Balance Sheet.

There are no other payables as of December 31, 2011and 2010, due to Clarendon National Insurance Company ("Clarendon") on those Frontier policies where (i) Clarendon issued cut-through endorsements, and (ii) Frontier collected reinsurance on Clarendon's behalf or owed Clarendon premiums. Pursuant to the terms of a settlement agreement entered into February 4, 2008, between Frontier and Clarendon, Clarendon will continue to perform its obligations under the cut-through endorsements with Frontier and Frontier will continue to bill and collect reinsurance on Clarendon's behalf.

Note 10: Commitments and Contingencies

Contingent Commitments

Frontier is contingently liable for its proportional share of three insurance pools that Frontier participated in prior to rehabilitation. When Frontier 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

Frontier leases storage space pursuant to a lease arrangement that expires on December 31, 2012. Rental expense for 2011 and 2010 was approximately $63,114 and $63,589, respectively. At December 31, 2011, approximate rental commitments under non-cancellable leases are as follows:

Year Ending December 31,	Amount
2012	$62,400

Note 10: <u>Commitments and Contingencies</u> (continued)

<u>Other Contingencies</u>

Frontier 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 Frontier. Those actions are considered by Frontier 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 Frontier.

Note 11: <u>Federal Income Taxes</u>

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.

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. 10R, *Income Taxes-Revised*. Further, due to recurring operating losses, Management does not expect Frontier to realize the benefit of the temporary differences giving rise to the DTA in the near term. As of December 31, 2011 and 2010, Frontier did not have DTL.

Frontier files a consolidated tax return with Lancer as discussed in Note 2, along with related entities of Lancer. No provision for income taxes incurred has been recorded for the years ended December 31, 2011 and 2010.

As of December 31, 2010, Frontier had calculated a net operating loss carry forward in the amount of $28,819,536, which will begin to expire in 2021. The net operating loss for 2011 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, Management determined only to disclose the 2010 net operating loss carry forward. Frontier does not recognize a benefit from the use by Lancer of any Frontier net operating loss and as a result no amounts have been recorded as defined in the tax allocation agreement.

Note 12: Reinsurance Litigation

In May 2005, Frontier 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 Frontier to Benfield and Everest Re as fraudulent conveyances ("Everest Re Litigation"). Management has alleged that the Everest Re Contract was entered into while Frontier was insolvent and consequently any fees paid to Benfield and Everest Re, and investment income and interest thereon, must be returned to Frontier. Management has also alleged that the Everest Re Contract is not in accordance with standards set forth in SSAP No. 62R 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. By Settlement Agreement dated June 23, 2010, Frontier settled its claim against Benfield and by Settlement Agreement dated September 28, 2011, Frontier settled its claim against Everest Re. The amounts of these settlements have been sealed by the Court and cannot be disclosed.

Prior to rehabilitation, Frontier 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. 62R 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, 2011 and 2010, $5,462,418 and $5,597,693, respectively, as reinsurance recoverable on paid losses and paid LAE and $5,504,600 and $5,564,231 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, which totaled $12,877,310 and $13,657,540 as of December 31, 2011 and 2010, respectively, but rather only that amount necessary to offset losses recoverable. *See* Note 17, *Subsequent Events*.

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 Frontier'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 Frontier under the NICO Agreement, resolved certain balances owed to NICO by Frontier and reduced the remaining cover limit as of January 1, 2004, to $225 million, inclusive of both the Frontier cover limit and the FPIC sublimit.

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

By letter dated February 14, 2012, NICO has objected to the amount of retrospective reinsurance reserves ceded by Frontier under the NICO Agreement and maintains that the amount is significantly less than the $21.3 million previously booked by Frontier. Until such time as the dispute between NICO and Frontier is resolved and loss payments, if any, due FPIC under the NICO Agreement are made, the remaining reinsurance coverage available to Frontier under the NICO Agreement can only be estimated. In accordance with the guidelines of SSAP 5R, *Liabilities, Contingencies and Impairments of Assets*, Frontier has considered the possible range of outcomes and has booked an estimated retrospective reinsurance reserves ceded to NICO of $16,500,000 as of December 31, 2011.

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

Note 14: Employee Retirement Plan

Beginning in 2003, Frontier sponsored a 401(k) tax-qualified defined contribution plan ("Plan"). Substantially all Frontier 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. Frontier made no contribution to the Plan for 2011 or 2010. As of December 31, 2011 and 2010, the fair market value of Plan assets was $2,341,084 and $2,429,229, respectively.

Note 15: Related Party Transactions

Frontier has a tax allocation agreement with Lancer**.** *See* Note 11, *Federal Income Taxes*.

Note 16: Expenses

The following table indicates the components of the Frontier's expense categories for the year ended December 31, 2011:

	2011 General Expenses	2011 Investment Expenses	2011 Total Expenses
Salaries and benefits	$ 1,277,387	$ -	$ 1,277,387
Real property expenses, including taxes	-	1,554,127	1,554,127
Legal and auditing	853,341	-	853,341
Professional services	279,410	30,550	309,960
Bank servicing fees	-	50,419	50,419
Insurance	46,094	-	46,094
EDP and equipment costs	95,331	-	95,331
Rent and rent Items	22,285	-	22,285
All other expenses	391,634	1,316	392,950
Net commission & brokerage	(58,533)	-	(58,533)
	$ 2,906,949	$ 1,636,412	$ 4,543,361

Note 16: Expenses (continued)

The following table indicates the components of the Frontier's expense categories for the year ended December 31, 2010:

	2010 General Expenses	2010 Investment Expenses	2010 Total Expenses
Salaries and benefits	$ 1,549,330	$ -	$ 1,549,330
Real property expenses, including taxes	-	1,635,385	1,635,385
Legal and auditing	625,124	-	625,124
Professional services	159,444	66,928	226,372
Bank servicing fees	-	58,052	58,052
Insurance	49,384	-	49,384
EDP and equipment costs	73,094	-	73,094
Rent and rent Items	22,417	-	22,417
All other expenses	595,161	-	595,161
Net commission & brokerage	(111,403)	-	(111,403)
	$ 2,962,551	$ 1,760,365	$ 4,722,916

No bonus or retention plans were in place for the years ended December 31, 2011 and 2010.

During 2011, Frontier received settlements of $15,425,000 and recorded them in miscellaneous income on the Statutory Basis Statements of Operation, of which $15,000,000 related to a complaint filed with the Receivership Court on December 15, 2002 against certain former directors and officers of Frontier asserting claims for negligence and breach of fiduciary duty.

Note 17: Subsequent Events

Subsequent events have been reviewed in accordance with SSAP No. 9R, *Subsequent Events* for both annual statement reporting and through issuance of these audited Statutory Basis Financial Statements. Subsequent events were initially reviewed through February 29, 2012 when the annual statement was filed with the NAIC and the DFS. After that date, subsequent events were reviewed through August 1, 2012, the date on which these audited statutory basis statements were available to be issued.

Market Volatility

Frontier 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.

Note 17: Subsequent Events (continued)

The financial markets' continuing volatility in 2012 may materially impact the valuation of Frontier's investments subsequent to December 31, 2011. Accordingly, the valuation of investments at December 31, 2011 may not necessarily be indicative of amounts that could be realized in a current market exchange.

As of March 31, 2012, the market value of investments in Limited Partnerships increased in market value by approximately seventeen percent due to current market fluctuations.

Rehabilitation Plan

As stated in Note 1, Organization and Nature of Operations, the Rehabilitator submitted a Plan for Rehabilitation to the Receivership Court, which proposed an ongoing run-off of Frontier's liabilities with additional protection for "claims under policies" in keeping with the statutory priority scheme of Insurance Law Section 7434. The plan did not include giving priority treatment to surety claims. At the time the plan was submitted, the surety claims were given a discounted value of $24.5 million.

On May 23, 2012, the Receivership Court entered an order disapproving the proposed rehabilitation plan and returning the matter to the Rehabilitator for further consideration. On July 20, 2012, the Superintendent in his capacity as Regulator filed a petition to convert the Frontier rehabilitation proceeding to a liquidation proceeding.

The Receivership Court's order of May 23, 2012, also determined that surety claims were to be afforded Class two priority status as claims under policies in a liquidation proceeding. The Rehabilitator is therefore reassessing the loss reserves of surety claims on an undiscounted basis and estimates that this will increase the company's negative surplus by approximately $42 million if the Receivership Court grants the Superintendent's application and converts the Frontier rehabilitation proceeding to a liquidation proceeding.

Change in Organization

Pursuant to a Stock Purchase Agreement dated July 16, 2012, Frontier repurchased all of its issued and outstanding shares from Frontier Insurance Group, for $1.00.

Everest Re Commutation – Settlement

On May 9, 2012, Frontier entered into an agreement ("Commutation Agreement") with Everest Re to commute the Everest Re Contract as discussed in Note 12. The obligation of this reinsurance contract was collateralized by the Trust Agreement. The Commutation Agreement terminated the Everest Re Contract and fully and finally settled and commuted all the past, present and future rights, privileges, duties, obligations and liabilities under the Everest Re Contract including, but not limited to, claims asserted or that could have been asserted in the Everest Re Litigation. *See* Note 12, *Reinsurance Litigation*. In addition, under the Commutation Agreement, the

Note 17: <u>Subsequent Events</u> (continued)

<u>Everest Re Commutation – Settlement</u> (continued)

parties agreed to fully and completely release and discharge one another from the Everest Re Contract and the Trust Agreement, and as a result Everest Re returned approximately $12,098,000 to Frontier.

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

Frontier is not required to file Statutory Financial Statements with the DFS. Frontier did not file Statutory Financial Statements for 2010, but did so for 2011.

Following is a summary of the changes between Frontier's 2011 Statutory Basis Financial Statements as prepared in the 2011 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, 2011 Statutory Basis Balance Sheet	$ 64,489,364	$ (149,664,046)	$ (85,174,682)	$ 25,266,490
Reversal of prior year audit adjustments	-	-	-	1,670,721
Reversal of write down of bonds	-	-	-	-
Reclass potential for uncollectable reinsurance recoverable	-	-	-	22,384
Increase in Loss & LAE Case reserves	-	-	-	-
As reported in the audited December 31, 2011 Statutory Basis Balance Sheet	$ 64,489,364	$ (149,664,046)	$ (85,174,682)	$ 26,959,595

LION INSURANCE COMPANY IN REHABILITATION

Schedules of Cash and Cash Equivalents - Statutory Basis

As of December 31, 2011 and 2010
With Independent Auditors' Report

LION INSURANCE COMPANY IN REHABILITATION

Schedules of Cash and Cash Equivalents - Statutory Basis

As of December 31, 2011 and 2010
With Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Superintendent of Financial Services of the State of New York as Receiver and the
Management of Lion Insurance Company in Rehabilitation

We have audited the accompanying schedules of cash and cash equivalents - statutory basis of Lion Insurance Company in Rehabilitation (the "Company") as of December 31, 2011 and 2010. These schedules of cash and cash equivalents - statutory basis are the responsibility of the Company's management. Our responsibility is to express an opinion on these schedules of cash and cash equivalents - statutory 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 audit to obtain reasonable assurance about whether the schedules of cash and cash equivalents - statutory 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 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 schedules of cash and cash equivalents - 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 audits of the schedules of cash and cash equivalents - statutory basis provide a reasonable basis for our opinion.

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

In our opinion, the schedules of cash and cash equivalents - statutory basis referred to above present fairly, in all material respects, the cash and cash equivalents - statutory basis of the Company as of December 31, 2011 and 2010, in conformity with accounting practices prescribed or permitted by the Financial Services 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.

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The accompanying schedules of cash and cash equivalents - statutory basis have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the schedules of cash and cash equivalents - statutory basis, the Company has been in rehabilitation since 2007 with a decline in cash and cash equivalents that raises substantial doubt about its ability to continue as a going concern. Management has not finalized plans with regard to these matters. The schedules of cash and equivalents - 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 Superintendent of Financial Services of the State of New York as Receiver and management of the Company and is not intended to be and should not be used by anyone other than the above specified parties.

EisnerAmper LLP

New York, New York
August 1, 2012

LION INSURANCE COMPANY IN REHABILITATION
Schedules of Cash and Cash Equivalents - Statutory Basis
As of December 31, 2011 and 2010

	2011	2010
Cash and Cash Equivalents - Statutory Basis		
Cash and cash equivalents	$ 859,082	$ 1,163,686
Total Cash and Cash Equivalents - Statutory Basis	**$ 859,082**	**$ 1,163,686**

See accompanying notes to the Schedules of Cash and Cash Equivalents - Statutory Basis. The Schedules of Cash and Cash Equivalents - Statutory Basis and accompanying notes are prepared solely for the use of the Receiver, the NYLB and Management (as defined herein).

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 former 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 loan 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 ("Board") 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 ("Receivership Court").

The Robert Plan failed to make the required payments for October 2006 and all dates thereafter and thus defaulted, thereby violating the Stipulation. Accordingly, Lion consented to being placed into rehabilitation.

Note 1: <u>Organization and Nature of Operations</u> (continued)

Pursuant to Insurance Law Article 74, on September 6, 2007, the Receivership Court issued an order ("Rehabilitation Order") placing Lion into rehabilitation and appointing the then-Superintendent of Insurance of the State of New York (and his successors in office) 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.

The New York Liquidation Bureau ("NYLB" or the "Bureau") is the office that carries out the duties of the Superintendent of Financial Services of the State of New York ("Superintendent") in his capacity as receiver ("Receiver") of impaired or insolvent insurance companies ("Estates") under Insurance Law Article 74. The NYLB reports to the Superintendent in his capacity as Receiver rather than in his capacity as regulator and head of the Department of Financial Services ("DFS"), which has succeeded the Insurance Department. The NYLB operates separately from DFS. The Superintendent as Receiver has the authority under Insurance Law Section 7422 to make such appointments (including the Special Deputy Superintendent ("Special Deputy") and other Agents) as necessary to carry out his functions as Receiver. Acting on behalf of the Receiver, the NYLB marshals the assets of the Estates, maximizes such assets and resolves the liabilities of the Estates in an effort either to rehabilitate the companies or liquidate them in order to distribute their assets to policyholders and creditors. The Special Deputy, along with division directors and senior managers of the Bureau are hereinafter referred to as "Management."

Lion has been in rehabilitation since 2007 and has a declining cash and cash equivalents balance. This factor raises substantial doubt about Lion's ability to continue as a going concern. The Schedules of Cash and Cash Equivalents - Statutory Basis do not include any adjustments that might be necessary if Lion is unable to continue as a going concern.

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

A. <u>Accounting Practices</u>

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 DFS adopted portions of the APP Manual, subject to exceptions, conflicts and additions set forth in Insurance Regulation 172, 11 N.Y.C.R.R. 83 ("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 DFS. Management did not seek permission from the DFS 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.

Management has elected to prepare in accordance with Prescribed Practices, Lion's Schedules of Cash and Cash Equivalents - Statutory Basis as of December 31, 2011 and 2010. The Prescribed Practices used to prepare the Schedules of Cash and Cash Equivalents - 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:

Cash and Cash Equivalents

Cash and Cash Equivalents 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.

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.

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

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

<u>Investments</u> (continued)

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 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.

<u>Fair Value Measurements</u>

Financial Accounting Standards Board Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures* ("ASC 820") 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 ASC 820 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 ASC 820 and SSAP No. 100 and has determined that the impact is immaterial.

B. <u>Accounting Policies</u>

Management used the following methods and assumptions in the preparation of the Schedules of Cash and Cash Equivalents - Statutory Basis.

<u>Cash and Cash Equivalents</u>

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

<u>Short-term Investments</u>

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 and Cash Equivalents

Cash and Cash Equivalents

The carrying amounts reported in the Schedules of Cash and Cash Equivalents – 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, which as of December 31, 2011, insured accounts up to $250,000. Management monitors balances of cash in excess of insured limits and believes that such balances do not represent a material credit risk to Lion. As of December 31, 2011, Lion's cash balance in excess of FDIC limits was approximately $359,082 as compared with $663,686 in 2010.

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, 2011, the account had money market funds in the amount of $508,754, compared to money market funds in the amount of $511,203 as of December 31, 2010.

Note 5: Subsequent Events

Subsequent events have been reviewed in accordance with SSAP No. 9R, *Subsequent Events*, through the issuance of these audited financial statements. Subsequent events have been reviewed through August 1, 2012, the date on which these audited statements were available to be issued.

The financial markets' continuing volatility in 2012 may materially impact the valuation of Lion's investments subsequent to December 31, 2011. Accordingly, the valuation of investments at December 31, 2011 may not necessarily be indicative of amounts that could be realized in a current market exchange.

PROFESSIONAL LIABILITY INSURANCE COMPANY OF AMERICA
IN REHABILITATION

(A Wholly-Owned Subsidiary of PLICA Holding Company)

Statutory Basis Financial Statements

December 31, 2011
With Independent Auditors' Report

PROFESSIONAL LIABILITY INSURANCE COMPANY OF AMERICA
IN REHABILITATION

(A Wholly-Owned Subsidiary of PLICA Holding Company)

Statutory Basis Financial Statements

December 31, 2011
With Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Superintendent of Financial Services of the State of New York as Rehabilitator and the
Management of Professional Liability Insurance Company of America in Rehabilitation

We have audited the accompanying statutory basis balance sheet of Professional Liability Insurance Company of America in Rehabilitation (the "Company") as of December 31, 2011 and the related statutory basis statements of operations, changes in capital and deficit and cash flows for the year 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 these statutory basis financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain a reconciliation of the change in the net deferred tax assets of $1,336,422 at December 31, 2011, which is included in the statutory statement of changes in capital and deficit for the year then ended as described in Note 7 to the statutory basis financial statements; nor were we able to satisfy ourselves as to the change in the net deferred tax assets by other auditing procedures.

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

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In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the change in net deferred tax assets, the statutory basis balance sheet referred to in the first paragraph above present fairly, in all material respects, the financial position of the Company as of December 31, 2011, and the related results of its operations and cash flows for the year then ended in conformity with accounting practices prescribed or permitted by the Financial Services 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 2010 and has a net capital deficiency and a loss from operations that raises substantial doubt about its ability to continue as a going concern. Management has not 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 5 to the statutory basis financial statements, the reserve for unpaid losses and loss adjustment expenses reflects management's re-estimation of the incurred but not reported liability. The Company's reserves for unpaid loss and loss adjustment expenses have the following risk factors that subject this liability to significant variability; the lack of information regarding the credible loss experience, especially related to the issued tail policies and the inconsistency in setting adequate case reserves over time.

As discussed in Note 9 to the statutory basis financial statements, the results of a number of related litigation matters could have a material effect on the results of operations, liquidity or financial position of the Company.

This report is intended solely for the information of and restricted to the use of the Superintendent of Financial Services 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 anyone other than the above specified parties.

EisnerAmper LLP

New York, New York
August 1, 2012

PROFESSIONAL LIABILITY INSURANCE COMPANY OF AMERICA
IN REHABILITATION
(A Wholly-Owned Subsidiary of PLICA Holding Company)
Statutory Basis Balance Sheet
As of December 31, 2011

Admitted assets	
Cash and invested assets	
Bonds, at amortized cost (fair market value $8,296,207)	$ 7,710,653
Common stock, at fair market value (cost $2,154,353)	2,010,344
Cash, cash equivalents and short-term investments	14,748,996
Total cash and invested assets	**24,469,993**
Agents balances and uncollected premiums	586,088
Less: Allowance for agents' balances and uncollected premiums	(586,088)
Net agents balances and uncollected premiums	-
Reinsurance recoverables on paid losses and loss adjustment expenses	734,925
Accrued investment income	43,335
Federal income tax recoverable	1,052,216
Total admitted assets	**$ 26,300,469**
Liabilities	
Reserve for unpaid losses and loss adjustment expenses	$ 23,000,000
Retrospective ceded premiums payable	4,054,434
Ceded reinsurance premiums payable	1,617,031
Accrued expenses and other liabilities	1,967,112
Total liabilities	**30,638,577**
Capital and Deficit	
Common stock, $260.87 stated value, 25,000 shares authorized, 15,000 shares issued and outstanding at 2011	3,913,044
Paid-in and contributed capital	460,465
Unassigned defict	(8,711,617)
Total capital and deficit	**(4,338,108)**
Total liabilities and capital and deficit	**$ 26,300,469**

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 Rehabilitator, the NYLB and Management (as defined herein).

PROFESSIONAL LIABILITY INSURANCE COMPANY OF AMERICA
IN REHABILITATION
(A Wholly-Owned Subsidiary of PLICA Holding Company)
Statutory Basis Statement of Operations
For the Year Ended December 31, 2011

Net premiums ceded	$ (6,466,188)
Underwriting expenses:	
Losses and loss adjustment expenses incurred	(2,492,080)
Other underwriting expenses incurred	3,658,740
Total underwriting expenses	1,166,660
Underwriting loss	(7,632,848)
Investment income (loss)	
Net investment income earned	1,019,418
Net realized capital losses, net of federal income taxes	(1,776,269)
Net investment loss	(756,851)
Other income, net	16,625
Loss before federal income tax	(8,373,074)
Federal income tax	
Net loss	$ (8,373,074)

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 Rehabilitator, the NYLB and Management (as defined herein).

PROFESSIONAL LIABILITY INSURANCE COMPANY OF AMERICA
IN REHABILITATION
(A Wholly-Owned Subsidiary of PLICA Holding Company)
Statutory Basis Statement of Changes in Capital and Deficit
For the Year Ended December 31, 2011

	Common Stock	Paid-In and Contributed Surplus	Unassigned Deficit	Total Capital and Deficit
Balances at December 31, 2010 (Unaudited)	$ 3,913,044	$ 460,465	$ (772,495)	$ 3,601,014
Net loss	-	-	(8,373,074)	(8,373,074)
Change in non-admitted assets	-	-	139,705	139,705
Change in unrealized capital gains	-	-	1,630,669	1,630,669
Change in net deferred tax assets (Unaudited) (Note 8)	-	-	(1,336,422)	(1,336,422)
Balances at December 31, 2011	$ 3,913,044	$ 460,465	$ (8,711,617)	$ (4,338,108)

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 Rehabilitator, the NYLB and Management (as defined herein).

PROFESSIONAL LIABILITY INSURANCE COMPANY OF AMERICA
IN REHABILITATION
(A Wholly-Owned Subsidiary of PLICA Holding Company)
Statutory Basis Statement of Cash Flows
For the Year Ended December 31, 2011

	2011
Cash flows from operating activities:	
Ceded premiums	$ (2,685,659)
Losses and loss adjustment expenses paid	(6,857,920)
Federal and foreign income taxes paid	3,832,511
Underwriting expenses paid	(2,970,375)
Cash used in underwriting	(8,681,443)
Investment income (net of investment expenses)	859,646
Miscellaneous income	16,625
Net cash used in operating activities	**(7,805,172)**
Cash flows from investing activities:	
Proceeds from investments sold, matured or repaid:	
Bonds	16,007,579
Stocks	236,820
Mortgage loans	153,785
Total proceeds from investments sold, matured or repaid	16,398,184
Cost of investments acquired	
Bonds	(9,955,670)
Stocks	-
Total cost of investments acquired	(9,955,670)
Net cash provided by investing activities	**6,442,514**
Net decrease in cash, cash equivalents, and short-term investments	**(1,362,658)**
Cash, cash equivalents, and short-term investments (unaudited)	
Beginning of year	**16,111,654**
End of year	**$ 14,748,996**

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 Rehabilitator, the NYLB and Management (as defined herein).

Note 1: Organization and Nature of Operations

Professional Liability Insurance Company of America ("PLICA") is a stock insurance company that was incorporated in the State of New York on March 6, 1958 as Provident Insurance Company ("Provident"). On that date, Provident Fire Insurance Company, which was incorporated under the laws of the State of New Hampshire on April 25, 1924, merged into Provident. On December 31, 1965, the United States Branch of Royal Exchange Assurance Ltd., London, England, was domesticated and merged into Provident, which was renamed the Royal Exchange Assurance of America, Inc. On March 14, 1989, Sun Alliance USA Inc. acquired the Royal Exchange Assurance of America, Inc. from Royal Exchange Assurance Ltd. On February 15, 1990, the Royal Exchange Assurance of America, Inc. was renamed Fortress Insurance Company of America. On August 31, 1993, Fortress Insurance Company of America was acquired by AAOMS National Insurance Company, Risk Retention Group. On December 19, 1997, Fortress Insurance Company of America was sold as a shell to Medical Liability Mutual Insurance Company ("MLMIC"). On April 16, 1998, Fortress Insurance Company of America adopted the current name Professional Liability Insurance Company of America.

In March 1999, MLMIC sold a 20% interest in PLICA to Connecticut Medical Insurance Company ("CMIC"), a Connecticut domestic medical malpractice insurer. On May 31, 2001, CMIC divested its interest in PLICA, with MLMIC regaining a 100% interest in PLICA. On May 28, 2004, PLICA was acquired by the RBT Trust II (the "RBT Trust II"), an irrevocable trust organized under the laws of Missouri, pursuant to a Stock Purchase Agreement dated March 5, 2004 by and between the RBT Trust II and MLMIC.

While PLICA was licensed to write business in 30 states and the District of Columbia, substantially all of PLICA's premiums originated from the following four states: Illinois, Missouri, Connecticut and Texas. PLICA did not write any business in New York, its domiciliary state. In Texas, PLICA operates under the name Medical Liability Insurance Company of America.

The New York State Insurance Department ("Insurance Department") conducted an examination of the condition and affairs of PLICA as of December 31, 2008 and issued a Report on Examination, dated August 13, 2009. The Report on Examination found, among other things, that PLICA's minimum required surplus was impaired in the amount of $800,958 and that further transaction of business by PLICA would be hazardous to its policyholders, creditors and the general public. The Report on Examination also alleged violations of Article 15 of the New York Insurance Law and other New York laws. In March 2010, an Illinois court issued an order appointing a statutory conservator ("Conservator") for PLICA, and authorizing the Conservator to take possession and conserve the property and all other assets of PLICA. Commissioners of insurance in other states also issued determinations that

Note 1: Organization and Nature of Operations (continued)

PLICA's continued conduct of the business of insurance in their states would be hazardous to policyholders and creditors in their states. Based on the foregoing, the former Superintendent of Insurance of the State of New York petitioned the Supreme Court of the State of New York, County of New York ("Receivership Court") under Article 74 of the New York Insurance Law ("Insurance Law") for an order placing PLICA into rehabilitation.

On April 30, 2010, the Receivership Court issued an order ("Rehabilitation Order") placing PLICA into rehabilitation and appointing the then-Superintendent of Insurance of the State of New York and his successors in office as rehabilitator of PLICA. The Superintendent of Financial Services of the State of New York ("Superintendent") has now succeeded the Superintendent of Insurance as Rehabilitator of PLICA.

The Rehabilitation Order directed, among other things, that the Rehabilitator take possession of PLICA's property, conduct PLICA's business and take such steps toward the removal of the causes and conditions which made the rehabilitation proceeding necessary.

The New York Liquidation Bureau ("NYLB" or the "Bureau") is the office that carries out the duties of the Superintendent in his capacity as receiver ("Receiver") of impaired or insolvent insurance companies ("Estates") under Insurance Law Article 74. The NYLB reports to the Superintendent in his capacity as Receiver rather than in his capacity as regulator and head of the Department of Financial Services ("DFS"), which has succeeded the Insurance Department. The NYLB operates separately from DFS. The Superintendent as Receiver has the authority under Insurance Law Section 7422 to make such appointments (including the Special Deputy Superintendent ("Special Deputy") and other Agents) as necessary to carry out his functions as Receiver. Acting on behalf of the Receiver, the NYLB marshals the assets of the Estates, maximizes such assets and resolves the liabilities of the Estates in an effort either to rehabilitate the companies or liquidate them in order to distribute their assets to policyholders and creditors. The Special Deputy, along with division directors and senior managers of the Bureau, are collectively referred to herein as "Management."

PLICA has been in rehabilitation since 2010 and has a net capital deficiency. In addition, PLICA had a loss from operations in the amount of $8,373,074 for the year ended December 31, 2011. These factors raise substantial doubt about PLICA's ability to continue as a going concern. The Statutory Basis Financial Statements (as defined below) do not include any adjustments that may be necessary if PLICA 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 DFS has adopted the APP Manual, subject to exceptions, conflicts and additions set forth in Insurance Regulation 172, 11 N.Y.C.R.R. 83 ("Prescribed Practices").

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

Management elected to prepare, in accordance with the Prescribed Practices, PLICA's Statutory Basis Balance Sheet as of December 31, 2011, Statutory Basis Statement of Operations, Statement of Changes in Capital and Deficit and Statement of Cash Flows, all for the year ended December 31, 2011 (collectively, "Statutory Basis Financial Statements").

The Prescribed Practices used to prepare the Statutory Basis Financial Statements are a comprehensive basis of accounting other than 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.

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

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

<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, overdue 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 with a related valuation allowance, if any.

<u>Federal Income Taxes</u>

The Prescribed Practices, which do not adhere to Financial Accounting Standards Board (“FASB”) Topic 740, *Income Taxes* (“Topic 740”), 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 Topic 740, *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)

Accounting Practices (continued)

Policy Acquisition Costs

Pursuant to 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.

Statement of Cash Flows

Under US GAAP, the statement of cash flows reconciles to the change in cash and cash equivalents that are financial instruments with an original maturity period of three months or less. Pursuant to the Prescribed Practices, this caption reconciles the changes in cash, cash equivalents and short-term investments with original maturities of one year or less.

Variable Interest Entities

Pursuant to FASB, Topic 810, *Consolidation* ("Topic 810") 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

FASB issued Topic 820, *Fair Value Measurement and Disclosure* ("Topic 820") which 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 has issued guidance similar to Topic 820 through Statement of Statutory Accounting Principle ("SSAP") No. 100, *Fair Value Measurements* ("SSAP No. 100"). SSAP No. 100 is effective for Statutory Basis Balance Sheets starting the period ending December 31, 2010.

B. Use of Estimates in the Preparation of the Statutory Basis Financial Statements

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.

Note 2: Summary of Significant Accounting Policies (continued)

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 at the time of acquisition, 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.

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 deficit.

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 a statutory basis.

PLICA utilizes the specific identification method for calculating gains or losses on the sale of debt securities and other investments.

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.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Cash and Invested Assets (continued)

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.

PLICA does not own derivative instruments.

Other-Than-Temporary Impairments on Investments

When a decline in fair market value is deemed to be other-than-temporary, a provision for impairment is charged to earnings, included in net realized investment losses, and the cost basis of that investment is reduced accordingly.

Premiums

Premiums are earned over the term of the insurance policies. Unearned premiums represent the portion of the premiums written which are applicable to the unexpired terms of policies in force and are calculated on a pro rata method. Because PLICA is in rehabilitation, Management did not calculate premium deficiency reserves.

Reserves for Unpaid Losses and Loss Adjustment Expenses

Reserves for 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. PLICA’s reserves for unpaid loss and LAE are stated net of reinsurance recoverables. Management has reviewed and agreed to report the incurred but not reported (“IBNR”) reserves as calculated by an independent actuary. 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.

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounting Policies (continued)

Non-Admitted Assets

As of December 31, 2011 the agents' balances in the course of collection totaled $586,088 and were recorded as non-admitted assets.

Income Taxes

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.

Reinsurance

Premium revenues are recorded net of ceded reinsurance premiums. Unpaid losses and loss expenses are recorded net of reinsurance recoverable on unpaid losses. PLICA is liable in the event a reinsurer is unable to meet the obligations assumed under the reinsurance agreements.

Retrospective ceded premiums payable are recorded based upon the loss experience under the related agreement and recognized by PLICA in the period in which the loss event giving rise to the payable occurred and is recorded in the Statutory Basis Balance Sheet with the corresponding ceded premium adjustment recorded as a reduction to premiums earned in the Statutory Basis of Operations.

Provision for reinsurance provides a minimum reserve for uncollectible reinsurance, which is recorded as a liability in the Statutory Basis Balance Sheet, and the change between years is recorded as a gain or loss directly to unassigned deficit.

Allocation of Expenses

Certain employees of the NYLB work on PLICA matters in addition to matters pertaining to other Estates. Based on the amount of time spent by each such NYLB employee on PLICA matters, general and administrative expenses (*e.g.*, salaries, payroll taxes, rent, and office expenses) are charged to PLICA on a monthly basis. Each month's charges are then reimbursed as appropriate by PLICA.

Note 3: Investments

Bonds

At December 31, 2011, the amortized cost/carrying value, gross unrealized gains and losses and estimated 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 securities	$ 4,534,430	$ 204,261	$ -	$ 4,738,691
Industry and miscellaneous	3,176,223	406,011	(24,718)	3,557,516
Total Bonds	$ 7,710,653	$ 610,272	$ (24,718)	$ 8,296,207

At December 31, 2011, securities on deposit with fair market values of $2,590,092 were on deposit with various state insurance departments to satisfy regulatory requirements.

The amortized cost and fair market value of debt securities at December 31, 2011, 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.

	2011	
	Amortized Cost	Fair Market Value
After one year through five years	$ 4,534,430	$ 4,738,691
After five years	3,176,223	3,557,516
Total	$ 7,710,653	$ 8,296,207

Note 3: Investments (continued)

In 2011, PLICA received proceeds from sales and maturities of investments in debt securities in the amount of $11,649,631. In 2011, gross gains of $61,595 were realized on those sales.

Common Stocks

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

December 31, 2011

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
Common Stocks	$ 2,154,353	$ 121,704	$ (265,713)	$ 2,010,344

In 2011, PLICA received proceeds from the sales of common stocks in the amount of $500,400. In 2011, gross losses of $129,410 were realized on those sales.

Unrealized losses

At December 31, 2011, PLICA held fixed maturity and equity securities, where the estimated fair value had declined and remained below amortized cost by the amount indicated in the tables below.

December 31, 2011

	For Less than 12 Months		**For Greater than 12 Months**		**Total**	
	Aggregate Fair Market Value	**Aggregate Unrealized Losses**	**Aggregate Fair Market Value**	**Aggregate Unrealized Losses**	**Fair Market Value**	**Unrealized Losses**
Fixed maturities	$ 274,342	$ (23,031)	$ 22,250	$ (1,687)	$ 296,592	$ (24,718)
Common stocks	-	-	917,616	(265,713)	917,616	(265,713)
Total	$ 274,342	$ (23,031)	$ 939,866	$ (267,400)	$ 1,214,208	$ (290,431)

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

Note 3: Investments (continued)

Unrealized losses (continued)

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 ("OTTI") 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, 2011, Management did not write down the cost of any debt investments to fair market value. If there was a write down it would be included in "realized losses" in the Statutory Basis Statement of Operations.

At December 31, 2011, Management did write down the cost of certain equity investments to fair market value in the amount of $1,708,454. It was included in the "net realized capital losses" in the Statutory Basis Statement of Operations.

Net Investment Income Earned

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

	2011
Bonds	$924,602
Common stocks	113,429
Cash, cash equivalents and short-term investments	509
Gross investment income	1,038,540
Investment expenses	(19,122)
Net investment income earned	$ 1,019,418

Note 3: Investments (continued)

Net realized capital gains (losses)

Set forth below are the net realized capital gains (losses) recognized by PLICA in 2011.

	2011		
	Net realized gain (loss) on sale	OTTI	Net realized capital gain (loss)
Bonds	$ 61,595	$ -	$ 61,595
Common stocks	(129,410)	(1,708,454)	(1,837,864)
	$ (67,815)	$ (1,708,454)	$ (1,776,269)

Subprime Exposures

Management has reviewed PLICA's portfolio as of December 31, 2011, and has determined that:

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

(2) PLICA has no indirect subprime exposure through mortgage-backed securities.

(3) PLICA 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 Sheet for cash and cash equivalents, short-term investments and other invested assets are a reasonable estimate of fair market value.

Investment securities

Management uses market prices quoted by third parties, if available. When 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 PLICA's invested assets are disclosed in Note 4 hereof.

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

Note 4: Fair Market Value of Cash and Invested Assets (continued)

Mortgage Loans

As of December 31, 2011, PLICA no longer held any outstanding mortgages.

Fair Value Measurements

Certain investment related line items in the Statutory Basis Balance Sheet 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.

SSAP No. 100 requires that financial statements, prepared pursuant to the Prescribed Practices, classify financial assets and liabilities at fair value by using the fair value hierarchy.

SSAP No.100 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;

Level Three: unobservable inputs.

Note 4: 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).

The following table provides information as of December 31, 2011 about PLICA's financial assets and liabilities measured at fair value.

	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Common stocks	$ 2,010,344	$ -	$ -	$ 2,010,344

Level 1 assets include actively-traded exchange-listed common stocks. Unadjusted quoted prices for these securities are provided to PLICA by independent pricing services.

Note 5: Reserves for Unpaid Losses and LAE

PLICA's reserves for unpaid losses and LAE as of December 31, 2011, 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 $8,700,000, as of December 31, 2011.

	2011
Loss and LAE Reserves at beginning of year (Unaudited)	$ 32,350,000
Incurred Loss and LAE related to:	
Current Year	-
Prior Years	(2,492,080)
Total Incurred	(2,492,080)
Paid Loss and LAE related to:	
Current Year	-
Prior Years	6,857,920
Total Paid	6,857,920
Loss and LAE Reserves at end of year	$ 23,000,000

Note 5: Reserves for Unpaid Losses and LAE (continued)

The provision for incurred losses and LAE of prior years decreased in 2011 primarily as a result the reduction of the IBNR reserves due to the payment of claims in 2011.

PLICA's lack of historical losses, particularly for the liability associated with the issued free lifetime tail policies, subjects the reserve for unpaid loss and LAE to uncertainty.

PLICA's reserves for unpaid loss and LAE have the following risk factors that subject this liability to significant variability; the lack of information regarding the credible loss experience; especially related to the issued tail policies and the inconsistency in setting adequate case reserves over time.

Note 6: Reinsurance

In the normal course of business, PLICA reinsures a portion of its insurance risks in order to limit its exposure to losses in excess of specified amounts. To the extent that any reinsuring companies are unable to meet obligations under reinsurance agreements, PLICA would be liable for the reinsured risk. PLICA evaluates the financial condition of its reinsurers in order to minimize its exposure to significant loss from reinsurer insolvencies. The reinsurance agreements provide coverage on an excess of loss basis summarized below. Reinsurance recoverables relate to amounts due to PLICA arising under reinsurance agreements originating prior to PLICA's rehabilitation.

PLICA has an Excess of Loss Reinsurance Agreement for its medical professional liability business through multiple carriers. Under this agreement, PLICA is insured for claims in excess of $200,000 per claim retention up to $1,000,000 for contract years July 1, 2004 through June 30, 2007 and $250,000 per claim retention up to $1,000,000 for contract years starting July 1, 2007 through December 31, 2009. PLICA has no medical professional liability policies that exceed $1,000,000. The provision premiums related to this Excess of Loss Reinsurance Agreement is subject to subsequent adjustments based upon the loss experience during the contract periods.

For the year ended December 31, 2011, PLICA recorded a net ceded premium adjustment of $6,740,093 which was reported through net premiums written in the Statutory Basis Statement of Operations. Additionally, as of December 31, 2011, $4,054,434 remained unpaid and was recorded on the Statutory Basis Balance Sheet as retrospective ceded premiums payable.

Note 6: Reinsurance (continued)

The effect of reinsurance on premiums written and earned in 2011 is as follows:

	2011 (Ceded) Earned	2011 Premiums Written
Direct Business	$ 273,907	$ 273,907
Ceded	(6,740,095)	-
Net Premiums	$ (6,466,188)	$ 273,907

There were no unearned premiums as of December 31, 2011. Therefore, there was no effect of reinsurance on unearned premiums.

There were no unsecured reinsurance recoverables on paid losses and loss adjustment expenses as of December 31, 2011.

Note 7: <u>Federal Income Taxes</u>

Although PLICA is a wholly-owned subsidiary of PLICA Holding Company, PLICA files a separate federal income tax return due to PLICA Holding Company's S corporation status under the Internal Revenue Code.

The components of the net deferred tax assets ("DTA") recognized in PLICA's Statutory Basis Financial Statements as of December 31, 2011 were:

	December 31, 2011		
	Ordinary	Capital	Total
Gross deferred tax assets	$ 6,411,013	$ 1,003,453	$ 7,414,466
Statutory valuation allowance adjustment	(6,411,013)	(1,003,453)	(7,414,466)
Adjusted gross deferred tax assets	-	-	--
Non-admitted deferred tax assets	-	-	-
Gross admitted deferred tax assets	-	-	-
Total gross deferred tax liabilities ("DTL")	-	-	-
Net admitted deferred tax assets	$ -	$ -	-
Change in non-admitted assets (Unaudited)			$ -

PLICA did not elect to admit additional DTA under paragraph 10(e) of SSAP No.10R, *Income Taxes, Revised, A Temporary Replacement of SSAP No. 10,* for the period ended December 31, 2011.

Note 7: Federal Income Taxes (continued)

The tax effect of temporary differences that give rise to significant portions of the DTA and DTL are as follows:

	December 31, 2011
Deferred tax assets:	
Discounting of unpaid losses and LAE	$ 734,893
Unrealized capital losses	92,999
Net capital loss carry forward	910,454
2011 Net operating loss carry forward only	5,676,120
Total deferred tax assets	7,414,466
Statutory valuation allowance adjustment	(7,414,466)
Admitted deferred tax assets	$ -
Total deferred tax liabilities	$ -
Net admitted deferred tax assets	$ -

The significant items causing a difference between the statutory federal income tax rate and PLICA's effective income tax rate are as follows:

	December 31, 2011	Effective Tax Rate
Expense benefit computed at statutory rate	$ (2,930,576)	(35.0)%
Dividend received deduction	(27,813)	(0.33)%
Net realized capital loss carryforward only	621,694	7.42 %
Tax basis loss & LAE reserves discounting	(393,293)	(4.70)%
2011 Net operating loss carryforward only	2,745,185	32.79 %
Unearned premiums reserve reversal	(19,370)	(0.23)%
Other	4,173	0.05 %
Total income tax benefit	$ -	0.00%
Federal and foreign income taxes benefit	$ (266,290)	(3.18)%
Change in net deferred income tax (Unaudited)	266,290	(3.18)%
Total statutory income taxes (Unaudited)	$ -	0.00%

Note 7: Federal Income Taxes (continued)

PLICA determined that there were no additional DTAs that could be admitted through tax planning.

PLICA has no unrecognized DTL as of December 31, 2011.

At December 31, 2011, PLICA had $16,217,486 of net operating loss carryforwards and $2,723,000 of capital loss carryforwards available to offset against future taxable income. A summary of net operating loss carryforwards by expiration date is set forth below:

Net Operating Losses

Originating Year	Expiration Year	Loss Carryforward
2010	2030	$ 8,374,100
2011	2031	$ 7,843,386
		$ 16,217,486

Net Capital Losses

Originating Year	Expiration Year	Loss Carryforward
2008	2013	$ 701,897
2010	2015	244,834
2011	2016	1,776,269
		$ 2,723,000

Federal income taxes incurred and available for recoupment in the event of future net losses are $0 from 2011.

PLICA did not have any protective tax deposits under Section 6603 of the Internal Revenue Code.

Note 8: 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% of PLICA's most recent year-end policyholders' surplus, (ii) the net income earned for the year, or (iii) 100% of adjusted net investment income for such period, cannot be declared or distributed without prior approval of the Superintendent. For the year ended December 31, 2011, PLICA did not declare or pay any dividends on common stock.

As of December 31, 2011, PLICA's unassigned and special deficit was $8,711,617 and is represented or reduced by each item below:

	2011
Net losses	$ (8,373,074)
Unrealized Capital gains	1,630,669
Change in DTA (Unaudited)	(1,336,422)
Change in nonadmitted assets	(139,705)

Note 9: Commitments and Contingencies

On November 10, 2010 the United States Attorney of the Eastern District of Missouri filed a Second Superseding Indictment ("Indictment") alleging a fraudulent scheme to misappropriate the proceeds of the sale of prearranged funeral services ("Funeral Scheme"). The Indictment alleges that PLICA was purchased using the proceeds of the Funeral Scheme and seeks forfeiture of all PLICA shares of stock, assets and any surplus, along with all assets of the RBT Trust II.

By complaint dated August 6, 2009, the Texas Special Deputy Receiver for National Prearranged Services, Inc., Lincoln Memorial Life Insurance Company and Memorial Service Life Insurance Company, the guaranty associations of seven states and the National Organization of Life and Health Insurance Guaranty Associations, representing the guaranty associations of 28 additional states ("Plaintiffs") commenced a Racketeer Influenced and Corrupt Organizations Act ("RICO") action in the United States District Court for the Eastern District of Missouri in connection with the Funeral Scheme. The RICO plaintiffs allege that the proceeds of the scheme were utilized to purchase PLICA, and that PLICA is therefore an asset of the Plaintiffs. Discovery in the RICO action is ongoing.

In the opinion of Management, the ultimate disposition of surplus assets of the estate, if any, could be affected by the aforementioned litigation.

Note 10: Concentration of Credit Risk

Financial instruments that have the potential to subject PLICA 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.

PLICA 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 PLICA. As of December 31, 2011, when FDIC insured limits were $250,000, cash balances in excess of these limits were approximately $2,182,469. As of December 31, 2011, money market funds not insured by the FDIC were approximately $10,253,731.

Note 11: Subsequent Events

Subsequent events have been reviewed in accordance with SSAP No. 9R, *Subsequent Events*. Subsequent events were reviewed through August 1, 2012, the date on which these audited Statutory Basis Financial Statements were available to be issued.

Market Volatility

PLICA 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' continuing volatility in 2012 may materially impact the valuation of PLICA's investments subsequent to December 31, 2011. Accordingly, the valuation of investments at December 31, 2011 may not necessarily be indicative of amounts that could be realized in a current market exchange.

Note 11: Subsequent Events (continued)

Reinsurance Collected

The amounts of reinsurance collected from letter of credit draw downs subsequent to December 31, 2011 are listed below. This table represents all cash collected relating to reinsurance recoverable balances open at December 31, 2011 and subsequently collected in 2012.

Reinsurer	Collection of Reinsurance Recoverable
Partner Re	$185,662
Axa Re	305,476
Total	$491,138